



**Consolidated financial statements prepared in accordance
with International Financial Reporting Standards
and Independent auditors' report**

for the year ended 31 December 2009

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Independent Auditors' Report

To the Shareholders of Všeobecná úverová banka, a.s.:

We have audited the accompanying consolidated financial statements of Všeobecná úverová banka, a.s. and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

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

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


Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

26 February 2010
Bratislava, Slovak Republic



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




Ing. Peter Matejíčka
SKAU Licence No. 909

Consolidated statement of financial position at 31 December 2009
(In thousands of euro)

	Note	2009	2008
Assets			
Cash and balances with central banks	4	238,503	505,030
Loans and advances to banks	5	168,744	1,437,286
Financial assets held for trading	6	164,812	791,204
Derivative financial instruments	7	42,783	60,961
Available-for-sale financial assets	8	995,561	265,048
Non-current assets held for sale	15	-	1,705
Loans and advances to customers	9	5,863,647	5,667,718
Held-to-maturity investments	11	2,046,247	2,199,632
Associates and jointly controlled entities	12	5,620	5,163
Intangible assets	13	47,022	56,419
Goodwill	14	29,305	29,355
Property and equipment	15	164,104	182,305
Current income tax assets	20	6,036	-
Deferred income tax assets	20	47,834	8,490
Other assets	16	32,179	22,016
		<u>9,852,397</u>	<u>11,232,332</u>
Liabilities			
Due to central and other banks	17	796,345	915,729
Derivative financial instruments	7	52,471	52,471
Due to customers	18	6,609,926	8,129,757
Debt securities in issue	19	1,298,075	1,137,999
Current income tax liabilities	20	-	26,690
Provisions	21	25,111	30,165
Other liabilities	22	84,075	100,796
		<u>8,866,003</u>	<u>10,393,607</u>
Equity			
Share capital	23	430,819	430,794
Share premium	23	13,368	13,368
Reserves		94,248	84,406
Retained earnings		447,959	310,157
		<u>986,394</u>	<u>838,725</u>
		<u>9,852,397</u>	<u>11,232,332</u>
Financial commitments and contingencies	24	<u>2,327,063</u>	<u>2,293,436</u>

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

These financial statements were authorized for issue by the Board of Directors on 26 February 2010.



Ignacio Jaquotot
Chairman of the Board of Directors



Domenico Cristarella
Member of the Board of Directors

Consolidated statement of comprehensive income for the year ended 31 December 2009

(In thousands of euro)

	Note	2009	2008
Interest and similar income		504,509	574,085
Interest expense and similar charges		(144,867)	(237,484)
Net interest income	25	359,642	336,601
Fee and commission income		126,314	131,522
Fee and commission expense		(29,093)	(26,830)
Net fee and commission income	26	97,221	104,692
Net trading income	27	11,152	41,545
Other operating income	28	13,167	16,950
Dividend income		1	1,072
Operating income		481,183	500,860
Salaries and employee benefits	29	(97,129)	(97,773)
Other operating expenses	30	(87,741)	(105,561)
Amortization	13	(20,532)	(21,222)
Depreciation	15	(22,722)	(23,325)
Operating expenses		(228,124)	(247,881)
Operating profit before impairment		253,059	252,979
Impairment losses on financial assets	31	(93,030)	(46,270)
Profit from operations		160,029	206,709
Share of profit of associates and jointly controlled entities		499	346
Profit before tax		160,528	207,055
Income tax expense	32	(18,857)	(38,566)
NET PROFIT FOR THE YEAR		141,671	168,489
Other comprehensive income for the year, after tax:			
Exchange difference on translating foreign operation		92	(1,606)
Available-for-sale financial assets		6,537	276
Cash flow hedges		(810)	(773)
Other comprehensive income for the year, net of tax	33,34	5,819	(2,103)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		147,490	166,386
Basic and diluted earnings per € 33.2 (Sk 1,000) share in €	23	10.92	12.98

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2009
(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2008	430,794	13,368	87,518	199,825	(135)	(818)	(56)	730,496
Total comprehensive income for the year	-	-	-	168,489	(1,606)	276	(773)	166,386
Dividends to shareholders	-	-	-	(58,157)	-	-	-	(58,157)
At 31 December 2008	<u>430,794</u>	<u>13,368</u>	<u>87,518</u>	<u>310,157</u>	<u>(1,741)</u>	<u>(542)</u>	<u>(829)</u>	<u>838,725</u>
At 1 January 2009	430,794	13,368	87,518	310,157	(1,741)	(542)	(829)	838,725
Transition to euro	25	-	(25)	-	-	-	-	-
Total comprehensive income for the year	-	-	-	141,671	92	6,537	(810)	147,490
Legal reserve fund	-	-	4,048	(4,048)	-	-	-	-
Other	-	-	-	179	-	-	-	179
At 31 December 2009	<u>430,819</u>	<u>13,368</u>	<u>91,541</u>	<u>447,959</u>	<u>(1,649)</u>	<u>5,995</u>	<u>(1,639)</u>	<u>986,394</u>

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2009

(In thousands of euro)

	Note	2009	2008
Cash flows from operating activities			
Profit before tax		160,528	207,055
Adjustments for:			
Amortization		20,532	21,222
Depreciation		22,722	23,325
Securities held for trading, available-for-sale securities and FX differences		(572)	(25,721)
Profit from associates and changes of revaluation reserves		(457)	(346)
Interest income		(504,509)	(574,085)
Interest expense		144,867	237,484
Dividend income		(1)	(1,072)
Profit from redemption of Debt securities in issue		(3,906)	-
Sale of property and equipment		(734)	(1,587)
Impairment losses on financial assets and similar charges		88,709	44,513
Interest received		484,544	586,395
Interest paid		(144,896)	(232,759)
Dividends received		1	1,072
Tax paid		(90,927)	(60,090)
Loans and advances to banks		3,443	(5,957)
Financial assets held for trading		(35,284)	(105,256)
Derivative financial instruments (assets)		17,368	(26,725)
Available-for-sale financial assets		(701,654)	(176,062)
Loans and advances to customers		(288,647)	(1,390,419)
Other assets		(15,347)	(3,974)
Due to central banks and other banks		(119,610)	199,049
Derivative financial instruments (liabilities)		-	18,153
Due to customers		(1,516,479)	1,308,356
Other liabilities		(15,376)	(43,386)
<i>Net cash used in operating activities</i>		<u>(2,495,685)</u>	<u>(815)</u>
Cash flows from investing activities			
Purchase of held-to-maturity investments		(236,738)	(54,704)
Repayments of held-to-maturity investments		400,125	847,644
Purchase of intangible assets and property and equipment		(19,246)	(28,679)
Disposal of property and equipment		5,767	13,786
Acquisition of subsidiaries		-	(3,651)
<i>Net cash from investing activities</i>		<u>149,908</u>	<u>774,396</u>
Cash flows from financing activities			
Proceeds from issue of debt securities		326,407	296,290
Repayments of debt securities		(165,349)	(62,597)
Dividends paid		-	(58,157)
<i>Net cash from financing activities</i>		<u>161,058</u>	<u>175,536</u>
Net change in cash and cash equivalents		(2,184,719)	949,117
Cash and cash equivalents at beginning of the year	3	<u>2,518,059</u>	<u>1,568,942</u>
Cash and cash equivalents at end of the year	3	<u>333,340</u>	<u>2,518,059</u>

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

1. General information

1.1 The Bank

Všeobecná úverová banka, a.s. ('the Bank' or 'VUB') provides retail and commercial banking services. The Bank is domiciled in the Slovak Republic with its registered office at Mlynské Nivy 1, 829 90 Bratislava 25 and has the identification number (IČO) 313 20 155.

At 31 December 2009, the Bank had a network of 254 points of sale (including Retail Branches, Corporate Branches and Mortgage centers) located throughout Slovakia (December 2008: 259). The Bank also has one branch in the Czech Republic.

Members of the Board of Directors are: Ignacio Jaquotot (Chairman), Domenico Cristarella, Daniele Fanin, Jozef Kausich, Elena Kohútiková, Tomislav Lazarič, Silvia Púchovská and Alexander Resch.

Members of the Supervisory Board are: György Surányi (Chairman), László Török (Vice Chairman; until 30 September 2009), Adriano Arietti, Jana Finková, Ján Gallo, Paolo Grandi, Juraj Jurenka, Massimo Pierdicchi and Paolo Sarcinelli.

1.2 The VUB Group

The consolidated financial statements for the year ended 31 December 2009 and 2008 comprise the Bank and its subsidiaries (together referred to as 'the VUB Group' or 'the Group') and the Group's interest in associates and jointly controlled entities as follows:

	Share 2009	Share 2008	Principal business activity
Subsidiaries			
Consumer Finance Holding, a.s. ('CFH')	100%	100%	Consumer finance business
VUB Leasing, a. s. ('VUB Leasing')	100%	100%	Finance leases
VUB poisťovací maklér, s. r. o.	100%	100%	Insurance mediation
VUB Asset Management, správ. spol. a.s.	100%	100%	Asset management
VUB Factoring, a.s.	100%	100%	Factoring of receivables
VUB Leasingová, a.s. v likvidácii (in liquidation)	100%	100%	Finance leases
Recovery, a.s.	100%	100%	Finance leases
Associates			
Slovak Banking Credit Bureau, s.r.o.	33.3%	33.3%	Credit databases administration
Jointly controlled entities			
VUB Generali D.S.S., a.s.	50%	50%	Pension fund administration

All entities are incorporated in the Slovak Republic.

At 31 December 2009, the VUB Group had a total network of 267 points of sale (2008: 268).

The VUB Group's ultimate parent company is Intesa Sanpaolo S.p.A., which is a joint-stock company and is incorporated and domiciled in Italy. The address of its registered office is Piazza San Carlo 156, 10121 Torino, Italy.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the VUB Group ('the financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ('IFRIC') as approved by the Commission of European Union in accordance with the Regulation of European Parliament and Council of European Union and in accordance with the Act No. 431/2002 Collection on Accounting.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets held for trading and all derivative financial instruments to fair value.

The financial statements are presented in thousands of euro ('€'), unless indicated otherwise.

Negative values are presented in brackets.

With the introduction of the euro as the official currency of the Slovak Republic on 1 January 2009, the Group's functional currency changed from Slovak crowns to the euro as of that date. The comparative amounts for the year 2008 were therefore converted into euro using the official conversion rate of €1 = Sk 30.1260. The average rate for the year 2008 was €1 = Sk 31.291.

2.2 Changes in accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Standards, amendments and interpretations effective in 2009 applicable to the VUB Group

The accounting policies adopted are consistent with those used in the previous financial year except that the Group has adopted the following standards, amendments and interpretations. With the exception of the Amendments to IAS 39 and IFRS 7 - Reclassification of Financial Assets (see below), the adoption of these standards, amendments and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments.

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

Comparative information has been restated although this is not strictly required by the transitional provisions of the amendment.

IFRS 8 Operating Segments

IFRS 8 was adopted by the EU on 21 November 2007 (effective for accounting periods beginning on or after 1 January 2009). This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group decided to apply IFRS 8 Operating Segments for the accounting period beginning on 1 January 2007 as permitted by the Standard.

IAS 1 Presentation of financial statements

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires the income tax effect of each component of comprehensive income to be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

2. Summary of significant accounting policies (continued)

The Group has elected to present comprehensive income in one statement of comprehensive income. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the notes to the financial statements. The Group has not provided a restated comparative statement of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

Amendment to IAS 23 Borrowing Costs

IAS 23 issued in March 2007 superseded IAS 23 (revised in 2003). IAS 23 (revised) is effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The main change from the previous version is the removal of the option to immediately recognise as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

The amendment to IAS 23 does not have any impact on the financial performance or position of the Group.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements, – Puttable Financial Instruments and Obligations Arising on Liquidation

Amendments to IAS 32 and IAS 1 were issued by the IASB in February 2008 and become effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity.

The amendments to IAS 32 and IAS 1 do not have any impact on the financial performance or position of the Group as the Group has not issued such instruments.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

This amendment to IAS 39 was issued on 31 July 2008 and is applicable for accounting periods beginning on or after 1 July 2009 with early application permitted. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The revised standard does not have any impact on financial statements of the Group.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets

The amendments allow entities to reclassify certain financial assets out of 'Held-for-trading' if they are no longer held for the purpose of being sold or repurchased in the near term:

- Financial assets that would be eligible for classification as loans and receivables (i.e. those assets which, apart from not being held with the intent of sale in the near term, have fixed or determinable payments, are not quoted in an active market and contain no features which could cause the holder not to recover substantially all of its initial investment except through credit deterioration) may be transferred from 'Held-for-trading' to 'Loans and receivables', if the entity has the intention and the ability to hold them for the foreseeable future.
- Financial assets that are not eligible for classification as loans and receivables, may be transferred from 'Held-for-trading' to 'Available-for-sale' or to 'Held-to-maturity', only in rare circumstances.

The amendment requires detailed disclosures relating to such reclassifications. The effective date of the amendment is 1 July 2008 and reclassifications before that date are not permitted.

The Group did not reclassify any financial instruments during 2009 and 2008.

IFRIC 9 and IAS 39: Embedded Derivatives

The IFRIC has issued Embedded Derivatives: Amendments to IFRIC 9 and IAS 39 which requires entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The amendments to IFRIC 9 require an assessment to be made either when the entity first became party to the contract or when a change in the terms of the contract significantly modifies expected cash flows. The amendments are applicable for annual periods ending on or after 31 December 2009.

2. Summary of significant accounting policies (continued)

The application of the amendment does not have any impact on the Group's financial statements as no reclassifications were made for instruments that contained embedded derivatives.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 is effective for accounting periods beginning on or after 1 October 2008 with early application permitted. The interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39.

This interpretation has no effect on the Group's financial statements.

Improvements to IFRSs

In May 2008 the International Accounting Standards Board has issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Adoption of these amendments does not have any material effect on the financial performance or position of the VUB Group.

Standards and interpretations issued but not yet effective and have not been early adopted by the Group:

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective at the beginning of the reporting period:

- IFRS 1 (revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for accounting periods beginning on or after 1 January 2010);
- IFRS 3 (revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for accounting periods beginning on or after 1 January 2011);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on 15 September 2009 (effective for accounting periods beginning on or after 1 July 2009);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for accounting periods beginning on or after 1 July 2009);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November 2009 (effective for accounting periods beginning on or after 1 November 2009); and
- IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for accounting periods beginning on or after 1 November 2009).

The Management of the Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

The Management of the Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2009.

2. Summary of significant accounting policies (continued)

- IFRS 9 “Financial Instruments” (effective for accounting periods beginning on or after 1 January 2013);
- Amendments to various standards and interpretations resulting from the annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for accounting periods beginning on or after 1 January 2010);
- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for accounting periods beginning on or after 1 January 2011);
- Amendments to IFRS 1 “First-time Adoption of IFRS”– Additional Exemptions for First-time Adopters (effective for accounting periods beginning on or after 1 January 2010);
- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” – Prepayments of a Minimum Funding Requirement (effective for accounting periods beginning on or after 1 January 2011); and
- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for accounting periods beginning on or after 1 July 2010).

The Management of the Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. Based on the Group’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement”, would not significantly impact the financial statements, if applied as at the balance sheet date.

2.3 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date at which effective control commences until the date at which control ceases.

The financial statements of the Bank and its subsidiaries are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses. Intra-group balances, transactions and resulting profits are eliminated in full.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the VUB Group. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the cost of the acquisition over the fair value of the VUB Group’s share of the identifiable net assets acquired is recognized as goodwill.

(b) Associates

Associates are entities, in which the Group has significant influence, but not control, over the financial and operating policies. The financial statements include the Group’s share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(c) Jointly controlled entities

Jointly controlled entities are entities over whose activities the Group has joint control, established by contractual agreement. The financial statements include the Group’s share of the total recognized gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

2. Summary of significant accounting policies (continued)

2.4 Segment reporting

The Group reports financial and descriptive information about its operating segments in these financial statements. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and for which separate financial information is available.

The Group operates in three operating segments – Retail Banking, Corporate Banking and Central Treasury. Every segment is exposed to different risks and differs in the nature of its services, business processes and types of customers for its products and services.

For all segments the Group reports a measure of segment assets and liabilities and income and expense items, a reconciliation of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the Group's financial statements.

Most of the transactions of the VUB Group are related to the Slovak market. Because of the market size, the VUB Group operates as a single geographical segment unit.

2.5 Foreign currency transactions

Monetary assets and liabilities in foreign currencies are translated to € at the official European Central Bank ('ECB') or National Bank of Slovakia ('NBS') exchange rates prevailing at the end of reporting period. Income and expenses denominated in foreign currencies are reported at the ECB or NBS exchange rates prevailing at the date of the transaction.

The difference between the contractual exchange rate of a transaction and the ECB or NBS exchange rate prevailing on the date of the transaction is included in 'Net trading income', as well as gains and losses arising from movements in exchange rates after the date of the transaction.

2.6 Foreign operations

The financial statements include foreign operations in the Czech Republic. The assets and liabilities of foreign operations are translated to € at the foreign exchange rate prevailing at the end of reporting period. The revenues and expenses of foreign operations are translated to € at rates approximating the foreign exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on these translations are recognized directly in equity.

2.7 Cash and balances with central banks

Cash and balances with central banks comprise cash in hand and current accounts with the NBS and other national banks, including compulsory minimum reserves.

2.8 Treasury bills and other eligible bills

Treasury bills and other eligible bills represent highly liquid securities that could be used for rediscounting in the NBS without any time or other constraints. The balance comprises treasury bills issued by the Ministry of Finance and bills issued by the NBS.

2.9 Loans and advances to banks

Loans and advances to banks include receivables from current accounts in other than central banks, deposits and loans provided to commercial banks and to the NBS and other national banks.

The balances are presented at amortized cost including interest accruals less any impairment losses. An impairment loss is established if there is objective evidence that the VUB Group will not be able to collect all amounts due.

2. Summary of significant accounting policies (continued)

2.10 Debt securities

Debt securities held by the VUB Group are categorized into portfolios in accordance with the VUB Group's intent on the acquisition date and pursuant to the investment strategy. The VUB Group has developed security investment strategies and, reflecting the intent on acquisition, allocated securities into the following portfolios:

- (a) Held for trading
- (b) Available-for-sale
- (c) Held-to-maturity

The principal differences among the portfolios relate to the measurement and recognition of fair values in the financial statements. All securities held by the VUB Group are recognized using settlement date accounting and are initially measured at fair value plus, in the case of financial assets not held for trading, any directly attributable incremental costs of acquisition. Securities purchased, but not settled, are recorded in the off-balance sheet and changes in their fair values, for purchases into the trading and the available-for-sale portfolios, are recognized in the profit or loss and in equity respectively.

(a) Securities held for trading

These securities are financial assets acquired by the VUB Group for the purpose of generating profits from short-term fluctuations in prices. Subsequent to their initial recognition these assets are accounted for and re-measured at fair value.

The fair value of securities held for trading, for which an active market exists, and market value can be estimated reliably, is measured at quoted market prices. In circumstances where the quoted market prices are not readily available, the fair value is estimated using the present value of future cash flows.

The VUB Group monitors changes in fair values on a daily basis and recognizes unrealized gains and losses in the statement of comprehensive income in 'Net trading income'. Interest earned on securities held for trading is accrued on a daily basis and reported in the statement of comprehensive income in 'Interest and similar income'.

Day 1 profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a 'Day 1 profit or loss') in 'Net trading income' if the 'Day 1 profit or loss' for individual deal is not significant. In cases where 'Day 1 profit or loss' for individual deal is significant, the difference is amortized over the period of the deal. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable, or when the instrument is derecognized.

(b) Available-for-sale securities

Available-for-sale securities are those financial assets that are not classified as 'held for trading' or 'held-to-maturity'. Subsequent to their initial recognition, these assets are accounted for and re-measured at fair value.

Unrealized gains and losses arising from changes in the fair value of 'available-for-sale' securities are recognized on a daily basis in the 'Available-for-sale financial assets' in equity.

Interest earned whilst holding 'available-for-sale' securities is accrued on a daily basis and reported in the statement of comprehensive income in 'Interest and similar income'.

The fair value of available-for-sale securities, for which an active market exists, and a market value can be estimated reliably, is measured at quoted market prices. In circumstances where the quoted market prices are not readily available, the fair value is estimated using the present value of future cash flows.

Equity investments are held at cost less impairment as their fair value cannot be reliably measured. For available-for-sale equity investments, the Group assesses at each end of reporting period whether there is objective evidence that an investment or a group of investments is impaired.

2. Summary of significant accounting policies (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in 'Impairment losses on financial assets' in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

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

(c) Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and maturities that the VUB Group has the positive intent and ability to hold to maturity.

Held-to-maturity investments are carried at amortized cost less any impairment losses. Amortized cost is the amount at which the asset was initially measured minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. The amortization is recognized in the statement of comprehensive income in 'Interest and similar income'.

The VUB Group assesses on a regular basis whether there is any objective evidence that a held-to-maturity investment may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

2.11 Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements ('repo transactions') remain as assets in the statement of financial position under the original caption and the liability from the received loan is included in 'Due to central and other banks' or 'Due to customers'.

Securities purchased under agreements to purchase and resell ('reverse repo transactions') are recorded only in the off-balance sheet and the loan provided is reported in the statement of financial position in 'Loans and advances to banks' or 'Loans and advances to customers', as appropriate.

The price differential between the purchase and sale price of securities is treated as interest income or expense and accrued over the life of the agreement.

2.12 Derivative financial instruments

In the normal course of business, the VUB Group is a party to contracts with derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include foreign exchange forwards, interest rate/foreign exchange swaps and options, forward rate agreements and cross currency swaps. The VUB Group also uses financial instruments to hedge interest rate risk and currency exposures associated with its transactions in the financial markets. They are accounted for as trading derivatives if they do not fully comply with the definition of a hedging derivative as prescribed by IFRS. The VUB Group also acts as an intermediary provider of these instruments to certain customers.

Derivative financial instruments are initially recognized and subsequently re-measured in the statement of financial position at fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The fair values of derivative positions are computed using standard formulas and prevailing interest rates applicable for respective currencies available on the market at reporting dates.

2. Summary of significant accounting policies (continued)

In the normal course of business, the VUB Group enters into derivative financial instrument transactions to hedge its liquidity, foreign exchange and interest rate risks. The Group also enters into proprietary derivative financial transactions for the purpose of generating profits from short-term fluctuations in market prices. The VUB Group operates a system of market risk and counterparty limits, which are designed to restrict exposure to movements in market prices and counterparty concentrations. The VUB Group also monitors adherence to these limits on a regular basis.

Credit risk of financial derivatives

Credit exposure or the replacement cost of derivative financial instruments represents the VUB Group's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses of the VUB Group in the event that counterparties fail to perform their obligations. It is usually a small proportion of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to the generally applicable methodology using the current exposure method and involves the market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of nominal value, which indicates the potential change in market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity. The VUB Group assesses the credit risk of all financial instruments on a daily basis.

The VUB Group is selective in its choice of counterparties and sets limits for transactions with customers. As such, the VUB Group considers that the actual credit risk associated with financial derivatives is substantially lower than the exposure calculated pursuant to credit equivalents.

Embedded derivatives

The VUB Group assesses whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives under IAS 39. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract-with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The VUB Group accounts for embedded derivatives separately from the host contract if: the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Hedging derivatives

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from expected transactions. In order to manage individual risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each month. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For situations where that hedged item is an expected transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of comprehensive income.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized in other comprehensive income as 'Cash flow hedges'. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately as profit or loss in the statement of comprehensive income in 'Net trading income'.

2. Summary of significant accounting policies (continued)

When the hedged cash flow affects profit or loss, the gain or loss on the hedging instrument is reclassified from other comprehensive income to profit or loss as a reclassification adjustment. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognized in other comprehensive income remains separately in equity and is reclassified from other comprehensive income to profit or loss as a reclassification adjustment when the hedged expected transaction is ultimately recognized. When an expected transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the statement of comprehensive income in 'Net trading income'. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of comprehensive income in 'Net trading income'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the EIR. If the hedged item is derecognized, the unamortized fair value adjustment is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

2.13 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, if, and only if, there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

2.14 Non-current assets held for sale

Non-current assets held for sale are assets where the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets comprise buildings, which are available for immediate sale in their present condition and their sale is considered to be highly probable.

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2.15 Loans and advances to customers and impairment losses

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are recorded at amortized cost less any impairment losses. All loans and advances to customers are recognized on the statement of financial position when cash is advanced to borrowers.

Loans and advances to customers are subject to periodic impairment testing. An impairment loss for a loan, or a group of similar loans, is established if their carrying amount is greater than their estimated recoverable amount. The recoverable amount is the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the loan's original effective interest rate. The amount of the impairment loss is included in the statement of comprehensive income.

Impairment and uncollectability is measured and recognized individually for loans that are individually significant. Impairment and uncollectability for a group of similar loans that are not individually identified as impaired or loans that are not individually significant are measured and recognized on a portfolio basis.

The VUB Group writes off loans and advances when it determines that the loans and advances are uncollectible. Loans and advances are written off against the reversal of the related impairment losses. Any recoveries of written off loans are credited to the statement of comprehensive income on receipt.

2. Summary of significant accounting policies (continued)

2.16 Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization and impairment losses. Amortization is calculated on a straight-line basis in order to write off the cost of each asset to its residual value over its estimated useful economic life as follows:

	Years
Software	5 – 10
Other intangible assets	5

Intangible assets acquired in a business combination are capitalized at fair values as at the date of acquisition and tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Acquired intangible assets are amortized in line with their future cash flows over the estimated useful economic lives as follows:

	Years
Software	3
Customer contracts and relationships including brand names	3 to 9

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

2.17 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition.

Goodwill is measured at cost less impairment, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

2.18 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and impairment losses. Acquisition cost includes the purchase price plus other costs related to acquisition such as freight, duties or commissions. The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency are capitalized. Repairs and renovations are charged to the statement of comprehensive income when the expenditure is incurred.

Depreciation is calculated on a straight-line basis in order to write off the cost of each asset to its residual value over its estimated useful economic life as follows:

	Years
Buildings	5 – 40
Equipment	4, 6, 15
Other tangibles	4, 6, 15

Assets in progress, land and art collections are not depreciated. The depreciation of assets in progress begins when the related assets are put into use.

The VUB Group periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to this recoverable amount.

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

2. Summary of significant accounting policies (continued)

2.19 Leasing

The determination of whether an arrangement is a finance lease is based on the substance of the arrangement and requires an assessment of whether:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets that could only be used by the lessee without major modifications being made,
- the lease transfers ownership of the asset at the end of the lease term,
- the VUB Group has the option to purchase the asset at a price sufficiently below fair value at exercise date,
- it is reasonably certain the option will be exercised,
- the lease term is for a major part of the asset's economic life even if title is not transferred and
- the present value of minimum lease payments substantially equals the asset's fair value at inception.

VUB Group as a lessee

Finance leases, which transfer to the VUB Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in 'Interest expense and similar charges'.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the VUB Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognized in the balance sheet. Any rentals payable are accounted for on a straight-line basis over the lease term and included in 'Other operating expenses'.

VUB Group as a lessor

Leases where the VUB Group transfers substantially all the risk and benefits of ownership of the asset are classified as finance leases. Leases are recognized upon acceptance of the asset by the customer at an amount equal to the net investment in the lease. The sum of future minimum lease payments and initial origination fees equate to the gross investment in the lease. The difference between the gross and net investment in the lease represents unearned finance income, which is recognized as revenue in 'Interest and similar income' over the lease term at a constant periodic rate of return on the net investment in the lease.

2.20 Provisions

Provisions are recognized when the VUB Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.21 Provisions for employee benefits

The Group's obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is determined by reference to a risk-free curve, with term consistent with the estimated term of the benefit obligation. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in profit or loss in the period in which they arise. All employees of the Group are covered by the retirement and jubilee employee benefits program.

The calculation for the respective program takes into account the following parameters:

	Jubilee benefits	Retirement benefits
Discount rate	3%	4%
Future growth of wages	n/a	3%
Fluctuation of employees (based on age)	9 – 46%	9 – 46%
Retirement age	based on valid legislation	
Mortality	based on mortality tables issued by the Statistical Office of the Slovak Republic	

2. Summary of significant accounting policies (continued)

The Group also calculates a reserve for retention applicable to employees that are subject to the retention program using the projected unit credit method.

All gains or losses in relation to the employee benefits are recognized in 'Salaries and employee benefits'. The employee benefit reserves are disclosed on balance sheet in 'Other liabilities'.

2.22 Financial guarantees

Financial guarantees are contracts that require the VUB Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when it falls due in accordance with the terms of a debt instrument consisting of letters of credit, guarantees and acceptances.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee in the statement of comprehensive income in 'Fee and commission income' on a straight line basis. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within 'Other liabilities'. Any increase in the liability relating to financial guarantees is recorded in the statement of comprehensive income in 'Impairment losses on financial assets'.

2.23 Legal reserve fund

In accordance with the law and statutes of the VUB Group companies, the VUB Group companies are obliged to contribute at least 10% of its annual net profit to the 'Legal reserve fund' until it reaches 20% of their share capital. Usage of the 'Legal reserve fund' is restricted by the law and the fund can be used for the coverage of the losses of VUB Group companies.

2.24 Equity reserves

The reserves recorded in equity that are disclosed in the statement of financial position include:

'Translation of foreign operation' reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations.

'Available-for-sale financial assets' reserve which comprises changes in the fair value of available-for-sale investments.

'Cash flow hedges' reserve which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

2.25 Interest income

Interest income and expense is recognized in the statement of comprehensive income on an accrual basis using the effective interest rate method. Interest income and expense includes the amortization of any discount or premium on financial instruments. Interest income also includes up-front and commitment fees, which are subject to the effective interest rate calculation and are amortized over the life of the loan.

2.26 Fee and commission income

Fee and commission income arises on financial services provided by the VUB Group including account maintenance, cash management services, brokerage services, investment advice and financial planning, investment banking services, project finance transactions and asset management services. Fee and commission income is recognized when the corresponding service is provided.

2.27 Net trading income

Net trading income includes gains and losses arising from purchases, disposals and changes in the fair value of financial assets and liabilities including securities and derivative instruments. It also includes the result of all foreign currency transactions.

2. Summary of significant accounting policies (continued)

2.28 Dividend income

Dividend income is recognized in the statement of comprehensive income on the date that the dividend is declared.

2.29 Income tax

Income tax is calculated in accordance with the regulations of the Slovak Republic and other jurisdictions, in which the VUB Group operates.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for all temporary differences arising between tax bases of assets or liabilities and their carrying amounts for financial reporting purposes. Expected tax rates, applicable for the periods when assets and liabilities are realized, are used to determine deferred tax.

The Group is also subject to various indirect operating taxes, which are included in 'Other operating expenses'.

2.30 Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the VUB Group.

2.31 Significant accounting judgements and estimates

Judgements

In the process of applying the VUB Group's accounting policies, management has made judgements, apart from those involving estimations, that significantly affect the amounts recognized in the financial statements. The most significant judgements relate to the classification of financial instruments.

Held-to-maturity investments

The VUB Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the VUB Group evaluates its intention and ability to hold such investments to maturity. If the VUB Group fails to hold these investments to maturity other than for a specific circumstance, for example selling a higher than insignificant amount close to maturity, it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value and not at amortized cost.

Financial assets held for trading

The VUB Group classifies a financial asset as held for trading if it is acquired principally for the purpose of selling it in the near term, or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit taking, or if it is a derivative.

Estimates

The preparation of the financial statements required management to make certain estimates and assumptions, which impact the carrying amounts of the VUB Group's assets and liabilities and the disclosure of contingent items at the end of reporting period and reported revenues and expenses for the period then ended.

Estimates are used for, but not limited to: fair values of financial instruments, impairment losses on loans and advances to customers, impairment losses for off-balance sheet risks, depreciable lives and residual values of tangible and intangible assets, impairment losses on tangible and intangible assets, liabilities from employee benefits and provisions for legal claims.

2. Summary of significant accounting policies (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments.

Impairment losses on loans and advances

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

In addition to specific allowances against individually significant loans and advances, the VUB Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgement and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the VUB Group's operating environment changes. Actual results may differ from those estimates.

3. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with contractual maturity of less than 90 days:

	Note	2009	2008
Cash and balances with central banks	4	238,503	505,030
Current accounts in other banks	5	23,630	54,820
Treasury bills and other eligible bills	6	-	662,970
Held-to-maturity investments	11	9,446	-
Term deposits with central and other banks	5	61,761	665,363
Loans and advances to central and other banks	5	-	629,876
		<u>333,340</u>	<u>2,518,059</u>

4. Cash and balances with central banks

	2009	2008
Balances with central banks:		
Compulsory minimum reserves	135,813	96,573
Current accounts	221	66,442
	<u>136,034</u>	<u>163,015</u>
Cash in hand	102,469	342,015
	<u>238,503</u>	<u>505,030</u>

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and the CNB. The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the VUB Group and issued bonds, both with a maturity of up to 2 years. The rate for the calculation of the compulsory minimum reserve is 2% and the required balance is calculated as the total of individual items multiplied by the valid rate.

4. Cash and balances with central banks (continued)

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The VUB Group's ability to withdraw the compulsory minimum reserve is restricted by statutory legislation.

Since January 2009, the compulsory minimal reserves account ('CMR') is maintained under Target2 system. Target2 is a Trans-European Automated Real-Time Gross Settlement Express Transfer System, where payments with priority are realized in real-time.

5. Loans and advances to banks

	Note	2009	2008
Current accounts in other banks	3	23,630	54,820
Loans and advances to:			
Central banks	3	-	629,876
Other banks		83,504	88,033
Term deposits with:			
Central banks	3	5,668	637,947
Other banks	3	56,093	27,416
Impairment losses	10	(151)	(806)
		<u>168,744</u>	<u>1,437,286</u>

6. Financial assets held for trading

	2009	2008
Treasury bills and other eligible bills		
with contractual maturity less than 90 days (note 3)	-	662,970
with contractual maturity over 90 days	93,302	64,915
State bonds		
with contractual maturity over 90 days	69,780	58,971
Corporate bonds	-	4,348
Mutual funds	1,730	-
	<u>164,812</u>	<u>791,204</u>

All securities held for trading are listed. In 2009 and 2008, no such securities were pledged by the VUB Group to secure transactions with counterparties.

7. Derivative financial instruments

	2009 Assets	2008 Assets	2009 Liabilities	2008 Liabilities
Trading derivatives	42,037	60,961	44,480	51,447
Cash flow hedges of interest rate risk	-	-	2,770	1,024
Cash flow hedge of foreign exchange risk	746	-	-	-
Fair value hedges of interest rate risk	-	-	5,221	-
	<u>42,783</u>	<u>60,961</u>	<u>52,471</u>	<u>52,471</u>

Trading derivatives include also hedge instruments that are non-qualifying according to IAS 39, but are held for risk management purposes rather than for trading. The instruments used include interest rate swaps and cross-currency interest rate swaps. In 2009, the total positive fair value of such derivatives was € 2,800 thousand (2008: € 2,563 thousand) and the negative fair value was € 1,386 thousand (2008: € 2,039 thousand).

7. Derivative financial instruments (continued)

	2009 Assets	2008 Assets	2009 Liabilities	2008 Liabilities
Trading derivatives – Fair values				
Interest rate instruments				
Swaps	25,771	22,180	28,641	22,084
Forward rate agreements	-	74	159	380
Options	1,487	1,028	1,494	1,050
	<u>27,258</u>	<u>23,282</u>	<u>30,294</u>	<u>23,514</u>
Foreign currency instruments				
Forwards and swaps	965	27,895	2,787	20,139
Cross currency swaps	2,800	2,563	240	442
Options	7,511	6,917	7,656	7,048
	<u>11,276</u>	<u>37,375</u>	<u>10,683</u>	<u>27,629</u>
Equity and commodity instruments				
Equity options	3,423	126	3,423	126
Commodity options	80	178	80	178
	<u>3,503</u>	<u>304</u>	<u>3,503</u>	<u>304</u>
	<u>42,037</u>	<u>60,961</u>	<u>44,480</u>	<u>51,447</u>
	2009 Assets	2008 Assets	2009 Liabilities	2008 Liabilities
Trading derivatives – Notional values				
Interest rate instruments				
Swaps	881,941	840,193	881,941	840,193
Forward rate agreements	160,000	297,791	160,000	297,791
Options	57,266	18,055	57,266	18,055
	<u>1,099,207</u>	<u>1,156,039</u>	<u>1,099,207</u>	<u>1,156,039</u>
Foreign currency instruments				
Forwards and swaps	197,397	1,091,328	199,418	1,083,600
Cross currency swaps	67,994	67,576	65,433	65,433
Options	44,095	29,392	43,910	29,392
	<u>309,486</u>	<u>1,188,296</u>	<u>308,761</u>	<u>1,178,425</u>
Equity and commodity instruments				
Equity options	35,640	30,910	35,640	30,910
Commodity options	3,495	4,331	3,495	4,331
	<u>39,135</u>	<u>35,241</u>	<u>39,135</u>	<u>35,241</u>
	<u>1,447,828</u>	<u>2,379,576</u>	<u>1,447,103</u>	<u>2,369,705</u>

7. Derivative financial instruments (continued)

Cash flow hedges

Cash flow hedges of interest rate risk

The VUB Group uses four interest rate swaps to hedge the interest rate risk arising from issuance of four floating rate mortgage bonds. The cash flows on floating legs of these interest rate swaps substantially match the cash flow profiles of the floating rate mortgage bonds.

Cash flow hedge of foreign exchange risk

The VUB Group entered into a foreign exchange ('FX') forward contracts to hedge cash inflows in CZK in relation to the transfer of retained earnings from Prague branch. The cash flow profiles of both items are the same.

Below is a schedule indicating as at 31 December 2009, the periods when the hedged cash flows are expected to occur. The cash flows of mortgage bonds represent future undiscounted value of coupons:

	Up to 1 year	1 to 5 years	Over 5 years
2009			
Mortgage bonds – interest rate risk	3,698	22,933	3,949
FX forecast transaction – foreign exchange risk	14,532	-	-
2008			
Mortgage bonds – interest rate risk	7,532	24,920	10,084

The net expense on cash flow hedges reclassified to the Net interest income during 2009 was € 1,873 thousand (2008: € 24 thousand).

Fair value hedges of interest rate risk

The VUB Group uses three interest rate swaps to hedge the interest rate risk of three fixed rate bonds from the available-for-sale ('AFS') portfolio. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of AFS portfolio bonds, both in relation to changes of interest rates.

For the year ended 31 December 2009, the Group recognized in relation to the fair value hedging instruments above a net loss of € 1,621 thousand (2008: nil). The net gain on hedged items attributable to the hedged risks amounted to € 1,411 thousand (2008: nil). Both items are disclosed within the 'Net trading income'.

Interest and similar income from hedged AFS securities in the amount of € 5,841 thousand was compensated by interest expense from Interest rate swaps hedging instruments in the amount of € 3,846 thousand.

8. Available-for-sale financial assets

	Share 2009	Share 2008	2009	2008
State bonds			932,649	41,038
Treasury bills and other eligible bills			-	128,861
Bank bonds			62,281	94,165
Equity shares at cost				
RVS Studené, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.02%	0.02%	57	57
Visa Inc.	-	0.04%	-	353
			<u>631</u>	<u>984</u>
			<u>995,561</u>	<u>265,048</u>

In 2009, state bonds with a total nominal value of € 100 million were pledged by the VUB Group (2008: nil) to secure transactions with counterparties.

9. Loans and advances to customers

31 December 2009	Amortized cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	31,955	-	31,955
Municipalities – Leasing	4,039	(296)	3,743
	<u>35,994</u>	<u>(296)</u>	<u>35,698</u>
Corporate			
Large Corporates	1,472,604	(32,233)	1,440,371
SME	885,790	(46,888)	838,902
Other Financial Institutions	14,756	-	14,756
Private Sector Entities	16,270	(195)	16,075
Leasing	180,217	(13,368)	166,849
Factoring	62,448	(1,391)	61,057
	<u>2,632,085</u>	<u>(94,075)</u>	<u>2,538,010</u>
Retail			
Small business	151,683	(14,418)	137,265
Small business – Leasing	7,204	(535)	6,669
Consumer Loans	823,334	(98,301)	725,033
Mortgages	2,114,581	(16,999)	2,097,582
Credit Cards	247,740	(30,546)	217,194
Overdrafts	102,998	(9,620)	93,378
Leasing	10,990	(810)	10,180
Other	2,815	(177)	2,638
	<u>3,461,345</u>	<u>(171,406)</u>	<u>3,289,939</u>
	<u>6,129,424</u>	<u>(265,777)</u>	<u>5,863,647</u>

The segmentation of Loans and advances to customers in both 2009 and 2008 is based on the new IRB approach implemented by the Group during 2009. The different segment definition caused transfers among individual sectors.

9. Loans and advances to customers (continued)

31 December 2008	Amortized cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
State organizations	2,835	-	2,835
Municipalities	14,959	-	14,959
	<u>17,794</u>	<u>-</u>	<u>17,794</u>
Corporate			
Large Corporates	1,527,347	(36,509)	1,490,838
SME	857,796	(22,282)	835,514
Other Financial Institutions	15,891	-	15,891
Private Sector Entities	16,525	(17)	16,508
Leasing	218,896	(5,308)	213,588
Factoring	71,561	(945)	70,616
	<u>2,708,016</u>	<u>(65,061)</u>	<u>2,642,955</u>
Retail			
Small business	142,923	(8,204)	134,719
Small business – Leasing	14,226	(351)	13,875
Consumer Loans	765,774	(64,846)	700,928
Mortgages	1,907,392	(22,310)	1,885,082
Credit Cards	198,739	(16,137)	182,602
Overdrafts	81,429	(5,583)	75,846
Leasing	4,796	(114)	4,682
Other	9,411	(176)	9,235
	<u>3,124,690</u>	<u>(117,721)</u>	<u>3,006,969</u>
	<u>5,850,500</u>	<u>(182,782)</u>	<u>5,667,718</u>

At 31 December 2009, the 20 largest corporate customers represented a total balance of € 682,092 thousand (2008: € 684,176 thousand) or 11.1% (2008: 11.7%) of the gross loan portfolio.

During 2009, the net loss from loans and advances to customers written off and sold amounted to € 5,084 thousand (2008: net gain of € 7,602 thousand) (note 31).

Maturities of gross finance lease receivables are as follows:

	2009	2008
Up to 1 year	83,158	107,670
1 to 5 years	118,128	144,619
Over 5 years	34,793	26,490
	<u>236,079</u>	<u>278,779</u>
Unearned future finance income on finance leases	(33,629)	(40,861)
Impairment losses	(15,009)	(5,773)
	<u>187,441</u>	<u>232,145</u>

9. Loans and advances to customers (continued)

Maturities of net finance lease receivables are as follows:

	2009	2008
Up to 1 year	64,704	90,576
1 to 5 years	93,601	119,759
Over 5 years	29,136	21,810
	<u>187,441</u>	<u>232,145</u>

10. Impairment losses

	Note	1 Jan 2009	Creation/ (Reversal) (note 31)	FX gains	Other	31 Dec 2009
Loans and advances to banks	5	806	(655)	-	-	151
Loans and advances to customers	9	182,782	85,434	69	(2,508) *	265,777
Held-to-maturity investments	11	496	(119)	-	-	377
Intangible assets	13	197	-	-	(197)	-
Property and equipment	15	43	262	-	-	305
Other assets	16	4,678	5,184	(94)	984	10,752
		<u>189,002</u>	<u>90,106</u>	<u>(25)</u>	<u>(1,721)</u>	<u>277,362</u>

* The Other decrease in impairment losses for Loans and advances to customers was caused by an unwinding of interest and the transfer of portion of Loans and advances to customers into the Other assets caption.

	Note	1 Jan 2008	Creation/ (Reversal) (note 31)	FX gains	Other	31 Dec 2008
Loans and advances to banks	5	849	27	(70)	-	806
Loans and advances to customers	9	131,080	52,669	(967)	-	182,782
Held-to-maturity investments	11	675	(113)	(66)	-	496
Intangible assets	13	-	-	-	197	197
Property and equipment	15	91	(48)	-	-	43
Other assets	16	4,629	46	3	-	4,678
		<u>137,324</u>	<u>52,581</u>	<u>(1,100)</u>	<u>197</u>	<u>189,002</u>

11. Held-to-maturity investments

	2009	2008
State restructuring bonds	618,775	625,181
State bonds	1,302,480	1,289,477
Bank bonds and other bonds issued by financial sector	78,038	237,632
Corporate notes and bonds with contractual maturity less than 90 days (note 3)	9,446	-
Corporate notes and bonds with contractual maturity over 90 days	37,885	47,838
	<u>2,046,624</u>	<u>2,200,128</u>
Impairment losses (note 10)	(377)	(496)
	<u>2,046,247</u>	<u>2,199,632</u>

In 2009, bonds in the total nominal amount of € 455,495 thousand were pledged by the Group (2008: € 1,278,809 thousand) to secure transactions with counterparties.

State restructuring bonds

As part of the pre-privatization restructuring process of the Bank, the Slovak government decided to transfer the receivables of the Bank arising from non-performing loans to state agencies. These special purpose agencies were created and are under the full control of the State. In December 1999 and June 2000, the Slovak government recapitalized the Bank by transferring the non-performing loans, including principal and interest, to Konsolidačná banka Bratislava ('KBB') with a gross value of Sk 58.6 billion (€ 1,945 million), and Slovenská konsolidačná ('SKO') with a gross value of Sk 7.6 billion (€ 252 million), which gave rise to the Bank's receivables from KBB and SKO in the total amount of Sk 66.2 billion (€ 2,197 million). In January and March 2001, these receivables were swapped at par for state restructuring bonds with a total nominal value of Sk 66.2 billion (€ 2,197 million).

Restructuring bonds were issued by the Ministry of Finance of the Slovak Republic, acting on behalf of the Slovak government as the financial intermediary. The bonds are legally considered to represent sovereign and unconditioned direct obligations of the Slovak Republic and therefore there is no need for additional state guarantees.

The bond conditions are the same as for any other similar type of securities issued by the Slovak Republic, i.e. are fully redeemable by the Slovak Republic, there is no clause regarding rollover, early or late extinguishments and are not convertible into any other type of financial instruments.

At 31 December 2009 and 2008, the Group held in its portfolio the following state restructuring bonds:

- (a) 10-year state bonds with a nominal value of € 366,594 thousand, due on 30 January 2011, bearing variable interest rate for 6M EURIBOR;
- (b) 10-year state bonds with a nominal value of € 248,855 thousand, due on 29 March 2011, bearing variable interest rate of 6M EURIBOR.

12. Associates and jointly controlled entities

	Share %	Cost	Revaluation	Carrying amount
At 31 December 2009				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	26	29
VÚB Generali DSS, a.s.	50.0	<u>16,597</u>	<u>(11,006)</u>	<u>5,591</u>
		<u>16,600</u>	<u>(10,980)</u>	<u>5,620</u>
At 31 December 2008				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	23	26
VÚB Generali DSS, a.s.	50.0	<u>16,597</u>	<u>(11,460)</u>	<u>5,137</u>
		<u>16,600</u>	<u>(11,437)</u>	<u>5,163</u>

Share of profit and revaluation reserves of associates and jointly controlled entities reported in the profit or loss is as follows:

	2009	2008
Revaluation at 1 January	(11,437)	(11,783)
Share of profit	499	346
Share of revaluation reserves	(42)	-
Revaluation at 31 December	<u>(10,980)</u>	<u>(11,437)</u>

The aggregate amounts of the VUB Group's interest in VÚB Generali DSS, a.s. are as follows:

	2009	2008
Assets	5,873	5,452
Liabilities	282	315
Equity	5,591	5,137
Net profit for the period	496	341
Change of revaluation reserves for the period	(42)	-

The aggregate amounts of the VUB Group's interest in Slovak Banking Credit Bureau, s.r.o. are as follows:

	2009	2008
Assets	143	129
Liabilities	114	103
Equity	29	26
Net profit for the period	3	5

13. Intangible assets

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2009	149,185	54,321	5,482	208,988
Additions	-	-	11,139	11,139
Disposals	(992)	(414)	(3)	(1,409)
Transfers	11,571	1,350	(12,921)	-
FX differences	14	1	-	15
At 31 December 2009	<u>159,778</u>	<u>55,258</u>	<u>3,697</u>	<u>218,733</u>
Accumulated amortization				
At 1 January 2009	(126,843)	(25,529)	(197)	(152,569)
Amortization for the year	(8,981)	(11,748)	197 *	(20,532)
Disposals	991	414	-	1,405
FX differences	(14)	(1)	-	(15)
At 31 December 2009	<u>(134,847)</u>	<u>(36,864)</u>	<u>-</u>	<u>(171,711)</u>
Carrying amount				
At 1 January 2009	<u>22,342</u>	<u>28,792</u>	<u>5,285</u>	<u>56,419</u>
At 31 December 2009	<u>24,931</u>	<u>18,394</u>	<u>3,697</u>	<u>47,022</u>

* Represents reversal of impairment losses related to the Intangible assets in progress.

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2008	141,174	57,297	5,242	203,713
Additions	188	-	9,919	10,107
Disposals	(634)	(4,083)	-	(4,717)
Transfers	8,562	1,117	(9,679)	-
FX differences	(105)	(10)	-	(115)
At 31 December 2008	<u>149,185</u>	<u>54,321</u>	<u>5,482</u>	<u>208,988</u>
Accumulated amortization				
At 1 January 2008	(114,907)	(21,199)	-	(136,106)
Amortization for the year	(12,652)	(8,373)	(197) *	(21,222)
Disposals	611	4,033	-	4,644
FX differences	105	10	-	115
At 31 December 2008	<u>(126,843)</u>	<u>(25,529)</u>	<u>(197)</u>	<u>(152,569)</u>
Carrying amount				
At 1 January 2008	<u>26,267</u>	<u>36,098</u>	<u>5,242</u>	<u>67,607</u>
At 31 December 2008	<u>22,342</u>	<u>28,792</u>	<u>5,285</u>	<u>56,419</u>

* Represents impairment losses related to the Intangible assets in progress.

14. Goodwill

	2009	2008
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a.s.	18,871	18,921
	<u>29,305</u>	<u>29,355</u>

Goodwill related to VÚB Leasing, a. s. arose on the acquisition of the majority shareholding in VÚB Leasing, a. s. and reflects the call and put options structure stipulated in the Shareholders' agreement relating to VÚB Leasing, a. s. The goodwill amount includes both goodwill related to the majority shareholding in total amount of € 7,304 thousand (Sk 219 million) and goodwill arising from the future purchase of the non-controlling shareholding in the amount of € 3,130 thousand (Sk 96 million). Goodwill related to Consumer Finance Holding, a.s. ('CFH') arose in 2005 on the acquisition of CFH, the VUB Group's sales finance subsidiary.

The goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Management considers VUB Leasing, a. s. and CFH to be separate cash generating units for purposes of impairment testing.

The basis on which the recoverable amount of VÚB Leasing and CFH has been determined is the value in use calculation, using cash flow projections based on most recent financial budgets approved by senior management covering a 5-year period. The discount rate applied to cash flow projections beyond the five year period are extrapolated using a projected growth rate.

The following rates are used by the Group:

	VUB Leasing		CFH	
	2009	2008	2009	2008
Discount rate	13.23%	12.31%	16.68%	22.81%
Projected growth rate	4.50%	4.50%	2.00%	1.50%

The calculation of value in use for both VÚB Leasing and CFH is most sensitive to the following key assumptions:

- interest margins,
- discount rates,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local Gross Domestic Product (GDP),
- local inflation rates.

Interest margins

Key assumptions used in the cash flow projections were the development of margins and volumes by product line.

Discount rates

Discount rates were determined based on the Capital Asset Pricing Model ('CAPM'). The parameters used reflect market interest rates, industry and size of the subsidiary. Impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

VUB Leasing

The very small recovery of leasing market is going to be expected in coming year. New volumes could be driven only by increase of industrial production and new orders. VUB Leasing will focus on financial leasing for SME and large clients on corporate side, and with new loan product on retail side as well. The payment discipline of current portfolio will substantially influence the selective approach by new financing.

14. Goodwill (continued)

CFH

According to the product curve, maturing products, such as installment loans, and also credit cards have been forecasted with a slightly decreasing volume and decreasing margins assuming that the market share of CFH is kept constant. More recent product lines, such as personal loans with or without collateral, have been forecasted with a stable volume and slightly decreasing margins.

15. Property and equipment and Non-current assets held for sale

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2009	210,753	96,416	42,298	8,314	357,781
Additions	-	-	-	8,562	8,562
Disposals	(6,223)	(7,476)	(4,050)	(2)	(17,751)
Transfers	2,756	8,078	2,257	(13,091)	-
FX differences	1	10	2	-	13
At 31 December 2009	<u>207,287</u>	<u>97,028</u>	<u>40,507</u>	<u>3,783</u>	<u>348,605</u>
Accumulated depreciation					
At 1 January 2009	(69,909)	(78,531)	(26,993)	-	(175,433)
Depreciation for the year	(10,143)	(8,033)	(4,546)	-	(22,722)
Disposals	3,439	7,419	3,114	-	13,972
FX differences	(1)	(10)	(2)	-	(13)
At 31 December 2009	<u>(76,614)</u>	<u>(79,155)</u>	<u>(28,427)</u>	<u>-</u>	<u>(184,196)</u>
Impairment losses (note 10)					
At 1 January 2009	(43)	-	-	-	(43)
Additions	-	-	(262)	-	(262)
At 31 December 2009	<u>(43)</u>	<u>-</u>	<u>(262)</u>	<u>-</u>	<u>(305)</u>
Carrying amount					
At 1 January 2009	<u>140,801</u>	<u>17,885</u>	<u>15,305</u>	<u>8,314</u>	<u>182,305</u>
At 31 December 2009	<u>130,630</u>	<u>17,873</u>	<u>11,818</u>	<u>3,783</u>	<u>164,104</u>

15. Property and equipment and Non-current assets held for sale (continued)

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2008	208,819	106,077	43,843	5,212	363,951
Additions	-	199	2,842	16,486	19,527
Disposals	(2,958)	(15,742)	(6,905)	-	(25,605)
Transfers	4,902	5,957	2,525	(13,384)	-
FX differences	(10)	(75)	(7)	-	(92)
At 31 December 2008	<u>210,753</u>	<u>96,416</u>	<u>42,298</u>	<u>8,314</u>	<u>357,781</u>
Accumulated depreciation					
At 1 January 2008	(61,265)	(85,935)	(27,379)	-	(174,579)
Depreciation for the year	(10,575)	(7,681)	(5,069)	-	(23,325)
Disposals	1,923	14,996	5,453	-	22,372
FX differences	8	89	2	-	99
At 31 December 2008	<u>(69,909)</u>	<u>(78,531)</u>	<u>(26,993)</u>	<u>-</u>	<u>(175,433)</u>
Impairment losses (note 10)					
At 1 January 2008	(91)	-	-	-	(91)
Net reversal	48	-	-	-	48
At 31 December 2008	<u>(43)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43)</u>
Carrying amount					
At 1 January 2008	<u>147,463</u>	<u>20,142</u>	<u>16,464</u>	<u>5,212</u>	<u>189,281</u>
At 31 December 2008	<u>140,801</u>	<u>17,885</u>	<u>15,305</u>	<u>8,314</u>	<u>182,305</u>

In 2009 and 2008, the Group held in its portfolio of non-current assets held for sale buildings as follows:

	2009	2008
Cost	-	2,417
Accumulated depreciation	-	(712)
	<u>-</u>	<u>1,705</u>

16. Other assets

	2009	2008
Operating receivables and advances	25,261	14,172
Prepayments and accrued income	3,562	4,980
Other tax receivables	1,217	2,976
Inventories	11,405	3,276
Settlement of operations with financial instruments	600	274
Other	886	1,016
	<u>42,931</u>	<u>26,694</u>
Impairment losses (note 10)	(10,752)	(4,678)
	<u>32,179</u>	<u>22,016</u>

17. Due to central and other banks

	2009	2008
Due to central banks		
Current accounts	28,657	53,821
Loans received	180,460	50
	<u>209,117</u>	<u>53,871</u>
Due to other banks		
Current accounts	27,267	176,720
Term deposits	280,595	386,109
Loans received	279,366	299,029
	<u>587,228</u>	<u>861,858</u>
	<u>796,345</u>	<u>915,729</u>

18. Due to customers

	2009	2008
Current accounts	2,572,607	2,608,509
Term deposits	3,013,491	3,455,388
Savings accounts	307,154	339,037
Government and municipal deposits	650,744	1,510,725
Loans received	35,712	18,757
Promissory notes	12,414	157,514
Other deposits	17,804	39,827
	<u>6,609,926</u>	<u>8,129,757</u>

19. Debt securities in issue

	2009	2008
Bonds	67,761	97,617
Mortgage bonds	1,230,314	1,040,382
	<u>1,298,075</u>	<u>1,137,999</u>

The repayment of mortgage bonds is funded by the mortgage loans provided to customers of the Group (see also note 9).

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	2009	2008
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	34,398	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	34,191	34,191
Mortgage bonds VÚB, a.s. X.	5.00	EUR	1,000	33,194	31.3.2004	31.3.2009	-	34,439
Mortgage bonds VÚB, a.s. XI.	4.40	EUR	500	33,194	25.8.2004	25.8.2010	16,853	16,853
Mortgage bonds VÚB, a.s. XII.	5.10	EUR	10,000	3,319	25.5.2004	25.5.2009	-	34,210
Mortgage bonds VÚB, a.s. XIII.	4.50	EUR	1,000	33,194	29.9.2004	29.9.2010	33,576	33,576
Mortgage bonds VÚB, a.s. XV.	3M EURIBOR + 0.10	EUR	1,000	33,194	30.3.2005	30.3.2010	33,195	33,197
Mortgage bonds VÚB, a.s. XVII.	3M EURIBOR + 0.11	EUR	1,678	33,194	28.11.2005	28.11.2015	55,742	83,258
Mortgage bonds VÚB, a.s. XVIII.	3.00	EUR	39	331,939	19.12.2005	19.12.2010	12,874	12,781
Mortgage bonds VÚB, a.s. XIX.	3M EURIBOR + 0.07	EUR	40	331,939	21.12.2005	21.12.2009	-	13,290
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a.s. XXI.	3M EURIBOR + 0.07	EUR	500	33,194	10.3.2006	10.3.2011	16,605	16,630
Mortgage bonds VÚB, a.s. XXII.	3M EURIBOR + 0.17	EUR	1,200	50,000	29.6.2006	29.6.2011	60,003	60,011
Mortgage bonds VÚB, a.s. XXIII.	3M EURIBOR + 0.15	EUR	60	1,000,000	26.10.2006	26.10.2011	60,095	60,549
Mortgage bonds VÚB, a.s. XXIV.	6M EURIBOR + 0.08	EUR	1,500	33,194	24.11.2006	24.11.2011	49,845	50,000
Mortgage bonds VÚB, a.s. XXV.	3M EURIBOR + 0.16	EUR	30	1,000,000	5.12.2006	5.12.2011	30,019	30,084
Mortgage bonds VÚB, a.s. XXVI.	4.60	EUR	600	33,194	14.12.2006	14.12.2009	-	19,960
Mortgage bonds VÚB, a.s. XXVII.	4.25	EUR	500	33,194	13.3.2007	13.3.2010	17,161	17,161
Mortgage bonds VÚB, a.s. XVIII.	6M PRIBOR + 0.50	CZK	1,000	1,000,000	20.6.2007	20.6.2012	38,293	38,278
Mortgage bonds VÚB, a.s. XXIX.	6M EURIBOR + 0.02	EUR	500	33,194	16.10.2007	16.10.2012	16,631	16,762
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	33,309	33,290
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	19,610	19,595

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	2009	2008
Mortgage bonds VÚB, a.s. 32.	6M PRIBOR + 1.5	CZK	800	1,000,000	17.12.2007	17.12.2017	33,327	33,532
Mortgage bonds VÚB, a.s. 34.	4.30	EUR	900	33,194	27.2.2008	27.2.2010	30,959	30,959
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	21,077	20,987
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,747	18,698
Mortgage bonds VÚB, a.s. 37.	3M EURIBOR + 0.43	EUR	40	1,000,000	30.4.2008	30.4.2011	40,081	40,370
Mortgage bonds VÚB, a.s. 38.	4.75	EUR	317	33,194	26.6.2008	26.6.2010	10,764	10,733
Mortgage bonds VÚB, a.s. 39.	3M EURIBOR + 0.69	EUR	60	1,000,000	26.6.2008	26.6.2015	60,008	60,047
Mortgage bonds VÚB, a.s. 40.	3M EURIBOR + 0.74	EUR	70	1,000,000	28.8.2008	28.8.2015	70,096	70,307
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	23,937	24,481
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	20,540	-
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,290	15,193
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	15,633	-
Mortgage bonds VÚB, a.s. 45.	5.30	EUR	321	16,597	16.10.2008	16.10.2010	5,386	5,386
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	150	1,000,000	19.5.2009	19.5.2016	154,262	-
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	20,000	1,000	11.5.2009	11.5.2013	20,511	-
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	101,666	-
Mortgage bonds VÚB, a.s. 50.	3.40	EUR	8,407	1,000	2.11.2009	2.11.2013	8,454	-
							1,230,314	1,040,382

20. Current and deferred income taxes

	2009	2008
Deferred income tax asset	<u>47,834</u>	<u>8,490</u>
	2009	2008
Current income tax assets	<u>6,036</u>	<u>-</u>
	2009	2008
Current income tax liabilities	<u>-</u>	<u>26,690</u>

Deferred income taxes are calculated on all temporary differences using a tax rate of 19% (2008: 19%) as follows:

	2009	2008
Loans and advances to banks and Held-to-maturity investments	99	(11,371)
Derivative financial instruments	384	195
Available-for-sale financial assets	(1,416)	127
Loans and advances to customers	50,686	24,054
Intangible assets	(2,799)	(3,468)
Property and equipment	(2,767)	(3,295)
Other liabilities and provisions	3,678	3,941
Intangible assets identified on acquisition	-	(1,324)
Other	(31)	(369)
Deferred income tax asset	<u>47,834</u>	<u>8,490</u>

21. Provisions

	2009	2008
Litigations	<u>25,111</u>	<u>30,165</u>

The movement in provisions was as follows:

	1 Jan 2009	Creation/ (Reversal)	31 Dec 2009
Litigations (note 24, note 30)	<u>30,165</u>	<u>(5,054)</u>	<u>25,111</u>
	1 Jan 2008	Creation/ (Reversal)	31 Dec 2008
Litigations (note 24, note 30)	32,297	(2,132)	30,165

22. Other liabilities

	2009	2008
Settlement with employees	19,442	21,675
Various creditors	25,199	32,787
Payables for the minority interest – VÚB Leasing	13,678	14,122
Financial guarantees and commitments	9,595	11,755
VAT payables and other tax payables	3,819	4,041
Accruals and deferred income	2,968	5,474
Factoring	4,324	6,850
Settlement with shareholders	1,237	1,474
Severance and Jubilee benefits	1,286	608
Retention program	1,026	865
Settlement with securities	17	195
Other	1,484	950
	<u>84,075</u>	<u>100,796</u>

The movements in Financial guarantees and commitments, Severance and Retention program were as follows:

	Note	1 Jan 2009	Creation/ (Reversal)	31 Dec 2009
Financial guarantees and commitments	31	11,755	(2,160)	9,595
Retention program	29	865	161	1,026
Severance and Jubilee benefits	29	608	678	1,286
		<u>13,228</u>	<u>(1,321)</u>	<u>11,907</u>

	Note	1 Jan 2008	Creation/ (Reversal)	31 Dec 2008
Financial guarantees and commitments	31	10,464	1,291	11,755
Retention program	29	387	478	865
Severance and Jubilee benefits	29	817	(209)	608
		<u>11,668</u>	<u>1,560</u>	<u>13,228</u>

23. Share capital

In connection with the introduction of the euro as the official currency of the Slovak Republic on 1 January 2009, the Bank has in 2009 converted its shares as follows.

Number of shares	Shares in SKK	Shares in EUR	Diff. from transition to euro in €
4,078,108	1,000	33.20	(24,799.49)
89	100,000,000	3,319,391.89	<u>(0.23)</u>
			<u>(24,799.72)</u>

23. Share capital (continued)

The difference arising from conversion was booked against Legal reserve fund (see also statement of changes in equity).

	2009	2008
Authorized, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 (Sk 100,000,000) each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 (Sk 1,000) each, publicly traded	135,393	135,368
	<u>430,819</u>	<u>430,794</u>
Net profit for the year attributable to shareholders	141,671	168,489
Divided by 12,976,478 (2008: 12,978,108) ordinary shares of € 33.2 (2008: Sk 1,000) each		
Basic and diluted earnings per € 33.2 (Sk 1,000) share in €	<u>10.92</u>	<u>12.98</u>

The principal rights attached to shares are to take part in and voting at the general meeting of shareholders and to receive dividends.

The structure of shareholders is as follows:

	2009	2008
Intesa Holding International S.A.	96.76%	96.49%
Domestic shareholders	2.95%	2.95%
Foreign shareholders	0.29%	0.56%
	<u>100.00%</u>	<u>100.00%</u>

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes yet have been made in the objectives, policies and processes from the previous years however, it is under the constant scrutiny of the Board.

23. Share capital (continued)

The VUB Group's regulatory capital position at 31 December 2009 and 2008 was as follows:

	2009	2008
Tier 1 capital		
Share capital	430,819	430,794
Share premium	13,368	13,368
Translation of foreign operation	(1,649)	(1,741)
Retained earnings without net profit for the period	306,288	141,668
Legal reserve fund	91,541	87,518
Less software (including software in Assets in progress)	<u>(57,933)</u>	<u>(56,887)</u>
	782,434	614,720
Tier 2 capital	-	-
Regulatory adjustment		
Associates and jointly controlled entities	<u>(5,591)</u>	<u>(5,137)</u>
Total regulatory capital	<u>776,843</u>	<u>609,583</u>

Regulatory capital includes items forming the value of basic own funds (ordinary share capital, share premium, retained earnings, legal reserve fund) and items decreasing the value of basic own funds (intangible assets, goodwill and investments with significant influence).

	2009 Actual	2009 Required	2008 Actual	2008 Required
Tier 1 capital	782,434	535,100	614,720	528,000
Tier 2 capital	-	-	-	-
Regulatory adjustment	<u>(5,591)</u>	<u>(5,591)</u>	<u>(5,137)</u>	<u>(5,137)</u>
Total regulatory capital	<u>776,843</u>	<u>529,509</u>	<u>609,583</u>	<u>522,863</u>
Total Risk Weighted Assets	<u>6,621,693</u>	<u>6,621,693</u>	<u>6,537,588</u>	<u>6,537,588</u>
Tier 1 capital ratio	11.82%	8.08%	9.40%	8.08%
Total capital ratio	11.73%	8.00%	9.32%	8.00%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, foreign currency translation and reserves. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBS. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and available-for-sale reserves relating capital instruments.

The VUB Group must maintain a capital adequacy ratio of at least 8% according to NBS regulations. The capital adequacy ratio is the ratio between the Group's capital and the risk-weighted assets. Risk-weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The VUB Group complied with the NBS requirement for the capital adequacy ratio as at 31 December 2009 and 2008.

24. Financial commitments and contingencies

	2009	2008
Issued guarantees	492,359	414,986
Commitments and undrawn credit facilities	1,834,704	1,878,450
	<u>2,327,063</u>	<u>2,293,436</u>

(a) Issued guarantees

Commitments from guarantees represent irrevocable assurances that the VUB Group will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the VUB Group books liabilities against these instruments on a similar basis as is applicable to loans.

(b) Commitments and undrawn credit facilities

The primary purpose of commitments to extend credit is to ensure that funds are available to the customer as required. Commitments to extend credit issued by the VUB Group represent undrawn portions of commitments and approved overdraft loans.

(c) Lease obligations

In the normal course of business, the VUB Group enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 December 2009 and 2008 was as follows:

	2009	2008
Up to 1 year	1,968	1,936
1 to 5 years	1,842	3,797
Over 5 years	-	-
	<u>3,810</u>	<u>5,733</u>

(d) Operating lease – the Group as a lessor

The VUB Group has entered into a number of non-cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 31 December 2009 and 31 December 2008 are as follows:

	2009	2008
Up to 1 year	1,417	1,660
1 to 5 years	1,056	1,527
Over 5 years	-	-
	<u>2,473</u>	<u>3,187</u>

(e) Legal

In the ordinary course of business the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2009. Pursuant to this review, Management has recorded as at 31 December 2009 total provisions of € 25,111 thousand (31 December 2008: € 30,165 thousand) in respect of such legal proceedings (see also note 21). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 15,371 thousand, as at 31 December 2009 (31 December 2008: € 15,523 thousand). This amount represents existing legal proceedings against the VUB Group that according to the opinion of the Legal Department of the VUB will most probably not result in any payments due by the VUB Group.

25. Net interest income

	2009	2008
Interest and similar income		
Loans and advances to banks	10,899	43,442
Loans and advances to customers	377,279	404,761
Bonds, treasury bills and other securities:		
Financial assets held for trading	8,928	18,015
Available-for-sale financial assets	27,927	3,719
Held-to-maturity investments	79,476	104,148
	<u>504,509</u>	<u>574,085</u>
Interest expense and similar charges		
Due to banks	(10,360)	(20,708)
Due to customers	(91,328)	(159,521)
Debt securities in issue	(43,179)	(57,255)
	<u>(144,867)</u>	<u>(237,484)</u>
	<u><u>359,642</u></u>	<u><u>336,601</u></u>

Interest income on individually impaired loans and advances to customers for 2009 amounted to € 13,561 thousand (2008: € 3,411 thousand). The increase was caused mainly by significant increase in number and volume of individually assessed loans and advances to customers.

26. Net fee and commission income

	2009	2008
Fee and commission income		
Received from banks	5,567	6,851
Received from customers:		
Current accounts	43,173	43,665
Mutual funds	4,461	9,726
Term deposits	730	693
Insurance mediation	7,423	7,375
Loans and guarantees	39,320	32,959
Overdrafts	3,188	3,523
Securities	995	804
Transactions and payments	19,633	21,507
Other	1,824	4,419
	<u>126,314</u>	<u>131,522</u>
Fee and commission expense		
Paid to banks	(11,568)	(9,543)
Paid to mediators:		
Credit cards	(7,541)	(6,138)
Securities	(567)	(718)
Services	(6,615)	(8,332)
Other	(2,802)	(2,099)
	<u>(29,093)</u>	<u>(26,830)</u>
	<u><u>97,221</u></u>	<u><u>104,692</u></u>

27. Net trading income

	2009	2008
Foreign currency derivatives and transactions	(4,116)	17,485
Customer FX margins	6,064	25,790
Cross currency swaps	1,037	(465)
Interest rate derivatives *	(1,712)	(559)
Securities:		
Financial assets held for trading	2,275	(1,042)
Available-for-sale financial assets *	7,458	16
Held-to-maturity investments	-	137
Equity derivatives	7	183
Proceeds from sale of investments	139	-
	<u>11,152</u>	<u>41,545</u>

* Includes the revaluation of financial instruments that are part of the hedging relationship, i.e. fair value hedges of interest rate risk (see also note 7. Derivative financial instruments).

The Day 1 profit of all deals that were realized during 2009 and 2008 is disclosed within the Net trading income, therefore there is no amount yet to be recognized in income at 31 December 2009.

28. Other operating income

	2009	2008
Income from leasing	3,502	3,972
Rent	1,830	1,721
Sales of consumer goods	-	3,226
Other services	449	2,069
Net profit from sale of fixed assets	734	1,587
Profit from redemption of Debt securities in issue	3,906	-
Other	2,746	4,375
	<u>13,167</u>	<u>16,950</u>

29. Salaries and employee benefits

	2009	2008
Remuneration	(71,353)	(72,149)
Social security costs	(24,081)	(24,567)
Social fund	(856)	(788)
Retention program (note 22)	(161)	(478)
Severance (note 22)	(678)	209
	<u>(97,129)</u>	<u>(97,773)</u>

The total number of employees of the Group at 31 December 2009 was 4,003 (31 December 2008: 4,111).

The VUB Group does not have any pension arrangements separate from the pension system established by the law, which requires mandatory contributions of a certain percentage of gross salaries to the State owned Social insurance and privately owned pension funds. These contributions are recognized in the period when salaries are earned by employees. No further liabilities are arising to the VUB Group from the payment of pensions to employees in the future.

30. Other operating expenses

	2009	2008
Property related expenses	(13,883)	(13,029)
IT systems maintenance	(12,070)	(16,051)
Post and telecom	(13,152)	(13,480)
Contribution to the Deposit Protection Fund	(8,530)	(6,555)
Equipment related expenses	(7,769)	(8,364)
VAT and other taxes	(6,914)	(8,193)
Security	(4,704)	(4,886)
Advertising and marketing	(8,296)	(17,093)
Stationery	(4,549)	(5,858)
Professional services	(4,682)	(4,875)
Travelling	(1,076)	(1,050)
Other damages	(1,403)	(1,208)
Trainings	(865)	(1,273)
Audit*	(784)	(728)
Transport	(1,034)	(1,743)
Insurance	(438)	(852)
Litigations paid	(199)	(239)
Provisions for litigations (note 21)	5,054	2,132
Other operating expenses	(2,447)	(2,216)
	<u>(87,741)</u>	<u>(105,561)</u>

* As at 31 December 2009 the audit expense consists of the statutory audit in the amount of € 327 thousand (31 December 2008: € 303 thousand), group reporting in the amount of € 327 thousand (31 December 2008: € 303 thousand) and other reporting in the amount of € 130 thousand (31 December 2008: € 122 thousand).

31. Impairment losses on financial assets

	2009	2008
Net creation of impairment losses (note 10)	(90,106)	(52,581)
Net reversal/ (creation) of liabilities - financial guarantees and commitments (note 22)	2,160	(1,291)
	<u>(87,946)</u>	<u>(53,872)</u>
Nominal value of loans written-off	(6,653)	(3,463)
Nominal value of loans sold	(14,947)	(18,782)
Proceeds from loans written-off	3,875	11,414
Proceeds from loans sold	12,641	18,433
	<u>(5,084)</u>	<u>7,602</u>
	<u>(93,030)</u>	<u>(46,270)</u>

32. Income tax expense

	2009	2008
Current income tax	(59,555)	(62,171)
Deferred income tax	40,698	<u>23,605</u>
	<u>(18,857)</u>	<u>(38,566)</u>

The movement in the profit or loss in deferred taxes is as follows:

	2009	2008
Loans and advances to banks	(125)	153
Loans and advances to customers	26,632	20,820
Held-to-maturity investments	11,595	(32)
Property and equipment	528	(8)
Other liabilities and provisions	(263)	1,948
Tax losses carried forward	-	(216)
Intangible assets identified on acquisition	1,993	1,309
Other	338	<u>(369)</u>
	<u>40,698</u>	<u>23,605</u>

The effective tax rate differs from the statutory tax rate in 2009 and in 2008.

Reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

	2009	2008
Profit before tax	160,528	207,055
Applicable tax rate	19%	19%
Theoretical tax charge	(30,500)	(39,340)
Tax non-deductible items	2,139	345
Adjustments for current tax of prior periods	(2,114)	429
Derecognition of deferred tax liability	11,618	<u>-</u>
Tax expense	<u>(18,857)</u>	<u>(38,566)</u>
Effective tax rate	<u>11.75%</u>	<u>18.63%</u>

33. Components of other comprehensive income

	2009	2008
Exchange differences on translating foreign operations	92	(1,606)
Available-for-sale financial assets:		
Losses (gains) arising during the year	16,019	354
Less: Reclassification adjustments for gains included in profit or loss	<u>(7,939)</u>	<u>(16)</u>
	<u>8,080</u>	<u>338</u>
Cash flow hedges:		
Gains (losses) arising during the year	<u>(1,000)</u>	<u>(955)</u>
Total other comprehensive income	7,172	(2,223)
Income tax relating to components of other comprehensive income	<u>(1,353)</u>	<u>120</u>
Other comprehensive income for the year	<u><u>5,819</u></u>	<u><u>(2,103)</u></u>

34. Income tax effects relating to comprehensive income

	2009			2008		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	92	-	92	(1,606)	-	(1,606)
Available-for-sale financial assets	8,080	(1,543)	6,537	338	(62)	276
Net movement on cash flow hedges	<u>(1,000)</u>	<u>190</u>	<u>(810)</u>	<u>(955)</u>	<u>182</u>	<u>(773)</u>
	<u>7,172</u>	<u>(1,353)</u>	<u>5,819</u>	<u>(2,223)</u>	<u>120</u>	<u>(2,103)</u>

35. Estimated fair value of financial assets and liabilities

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates might not be realized in a current sale of the financial instrument.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with central banks

The carrying values of cash and cash equivalents are generally deemed to approximate their fair value.

(b) Loans and advances to banks

The estimated fair value of amounts due from banks approximates their carrying amounts. Impairment losses are taken into consideration when calculating fair values.

(c) Loans and advances to customers

The fair value of loans and advances to customers is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. Impairment losses are taken into consideration when calculating fair values.

(d) Held-to-maturity investments

The fair value of securities carried in the 'Held-to-maturity investments' portfolio is based on quoted market prices. Where no market prices are available, the fair value was calculated by discounting future cash flows using risk free interest rate curve adjusted to reflect credit risk.

(e) Associates and jointly controlled entities

The estimated fair value of investment in associates and jointly controlled entities approximates their carrying amounts. Impairment is taken into consideration when calculating fair values.

(f) Due to banks and customers

The estimated fair value of due to banks approximates their carrying amounts. The fair value of due to customers with short term maturity (under one year) is estimated by discounting their future cash flows using the risk free interest rate curve. The fair value of deposits with maturity over one year is discounted using the appropriate current interest rates offered by the Group to these clients.

(g) Debt securities in issue

The fair value of debt securities issued by the Group is based on quoted market prices. Where no market prices are available, the fair value was calculated by discounting future cash flows using the risk free interest rate curve adjusted by credit spreads reflecting the credit quality of VUB as the issuer.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

35. Estimated fair value of financial assets and liabilities (continued)

31 December 2009	Note	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
Cash and balances with central banks	4	-	-	238,503	-	-	238,503	238,503
Loans and advances to banks	5	-	-	168,744	-	-	168,744	168,744
Financial assets held for trading	6	164,812	-	-	-	-	164,812	164,812
Derivative financial instruments	7	42,783	-	-	-	-	42,783	42,783
Available-for-sale financial assets	8	-	-	-	995,561	-	995,561	995,561
Loans and advances to customers	9	-	-	5,863,647	-	-	5,863,647	6,386,604
Held-to-maturity investments	11	-	2,046,247	-	-	-	2,046,247	2,067,187
Associates and jointly controlled entities	12	-	-	-	-	5,620	5,620	5,620
		<u>207,595</u>	<u>2,046,247</u>	<u>6,270,894</u>	<u>995,561</u>	<u>5,620</u>	<u>9,525,917</u>	<u>10,069,814</u>
Due to central and other banks	17	-	-	-	-	(796,345)	(796,345)	(796,345)
Derivative financial instruments	7	(52,471)	-	-	-	-	(52,471)	(52,471)
Due to customers	18	-	-	-	-	(6,609,926)	(6,609,926)	(6,308,553)
Debt securities in issue	19	-	-	-	-	(1,298,075)	(1,298,075)	(1,297,998)
		<u>(52,471)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,704,346)</u>	<u>(8,756,817)</u>	<u>(8,455,367)</u>

35. Estimated fair value of financial assets and liabilities (continued)

31 December 2008	Note	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
Cash and balances with central banks	4	-	-	505,030	-	-	505,030	505,030
Loans and advances to banks	5	-	-	1,437,286	-	-	1,437,286	1,437,286
Financial assets held for trading	6	791,204	-	-	-	-	791,204	791,204
Derivative financial instruments	7	60,961	-	-	-	-	60,961	60,961
Available-for-sale financial assets	8	-	-	-	265,048	-	265,048	265,048
Loans and advances to customers	9	-	-	5,667,718	-	-	5,667,718	5,888,733
Held-to-maturity investments	11	-	2,199,632	-	-	-	2,199,632	2,190,640
Associates and jointly controlled entities	12	-	-	-	-	5,163	5,163	5,163
		<u>852,165</u>	<u>2,199,632</u>	<u>7,610,034</u>	<u>265,048</u>	<u>5,163</u>	<u>10,932,042</u>	<u>11,144,065</u>
Due to central and other banks	17	-	-	-	-	(915,729)	(915,729)	(915,729)
Derivative financial instruments	7	(52,471)	-	-	-	-	(52,471)	(52,471)
Due to customers	18	-	-	-	-	(8,129,757)	(8,129,757)	(8,055,899)
Debt securities in issue	19	-	-	-	-	(1,137,999)	(1,137,999)	(1,110,010)
		<u>(52,471)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,183,485)</u>	<u>(10,235,956)</u>	<u>(10,134,109)</u>

35. Estimated fair value of financial assets and liabilities (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Note	2009				2008			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Financial assets held for trading	6								
Treasury bills and other eligible bills		-	93,302	-	93,302	-	727,885	-	727,885
State bonds		10,572	59,208	-	69,780	-	58,971	-	58,971
Corporate bonds		-	-	-	-	-	4,348	-	4,348
Mutual funds		-	1,730	-	1,730	-	-	-	-
		10,572	154,240	-	164,812	-	791,204	-	791,204
Derivative financial instruments	7								
Interest rate instruments		-	27,258	-	27,258	-	23,282	-	23,282
Foreign currency instruments		-	12,022	-	12,022	-	37,375	-	37,375
Equity and commodity instruments		-	3,503	-	3,503	-	304	-	304
		-	42,783	-	42,783	-	60,961	-	60,961
Available-for-sale financial assets	8								
State bonds		90,735	841,914	-	932,649	-	41,038	-	41,038
Treasury bills and other eligible bills		-	-	-	-	-	128,861	-	128,861
Bank bonds		-	62,281	-	62,281	-	94,165	-	94,165
Equity shares at cost		-	631	-	631	-	984	-	984
		90,735	904,826	-	995,561	-	265,048	-	265,048
Financial liabilities									
Derivative financial instruments	7								
Interest rate instruments		-	38,285	-	38,285	-	24,538	-	24,538
Foreign currency instruments		-	10,683	-	10,683	-	27,629	-	27,629
Equity and commodity instruments		-	3,503	-	3,503	-	304	-	304
		-	52,471	-	52,471	-	52,471	-	52,471

There were no transfers of financial instruments among the levels during the year 2009 and 2008.

36. Financial risk management

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- (a) credit risk,
- (b) market risk,
- (c) liquidity risk,
- (d) operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Board of Directors is the statutory body governing the executive management of the Bank, and has absolute authority over all matters concerning risk. The Board of Directors has primary responsibility for the creation and dissolution of risk related governance bodies. The primary governance bodies overseeing risk issues are:

- Asset/Liability Committee ('ALCO'),
- Credit Risk Committee ('CRC'),
- Operational Risk Committee ('ORC').

The Board of Directors delegates its risk authority to these governance bodies in the form of statutes, which identify members of the governance bodies, competencies and responsibilities of the members. The competency of each governance body is established in the Risk Management Credit Principles and Policies Charter.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Group's Internal Audit Department is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and Group's as well as investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). For risk management purposes, the credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

The basic document for credit risk management is the Risk Management Credit Principles and Policies Charter which contains: Principles for managing credit risk, Authorized approval authority, Collateral policy, Impairment losses Policy, Rules for new product proposals, Credit Concentration Limits, Governance of rating and scoring systems, Write-off Policy and Credit Policies for each segment (Retail Banking, Corporate Banking and Central Treasury).

Management of credit risk

The Risk Management Division is established within the Bank as a Control Unit and managed by the Chief Risk Officer, who is a member of the Bank's Management Board. The Risk Management Division is organizationally structured to provide support to the Business Units, as well as to provide reporting of credit, market and operational risks to the Supervisory Board and Management Board. The Risk Management Division is responsible for overseeing the Group's credit risk including:

36. Financial risk management (continued)

- The development of credit risk strategy, policies, processes and procedures covering rules for credit assessment, collateral requirements, risk grading and reporting.
- Setting limits for the concentration of exposure to counterparties, related parties, countries and total assets and monitoring compliance with those limits.
- Establishment of the authorisation structure for the approval and renewal of credit facilities. Authorization limits are set in the Risk Management Credit Principles and Policies Charter.
- Credit risk assessment according to defined policy.
- Monitoring of quality portfolio performance and its compliance with set limits (regulatory, internal). Regular reports are provided to Management Board and CRC on the credit quality of Group's portfolios and appropriate corrective measures are taken.
- Development, maintenance and validation of scoring and rating models – both application and behavioural.
- Development, maintenance and back-testing of impairment losses model (the Markov chains methodology is used).

Allowances for impairment

The Group establishes an allowance for impairment losses, which represents its estimate of incurred losses in its loan portfolio.

If there is evidence of impairment for any individually significant client of the Group, such as a breach of contract, problems with repayments or collateral, the Group transfers such a client to the Recovery Department, for pursuing collection activities. Such clients are considered to be individually impaired. For collective impairment, the Group uses historical evidence of impairment on a portfolio basis, mainly based on the payment discipline of clients.

Impairment losses are calculated individually for individually significant clients for which evidence of impairment exists and collectively for individually significant clients without evidence of impairment and for individually insignificant client groups of homogeneous assets. Collective impairment losses are calculated for each group using a mathematical model (the Markov chains methodology is used).

Rules for identifying significant clients and methodology for calculation are set in the Risk Management Credit Principles and Policies Charter.

Clients are divided into three classification categories according to the level of impairment for each client. Performing loans are those, for which there is an impairment of up to 19% of the outstanding amount. Loans with impairment coverage higher than 19% and below 49% are classified as Substandard. Loans with coverage ratio higher than 49% are classified as Bad and Doubtful.

36. Financial risk management (continued)

The following table describes the Group's credit portfolio in terms of classification categories:

Category	2009			2008		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Banks						
Performing	168,744	-	168,744	1,437,941	(655)	1,437,286
Bad and Doubtful	151	(151)	-	151	(151)	-
	<u>168,895</u>	<u>(151)</u>	<u>168,744</u>	<u>1,438,092</u>	<u>(806)</u>	<u>1,437,286</u>
Sovereigns						
Performing	35,994	(296)	35,698	17,794	-	17,794
Substandard	-	-	-	-	-	-
Bad and Doubtful	-	-	-	-	-	-
	<u>35,994</u>	<u>(296)</u>	<u>35,698</u>	<u>17,794</u>	<u>-</u>	<u>17,794</u>
Corporate						
Performing	2,469,239	(37,049)	2,432,190	2,620,306	(38,015)	2,582,291
Substandard	105,892	(22,763)	83,129	47,651	(3,998)	43,653
Bad and Doubtful	56,954	(34,263)	22,691	40,059	(23,048)	17,011
	<u>2,632,085</u>	<u>(94,075)</u>	<u>2,538,010</u>	<u>2,708,016</u>	<u>(65,061)</u>	<u>2,642,955</u>
Retail						
Performing	3,271,222	(62,792)	3,208,430	3,038,690	(70,686)	2,968,004
Substandard	77,269	(20,465)	56,804	34,979	(8,960)	26,019
Bad and Doubtful	112,854	(88,149)	24,705	51,021	(38,075)	12,946
	<u>3,461,345</u>	<u>(171,406)</u>	<u>3,289,939</u>	<u>3,124,690</u>	<u>(117,721)</u>	<u>3,006,969</u>
Securities						
Performing	3,205,116	-	3,205,116	3,254,499	-	3,254,499
Substandard	1,881	(377)	1,504	1,881	(496)	1,385
	<u>3,206,997</u>	<u>(377)</u>	<u>3,206,620</u>	<u>3,256,380</u>	<u>(496)</u>	<u>3,255,884</u>

36. Financial risk management (continued)

The table below shows the maximum amount of credit risk regardless of received collateral. The credit risk of financial assets not discussed above approximates their carrying amounts.

	2009	2008
Cash and balances with central banks	238,503	505,030
Loans and advances to banks	168,744	1,437,286
Financial assets held for trading	164,812	791,204
Derivative financial instruments	59,667	83,373
Available-for-sale financial assets	995,561	265,048
Non-current assets held for sale	-	1,705
Loans and advances to customers	5,863,647	5,667,718
Held-to-maturity investments	2,046,247	2,199,632
Associates and jointly controlled entities	5,620	5,163
Intangible assets	47,022	56,419
Goodwill	29,305	29,355
Property and equipment	164,104	182,305
Current income tax assets	6,036	-
Deferred income tax assets	47,834	8,490
Other assets	32,179	22,016
	<u>9,869,281</u>	<u>11,254,744</u>

The payment discipline of each client is monitored regularly. If a client is past due with some payments, appropriate action is taken. The following table shows the Group's credit portfolio in terms of delinquency of payments.

	2009			2008		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Banks						
No delinquency	168,744	-	168,744	1,428,100	(336)	1,427,764
91 – 180 days	151	(151)	-	4,950	(234)	4,716
Over 181 days	-	-	-	5,042	(236)	4,806
	<u>168,895</u>	<u>(151)</u>	<u>168,744</u>	<u>1,438,092</u>	<u>(806)</u>	<u>1,437,286</u>
Sovereigns						
No delinquency	35,871	(296)	35,575	17,780	-	17,780
1 – 30 days	60	-	60	14	-	14
31 – 60 days	18	-	18	-	-	-
61 – 90 days	-	-	-	-	-	-
91 – 180 days	18	-	18	-	-	-
Over 181 days *	27	-	27	-	-	-
	<u>35,994</u>	<u>(296)</u>	<u>35,698</u>	<u>17,794</u>	<u>-</u>	<u>17,794</u>

36. Financial risk management (continued)

Corporate						
No delinquency	2,430,191	(47,368)	2,382,823	2,528,096	(39,889)	2,488,207
1 – 30 days	70,319	(3,356)	66,963	93,780	(2,974)	90,806
31 – 60 days	24,275	(3,627)	20,648	34,644	(1,586)	33,058
61 – 90 days	12,090	(1,189)	10,901	16,139	(1,549)	14,590
91 – 180 days	47,097	(11,060)	36,037	14,257	(2,032)	12,225
Over 181 days *	48,113	(27,475)	20,638	21,100	(17,031)	4,069
	<u>2,632,085</u>	<u>(94,075)</u>	<u>2,538,010</u>	<u>2,708,016</u>	<u>(65,061)</u>	<u>2,642,955</u>
Retail						
No delinquency	3,049,378	(53,529)	2,995,849	2,858,796	(60,050)	2,798,746
1 – 30 days	179,562	(10,516)	169,046	142,969	(8,908)	134,061
31 – 60 days	42,942	(5,778)	37,164	35,669	(5,385)	30,284
61 – 90 days	24,199	(5,106)	19,093	15,870	(4,094)	11,776
91 – 180 days	40,009	(18,391)	21,618	24,419	(10,563)	13,856
Over 181 days *	125,255	(78,086)	47,169	46,967	(28,721)	18,246
	<u>3,461,345</u>	<u>(171,406)</u>	<u>3,289,939</u>	<u>3,124,690</u>	<u>(117,721)</u>	<u>3,006,969</u>
Securities						
No delinquency	3,206,997	(377)	3,206,620	3,256,380	(496)	3,255,884
	<u>3,206,997</u>	<u>(377)</u>	<u>3,206,620</u>	<u>3,256,380</u>	<u>(496)</u>	<u>3,255,884</u>

*** Write-off Policy**

The Group writes off a loan or security balance (and any related allowances for impairment losses) when it determines that the loans or securities are uncollectible. As the standard, the Group considers the credit balances to be uncollectible based on the past due days. Since the beginning of 2008 the write-off policy has been changed from 180 to 1,080 days past due. Thus receivables are no longer written off and sold after 180 days past due, but are collected by external collection agencies until they qualify for write-off and tax deductibility.

The credit balance can be written off earlier than defined in the conditions described above if there is evidence that the receivable cannot be collected. The write-off of such receivables is subject to the approval of the Credit Risk Officer.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally the Group updates the fair value on a regular basis.

36. Financial risk management (continued)

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

	2009		2008	
	Clients	Banks	Clients	Banks
Debt securities	34,209	56,264	69	739,915
Other	723,263	65,238	776,332	44,519
Property	5,336,100	-	4,480,163	-
	<u>6,093,572</u>	<u>121,502</u>	<u>5,256,564</u>	<u>784,434</u>

The debt securities collateral received from banks represents the fair value of the collateral received in the reverse REPO trades with banks. The Group is permitted to sell or repledge this collateral in the absence of default by the owner of the collateral. None of the collateral was sold or repledged at 31 December 2009 and 2008.

The Group monitors concentrations of credit risk by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below.

	2009			2008		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Europe						
Banks	137,169	(151)	137,018	1,406,836	(209)	1,406,627
Sovereigns	35,994	(296)	35,698	17,794	-	17,794
Corporate	2,632,085	(93,588)	2,538,497	2,707,941	(65,060)	2,642,881
Retail	3,458,746	(171,864)	3,286,882	3,122,634	(117,686)	3,004,948
Securities	3,201,739	-	3,201,739	3,251,575	-	3,251,575
	<u>9,465,733</u>	<u>(265,899)</u>	<u>9,199,834</u>	<u>10,506,780</u>	<u>(182,955)</u>	<u>10,323,825</u>
North America						
Banks	30,956	-	30,956	31,135	(597)	30,538
Sovereigns	-	-	-	-	-	-
Corporate	-	-	-	-	-	-
Retail	977	(19)	958	737	(17)	720
Securities	5,258	(377)	4,881	4,805	(496)	4,309
	<u>37,191</u>	<u>(396)</u>	<u>36,795</u>	<u>36,677</u>	<u>(1,110)</u>	<u>35,567</u>
Asia						
Banks	645	-	645	121	-	121
Sovereigns	-	-	-	75	(1)	74
Corporate	-	-	-	706	(12)	694
Retail	695	(9)	686	-	-	-
	<u>1,340</u>	<u>(9)</u>	<u>1,331</u>	<u>902</u>	<u>(13)</u>	<u>889</u>
Rest of the World						
Banks	125	-	125	-	-	-
Retail	927	(1)	926	613	(6)	607
	<u>1,052</u>	<u>(1)</u>	<u>1,051</u>	<u>613</u>	<u>(6)</u>	<u>607</u>

Under Europe, substantially all loans are made to Slovak entities or residents. Generally, the Group does not engage in cross-border lending.

36. Financial risk management (continued)

Analysis of exposures by industry sector is shown in the table below.

31 December 2009	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	66,904	5,639	-
Construction	-	-	164,185	15,043	-
Consumers	-	-	5,839	3,136,346	-
Energy and water supply	-	-	141,790	1,221	-
Financial services	168,744	-	214,277	4,103	178,109
Government	-	35,698	-	-	3,016,987
Manufacturing	-	-	466,962	24,162	-
Professional services	-	-	65,155	7,622	-
Real estate	-	-	381,228	2,745	-
Retail & Wholesale	-	-	637,931	54,502	9,446
Services	-	-	60,253	12,274	574
Transportation	-	-	246,155	11,139	-
Other	-	-	87,331	15,143	1,504
	168,744	35,698	2,538,010	3,289,939	3,206,620

31 December 2008	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	87,973	5,602	-
Construction	-	-	162,255	13,746	-
Consumers	-	-	7,475	2,849,369	-
Energy and water supply	-	-	87,870	823	-
Financial services	1,437,286	-	271,624	4,515	1,035,765
Government	-	17,794	9	-	2,208,772
Manufacturing	-	-	542,052	29,220	-
Professional services	-	-	45,749	6,092	-
Real estate	-	-	359,494	3,506	-
Retail & Wholesale	-	-	624,915	52,759	9,962
Services	-	-	68,356	12,605	-
Transportation	-	-	257,019	13,186	-
Other	-	-	128,164	15,546	1,385
	1,437,286	17,794	2,642,955	3,006,969	3,255,884

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated in 2009 is € 24,035 thousand for the corporate segment (2008: nil) and € 18,532 thousand for the retail segment (2008: nil). The renegotiated terms of these contracts do not have a negative impact on the profitability of the Group compared to the original terms.

36. Financial risk management (continued)

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amount presented are gross of impairment allowances. Loans are considered impaired if impairment losses are equal or exceed 19% of the outstanding gross amount.

31 December 2009	Neither past due nor impaired			Outstanding	Impaired		Net	Past due but not impaired		
	Outstanding	Provisions	Net		Provisions	Net		Outstanding	Provisions	Net
Banks	168,744	-	168,744	151	(151)	-	-	-	-	
Sovereigns										
State organizations	11,049	-	11,049	-	-	-	-	-	-	
Municipalities	23,065	(51)	23,014	1,409	(52)	1,357	471	(193)	278	
	34,114	(51)	34,063	1,409	(52)	1,357	471	(193)	278	
Corporate										
Large Corporates	1,425,485	(15,539)	1,409,946	34,570	(16,357)	18,213	12,545	(337)	12,208	
SME	788,782	(16,808)	771,974	73,056	(28,660)	44,396	23,952	(1,420)	22,532	
Other Fin. Organisations	14,756	-	14,756	-	-	-	-	-	-	
Private Sector Entities	16,263	(195)	16,068	-	-	-	7	-	7	
Leasing	108,910	(351)	108,559	54,733	(11,689)	43,044	16,578	(1,328)	15,250	
Factoring	48,009	(1,005)	47,004	487	(320)	167	13,952	(66)	13,886	
	2,402,205	(33,898)	2,368,307	162,846	(57,026)	105,820	67,034	(3,151)	63,883	
Retail										
Small business	134,380	(5,334)	129,046	14,015	(8,670)	5,345	3,288	(414)	2,874	
Consumer Loans	634,894	(17,787)	617,107	113,779	(74,546)	39,233	74,661	(5,968)	68,693	
Mortgages	1,970,479	(4,224)	1,966,255	39,107	(10,024)	29,083	104,995	(2,751)	102,244	
Credit Cards	232,194	(24,070)	208,124	8,621	(6,133)	2,488	6,925	(343)	6,582	
Overdrafts	61,315	(553)	60,762	9,977	(7,869)	2,108	31,706	(1,198)	30,508	
Leasing	11,908	(31)	11,877	4,447	(1,195)	3,252	1,839	(119)	1,720	
Other	2,635	-	2,635	177	(177)	-	3	-	3	
	3,047,805	(51,999)	2,995,806	190,123	(108,614)	81,509	223,417	(10,793)	212,624	
Securities										
Trading	165,443	-	165,443	-	-	-	-	-	-	
AFS	994,930	-	994,930	-	-	-	-	-	-	
HTM	2,044,743	-	2,044,743	1,881	(377)	1,504	-	-	-	
	3,205,116	-	3,205,116	1,881	(377)	1,504	-	-	-	

36. Financial risk management (continued)

31 December 2008	Neither past due nor impaired			Outstanding	Impaired Provisions	Net	Past due but not impaired		
	Outstanding	Provisions	Net				Outstanding	Provisions	Net
Banks	1,427,949	(185)	1,427,764	151	(151)	-	9,992	(470)	9,522
Sovereigns									
State organizations	2,835	-	2,835	-	-	-	-	-	-
Municipalities	14,945	-	14,945	-	-	-	14	-	14
	17,780	-	17,780	-	-	-	14	-	14
Corporate									
Large Corporates	1,480,418	(22,772)	1,457,646	16,565	(13,191)	3,374	30,364	(546)	29,818
SME	818,083	(11,824)	806,259	15,053	(9,543)	5,510	24,660	(915)	23,745
Other Fin. Organisations	15,891	-	15,891	-	-	-	-	-	-
Private Sector Entities	16,515	(17)	16,498	-	-	-	10	-	10
Leasing	135,413	(1,035)	134,378	52,929	(3,910)	49,019	30,554	(363)	30,191
Factoring	55,087	(432)	54,655	3,163	(402)	2,761	13,311	(111)	13,200
	2,521,407	(36,080)	2,485,327	87,710	(27,046)	60,664	98,899	(1,935)	96,964
Retail									
Small business	135,169	(4,724)	130,445	3,810	(3,024)	786	3,944	(456)	3,488
Consumer Loans	655,656	(24,950)	630,706	62,417	(35,550)	26,867	47,939	(4,347)	43,592
Mortgages	1,815,579	(16,611)	1,798,968	4,492	(1,426)	3,066	87,321	(4,273)	83,048
Credit Cards	189,188	(12,862)	176,326	5,136	(2,855)	2,281	4,415	(420)	3,995
Overdrafts	51,792	(907)	50,885	5,886	(3,764)	2,122	23,751	(912)	22,839
Leasing	14,584	(90)	14,494	4,174	(332)	3,842	264	(43)	221
Other	4,761	(8)	4,753	85	(84)	1	4,327	(83)	4,244
	2,866,729	(60,152)	2,806,577	86,000	(47,035)	38,965	171,961	(10,534)	161,427
Securities									
Trading	791,204	-	791,204	-	-	-	-	-	-
AFS	265,048	-	265,048	-	-	-	-	-	-
HTM	2,198,247	-	2,198,247	1,881	(496)	1,385	-	-	-
	3,254,499	-	3,254,499	1,881	(496)	1,385	-	-	-

36. Financial risk management (continued)

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rate will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposures to market risk between trading ('trading book') and non-trading portfolios ('banking book'). Trading portfolios are held by the Trading department and include positions arising from market-making and proprietary position taking. All foreign exchange risk within the Group is transferred each day to the Trading department and forms part of the trading portfolio for risk management purposes. The non-trading portfolios are managed by the ALM department, and include all positions, which are not intended for trading.

Overall authority for market risk is vested in ALCO. The Risk Management Division is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for their implementation and day-to-day risk monitoring and reporting.

Exposure to market risk – trading portfolios

The principal tool used to measure and control market risk exposure within the Group's trading portfolio is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period. The VaR model used is based on historical simulation. Taking account of market data from the previous year, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements. The model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

The Group uses VaR limits for total market risk in the trading book, foreign exchange risk and interest rate risk. The overall structure of VaR limits is subject to review and approval by ALCO and Intesa Sanpaolo. VaR is measured on a daily basis. Daily reports of utilization of VaR limits are submitted to the trading unit, the head of the Risk Management division and the head of the Finance and Capital Markets division. Regular summaries are submitted to Intesa Sanpaolo and ALCO.

A summary of the VaR position of the Bank's trading portfolios at 31 December and during the period is as follows:

€ '000	2009				2008			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	38	93	236	11	92	80	251	22
Interest rate risk	96	169	384	72	412	298	435	152
Overall	132	207	469	80	384	312	440	141

The limitations of the VaR methodology are recognized by supplementing VaR limits with other positions limit structures. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on the Group's position.

36. Financial risk management (continued)

Exposure to interest rate risk

The main 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 managed principally through monitoring interest rate gaps. Financial instruments are mapped to re-pricing gaps either by their maturity, i.e. fixed rate instruments, or by next re-pricing date, i.e. floating rate instruments. The assets and liabilities that do not have contractual maturity date or are not interest bearing are mapped according to internal models based on behavioural assumptions.

The Risk Management division is responsible for monitoring these gaps at least on a monthly basis. The management of interest rate risk is measured by shift sensitivity analysis which is defined as a parallel and uniform shift of + 1 basic points of the rate curve and + 200 basic points of the rate curve. These standard scenarios are applied on monthly basis.

The sensitivity of the interest margin is also measured on the basis of a parallel and instantaneous shock in the interest rate curve of ± 100 basis points, over a period of 12 months. It should be noted that this measure highlights the effect of variations in market interest rates on the portfolio being measured, and excludes assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered as a predictor of the future levels of the interest margin.

VaR methodology is applied to calculate the allocation of economic capital for interest rate risk in banking book. All calculations are performed on both individual VUB basis and individual for each VUB subsidiary.

Overall banking book interest rate risk positions are managed by Asset and Liability Management, which uses different balance and off balance sheet instruments to manage the overall positions arising from the Group's banking book activities.

The interest rate risk comprises of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates the extent to which it is exposed to the interest rate risk.

Models applied for calculation of interest rate gap

Each financial and non financial instrument is mapped to the gap based on contractual or behavioural re-pricing day.

Contractual

This category includes instruments, where the Group knows exactly when the maturity or next re-pricing takes place. This treatment is applied mainly to: securities bought and issued loans and term deposits.

Behavioural

These are items for which it is not exactly known when the maturity or next re-pricing will take place (e.g. current accounts). In this case, it is necessary to make certain assumptions to reflect the real behaviour of these items. The assumptions are based on deep analysis of the Group historical data and statistical models. The group also includes items such as fixed assets, equity, provisions, etc., which have an indefinite maturity and have to be modelled as well.

Based on statistical methods and historical data a core portion of cash is calculated and this portion is amortized on a linear basis over 10 years, the remaining amount is classified as an overnight item. For current accounts the non-sensitive core portion of some clients' categories is calculated and is mapped to the IR gap as a linearly amortized item over 10 years. The remaining amount is classified in the overnight segment. Fixed assets like tangible and intangible assets and fixed liabilities like equity are amortized over 10 years.

36. Financial risk management (continued)

Interest margin sensitivity in a one year horizon – in the event of a 100 basis points rise in interest rates – was € -282 thousand at 31 December 2009, compared to € -4,117 thousand at 31 December 2008.

In 2009, interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 1 bp, registered € 28 thousand at 31 December 2009, compared to the € -130 thousand at 31 December 2008.

€ '000	2009	2008
SKK	-	(121)
EUR	21	(9)
CZK	7	2
USD	-	(2)
Other	-	-
	<u>28</u>	<u>(130)</u>

The re-pricing structure of financial assets and liabilities based on contractual undiscounted cash-flows for the non-trading portfolios was as follows:

31 December 2009	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with central banks	166,051	-	7,809	31,236	39,045	244,141
Loans and advances to banks	104,854	40,928	7,600	16,827	1,263	171,472
Derivative financial instruments	-	-	-	-	-	-
Available-for-sale financial assets	315,886	58,228	23,566	406,556	277,123	1,081,359
Loans and advances to customers	1,596,817	1,206,902	1,896,928	1,691,594	567,546	6,959,787
Held-to-maturity investments	171,915	172,154	583,602	834,291	651,340	2,413,302
Associates and jointly controlled entities	-	-	563	2,249	2,808	5,620
	<u>2,355,523</u>	<u>1,478,212</u>	<u>2,520,068</u>	<u>2,982,753</u>	<u>1,539,125</u>	<u>10,875,681</u>
Liabilities						
Due to central and other banks	(386,247)	(114,527)	(245,980)	(109,592)	(726)	(857,072)
Derivative financial instruments	-	-	-	-	-	-
Due to customers	(3,124,565)	(395,617)	(985,365)	(1,362,420)	(821,010)	(6,688,977)
Debt securities in issue	(111,365)	(423,606)	(258,038)	(351,618)	(364,906)	(1,509,533)
	<u>(3,622,177)</u>	<u>(933,750)</u>	<u>(1,489,383)</u>	<u>(1,823,630)</u>	<u>(1,186,642)</u>	<u>(9,055,582)</u>
Net position of financial instruments	<u>(1,266,654)</u>	<u>544,462</u>	<u>1,030,685</u>	<u>1,159,123</u>	<u>352,483</u>	<u>1,820,099</u>

36. Financial risk management (continued)

31 December 2008	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with central banks	556,100	-	-	8,917	8,917	573,934
Loans and advances to banks	16,771	87,371	7,096	26,473	-	137,711
Derivative financial instruments	-	-	97,527	-	-	97,527
Available-for-sale financial assets	13,292	285	179,142	88,447	-	281,166
Loans and advances to customers	1,083,087	1,734,258	1,795,778	1,300,644	228,143	6,141,910
Held-to-maturity investments	54,822	57,723	983,570	624,788	814,634	2,535,537
Associates and jointly controlled entities	-	-	516	2,065	2,582	5,163
	<u>1,724,072</u>	<u>1,879,637</u>	<u>3,063,629</u>	<u>2,051,334</u>	<u>1,054,276</u>	<u>9,772,948</u>
Liabilities						
Due to central and other banks	(188,512)	(231,459)	(89,452)	(67,440)	-	(576,863)
Derivative financial instruments	-	-	(66,516)	(28,611)	-	(95,127)
Due to customers	(4,021,752)	(690,128)	(1,382,373)	(824,525)	(718,599)	(7,637,377)
Debt securities in issue	(105,537)	(475,239)	(203,761)	(257,403)	(208,706)	(1,250,646)
	<u>(4,315,801)</u>	<u>(1,396,826)</u>	<u>(1,742,102)</u>	<u>(1,177,979)</u>	<u>(927,305)</u>	<u>(9,560,013)</u>
Net position of financial instruments	<u>(2,591,729)</u>	<u>482,811</u>	<u>1,321,527</u>	<u>873,355</u>	<u>126,971</u>	<u>212,935</u>

The average interest rates for financial assets and liabilities were as follows:

	2009 %	2008 %
Assets		
Cash and balances with central banks	1.39	1.44
Loans and advances to banks	2.90	3.78
Financial assets held for trading	5.03	4.18
Available-for-sale financial assets	2.83	3.92
Loans and advances to customers	6.25	7.69
Held-to-maturity investments	3.92	4.28
Liabilities		
Due to central and other banks	1.57	3.32
Due to customers	1.66	2.34
Debt securities in issue	3.46	4.60

36. Financial risk management (continued)
Currency denominations of assets and liabilities

Foreign exchange rate risk comprises the risk that the value of financial assets and liabilities will fluctuate due to changes in market foreign exchange rates. It is the policy of the Group to manage its exposure to fluctuations in exchange rates through the regular monitoring and reporting of open positions and the application of a matrix of exposure and position limits.

31 December 2009	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	229,879	1,197	4,076	3,351	238,503
Loans and advances to banks	83,113	18,090	15,641	51,900	168,744
Financial assets held for trading	66,517	-	-	98,295	164,812
Derivative financial instruments	42,783	-	-	-	42,783
Available-for-sale financial assets	995,561	-	-	-	995,561
Loans and advances to customers	5,666,706	90,325	91,093	15,523	5,863,647
Held-to-maturity investments	2,046,247	-	-	-	2,046,247
Associates and jointly controlled entities	5,620	-	-	-	5,620
	<u>9,136,426</u>	<u>109,612</u>	<u>110,810</u>	<u>169,069</u>	<u>9,525,917</u>
Liabilities					
Due to central and other banks	(690,796)	(55,049)	(28,160)	(22,340)	(796,345)
Derivative financial instruments	(52,471)	-	-	-	(52,471)
Due to customers	(6,404,470)	(115,324)	(54,195)	(35,937)	(6,609,926)
Debt securities in issue	(1,202,518)	(23,937)	(71,620)	-	(1,298,075)
	<u>(8,350,255)</u>	<u>(194,310)</u>	<u>(153,975)</u>	<u>(58,277)</u>	<u>(8,756,817)</u>
Net position	<u>786,171</u>	<u>(84,698)</u>	<u>(43,165)</u>	<u>110,792</u>	<u>769,100</u>
31 December 2008					
Assets					
Cash and balances with central banks	493,342	1,627	6,176	3,885	505,030
Loans and advances to banks	1,397,811	19,184	88	20,203	1,437,286
Financial assets held for trading	791,204	-	-	-	791,204
Derivative financial instruments	60,960	-	1	-	60,961
Available-for-sale financial assets	264,695	353	-	-	265,048
Loans and advances to customers	5,466,236	101,462	92,136	7,884	5,667,718
Held-to-maturity investments	2,199,632	-	-	-	2,199,632
Associates and jointly controlled entities	5,163	-	-	-	5,163
	<u>10,679,043</u>	<u>122,626</u>	<u>98,401</u>	<u>31,972</u>	<u>10,932,042</u>
Liabilities					
Due to central and other banks	(899,861)	(44)	(9,470)	(6,354)	(915,729)
Derivative financial instruments	(52,471)	-	-	-	(52,471)
Due to customers	(7,898,886)	(138,049)	(60,605)	(32,217)	(8,129,757)
Debt securities in issue	(1,041,708)	(24,481)	(71,810)	-	(1,137,999)
	<u>(9,892,926)</u>	<u>(162,574)</u>	<u>(141,885)</u>	<u>(38,571)</u>	<u>(10,235,956)</u>
Net position	<u>786,117</u>	<u>(39,948)</u>	<u>(43,484)</u>	<u>(6,599)</u>	<u>696,086</u>

36. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that the Group is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Group is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit. With regard to the highly liquid assets in particular, there may be strains in the market that make them difficult (or even impossible) to sell or be used as collateral in exchange for funds. From this perspective, the Group's liquidity risk is closely tied to the market liquidity conditions (market liquidity risk).

The Guidelines for Liquidity Risk Management adopted by the VUB Group outline the set of principles, methods, regulations and control processes required to prevent the occurrence of a liquidity crisis and call for the Group to develop prudential approaches to liquidity management, making it possible to maintain the overall risk profile at extremely low levels.

The basic principles underpinning the Liquidity Policy of the VUB Group are:

- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- a prudential approach to the estimation of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity (or with a maturity date that is not significant);
- an assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time;
- the maintenance of an adequate level of unencumbered highly liquid assets, capable of enabling ordinary operations, also on an intraday basis, and overcoming the initial stages of a shock involving the Group's liquidity or system liquidity.

The VUB Group directly manages its own liquidity and coordinates its management at VUB Group level, ensures the adoption of adequate control techniques and procedures, and provides complete and accurate information to ALCO and the Statutory Bodies.

The departments of the Bank that are responsible for ensuring the correct application of the Guidelines are the Treasury Department, responsible for short term liquidity management, the ALM department, responsible for medium and long term liquidity management and the Market Risk Department, responsible for monitoring indicators and verifying the observation of limits.

These Guidelines are broken down into three macro areas: "Short term Liquidity Policy", "Structural Liquidity Policy" and "Contingency Liquidity Plan".

The short term Liquidity Policy includes the set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of the liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management.

The structural Liquidity Policy of the VUB Group incorporates the set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.

Together with the short term and structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the Group to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

36. Financial risk management (continued)

The Contingency Liquidity Plan, by setting itself the objectives of safeguarding the Group's capital and, at the same time, guaranteeing the continuity of operations under conditions of extreme liquidity emergency, ensures the identification of the pre-warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The pre-warning indexes, aimed at identifying signs of a potential liquidity strain, both systemic and specific, are continuously recorded and reported to the departments responsible for the management and monitoring of liquidity.

The liquidity position of the Bank and the subsidiaries is regularly presented by Market Risk Department and discussed during the ALCO meetings.

Rule 1: Real Estate + Equity Investments \leq Regulatory Capital

Rule 2: Medium term assets + 0.5 * Long Term Assets \leq Long term liabilities + 0.5 * Medium term liabilities + 0.25 * (short term customer liabilities + interbank liabilities) + excess in Rule 1

The remaining maturities of assets and liabilities based on contractual undiscounted cash-flows were as follows:

31 December 2009	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances							
with central banks	244,142	-	-	-	-	-	244,142
Loans and advances to banks	94,945	29,142	16,111	62,710	47,647	82	250,637
Financial assets held for trading	42	30,059	63,803	73,733	893	1,730	170,260
Available-for-sale financial assets	4,413	48,653	21,774	451,222	581,159	-	1,107,221
Loans and advances to customers	282,756	599,854	1,160,855	2,628,268	3,557,125	39,878	8,268,736
Held-to-maturity investments	4,706	207,229	105,434	1,414,571	651,340	-	2,383,280
Associates and jointly controlled entities	-	-	-	-	-	5,620	5,620
	631,004	914,937	1,367,977	4,630,504	4,838,164	47,310	12,429,896
Liabilities							
Due to central and other banks	(333,634)	(56,714)	(217,674)	(121,212)	(89,974)	-	(819,208)
Due to customers	(4,409,754)	(586,989)	(804,799)	(797,312)	(3)	(17,933)	(6,616,790)
Debt securities in issue	(162)	(85,786)	(119,960)	(753,622)	(591,717)	-	(1,551,247)
	(4,743,550)	(729,489)	(1,142,433)	(1,672,146)	(681,694)	(17,933)	(8,987,245)
Net position of financial instruments	(4,112,546)	185,448	225,544	2,958,358	4,156,470	29,377	3,442,651
Cash inflows from derivatives	194,961	47,826	55,569	212,366	55,775	-	566,497
Cash outflows from derivatives	(197,393)	(46,540)	(59,994)	(210,492)	(57,976)	-	(572,395)
Net position from derivatives	(2,432)	1,286	(4,425)	1,874	(2,201)	-	(5,898)
Total net position	(4,114,978)	186,734	221,119	2,960,232	4,154,269	29,377	3,436,753

36. Financial risk management (continued)

31 December 2008	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	571,759	-	-	-	-	-	571,759
Loans and advances to banks	1,350,088	611	5,900	67,909	32,049	237	1,456,794
Financial assets held for trading	664,030	1,289	67,296	46,645	27,126	-	806,386
Available-for-sale financial assets	-	285	169,705	105,625	5,283	-	280,898
Loans and advances to customers	336,419	475,990	1,263,009	2,483,070	3,166,410	42,123	7,767,021
Held-to-maturity investments	43,479	62,529	373,527	1,275,332	814,634	-	2,569,501
Associates and jointly controlled entities	-	-	-	-	-	5,163	5,163
	<u>2,965,775</u>	<u>540,704</u>	<u>1,879,437</u>	<u>3,978,581</u>	<u>4,045,502</u>	<u>47,523</u>	<u>13,457,522</u>
Liabilities							
Due to central and other banks	(672,244)	(38,683)	(70,350)	(118,156)	(30,046)	-	(929,479)
Due to customers	(5,987,630)	(519,989)	(1,230,517)	(392,177)	(27,556)	-	(8,157,869)
Debt securities in issue	(6,725)	(42,638)	(115,646)	(602,301)	(472,801)	-	(1,240,111)
	<u>(6,666,599)</u>	<u>(601,310)</u>	<u>(1,416,513)</u>	<u>(1,112,634)</u>	<u>(530,403)</u>	<u>-</u>	<u>(10,327,459)</u>
Net position of financial instruments	<u>(3,700,824)</u>	<u>(60,606)</u>	<u>462,924</u>	<u>2,865,947</u>	<u>3,515,099</u>	<u>47,523</u>	<u>3,130,063</u>
Cash inflows from derivatives	645,151	268,502	247,748	123,073	39,654	-	1,324,128
Cash outflows from derivatives	(640,415)	(261,939)	(251,232)	(118,603)	(39,668)	-	(1,311,857)
Net position from derivatives	<u>4,736</u>	<u>6,563</u>	<u>(3,484)</u>	<u>4,470</u>	<u>(14)</u>	<u>-</u>	<u>12,271</u>
Total net position	<u>(3,696,088)</u>	<u>(54,043)</u>	<u>459,440</u>	<u>2,870,417</u>	<u>3,515,085</u>	<u>47,523</u>	<u>3,142,334</u>

36. Financial risk management (continued)

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

31 December 2009	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	238,503	-	238,503
Loans and advances to banks	103,883	64,861	168,744
Financial assets held for trading	95,328	69,484	164,812
Derivative financial instruments	42,783	-	42,783
Available-for-sale financial assets	75,756	919,805	995,561
Non-current assets held for sale	-	-	-
Loans and advances to customers	2,015,153	3,848,494	5,863,647
Held-to-maturity investments	297,715	1,748,532	2,046,247
Associates and jointly controlled entities	-	5,620	5,620
Intangible assets	-	47,022	47,022
Goodwill	-	29,305	29,305
Property and equipment	-	164,104	164,104
Current income tax assets	6,036	-	6,036
Deferred income tax assets	-	47,834	47,834
Other assets	32,179	-	32,179
	<u>2,907,336</u>	<u>6,945,061</u>	<u>9,852,397</u>
Liabilities			
Due to central and other banks	(656,534)	(139,811)	(796,345)
Derivative financial instruments	(52,471)	-	(52,471)
Due to customers	(5,885,135)	(724,791)	(6,609,926)
Debt securities in issue	(182,212)	(1,115,863)	(1,298,075)
Provisions	-	(25,111)	(25,111)
Other liabilities	(81,763)	(2,312)	(84,075)
	<u>(6,858,115)</u>	<u>(2,007,888)</u>	<u>(8,866,003)</u>
	<u>(3,950,779)</u>	<u>4,937,173</u>	<u>986,394</u>

36. Financial risk management (continued)

31 December 2008	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	505,030	-	505,030
Loans and advances to banks	1,377,319	59,967	1,437,286
Financial assets held for trading	729,258	61,946	791,204
Derivative financial instruments	60,961	-	60,961
Available-for-sale financial assets	164,301	100,747	265,048
Non-current assets held for sale	1,705	-	1,705
Loans and advances to customers	2,036,783	3,630,935	5,667,718
Held-to-maturity investments	445,524	1,754,108	2,199,632
Associates and jointly controlled entities	-	5,163	5,163
Intangible assets	-	56,419	56,419
Goodwill	-	29,355	29,355
Property and equipment	-	182,305	182,305
Current income tax assets	-	-	-
Deferred income tax assets	-	8,490	8,490
Other assets	22,016	-	22,016
	<u>5,342,897</u>	<u>5,889,435</u>	<u>11,232,332</u>
Liabilities			
Due to central and other banks	(786,307)	(129,422)	(915,729)
Derivative financial instruments	(52,471)	-	(52,471)
Due to customers	(7,851,051)	(278,706)	(8,129,757)
Debt securities in issue	(130,653)	(1,007,346)	(1,137,999)
Current income tax liabilities	(26,690)	-	(26,690)
Provisions	-	(30,165)	(30,165)
Other liabilities	(99,323)	(1,473)	(100,796)
	<u>(8,946,495)</u>	<u>(1,447,112)</u>	<u>(10,393,607)</u>
	<u>(3,603,598)</u>	<u>4,442,323</u>	<u>838,725</u>

36. Financial risk management (continued)

(d) Operational risk

Operational risk management strategies and processes

The VUB Group, in coordination with Intesa Sanpaolo, has defined the overall operational risk management framework by setting up a Group policy and organizational process for measuring, managing and controlling operational risk.

The control of operational risk was attributed to the Group Operational Risk Committee, which identified risk management policies and submits for approval and verification to Management Board of the Bank. The Supervisory Board of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Group Operational Risk Committee (made up of the heads of the areas of the governance centre and of the business areas more involved in operational risk management), has the task of periodically verifying the Group's overall operational risk profile, defining any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk management transfer strategies.

Organizational structure of the associated risk management function

For some time, the Group has had a centralized function within the Risk Management Division for the management of the Group's operational risks. This function is responsible, in coordination with parent company, for the definition, implementation and monitoring of the methodological and organizational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to senior Management. In compliance with current requirements, the individual organizational units participated in the process and each of them was assigned the responsibility for the identification, assessment, management and mitigation of its operational risks. Specific offices and departments have been identified within these organizational units to be responsible for Operational Risk Management. These functions are responsible for the collection and structured census of information relating to operational events, scenario analyses and evaluation of the level of risk associated with the business environment. The Risk Management Division carries out second level monitoring of these activities.

Scope of application and characteristics of the risk measurement and reporting system

For the use of the Standardized Approach (TSA), the Bank has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank and VUB Group companies that fall within the scope of the TSA. This self-assessment is verified by the Internal Auditing Department and submitted to the Management Board for the annual certification of compliance with the requirements established by the regulation.

Under TSA, the capital requirement is calculated by multiplying gross income by separate regulatory percentages for each of the business lines into which the Group's activities are divided.

Monitoring of operational risks is performed by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.

Policies for hedging and mitigating risk

The VUB Group, in coordination with parent company, has activated a traditional operational risk transfer policy (insurance) with the objective of mitigating the impact of any unexpected losses, and thus contributing to the reduction of Capital at Risk.

37. Segment reporting

Segment information is presented in respect of the Group's operating segments, based on the management and internal reporting structure.

Operating segments pay and receive interest to and from the Central Treasury on an arm's length basis in order to reflect the costs of funding.

The Group comprises the following main operating segments:

- Retail Banking
- Corporate Banking
- Central Treasury

Retail Banking includes loans, deposits and other transactions and balances with households and small business segment.

Corporate Banking comprises Small and Medium Enterprises (SME) and the Corporate Customer Desk (CCD). SME includes loans, deposits and other transactions and balances with small and medium enterprises (company revenue in the range of € 1 million to € 40 million; if revenue information is not available, bank account turnover is used). CCD includes loans, deposits and other transactions and balances with large corporate customers (company revenue over € 40 million).

Central Treasury undertakes the Group's funding, HTM Securities portfolio management, issues of debt securities as well as trading book operations. The Group also has a central Governance Center that manages the Group's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

37. Segment reporting (continued)

31 December 2009	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	279,581	94,435	125,704	4,789	504,509
Interest expense	(75,622)	(11,169)	(54,815)	(3,261)	(144,867)
Inter-segment revenue	9,690	(17,892)	(15,832)	24,034	-
Net interest income	213,649	65,374	55,057	25,562	359,642
Net fee and commission income	55,501	43,629	(1,444)	(465)	97,221
Net trading income	4,368	3,984	2,830	(30)	11,152
Other operating income	7,888	1,688	3,659	(68)	13,167
Dividend income	-	-	-	1	1
Total segment operating income	281,406	114,675	60,102	25,000	481,183
Depreciation and amortization	(25,438)	(6,081)	(230)	(11,505)	(43,254)
Operating expenses					(184,870)
Operating profit before impairment					253,059
Impairment losses on financial assets	(52,121)	(41,706)	918	(121)	(93,030)
Income tax expense					(18,857)
Share of profit of associates and jointly controlled entities					499
Net profit for the year					141,671
Segment assets	3,392,900	2,603,050	3,356,853	499,594	9,852,397
Segment liabilities	4,376,444	1,805,354	2,527,147	1,143,452	9,852,397

37. Segment reporting (continued)

31 December 2008	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	253,436	148,178	170,550	1,921	574,085
Interest expense	(114,619)	(62,106)	(60,446)	(313)	(237,484)
Inter-segment revenue	<u>76,087</u>	<u>(12,603)</u>	<u>(92,954)</u>	<u>29,470</u>	<u>-</u>
Net interest income	214,904	73,469	17,150	31,078	336,601
Net fee and commission income	85,398	17,555	1,493	246	104,692
Net trading income	15,136	18,099	8,133	177	41,545
Other operating income	6,606	5,643	-	4,701	16,950
Dividend income	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,072</u>	<u>1,072</u>
Total segment operating income	322,044	114,766	26,776	37,274	500,860
Depreciation and amortization	(27,565)	(5,444)	(232)	(11,306)	(44,547)
Operating expenses					<u>(203,334)</u>
Operating profit before impairment					252,979
Impairment losses on financial assets	(31,401)	(12,381)	(199)	(2,289)	(46,270)
Income tax expense					(38,566)
Share of profit of associates and jointly controlled entities					<u>346</u>
Net profit for the year					<u><u>168,489</u></u>
Segment assets	3,040,829	2,709,952	4,829,941	651,610	11,232,332
Segment liabilities	5,697,935	2,282,215	2,345,477	906,705	11,232,332

38. Related parties

Related parties are those counterparties that represent:

- (a) enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, or are under the common control of, the reporting enterprise;
- (b) associates - enterprises in which the parent company has significant influence and which are neither a subsidiary nor a joint venture;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The majority of the stated transactions have been made under arms-length commercial and banking conditions.

The remuneration and other benefits provided to members of the Supervisory Board and the Board of Directors in 2009 were € 4,418 thousand (2008: € 4,382 thousand).

38. Related parties (continued)

At 31 December 2009, significant outstanding balances with related parties comprised:

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Loans and advances to banks	-	-	-	109,201	109,201
Loans and advances to customers	717	928	-	-	1,645
Derivative financial instruments	-	-	-	4,721	4,721
Available-for-sale financial assets	-	-	-	43,047	43,047
Other assets	-	-	13	-	13
	<u>717</u>	<u>928</u>	<u>13</u>	<u>156,969</u>	<u>158,627</u>
Liabilities					
Due to central and other banks	-	-	-	282,642	282,642
Due to customers	1,597	2	109	-	1,708
Derivative financial instruments	-	-	-	2,025	2,025
Debt securities in issue					
Bonds	154	-	6,630	-	6,784
Mortgage bonds	-	-	-	600,169	600,169
	<u>1,751</u>	<u>2</u>	<u>6,739</u>	<u>884,836</u>	<u>893,328</u>
Derivative transactions (notional amount – receivable)	-	-	-	178,284	178,284
Derivative transactions (notional amount – payable)	-	-	-	160,000	160,000
Income and expense items					
Interest and similar income	30	43	-	8,050	8,123
Interest expense and similar charges	(59)	-	(177)	(20,689)	(20,925)
Fee and commission income	-	-	6	-	6
Net trading income	-	-	-	2,974	2,974
Operating income	-	-	99	260	359
	<u>(29)</u>	<u>43</u>	<u>(72)</u>	<u>(9,405)</u>	<u>(9,463)</u>

* Key management personnel

38. Related parties (continued)

At 31 December 2008, significant outstanding balances with related parties comprised:

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Loans and advances to banks	-	-	-	66,481	66,481
Loans and advances to customers	272	-	-	-	272
Derivative financial instruments	-	-	-	4,405	4,405
Available-for-sale financial assets	-	-	-	60,863	60,863
	<u>272</u>	<u>-</u>	<u>-</u>	<u>131,749</u>	<u>132,021</u>
Liabilities					
Due to central and other banks	-	-	-	263,482	263,482
Derivative financial instruments	-	-	-	121	121
Due to customers	2,155	-	-	-	2,155
Debt securities in issue					
Bonds	395	-	3,196	-	3,591
Mortgage bonds	-	-	-	345,850	345,850
	<u>2,550</u>	<u>-</u>	<u>3,196</u>	<u>609,453</u>	<u>615,199</u>
Derivative transactions (notional amount – receivable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,888</u>	<u>124,888</u>
Derivative transactions (notional amount – payable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,529</u>	<u>168,529</u>
Income and expense items					
Interest and similar income	15	56	-	6,735	6,806
Interest expense and similar charges	(42)	-	(144)	(19,086)	(19,272)
Fee and commission income	-	-	71	11	82
Fee and commission expense	-	-	-	(28)	(28)
Net trading income	-	-	-	3,541	3,541
Operating income	-	-	115	250	365
Operating expenses	-	-	-	(139)	(139)
	<u>(27)</u>	<u>56</u>	<u>42</u>	<u>(8,716)</u>	<u>(8,645)</u>

39. Events after the end of reporting period

There were no events after 31 December 2009 that would have a material effect on a fair presentation of the matters disclosed in these financial statements.