



**Separate 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 Všeobecná úverová banka, a.s.:

We have audited the accompanying separate financial statements of Všeobecná úverová banka, a.s. ('the Bank'), which comprise the statement of financial position as at 31 December 2009 and 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 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 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 separate financial statements present fairly, in all material respects, the financial position of the Bank 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


**Statement of financial position at 31 December 2009**

(In thousands of euro)

	Note	2009	2008
<b>Assets</b>			
Cash and balances with central banks	4	238,446	504,999
Loans and advances to banks	5	168,646	1,436,664
Financial assets held for trading	6	163,082	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	14	-	1,705
Loans and advances to customers	9	5,549,836	5,262,286
Held-to-maturity investments	11	2,046,247	2,199,632
Subsidiaries, associates and jointly controlled entities	12	101,559	109,734
Intangible assets	13	28,207	27,402
Property and equipment	14	157,992	174,444
Current income tax assets	19	6,722	-
Deferred income tax assets	19	39,511	7,963
Other assets	15	11,581	11,809
		<u>9,550,173</u>	<u>10,853,851</u>
<b>Liabilities</b>			
Due to central and other banks	16	559,697	637,702
Derivative financial instruments	7	52,471	52,471
Due to customers	17	6,613,327	8,131,184
Debt securities in issue	18	1,285,310	1,106,848
Current income tax liabilities	19	-	22,368
Provisions	20	24,993	30,070
Other liabilities	21	50,585	61,703
		<u>8,586,383</u>	<u>10,042,346</u>
<b>Equity</b>			
Share capital	22	430,819	430,794
Share premium	22	13,368	13,368
Reserves		90,242	84,406
Retained earnings		429,361	282,937
		<u>963,790</u>	<u>811,505</u>
		<u>9,550,173</u>	<u>10,853,851</u>
Financial commitments and contingencies	23	<u>2,353,842</u>	<u>2,320,758</u>

The accompanying notes on pages 8 to 74 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

**Statement of comprehensive income for the year ended 31 December 2009**

(In thousands of euro)

	Note	2009	2008
Interest and similar income		445,444	510,829
Interest expense and similar charges		(136,037)	(221,704)
<b>Net interest income</b>	24	309,407	289,125
Fee and commission income		120,383	125,472
Fee and commission expense		(50,135)	(46,483)
<b>Net fee and commission income</b>	25	70,248	78,989
Net trading income	26	11,109	41,579
Other operating income	27	8,009	5,491
Dividend income		21,145	2,946
<b>Operating income</b>		419,918	418,130
Salaries and employee benefits	28	(87,306)	(86,797)
Other operating expenses	29	(73,476)	(82,911)
Amortization	13	(8,671)	(13,271)
Depreciation	14	(20,682)	(20,767)
<b>Operating expenses</b>		(190,135)	(203,746)
<b>Operating profit before impairment</b>		229,783	214,384
Impairment losses on financial assets	30	(67,596)	(36,692)
<b>Profit before tax</b>		162,187	177,692
Income tax expense	31	(15,947)	(32,881)
<b>NET PROFIT FOR THE YEAR</b>		146,240	144,811
<b>Other comprehensive income for the year, after tax:</b>			
Exchange difference on translating foreign operation		92	(1,606)
Available-for-sale financial assets		6,579	276
Cash flow hedges		(810)	(773)
<b>Other comprehensive income for the year, net of tax</b>	32, 33	5,861	(2,103)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		152,101	142,708
Basic and diluted earnings per € 33.2 (Sk 1,000) share in €	22	11.27	11.16

The accompanying notes on pages 8 to 74 form an integral part of these financial statements.

**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
<b>At 1 January 2008</b>	430,794	13,368	87,518	196,283	(135)	(818)	(56)	726,954
Total comprehensive income for the year	-	-	-	144,811	(1,606)	276	(773)	142,708
Dividends to shareholders	-	-	-	(58,157)	-	-	-	(58,157)
<b>At 31 December 2008</b>	<u>430,794</u>	<u>13,368</u>	<u>87,518</u>	<u>282,937</u>	<u>(1,741)</u>	<u>(542)</u>	<u>(829)</u>	<u>811,505</u>
<b>At 1 January 2009</b>	430,794	13,368	87,518	282,937	(1,741)	(542)	(829)	811,505
Transition to euro	25	-	(25)	-	-	-	-	-
Total comprehensive income for the year	-	-	-	146,240	92	6,579	(810)	152,101
Other	-	-	-	184	-	-	-	184
<b>At 31 December 2009</b>	<u>430,819</u>	<u>13,368</u>	<u>87,493</u>	<u>429,361</u>	<u>(1,649)</u>	<u>6,037</u>	<u>(1,639)</u>	<u>963,790</u>

The accompanying notes on pages 8 to 74 form an integral part of these financial statements.

**Statement of cash flows for the year ended 31 December 2009**

(In thousands of euro)

	Note	2009	2008
<b>Cash flows from operating activities</b>			
Profit before tax		162,187	177,692
Adjustments for:			
Amortization		8,671	13,271
Depreciation		20,682	20,767
Securities held for trading, available-for-sale securities and FX differences		(564)	(25,640)
Interest income		(445,444)	(510,829)
Interest expense		136,037	221,704
Dividend income		(21,145)	(2,946)
Profit from redemption of Debt securities in issue		(3,906)	-
Sale of property and equipment		(710)	(1,587)
Impairment losses on financial assets and similar charges		63,290	35,118
Interest received		423,702	523,147
Interest paid		(135,519)	(217,296)
Dividends received		21,145	2,946
Tax paid		(76,585)	(53,221)
Loans and advances to banks		3,443	(5,957)
Financial assets held for trading		(33,570)	(105,264)
Derivative financial instruments (assets)		17,368	(26,725)
Available-for-sale financial assets		(701,654)	(176,062)
Loans and advances to customers		(350,224)	(1,308,018)
Other assets		107	(1,518)
Due to central and other banks		(78,385)	104,187
Derivative financial instruments (liabilities)		-	18,153
Due to customers		(1,514,505)	1,314,464
Other liabilities		(9,721)	(1,259)
<i>Net cash used in operating activities</i>		<u>(2,515,300)</u>	<u>(4,873)</u>
<b>Cash flows from investing activities</b>			
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		(16,524)	(24,510)
Disposal of property and equipment		5,233	13,786
Acquisition of subsidiaries		-	(10,257)
<i>Net cash from investing activities</i>		<u>152,096</u>	<u>771,959</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debt securities		326,407	296,290
Repayments of debt securities		(147,424)	(50,481)
Dividends paid		-	(58,157)
<i>Net cash from financing activities</i>		<u>178,983</u>	<u>187,652</u>
Net change in cash and cash equivalents		(2,184,221)	954,738
Cash and cash equivalents at beginning of the year	3	<u>2,517,406</u>	<u>1,562,668</u>
<b>Cash and cash equivalents at end of the year</b>	<b>3</b>	<u><u>333,185</u></u>	<u><u>2,517,406</u></u>

The accompanying notes on pages 8 to 74 form an integral part of these financial statements.

## 1. General information

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.

The Bank'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.

Members of the Board of Directors are: Ignacio Jaquotot (Chairman), Domenico Cristarella, Daniele Fanin, Jozef Kausich, Elena Kohútiková, Tomislav Lazarić, 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.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The separate financial statements of the Bank ('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 consolidated financial statements of the Bank were issued on 26 February 2010 and are available at the legal office of the Bank.

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 Bank's functional currency changed from Slovak crowns to the euro as of that date. The comparative amounts for 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 Bank**

The accounting policies adopted are consistent with those used in the previous financial year except that the Bank 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 Bank. They did, however, give rise to additional disclosures.

## 2. Summary of significant accounting policies (continued)

### **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 Bank's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. The Bank 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 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.

The Bank 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 Bank 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 Bank.

### **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 Bank as the Bank 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 Bank.

## 2. Summary of significant accounting policies (continued)

### **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 Bank 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.

The application of the amendment does not have any impact on the Bank'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 Bank'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 Bank.

### **Standards and interpretations issued but not yet effective and have not been early adopted by the Bank:**

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);

## 2. Summary of significant accounting policies (continued)

- 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 Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

The Management of the Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank 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.

- 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 Bank 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 Bank 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 Bank’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 Segment reporting

The Bank reports financial and descriptive information about its operating segments in these financial statements. An operating segment is a component of the Bank 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 Bank), whose operating results are regularly reviewed by the Bank’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 Bank 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 Bank 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 Bank’s financial statements.

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

## **2. Summary of significant accounting policies (continued)**

### **2.4 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.

### **2.5 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.

The financial statements of the Bank and its foreign branch 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.

### **2.6 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.

### **2.7 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.

### **2.8 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 Bank will not be able to collect all amounts due.

### **2.9 Debt securities**

Debt securities held by the Bank are categorized into portfolios in accordance with the intent on the acquisition date and pursuant to the investment strategy. The Bank 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 Bank 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.

## 2. Summary of significant accounting policies (continued)

### (a) Securities held for trading

These securities are financial assets acquired by the Bank 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 Bank 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 Bank assesses at each end of reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 Bank has the positive intent and ability to hold to maturity.

## 2. Summary of significant accounting policies (continued)

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 Bank 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.

### 2.10 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.

### 2.11 Derivative financial instruments

In the normal course of business, the Bank 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 Bank 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 Bank 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.

In the normal course of business, the Bank enters into derivative financial instrument transactions to hedge its liquidity, foreign exchange and interest rate risks. The Bank also enters into proprietary derivative financial transactions for the purpose of generating profits from short-term fluctuations in market prices. The Bank operates a system of market risk and counterparty limits, which are designed to restrict exposure to movements in market prices and counterparty concentrations. The Bank 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 Bank's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses 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 Bank assesses the credit risk of all financial instruments on a daily basis.

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

## 2. Summary of significant accounting policies (continued)

### Embedded derivatives

The Bank 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 Bank 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 Bank 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 Bank applies hedge accounting for transactions which meet the specified criteria.

At the inception of the hedge relationship, the Bank 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 Bank 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'.

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. Summary of significant accounting policies (continued)

### 2.12 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.

### 2.13 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.

### 2.14 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 Bank 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.

### 2.15 Subsidiaries, associates and jointly controlled entities

Subsidiaries, associates and jointly controlled entities are recorded at cost less impairment losses. The impairment loss is measured using the Dividend discount model or Net assets method.

#### Dividend discount model

The Management of the companies being subject to the impairment test provide projection of dividends that are expected to be paid out by their companies in a period of 5 years. The model calculates the present value of these cash flows discounting them at the interest rate resulting from the CAPM (Capital Asset Pricing Model). Cash flows after the period are determined by a present value of the perpetuity with the particular estimated growth rate, provided by the Management of the companies.

The CAPM model uses as parameters the Risk free interest rate, Market/Risk Premium in the range of 5% - 7%, Size risk premium in the range of 1% - 1.8% and Business sector risk premium in the range of 0% - 6%.

#### Net assets method

The impairment loss is measured as the difference between the carrying amount of shares and the net assets value. This method is used for companies that are planning to discontinue the operation in the near future.

## 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

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

### 2.17 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 Bank 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.

### 2.18 Provisions

Provisions are recognized when the Bank 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.

### 2.19 Provisions for employee benefits

The Bank'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 Bank are covered by the retirement and jubilee employee benefits program.

## 2. Summary of significant accounting policies (continued)

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

	<b>Jubilee benefits</b>	<b>Retirement benefits</b>
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	

The Bank 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'.

### 2.20 Financial guarantees

Financial guarantees are contracts that require the Bank 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'.

### 2.21 Legal reserve fund

In accordance with the law and statutes of the Bank, the Bank is obliged to contribute at least 10% of its annual net profit to the 'Legal reserve fund' until it reaches 20% of the 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 the Bank.

### 2.22 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.

### 2.23 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. Summary of significant accounting policies (continued)

### 2.24 Fee and commission income

Fee and commission income arises on financial services provided by the Bank 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.

### 2.25 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.

### 2.26 Dividend income

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

### 2.27 Income tax

Income tax is calculated in accordance with the regulations of the Slovak Republic and other jurisdictions, in which the Bank 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 Bank is also subject to various indirect operating taxes, which are included in 'Other operating expenses'.

### 2.28 Fiduciary assets

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

### 2.29 Significant accounting judgements and estimates

#### Judgements

In the process of applying the Bank'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 Bank 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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 Bank 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.

## 2. Summary of significant accounting policies (continued)

### Estimates

The preparation of the financial statements required management to make certain estimates and assumptions, which impact the carrying amounts of the Bank'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.

#### 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 Bank 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 Bank 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 Bank'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	238,446	504,999
Current accounts in other banks	5	23,532	54,198
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>333,185</u>	<u>2,517,406</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	102,412	341,984
	<u>238,446</u>	<u>504,999</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 Bank 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.

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank'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	23,532	54,198
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>168,646</u>	<u>1,436,664</u>

**6. Financial assets held for trading**

	<b>2009</b>	<b>2008</b>
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
	<u>163,082</u>	<u>791,204</u>

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

**7. Derivative financial instruments**

	<b>2009 Assets</b>	<b>2008 Assets</b>	<b>2009 Liabilities</b>	<b>2008 Liabilities</b>
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)**

	<b>2009 Assets</b>	<b>2008 Assets</b>	<b>2009 Liabilities</b>	<b>2008 Liabilities</b>
<b>Trading derivatives – Fair values</b>				
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>
<b>Trading derivatives – Notional values</b>				
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	49,581	44,851	49,581	44,851
Commodity options	3,495	4,331	3,495	4,331
	<u>53,076</u>	<u>49,182</u>	<u>53,076</u>	<u>49,182</u>
	<u>1,461,769</u>	<u>2,393,517</u>	<u>1,461,044</u>	<u>2,383,646</u>

## 7. Derivative financial instruments (continued)

Equity and commodity instruments include also options for the purchase of a 30% shareholding in VÚB Leasing, a. s. held by the Bank with notional values of € 13,941 thousand in assets and € 13,941 thousand in liabilities. These options are not revalued, because their fair value cannot be reliably measured.

### Cash flow hedges

#### Cash flow hedges of interest rate risk

The Bank 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 Bank 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
<b>2009</b>			
Mortgage bonds – interest rate risk	3,698	22,933	3,949
FX forecast transaction – foreign exchange risk	14,532	-	-
<b>2008</b>			
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 Bank 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 Bank 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>

As at 31 December 2009, the state bonds with a total nominal value of € 100 million were pledged by the Bank (2008: nil) to secure transactions with counterparties.

**9. Loans and advances to customers**

31 December 2009	Amortized cost	Impairment losses (note 10)	Carrying amount
<b>Sovereigns</b>			
Municipalities	31,955	-	31,955
<b>Corporate</b>			
Large Corporates	1,565,577	(32,233)	1,533,344
SME	885,790	(46,888)	838,902
Other Financial Institutions	14,756	-	14,756
Private Sector Entities	16,270	(195)	16,075
Factoring	25,188	(1,023)	24,165
	<u>2,507,581</u>	<u>(80,339)</u>	<u>2,427,242</u>
<b>Retail</b>			
Small business	151,683	(14,418)	137,265
Consumer Loans	600,503	(56,045)	544,458
Mortgages	2,114,581	(16,999)	2,097,582
Credit Cards	247,740	(30,546)	217,194
Overdrafts	102,998	(9,620)	93,378
Other	762	-	762
	<u>3,218,267</u>	<u>(127,628)</u>	<u>3,090,639</u>
	<u>5,757,803</u>	<u>(207,967)</u>	<u>5,549,836</u>

The segmentation of Loans and advances to customers in both 2009 and 2008 is based on the new IRB approach implemented by the Bank 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
<b>Sovereigns</b>			
State organizations	2,835	-	2,835
Municipalities	14,959	-	14,959
	<u>17,794</u>	<u>-</u>	<u>17,794</u>
<b>Corporate</b>			
Large Corporates	1,604,546	(36,625)	1,567,921
SME	857,796	(22,282)	835,514
Other Financial Institutions	15,891	-	15,891
Private Sector Entities	16,525	(17)	16,508
Factoring	28,360	(536)	27,824
	<u>2,523,118</u>	<u>(59,460)</u>	<u>2,463,658</u>
<b>Retail</b>			
Small business	142,923	(8,204)	134,719
Consumer Loans	536,641	(41,095)	495,546
Mortgages	1,907,392	(22,310)	1,885,082
Credit Cards	198,739	(16,137)	182,602
Overdrafts	81,429	(5,583)	75,846
Other	7,130	(91)	7,039
	<u>2,874,254</u>	<u>(93,420)</u>	<u>2,780,834</u>
	<u>5,415,166</u>	<u>(152,880)</u>	<u>5,262,286</u>

At 31 December 2009, the 20 largest corporate customers represented a total balance of € 717,320 thousand (2008: € 710,222 thousand) or 12.5% (2008: 13%) of the gross loan portfolio.

During 2009, the net loss from loans and advances to customers written off and sold amounted to € 4,719 thousand (2008: net gain of € 7,368 thousand) (note 30).

**10. Impairment losses**

	Note	1 Jan 2009	Creation/ (Reversal) (note 30)	FX gains	Other	31 Dec 2009
Loans and advances to banks	5	806	(655)	-	-	151
Loans and advances to customers	9	152,880	57,524	71	(2,508) *	207,967
Held-to-maturity investments	11	496	(119)	-	-	377
Subsidiaries, associates and JVs	12	21,465	8,174	-	-	29,639
Intangible assets	13	197	-	-	(197)	-
Other assets	15	1,866	121	(94)	984	2,877
		<u>177,710</u>	<u>65,045</u>	<u>(23)</u>	<u>(1,721)</u>	<u>241,011</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.

**10. Impairment losses (continued)**

	Note	1 Jan 2008	Creation/ (Reversal) (note 30)	FX gains	Other	31 Dec 2008
Loans and advances to banks	5	849	27	(70)	-	806
Loans and advances to customers	9	113,297	40,572	(989)	-	152,880
Held-to-maturity investments	11	675	(113)	(66)	-	496
Subsidiaries, associates and JVs	12	18,766	2,699	-	-	21,465
Intangible assets	13	-	-	-	197	197
Property and equipment	14	48	(48)	-	-	-
Other assets	15	2,234	(368)	-	-	1,866
		<u>135,869</u>	<u>42,769</u>	<u>(1,125)</u>	<u>197</u>	<u>177,710</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 Bank (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 Bank held in its portfolio the following state restructuring bonds:

- 10-year state bonds with a nominal value of € 366,594 thousand, due on 30 January 2011, bearing variable interest rate for 6M EURIBOR;
- 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. Subsidiaries, associates and jointly controlled entities**

	Share in %	Cost	Impairment losses (note 10)	Carrying amount
<b>At 31 December 2009</b>				
VÚB Factoring, a.s.	100.0	16,535	(10,210)	6,325
VÚB Leasingová, a.s.	100.0	7,767	(7,443)	324
Recovery, a.s.	100.0	3,652	(3,182)	470
VÚB Asset Management, správ. spol. a.s.	100.0	2,821	-	2,821
Consumer Finance Holding, a.s.	100.0	53,114	-	53,114
VÚB Leasing, a. s.	70.0	30,709	(7,769)	22,940
VÚB Generali DSS, a.s.	50.0	16,597	(1,035)	15,562
Slovak Banking Credit Bureau, s.r.o.	33.3	3	-	3
		<u>131,198</u>	<u>(29,639)</u>	<u>101,559</u>
<b>At 31 December 2008</b>				
VÚB Factoring, a.s.	100.0	16,535	(8,165)	8,370
VÚB Leasingová, a.s.	100.0	7,767	(7,444)	323
Recovery, a.s.	100.0	3,652	(3,173)	479
VÚB Asset Management, správ. spol. a.s.	100.0	2,822	(1,967)	855
Consumer Finance Holding, a.s.	100.0	53,114	-	53,114
VÚB Leasing, a. s.	70.0	30,709	(716)	29,993
VÚB Generali DSS, a.s.	50.0	16,597	-	16,597
Slovak Banking Credit Bureau, s.r.o.	33.3	3	-	3
		<u>131,199</u>	<u>(21,465)</u>	<u>109,734</u>

**13. Intangible assets**

	Software	Other intangible assets	Assets in progress	Total
<b>Cost</b>				
At 1 January 2009	142,032	9,125	5,292	156,449
Additions	-	-	9,477	9,477
Disposals	(653)	(413)	-	(1,066)
Transfers	10,309	1,300	(11,609)	-
FX differences	14	1	-	15
At 31 December 2009	<u>151,702</u>	<u>10,013</u>	<u>3,160</u>	<u>164,875</u>
<b>Accumulated amortization</b>				
At 1 January 2009	(123,352)	(5,498)	(197)	(129,047)
Amortization for the year	(7,608)	(1,260)	197 *	(8,671)
Disposals	652	413	-	1,065
FX differences	(14)	(1)	-	(15)
At 31 December 2009	<u>(130,322)</u>	<u>(6,346)</u>	<u>-</u>	<u>(136,668)</u>
<b>Carrying amount</b>				
<b>At 1 January 2009</b>	<u>18,680</u>	<u>3,627</u>	<u>5,095</u>	<u>27,402</u>
<b>At 31 December 2009</b>	<u>21,380</u>	<u>3,667</u>	<u>3,160</u>	<u>28,207</u>

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

**13. Intangible assets (continued)**

	Software	Other intangible assets	Assets in progress	Total
<b>Cost</b>				
At 1 January 2008	135,865	12,051	4,295	152,211
Additions	-	-	8,506	8,506
Disposals	(120)	(4,033)	-	(4,153)
Transfers	6,392	1,117	(7,509)	-
FX differences	(105)	(10)	-	(115)
At 31 December 2008	<u>142,032</u>	<u>9,125</u>	<u>5,292</u>	<u>156,449</u>
<b>Accumulated amortization</b>				
At 1 January 2008	(111,958)	(8,063)	-	(120,021)
Amortization for the year	(11,596)	(1,478)	(197)*	(13,271)
Disposals	97	4,033	-	4,130
FX differences	105	10	-	115
At 31 December 2008	<u>(123,352)</u>	<u>(5,498)</u>	<u>(197)</u>	<u>(129,047)</u>
<b>Carrying amount</b>				
<b>At 1 January 2008</b>	<u>23,907</u>	<u>3,988</u>	<u>4,295</u>	<u>32,190</u>
<b>At 31 December 2008</b>	<u>18,680</u>	<u>3,627</u>	<u>5,095</u>	<u>27,402</u>

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

**14. Property and equipment and Non-current assets held for sale**

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
<b>Cost</b>					
At 1 January 2009	209,075	93,039	33,504	8,134	343,752
Additions	-	-	-	7,155	7,155
Disposals	(6,207)	(7,081)	(2,535)	-	(15,823)
Transfers	2,735	7,936	859	(11,530)	-
FX differences	1	10	2	-	13
At 31 December 2009	<u>205,604</u>	<u>93,904</u>	<u>31,830</u>	<u>3,759</u>	<u>335,097</u>
<b>Accumulated depreciation</b>					
At 1 January 2009	(69,303)	(76,459)	(23,546)	-	(169,308)
Depreciation for the year	(10,060)	(7,467)	(3,155)	-	(20,682)
Disposals	3,454	7,055	2,389	-	12,898
FX differences	(1)	(10)	(2)	-	(13)
At 31 December 2009	<u>(75,910)</u>	<u>(76,881)</u>	<u>(24,314)</u>	<u>-</u>	<u>(177,105)</u>
<b>Carrying amount</b>					
<b>At 1 January 2009</b>	<u>139,772</u>	<u>16,580</u>	<u>9,958</u>	<u>8,134</u>	<u>174,444</u>
<b>At 31 December 2009</b>	<u>129,694</u>	<u>17,023</u>	<u>7,516</u>	<u>3,759</u>	<u>157,992</u>

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

	<b>Buildings and land</b>	<b>Equipment</b>	<b>Other tangibles</b>	<b>Assets in progress</b>	<b>Total</b>
<b>Cost</b>					
At 1 January 2008	207,129	102,197	35,400	5,126	349,852
Additions	-	-	-	16,074	16,074
Disposals	(2,939)	(14,738)	(4,405)	-	(22,082)
Transfers	4,895	5,655	2,516	(13,066)	-
FX differences	(10)	(75)	(7)	-	(92)
At 31 December 2008	<u>209,075</u>	<u>93,039</u>	<u>33,504</u>	<u>8,134</u>	<u>343,752</u>
<b>Accumulated depreciation</b>					
At 1 January 2008	(60,801)	(83,948)	(23,566)	-	(168,315)
Depreciation for the year	(10,433)	(7,094)	(3,240)	-	(20,767)
Disposals	1,923	14,494	3,258	-	19,675
FX differences	8	89	2	-	99
At 31 December 2008	<u>(69,303)</u>	<u>(76,459)</u>	<u>(23,546)</u>	<u>-</u>	<u>(169,308)</u>
<b>Impairment losses (note 10)</b>					
At 1 January 2008	(48)	-	-	-	(48)
Net reversal	48	-	-	-	48
At 31 December 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Carrying amount</b>					
<b>At 1 January 2008</b>	<u>146,280</u>	<u>18,249</u>	<u>11,834</u>	<u>5,126</u>	<u>181,489</u>
<b>At 31 December 2008</b>	<u>139,772</u>	<u>16,580</u>	<u>9,958</u>	<u>8,134</u>	<u>174,444</u>

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

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

**15. Other assets**

	<b>2009</b>	<b>2008</b>
Operating receivables and advances	8,762	7,574
Prepayments and accrued income	2,898	3,977
Other tax receivables	1,163	1,117
Inventories	913	733
Settlement of operations with financial instruments	600	274
Other	122	-
	<u>14,458</u>	<u>13,675</u>
Impairment losses (note 10)	(2,877)	(1,866)
	<u>11,581</u>	<u>11,809</u>

**16. Due to central and other banks**

	<b>2009</b>	<b>2008</b>
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	161,560
Term deposits	280,595	386,109
Loans received	42,718	36,162
	<u>350,580</u>	<u>583,831</u>
	<u>559,697</u>	<u>637,702</u>

**17. Due to customers**

	<b>2009</b>	<b>2008</b>
Current accounts	2,574,080	2,612,082
Term deposits	3,015,419	3,458,922
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	151,834
Other deposits	17,804	39,827
	<u>6,613,327</u>	<u>8,131,184</u>

**18. Debt securities in issue**

	<b>2009</b>	<b>2008</b>
Bonds	54,996	66,466
Mortgage bonds	1,230,314	1,040,382
	<u>1,285,310</u>	<u>1,106,848</u>

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

**18. 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

**18. 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	-
							<b>1,230,314</b>	<b>1,040,382</b>

**19. Current and deferred income taxes**

	<b>2009</b>	<b>2008</b>
Deferred income tax asset	<u>39,511</u>	<u>7,963</u>
	<b>2009</b>	<b>2008</b>
Current income tax assets	<u>6,722</u>	<u>-</u>
	<b>2009</b>	<b>2008</b>
Current income tax liabilities	<u>-</u>	<u>22,368</u>

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

	<b>2009</b>	<b>2008</b>
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	39,421	17,684
Property and equipment	(2,291)	(2,187)
Other liabilities and provisions	<u>3,314</u>	<u>3,515</u>
Deferred income tax asset	<u>39,511</u>	<u>7,963</u>

**20. Provisions**

	<b>2009</b>	<b>2008</b>
Litigations	<u>24,993</u>	<u>30,070</u>

The movement in provisions was as follows:

	<b>1 Jan 2009</b>	<b>Creation/ (Reversal)</b>	<b>31 Dec 2009</b>
Litigations (note 23, note 29)	<u>30,070</u>	<u>(5,077)</u>	<u>24,993</u>
	<b>1 Jan 2008</b>	<b>Creation/ (Reversal)</b>	<b>31 Dec 2008</b>
Litigations (note 23, note 29)	32,143	(2,073)	30,070

**21. Other liabilities**

	<b>2009</b>	<b>2008</b>
Settlement with employees	17,943	19,163
Various creditors	14,508	22,278
Financial guarantees and commitments	9,595	11,763
VAT payables and other tax payables	3,714	4,021
Accruals and deferred income	1,321	1,422
Settlement with shareholders	1,237	1,474
Severance and Jubilee benefits	1,215	499
Retention program	1,026	865
Settlement with securities	17	195
Other	9	23
	<u>50,585</u>	<u>61,703</u>

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

	<b>Note</b>	<b>1 Jan 2009</b>	<b>Creation/ (Reversal)</b>	<b>31 Dec 2009</b>
Financial guarantees and commitments	30	11,763	(2,168)	9,595
Retention program	28	865	161	1,026
Severance and Jubilee benefits	28	499	716	1,215
		<u>13,127</u>	<u>(1,291)</u>	<u>11,836</u>

	<b>Note</b>	<b>1 Jan 2008</b>	<b>Creation/ (Reversal)</b>	<b>31 Dec 2008</b>
Financial guarantees and commitments	30	10,472	1,291	11,763
Retention program	28	387	478	865
Severance and Jubilee benefits	28	584	(85)	499
		<u>11,443</u>	<u>1,684</u>	<u>13,127</u>

## 22. 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><u>(24,799.72)</u></u>

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	146,240	144,811
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>11.27</u>	<u>11.16</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 Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank 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 Bank 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.

## 22. Share capital (continued)

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

	2009	2008
<b>Tier 1 capital</b>		
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	283,121	138,126
Legal reserve fund	87,493	87,518
Less software (including software in Assets in progress)	<u>(24,540)</u>	<u>(23,680)</u>
	788,612	644,385
<b>Tier 2 capital</b>	-	-
<b>Regulatory adjustment</b>		
Subsidiaries, associates and jointly controlled entities	<u>(101,556)</u>	<u>(109,731)</u>
<b>Total regulatory capital</b>	<u>687,056</u>	<u>534,654</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 and investments with significant influence).

	2009 Actual	2009 Required	2008 Actual	2008 Required
Tier 1 capital	788,612	593,699	644,385	580,200
Tier 2 capital	-	-	-	-
Regulatory adjustment	<u>(101,556)</u>	<u>(101,556)</u>	<u>(109,731)</u>	<u>(109,731)</u>
<b>Total regulatory capital</b>	<u>687,056</u>	<u>492,143</u>	<u>534,654</u>	<u>470,469</u>
<b>Total Risk Weighted Assets</b>	<u>6,154,692</u>	<u>6,154,692</u>	<u>5,878,395</u>	<u>5,878,395</u>
Tier 1 capital ratio	12.81%	9.65%	10.96%	9.87%
Total capital ratio	11.16%	8.00%	9.10%	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 Bank must maintain a capital adequacy ratio of at least 8% according to NBS regulations. The capital adequacy ratio is the ratio between the Bank'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 Bank complied with the NBS requirement for the capital adequacy ratio as at 31 December 2009 and 2008.

## 23. Financial commitments and contingencies

	<b>2009</b>	<b>2008</b>
Issued guarantees	487,600	414,819
Commitments and undrawn credit facilities	1,866,242	1,905,939
	<u>2,353,842</u>	<u>2,320,758</u>

### (a) Issued guarantees

Commitments from guarantees represent irrevocable assurances that the Bank 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 Bank 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 Bank represent undrawn portions of commitments and approved overdraft loans.

### (c) Lease obligations

In the normal course of business, the Bank 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:

	<b>2009</b>	<b>2008</b>
Up to 1 year	1,739	1,761
1 to 5 years	1,693	3,252
Over 5 years	-	-
	<u>3,432</u>	<u>5,013</u>

### (d) Legal

In the ordinary course of business the Bank is subject to a variety of legal actions. The Bank 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 € 24,993 thousand (31 December 2008: € 30,070 thousand) in respect of such legal proceedings (see also note 20). The Bank 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 Bank that according to the opinion of the Legal Department of the Bank will most probably not result in any payments due by the Bank.

**24. Net interest income**

	<b>2009</b>	<b>2008</b>
<b>Interest and similar income</b>		
Loans and advances to banks	12,143	45,896
Loans and advances to customers	316,970	339,051
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>445,444</u>	<u>510,829</u>
<b>Interest expense and similar charges</b>		
Due to banks	(2,747)	(8,998)
Due to customers	(90,996)	(158,948)
Debt securities in issue	(42,294)	(53,758)
	<u>(136,037)</u>	<u>(221,704)</u>
	<u>309,407</u>	<u>289,125</u>

Interest income on individually impaired loans and advances to customers for 2009 amounted to € 12,484 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.

**25. Net fee and commission income**

	<b>2009</b>	<b>2008</b>
<b>Fee and commission income</b>		
Received from banks	5,567	6,851
Received from customers:		
Current accounts	43,173	43,665
Term deposits	730	693
Insurance mediation	7,423	7,375
Loans and guarantees	35,648	31,655
Overdrafts	3,188	3,523
Securities	3,145	8,107
Transactions and payments	19,688	21,605
Other	1,821	1,998
	<u>120,383</u>	<u>125,472</u>
<b>Fee and commission expense</b>		
Paid to banks	(11,553)	(9,278)
Paid to mediators:		
Credit cards	(34,575)	(31,372)
Securities	(567)	(718)
Services	(2,191)	(3,978)
Other	(1,249)	(1,137)
	<u>(50,135)</u>	<u>(46,483)</u>
	<u>70,248</u>	<u>78,989</u>

**26. Net trading income**

	<b>2009</b>	<b>2008</b>
Foreign currency derivatives and transactions	(4,128)	17,353
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	2,244	(876)
Available-for-sale financial assets *	7,458	16
Held-to-maturity investments	-	137
Equity derivatives	7	183
Proceeds from sale of investments	139	-
	<u>11,109</u>	<u>41,579</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.

**27. Other operating income**

	<b>2009</b>	<b>2008</b>
Rent	1,998	1,800
Net profit from sale of fixed assets	710	1,587
Profit from redemption of Debt securities in issue	3,906	-
Other	1,395	2,104
	<u>8,009</u>	<u>5,491</u>

**28. Salaries and employee benefits**

	<b>2009</b>	<b>2008</b>
Remuneration	(63,924)	(63,776)
Social security costs	(21,706)	(21,840)
Social fund	(799)	(788)
Retention program (note 21)	(161)	(478)
Severance (note 21)	(716)	85
	<u>(87,306)</u>	<u>(86,797)</u>

The total number of employees of the Bank at 31 December 2009 was 3,469 (31 December 2008: 3,586).

The Bank 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 Bank from the payment of pensions to employees in the future.

**29. Other operating expenses**

	<b>2009</b>	<b>2008</b>
Property related expenses	(13,290)	(12,378)
IT systems maintenance	(10,134)	(13,231)
Post and telecom	(9,674)	(9,831)
Contribution to the Deposit Protection Fund	(8,530)	(6,555)
Equipment related expenses	(7,297)	(7,064)
VAT and other taxes	(5,998)	(6,725)
Security	(4,670)	(4,886)
Advertising and marketing	(4,853)	(10,447)
Stationery	(3,333)	(3,455)
Professional services	(4,454)	(4,506)
Travelling	(863)	(1,050)
Other damages	(1,403)	(1,011)
Trainings	(718)	(1,166)
Audit*	(478)	(398)
Transport	(459)	(624)
Insurance	(411)	(510)
Litigations paid	(199)	(239)
Provisions for litigations (note 20)	5,077	2,073
Other operating expenses	(1,789)	(908)
	<u>(73,476)</u>	<u>(82,911)</u>

\* As at 31 December 2009 the audit expense consists of the statutory audit in the amount of € 185 thousand (31 December 2008: € 166 thousand), group reporting in the amount of € 185 thousand (31 December 2008: € 166 thousand) and other reporting in the amount of € 108 thousand (31 December 2008: € 66 thousand).

**30. Impairment losses on financial assets**

	<b>2009</b>	<b>2008</b>
Net creation of impairment losses (note 10)	(65,045)	(42,769)
Net reversal/ (creation) of liabilities - financial guarantees and commitments (note 21)	2,168	(1,291)
	<u>(62,877)</u>	<u>(44,060)</u>
Nominal value of loans written-off	(5,306)	(1,519)
Nominal value of loans sold	(3,785)	(8,492)
Proceeds from loans written-off	2,187	7,477
Proceeds from loans sold	2,185	9,902
	<u>(4,719)</u>	<u>7,368</u>
	<u>(67,596)</u>	<u>(36,692)</u>

**31. Income tax expense**

	<b>2009</b>	<b>2008</b>
Current income tax	(48,849)	(52,251)
Deferred income tax	32,902	19,370
	<u>(15,947)</u>	<u>(32,881)</u>

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

	<b>2009</b>	<b>2008</b>
Loans and advances to banks	(125)	153
Loans and advances to customers	21,737	17,665
Held-to-maturity investments	11,595	(32)
Property and equipment	(104)	(175)
Other liabilities and provisions	(201)	1,759
	<u>32,902</u>	<u>19,370</u>

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

	<b>2009</b>	<b>2008</b>
Profit before tax	162,187	177,692
Applicable tax rate	19%	19%
Theoretical tax charge	(30,816)	(33,761)
Tax non-deductible items	5,365	451
Adjustments for current tax of prior periods	(2,114)	429
Derecognition of deferred tax liability	11,618	-
Tax expense	<u>(15,947)</u>	<u>(32,881)</u>
Effective tax rate	<u>9.83%</u>	<u>18.50%</u>

**32. Components of other comprehensive income**

	<b>2009</b>	<b>2008</b>
Exchange differences on translating foreign operations	92	(1,606)
Available-for-sale financial assets:		
Losses/(gains) arising during the year	16,061	354
Less: Reclassification adjustments for gains included in profit or loss	<u>(7,939)</u>	<u>(16)</u>
	<u>8,122</u>	<u>338</u>
Cash flow hedges:		
Gains/(losses) arising during the year	<u>(1,000)</u>	<u>(955)</u>
Total other comprehensive income	7,214	(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>5,861</u></u>	<u><u>(2,103)</u></u>

**33. Income tax effects relating to comprehensive income**

	<b>2009</b>			<b>2008</b>		
	<b>Before tax amount</b>	<b>Tax (expense)/ benefit</b>	<b>Net of tax amount</b>	<b>Before tax amount</b>	<b>Tax (expense)/ benefit</b>	<b>Net of tax amount</b>
Exchange differences on translating foreign operations	92	-	92	(1,606)	-	(1,606)
Available-for-sale financial assets	8,122	(1,543)	6,579	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>7,214</u>	<u>(1,353)</u>	<u>5,861</u>	<u>(2,223)</u>	<u>120</u>	<u>(2,103)</u>

### 34. 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 Bank'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 Bank'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) Subsidiaries, associates and jointly controlled entities

The estimated fair value of investment in subsidiaries, 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 Bank to these clients.

(g) Debt securities in issue

The fair value of debt securities issued by the Bank 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 Bank 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.

**34. 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	-	-	238,446	-	-	238,446	238,446
Loans and advances to banks	5	-	-	168,646	-	-	168,646	168,646
Financial assets held for trading	6	163,082	-	-	-	-	163,082	163,082
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	-	-	5,549,836	-	-	5,549,836	6,003,450
Held-to-maturity investments	11	-	2,046,247	-	-	-	2,046,247	2,067,187
Subsidiaries, associates and jointly controlled entities	12	-	-	-	-	101,559	101,559	101,559
		<u>205,865</u>	<u>2,046,247</u>	<u>5,956,928</u>	<u>995,561</u>	<u>101,559</u>	<u>9,306,160</u>	<u>9,780,714</u>
Due to central and other banks	16	-	-	-	-	(559,697)	(559,697)	(559,697)
Derivative financial instruments	7	(52,471)	-	-	-	-	(52,471)	(52,471)
Due to customers	17	-	-	-	-	(6,613,327)	(6,613,327)	(6,310,623)
Debt securities in issue	18	-	-	-	-	(1,285,310)	(1,285,310)	(1,285,233)
		<u>(52,471)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,458,334)</u>	<u>(8,510,805)</u>	<u>(8,208,024)</u>

**34. 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	-	-	504,999	-	-	504,999	504,999
Loans and advances to banks	5	-	-	1,436,664	-	-	1,436,664	1,436,664
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	-	-	5,262,286	-	-	5,262,286	5,441,253
Held-to-maturity investments	11	-	2,199,632	-	-	-	2,199,632	2,190,640
Subsidiaries, associates and jointly controlled entities	12	-	-	-	-	109,734	109,734	109,734
		<u>852,165</u>	<u>2,199,632</u>	<u>7,203,949</u>	<u>265,048</u>	<u>109,734</u>	<u>10,630,528</u>	<u>10,800,503</u>
Due to central and other banks	16	-	-	-	-	(637,702)	(637,702)	(637,702)
Derivative financial instruments	7	(52,471)	-	-	-	-	(52,471)	(52,471)
Due to customers	17	-	-	-	-	(8,131,184)	(8,131,184)	(8,048,027)
Debt securities in issue	18	-	-	-	-	(1,106,848)	(1,106,848)	(1,078,919)
		<u>(52,471)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,875,734)</u>	<u>(9,928,205)</u>	<u>(9,817,119)</u>

**34. 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
<b>Financial assets</b>									
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
		10,572	152,510	-	163,082	-	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
<b>Financial liabilities</b>									
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.

## 35. Financial risk management

### Introduction and overview

The Bank 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 Bank's exposure to each of the above risks, the Bank'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 Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, 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 Bank's Internal Audit Department is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. 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 Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks as well as investment securities. For risk management reporting purposes, the Bank 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, Management Board and the CCC. The Risk Management Division is responsible for overseeing the Bank's credit risk including:

### 35. 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 Bank'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 Bank 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 Bank, such as a breach of contract, problems with repayments or collateral, the Bank transfers such a client to the Recovery Department, for pursuing collection activities. Such clients are considered to be individually impaired. For collective impairment, the Bank 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.

**35. Financial risk management (continued)**

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

	Category	2009			2008		
		Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
<b>Banks</b>	Performing	168,646	-	168,646	1,437,319	(655)	1,436,664
	Bad and Doubtful	151	(151)	-	151	(151)	-
		<u>168,797</u>	<u>(151)</u>	<u>168,646</u>	<u>1,437,470</u>	<u>(806)</u>	<u>1,436,664</u>
<b>Sovereigns</b>	Performing	31,955	-	31,955	17,794	-	17,794
		<u>31,955</u>	<u>-</u>	<u>31,955</u>	<u>17,794</u>	<u>-</u>	<u>17,794</u>
<b>Corporate</b>	Performing	2,399,925	(35,310)	2,364,615	2,491,433	(36,693)	2,454,740
	Substandard	75,598	(19,657)	55,941	7,414	(2,522)	4,892
	Bad and Doubtful	32,058	(25,372)	6,686	24,271	(20,245)	4,026
		<u>2,507,581</u>	<u>(80,339)</u>	<u>2,427,242</u>	<u>2,523,118</u>	<u>(59,460)</u>	<u>2,463,658</u>
<b>Retail</b>	Performing	3,090,549	(58,435)	3,032,114	2,822,970	(64,413)	2,758,557
	Substandard	63,326	(16,956)	46,370	20,972	(5,571)	15,401
	Bad and Doubtful	64,392	(52,237)	12,155	30,312	(23,436)	6,876
		<u>3,218,267</u>	<u>(127,628)</u>	<u>3,090,639</u>	<u>2,874,254</u>	<u>(93,420)</u>	<u>2,780,834</u>
<b>Securities</b>	Performing	3,203,386	-	3,203,386	3,254,499	-	3,254,499
	Substandard	1,881	(377)	1,504	1,881	(496)	1,385
		<u>3,205,267</u>	<u>(377)</u>	<u>3,204,890</u>	<u>3,256,380</u>	<u>(496)</u>	<u>3,255,884</u>

**35. 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	238,446	504,999
Loans and advances to banks	168,646	1,436,664
Financial assets held for trading	163,082	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	5,549,836	5,262,286
Held-to-maturity investments	2,046,247	2,199,632
Subsidiaries, associates and jointly controlled entities	101,559	109,734
Intangible assets	28,207	27,402
Property and equipment	157,992	174,444
Current income tax assets	6,722	-
Deferred income tax assets	39,511	7,963
Other assets	11,581	11,809
	<u>9,567,057</u>	<u>10,876,263</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 Bank's credit portfolio in terms of delinquency of payments.

	2009			2008		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
<b>Banks</b>						
No delinquency	168,646	-	168,646	1,427,478	(336)	1,427,142
91 – 180 days	151	(151)	-	4,950	(234)	4,716
Over 181 days	-	-	-	5,042	(236)	4,806
	<u>168,797</u>	<u>(151)</u>	<u>168,646</u>	<u>1,437,470</u>	<u>(806)</u>	<u>1,436,664</u>
<b>Sovereigns</b>						
No delinquency	31,832	-	31,832	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>31,955</u>	<u>-</u>	<u>31,955</u>	<u>17,794</u>	<u>-</u>	<u>17,794</u>

**35. Financial risk management (continued)**

	2009			2008		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
<b>Corporate</b>						
No delinquency	2,399,162	(46,005)	2,353,157	2,439,474	(38,983)	2,400,491
1 – 30 days	33,351	(2,921)	30,430	56,321	(2,574)	53,747
31 – 60 days	4,080	(1,145)	2,935	5,056	(614)	4,442
61 – 90 days	1,484	(583)	901	2,698	(1,030)	1,668
91 – 180 days	37,205	(9,794)	27,411	1,449	(951)	498
Over 181 days *	32,299	(19,891)	12,408	18,120	(15,308)	2,812
	<u>2,507,581</u>	<u>(80,339)</u>	<u>2,427,242</u>	<u>2,523,118</u>	<u>(59,460)</u>	<u>2,463,658</u>
<b>Retail</b>						
No delinquency	2,893,920	(49,967)	2,843,953	2,666,655	(55,865)	2,610,790
1 – 30 days	156,078	(8,302)	147,776	121,710	(6,929)	114,781
31 – 60 days	31,733	(3,457)	28,276	25,640	(3,435)	22,205
61 – 90 days	17,882	(2,930)	14,952	11,230	(2,547)	8,683
91 – 180 days	29,526	(12,513)	17,013	17,353	(7,158)	10,195
Over 181 days *	89,128	(50,459)	38,669	31,666	(17,486)	14,180
	<u>3,218,267</u>	<u>(127,628)</u>	<u>3,090,639</u>	<u>2,874,254</u>	<u>(93,420)</u>	<u>2,780,834</u>
<b>Securities</b>						
No delinquency	<u>3,205,267</u>	<u>(377)</u>	<u>3,204,890</u>	<u>3,256,380</u>	<u>(496)</u>	<u>3,255,884</u>
	<u>3,205,267</u>	<u>(377)</u>	<u>3,204,890</u>	<u>3,256,380</u>	<u>(496)</u>	<u>3,255,884</u>

**\* Write-off Policy**

The Bank 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 Bank 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 Bank 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 Bank updates the fair value on a regular basis.

**35. 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	447,640	65,238	457,836	44,519
Property	5,336,100	-	4,480,163	-
	<u>5,817,949</u>	<u>121,502</u>	<u>4,938,068</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 Bank 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 Bank 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	137,071	(151)	136,920	1,406,214	(209)	1,406,005
Sovereigns	31,955	-	31,955	17,794	-	17,794
Corporate	2,507,581	(80,339)	2,427,242	2,522,412	(59,448)	2,462,964
Retail	3,215,668	(127,599)	3,088,069	2,872,904	(93,397)	2,779,507
Securities	3,200,009	-	3,200,009	3,251,575	-	3,251,575
	<u>9,092,284</u>	<u>(208,089)</u>	<u>8,884,195</u>	<u>10,070,899</u>	<u>(153,054)</u>	<u>9,917,845</u>
North America						
Banks	30,956	-	30,956	31,135	(597)	30,538
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
Corporate	-	-	-	706	(12)	694
Retail	695	(9)	686	-	-	-
	<u>1,340</u>	<u>(9)</u>	<u>1,331</u>	<u>827</u>	<u>(12)</u>	<u>815</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 Bank does not engage in cross-border lending.

**35. Financial risk management (continued)**

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

<b>31 December 2009</b>	<b>Banks</b>	<b>Sovereigns</b>	<b>Corporate</b>	<b>Retail</b>	<b>Securities</b>
Agriculture	-	-	62,049	5,184	-
Construction	-	-	155,689	14,335	-
Consumers	-	-	-	2,953,303	-
Energy and water supply	-	-	140,288	1,069	-
Financial services	168,646	-	271,547	498	176,379
Government	-	31,955	-	-	3,016,987
Manufacturing	-	-	431,113	22,478	-
Professional services	-	-	65,106	7,622	-
Real estate	-	-	381,226	2,745	-
Retail & Wholesale	-	-	605,089	52,682	9,446
Services	-	-	51,410	11,381	574
Transportation	-	-	223,112	8,915	-
Other	-	-	40,613	10,427	1,504
	<u>168,646</u>	<u>31,955</u>	<u>2,427,242</u>	<u>3,090,639</u>	<u>3,204,890</u>

<b>31 December 2008</b>	<b>Banks</b>	<b>Sovereigns</b>	<b>Corporate</b>	<b>Retail</b>	<b>Securities</b>
Agriculture	-	-	81,942	5,102	-
Construction	-	-	151,023	12,968	-
Consumers	-	-	-	2,641,108	-
Energy and water supply	-	-	85,947	656	-
Financial services	1,436,664	-	302,998	551	1,035,765
Government	-	17,794	9	-	2,208,772
Manufacturing	-	-	496,023	27,368	-
Professional services	-	-	45,242	6,092	-
Real estate	-	-	358,995	3,506	-
Retail & Wholesale	-	-	588,445	50,759	9,962
Services	-	-	56,882	11,623	-
Transportation	-	-	227,823	10,741	-
Other	-	-	68,329	10,360	1,385
	<u>1,436,664</u>	<u>17,794</u>	<u>2,463,658</u>	<u>2,780,834</u>	<u>3,255,884</u>

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated in 2009 is € 1,767 thousand for the corporate segment (2008: nil) and € 17,773 thousand for the retail segment (2008: nil). The renegotiated terms of these contracts do not have a negative impact on the profitability of the Bank compared to the original terms.

**35. 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 Bank'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		Outstanding	Provisions		Net	Outstanding	Provisions
<b>Banks</b>	168,646	-	168,646	151	(151)	-	-	-	-	-
<b>Sovereigns</b>										
State organizations	11,049	-	11,049	-	-	-	-	-	-	-
Municipalities	20,782	-	20,782	-	-	-	124	-	-	124
	31,831	-	31,831	-	-	-	124	-	-	124
<b>Corporate</b>										
Large Corporates	1,518,462	(15,539)	1,502,923	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 Financial Organisations	14,756	-	14,756	-	-	-	-	-	-	
Private Sector Entities	16,263	(195)	16,068	-	-	-	7	-	7	
Factoring	23,308	(1,005)	22,303	30	(12)	18	1,850	(6)	1,844	
	2,361,571	(33,547)	2,328,024	107,656	(45,029)	62,627	38,354	(1,763)	36,591	
<b>Retail</b>										
Small business	134,380	(5,334)	129,046	14,015	(8,670)	5,345	3,288	(414)	2,874	
Consumer Loans	493,699	(15,447)	478,252	55,998	(36,497)	19,501	50,806	(4,101)	46,705	
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	
Other	759	-	759	-	-	-	3	-	3	
	2,892,826	(49,628)	2,843,198	127,718	(69,193)	58,525	197,723	(8,807)	188,916	
<b>Securities</b>										
Trading	163,713	-	163,713	-	-	-	-	-	-	
AFS	994,930	-	994,930	-	-	-	-	-	-	
HTM	2,044,743	-	2,044,743	1,881	(377)	1,504	-	-	-	
	3,203,386	-	3,203,386	1,881	(377)	1,504	-	-	-	

**35. 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
<b>Banks</b>	1,427,327	(185)	1,427,142	151	(151)	-	9,992	(470)	9,522
<b>Sovereigns</b>									
State organizations	2,835	-	2,835	-	-	-	-	-	-
Municipalities	14,945	-	14,945	-	-	-	14	-	14
	<u>17,780</u>	<u>-</u>	<u>17,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>-</u>	<u>14</u>
<b>Corporate</b>									
Large Corporates	1,557,617	(22,888)	1,534,729	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 Financial Organisations	15,891	-	15,891	-	-	-	-	-	-
Private Sector Entities	16,515	(17)	16,498	-	-	-	10	-	10
Factoring	24,345	(432)	23,913	67	(33)	34	3,948	(71)	3,877
	<u>2,432,451</u>	<u>(35,161)</u>	<u>2,397,290</u>	<u>31,685</u>	<u>(22,767)</u>	<u>8,918</u>	<u>58,982</u>	<u>(1,532)</u>	<u>57,450</u>
<b>Retail</b>									
Small business	135,169	(4,724)	130,445	3,810	(3,024)	786	3,944	(456)	3,488
Consumer Loans	471,997	(20,716)	451,281	31,959	(17,938)	14,021	32,685	(2,441)	30,244
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
Other	2,802	(8)	2,794	1	-	1	4,327	(83)	4,244
	<u>2,666,527</u>	<u>(55,828)</u>	<u>2,610,699</u>	<u>51,284</u>	<u>(29,007)</u>	<u>22,277</u>	<u>156,443</u>	<u>(8,585)</u>	<u>147,858</u>
<b>Securities</b>									
Trading	791,204	-	791,204	-	-	-	-	-	-
AFS	265,048	-	265,048	-	-	-	-	-	-
HTM	2,198,247	-	2,198,247	1,881	(496)	1,385	-	-	-
	<u>3,254,499</u>	<u>-</u>	<u>3,254,499</u>	<u>1,881</u>	<u>(496)</u>	<u>1,385</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 35. 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 Bank'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 Bank 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 Bank 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 Bank'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 Bank 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 Bank 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 2009 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 Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on the Bank's position.

### 35. 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 basis point of the rate curve and + 200 basis 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  $\pm 100$  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 by 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 Bank'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 date.

##### Contractual

This category includes instruments, where the Bank 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 Bank's 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.

**35. 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 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
<b>Assets</b>						
Cash and balances with central banks	165,994	-	7,809	31,236	39,045	244,084
Loans and advances to banks	104,753	40,928	7,600	16,827	1,263	171,371
Derivative financial instruments	-	-	-	-	-	-
Available-for-sale financial assets	315,886	58,228	23,566	406,556	277,122	1,081,358
Loans and advances to customers	1,523,567	1,211,741	1,768,787	1,503,643	557,900	6,565,638
Held-to-maturity investments	171,915	172,154	583,602	834,291	651,340	2,413,302
Subsidiaries, associates and jointly controlled entities	-	-	10,156	40,624	50,779	101,559
	<u>2,282,115</u>	<u>1,483,051</u>	<u>2,401,520</u>	<u>2,833,177</u>	<u>1,577,449</u>	<u>10,577,312</u>
<b>Liabilities</b>						
Due to central and other banks	(367,383)	(59,229)	(187,759)	(5,612)	(726)	(620,709)
Derivative financial instruments	-	-	-	-	-	-
Due to customers	(3,127,783)	(395,739)	(985,426)	(1,362,420)	(821,010)	(6,692,378)
Debt securities in issue	(102,075)	(423,606)	(254,588)	(351,618)	(364,906)	(1,496,793)
	<u>(3,597,241)</u>	<u>(878,574)</u>	<u>(1,427,773)</u>	<u>(1,719,650)</u>	<u>(1,186,642)</u>	<u>(8,809,880)</u>
Net position of financial instruments	<u>(1,315,126)</u>	<u>604,477</u>	<u>973,747</u>	<u>1,113,527</u>	<u>390,807</u>	<u>1,767,432</u>

**35. 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
<b>Assets</b>						
Cash and balances with central banks	556,074	-	-	8,917	8,917	573,908
Loans and advances to banks	16,162	87,371	7,096	26,473	-	137,102
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	1,056,537	1,691,014	1,631,390	1,039,598	214,749	5,633,288
Held-to-maturity investments	54,822	57,723	983,570	624,788	814,634	2,535,537
Subsidiaries, associates and jointly controlled entities	-	-	10,973	43,894	54,867	109,734
	<u>1,696,887</u>	<u>1,836,393</u>	<u>2,909,698</u>	<u>1,832,117</u>	<u>1,093,167</u>	<u>9,368,262</u>
<b>Liabilities</b>						
Due to central and other banks	(86,614)	(204,709)	(7,179)	-	-	(298,502)
Derivative financial instruments	-	-	(66,516)	(28,611)	-	(95,127)
Due to customers	(4,022,974)	(664,848)	(1,378,468)	(821,073)	(718,599)	(7,605,962)
Debt securities in issue	(100,113)	(474,967)	(203,761)	(257,403)	(208,706)	(1,244,950)
	<u>(4,209,701)</u>	<u>(1,344,524)</u>	<u>(1,655,924)</u>	<u>(1,107,087)</u>	<u>(927,305)</u>	<u>(9,244,541)</u>
Net position of financial instruments	<u>(2,512,814)</u>	<u>491,869</u>	<u>1,253,774</u>	<u>725,030</u>	<u>165,862</u>	<u>123,721</u>

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

	2009 %	2008 %
<b>Assets</b>		
Cash and balances with central banks	1.39	1.44
Loans and advances to banks	2.91	3.79
Financial assets held for trading	5.07	4.18
Available-for-sale financial assets	2.83	3.92
Loans and advances to customers	5.64	7.00
Held-to-maturity investments	3.92	4.28
<b>Liabilities</b>		
Due to central and other banks	0.64	2.45
Due to customers	1.65	2.32
Debt securities in issue	3.46	4.56

**35. 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 Bank 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.

<b>31 December 2009</b>	<b>EUR</b>	<b>USD</b>	<b>CZK</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and balances with central banks	229,822	1,197	4,076	3,351	238,446
Loans and advances to banks	83,015	18,090	15,641	51,900	168,646
Financial assets held for trading	64,787	-	-	98,295	163,082
Derivative financial instruments	42,783	-	-	-	42,783
Available-for-sale financial assets	995,561	-	-	-	995,561
Loans and advances to customers	5,353,756	89,566	91,049	15,465	5,549,836
Held-to-maturity investments	2,046,247	-	-	-	2,046,247
Subsidiaries, associates and jointly controlled entities	101,559	-	-	-	101,559
	<u>8,917,530</u>	<u>108,853</u>	<u>110,766</u>	<u>169,011</u>	<u>9,306,160</u>
<b>Liabilities</b>					
Due to central and other banks	(454,148)	(55,049)	(28,160)	(22,340)	(559,697)
Derivative financial instruments	(52,471)	-	-	-	(52,471)
Due to customers	(6,407,871)	(115,324)	(54,195)	(35,937)	(6,613,327)
Debt securities in issue	(1,189,753)	(23,937)	(71,620)	-	(1,285,310)
	<u>(8,104,243)</u>	<u>(194,310)</u>	<u>(153,975)</u>	<u>(58,277)</u>	<u>(8,510,805)</u>
Net position	<u>813,287</u>	<u>(85,457)</u>	<u>(43,209)</u>	<u>110,734</u>	<u>795,355</u>
<b>31 December 2008</b>					
<b>Assets</b>					
Cash and balances with central banks	493,311	1,627	6,176	3,885	504,999
Loans and advances to banks	1,397,189	19,184	88	20,203	1,436,664
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	5,061,998	100,400	92,004	7,884	5,262,286
Held-to-maturity investments	2,199,632	-	-	-	2,199,632
Subsidiaries, associates and jointly controlled entities	109,734	-	-	-	109,734
	<u>10,378,723</u>	<u>121,564</u>	<u>98,269</u>	<u>31,972</u>	<u>10,630,528</u>
<b>Liabilities</b>					
Due to central and other banks	(621,834)	(44)	(9,470)	(6,354)	(637,702)
Derivative financial instruments	(52,471)	-	-	-	(52,471)
Due to customers	(7,900,313)	(138,049)	(60,605)	(32,217)	(8,131,184)
Debt securities in issue	(1,010,557)	(24,481)	(71,810)	-	(1,106,848)
	<u>(9,585,175)</u>	<u>(162,574)</u>	<u>(141,885)</u>	<u>(38,571)</u>	<u>(9,928,205)</u>
Net position	<u>793,548</u>	<u>(41,010)</u>	<u>(43,616)</u>	<u>(6,599)</u>	<u>702,323</u>

## 35. Financial risk management (continued)

### (c) Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank 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 Bank's liquidity risk is closely tied to the market liquidity conditions (market liquidity risk).

The Guidelines for Liquidity Risk Management adopted by the Bank 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 Bank 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 Bank's liquidity or system liquidity.

The Bank directly manages its own liquidity and coordinates its management at the Bank 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 Bank 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 Bank 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.

The Contingency Liquidity Plan, by setting itself the objectives of safeguarding the Bank'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.

### 35. Financial risk management (continued)

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 <= Regulatory Capital

Rule 2: Medium term assets + 0.5 \* Long Term Assets <= 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
<b>Assets</b>							
Cash and balances							
with central banks	244,085	-	-	-	-	-	244,085
Loans and advances to banks	94,844	29,142	16,111	62,710	47,647	82	250,536
Financial assets held for trading	42	30,059	63,803	73,733	893	-	168,530
Available-for-sale financial assets	4,413	48,653	21,774	451,222	581,159	-	1,107,221
Loans and advances to customers	274,549	601,782	1,019,458	2,391,158	3,519,998	39,877	7,846,822
Held-to-maturity investments	4,706	207,229	105,434	1,414,571	651,340	-	2,383,280
Subsidiaries, associates and jointly controlled entities	-	-	-	-	-	101,559	101,559
	622,639	916,865	1,226,580	4,393,394	4,801,037	141,518	12,102,033
<b>Liabilities</b>							
Due to central and other banks	(313,066)	(863)	(156,564)	(12,804)	(89,974)	-	(573,271)
Due to customers	(4,412,972)	(587,111)	(804,860)	(797,312)	(3)	(17,933)	(6,620,191)
Debt securities in issue	(162)	(85,530)	(111,605)	(748,719)	(591,717)	-	(1,537,733)
	(4,726,200)	(673,504)	(1,073,029)	(1,558,835)	(681,694)	(17,933)	(8,731,195)
Net position of financial instruments	(4,103,561)	243,361	153,551	2,834,559	4,119,343	123,585	3,370,838
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	(4,105,993)	244,647	149,126	2,836,433	4,117,142	123,585	3,364,940

**35. 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
<b>Assets</b>							
Cash and balances with central banks	571,733	-	-	-	-	-	571,733
Loans and advances to banks	1,349,479	611	5,900	67,909	32,049	237	1,456,185
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	309,682	469,377	1,093,248	2,197,014	3,135,783	42,123	7,247,227
Held-to-maturity investments	43,479	62,529	373,527	1,275,332	814,634	-	2,569,501
Subsidiaries, associates and jointly controlled entities	-	-	-	-	-	109,734	109,734
	<u>2,938,403</u>	<u>534,091</u>	<u>1,709,676</u>	<u>3,692,525</u>	<u>4,014,875</u>	<u>152,094</u>	<u>13,041,664</u>
<b>Liabilities</b>							
Due to central and other banks	(605,572)	(244)	(2,115)	(10,793)	(30,046)	-	(648,770)
Due to customers	(5,988,852)	(519,393)	(1,230,065)	(392,177)	(27,556)	-	(8,158,043)
Debt securities in issue	(1,301)	(41,713)	(96,803)	(588,788)	(472,801)	-	(1,201,406)
	<u>(6,595,725)</u>	<u>(561,350)</u>	<u>(1,328,983)</u>	<u>(991,758)</u>	<u>(530,403)</u>	<u>-</u>	<u>(10,008,219)</u>
Net position of financial instruments	<u>(3,657,322)</u>	<u>(27,259)</u>	<u>380,693</u>	<u>2,700,767</u>	<u>3,484,472</u>	<u>152,094</u>	<u>3,033,445</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>(3,652,586)</u>	<u>(20,696)</u>	<u>377,209</u>	<u>2,705,237</u>	<u>3,484,458</u>	<u>152,094</u>	<u>3,045,716</u>

**35. 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.

<b>31 December 2009</b>	<b>Less than 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
<b>Assets</b>			
Cash and balances with central banks	238,446	-	238,446
Loans and advances to banks	103,785	64,861	168,646
Financial assets held for trading	95,328	67,754	163,082
Derivative financial instruments	42,783	-	42,783
Available-for-sale financial assets	75,756	919,805	995,561
Loans and advances to customers	1,909,678	3,640,158	5,549,836
Held-to-maturity investments	297,715	1,748,532	2,046,247
Subsidiaries, associates and jointly controlled entities	-	101,559	101,559
Intangible assets	-	28,207	28,207
Property and equipment	-	157,992	157,992
Current income tax assets	6,722	-	6,722
Deferred income tax assets	-	39,511	39,511
Other assets	11,581	-	11,581
	<u>2,781,794</u>	<u>6,768,379</u>	<u>9,550,173</u>
<b>Liabilities</b>			
Due to central and other banks	(523,866)	(35,831)	(559,697)
Derivative financial instruments	(52,471)	-	(52,471)
Due to customers	(5,888,536)	(724,791)	(6,613,327)
Debt securities in issue	(174,350)	(1,110,960)	(1,285,310)
Provisions	-	(24,993)	(24,993)
Other liabilities	(48,344)	(2,241)	(50,585)
	<u>(6,687,567)</u>	<u>(1,898,816)</u>	<u>(8,586,383)</u>
	<u>(3,905,773)</u>	<u>4,869,563</u>	<u>963,790</u>

**35. Financial risk management (continued)**

<b>31 December 2008</b>	<b>Less than 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
<b>Assets</b>			
Cash and balances with central banks	504,999	-	504,999
Loans and advances to banks	1,376,697	59,967	1,436,664
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	1,880,631	3,381,655	5,262,286
Held-to-maturity investments	445,524	1,754,108	2,199,632
Subsidiaries, associates and jointly controlled entities	-	109,734	109,734
Intangible assets	-	27,402	27,402
Property and equipment	-	174,444	174,444
Current income tax assets	-	-	-
Deferred income tax assets	-	7,963	7,963
Other assets	11,809	-	11,809
	<u>5,175,885</u>	<u>5,677,966</u>	<u>10,853,851</u>
<b>Liabilities</b>			
Due to central and other banks	(625,167)	(12,535)	(637,702)
Derivative financial instruments	(52,471)	-	(52,471)
Due to customers	(7,852,478)	(278,706)	(8,131,184)
Debt securities in issue	(112,116)	(994,732)	(1,106,848)
Current income tax liabilities	(22,368)	-	(22,368)
Provisions	-	(30,070)	(30,070)
Other liabilities	(60,339)	(1,364)	(61,703)
	<u>(8,724,939)</u>	<u>(1,317,407)</u>	<u>(10,042,346)</u>
	<u>(3,549,054)</u>	<u>4,360,559</u>	<u>811,505</u>

## 35. Financial risk management (continued)

### (d) Operational risk

#### **Operational risk management strategies and processes**

The Bank, 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 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 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 Bank'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 Bank has had a centralized function within the Risk Management Division for the management of the Bank'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 VÚB 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 Bank'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 Bank, 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.

### 36. Segment reporting

Segment information is presented in respect of the Bank'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 Bank 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 Bank's funding, HTM Securities portfolio management, issues of debt securities as well as trading book operations. The Bank also has a central Governance Center that manages the Bank's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

**36. Segment reporting (continued)**

<b>31 December 2009</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Central Treasury</b>	<b>Other</b>	<b>Total</b>
External revenue					
Interest income	235,061	78,708	126,886	4,789	445,444
Interest expense	(75,606)	(10,994)	(49,095)	(342)	(136,037)
Inter-segment revenue	9,690	(17,892)	(15,832)	24,034	-
Net interest income	169,145	49,822	61,959	28,481	309,407
Net fee and commission income	53,714	16,167	775	(408)	70,248
Net trading income	4,368	3,972	2,830	(61)	11,109
Other operating income	4,321	-	3,659	29	8,009
Dividend income	-	-	-	21,145	21,145
<b>Total segment operating income</b>	231,548	69,961	69,223	49,186	419,918
Depreciation and amortization	(17,399)	(535)	(230)	(11,189)	(29,353)
Operating expenses					(160,782)
Operating profit before impairment					229,783
Impairment losses on financial assets	(32,944)	(27,275)	918	(8,295)	(67,596)
Income tax expense					(15,947)
<b>Net profit for the year</b>					146,240
Segment assets	3,147,591	2,466,433	3,452,792	483,357	9,550,173
Segment liabilities	4,273,491	1,841,470	2,415,325	1,019,887	9,550,173

**36. Segment reporting (continued)**

<b>31 December 2008</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Central Treasury</b>	<b>Other</b>	<b>Total</b>
External revenue					
Interest income	212,933	125,410	170,538	1,948	510,829
Interest expense	(110,506)	(50,454)	(60,438)	(306)	(221,704)
Inter-segment revenue	<u>76,087</u>	<u>(12,603)</u>	<u>(92,954)</u>	<u>29,470</u>	<u>-</u>
Net interest income	178,514	62,353	17,146	31,112	289,125
Net fee and commission income	60,408	16,814	1,488	279	78,989
Net trading income	14,872	18,414	8,130	163	41,579
Other operating income	344	281	(7)	4,873	5,491
Dividend income	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,946</u>	<u>2,946</u>
<b>Total segment operating income</b>	254,138	97,862	26,757	39,373	418,130
Depreciation and amortization	(21,199)	(1,291)	(232)	(11,316)	(34,038)
Operating expenses					<u>(169,708)</u>
Operating profit before impairment					214,384
Impairment losses on financial assets	(23,653)	(10,553)	(205)	(2,281)	(36,692)
Income tax expense					<u>(32,881)</u>
<b>Net profit for the year</b>					<u>144,811</u>
Segment assets	2,886,272	2,486,002	4,829,947	651,630	10,853,851
Segment liabilities	5,543,365	2,058,279	2,345,483	906,724	10,853,851

### 37. 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 Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank 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 Bank and enterprises that have a member of key management in common with the Bank.

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 € 3,315 thousand (2008: € 3,003 thousand).

**37. 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
<b>Assets</b>					
Loans and advances to banks	-	-	-	109,201	109,201
Loans and advances to customers	717	928	92,972	-	94,617
Derivative financial instruments	-	-	-	4,721	4,721
Available-for-sale financial assets	-	-	-	43,047	43,047
Other assets	-	-	374	-	374
	<u>717</u>	<u>928</u>	<u>93,346</u>	<u>156,969</u>	<u>251,960</u>
<b>Liabilities</b>					
Due to central and other banks	-	-	-	81,732	81,732
Due to customers	1,597	2	3,510	-	5,109
Derivative financial instruments	-	-	-	2,025	2,025
Debt securities in issue					
Bonds	-	-	6,630	-	6,630
Mortgage bonds	-	-	-	600,169	600,169
Other liabilities	-	-	3,048	-	3,048
	<u>1,597</u>	<u>2</u>	<u>13,188</u>	<u>683,926</u>	<u>698,713</u>
<b>Financial commitments and contingencies</b>					
	-	-	31,538	-	31,538
<b>Derivative transactions (notional amount - receivable)</b>					
	-	-	-	178,284	178,284
<b>Derivative transactions (notional amount - payable)</b>					
	-	-	-	160,000	160,000
<b>Income and expense items</b>					
Interest and similar income	30	43	1,685	8,050	9,808
Interest expense and similar charges	(48)	-	(214)	(14,814)	(15,076)
Fee and commission income	-	-	2,218	-	2,218
Fee and commission expense	-	-	(27,038)	-	(27,038)
Net trading income	-	-	-	2,974	2,974
Operating income	-	-	820	260	1,080
Operating expenses	-	-	(9)	-	(9)
	<u>(18)</u>	<u>43</u>	<u>(22,538)</u>	<u>(3,530)</u>	<u>(26,043)</u>

\* Key management personnel

**37. 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
<b>Assets</b>					
Loans and advances to banks	-	-	-	66,481	66,481
Loans and advances to customers	272	-	77,198	-	77,470
Derivative financial instruments	-	-	-	4,405	4,405
Available-for-sale financial assets	-	-	-	60,863	60,863
Other assets	-	-	397	-	397
	<u>272</u>	<u>-</u>	<u>77,595</u>	<u>131,749</u>	<u>209,616</u>
<b>Liabilities</b>					
Due to central and other banks	-	-	-	53,482	53,482
Derivative financial instruments	-	-	-	121	121
Due to customers	2,155	-	7,107	-	9,262
Debt securities in issue					
Bonds	-	-	3,196	-	3,196
Mortgage bonds	-	-	-	345,850	345,850
Other liabilities	-	-	2,630	-	2,630
	<u>2,155</u>	<u>-</u>	<u>12,933</u>	<u>399,453</u>	<u>414,541</u>
<b>Financial commitments and contingencies</b>	<u>-</u>	<u>-</u>	<u>27,489</u>	<u>-</u>	<u>27,489</u>
<b>Derivative transactions (notional amount - receivable)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,888</u>	<u>124,888</u>
<b>Derivative transactions (notional amount - payable)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,529</u>	<u>168,529</u>
<b>Income and expense items</b>					
Interest and similar income	15	56	3,468	6,735	10,274
Interest expense and similar charges	(21)	-	(376)	(15,955)	(16,352)
Fee and commission income	-	-	7,500	11	7,511
Fee and commission expense	-	-	(25,238)	(28)	(25,266)
Net trading income	-	-	-	3,541	3,541
Operating income	-	-	581	250	831
Operating expenses	-	-	-	(139)	(139)
	<u>(6)</u>	<u>56</u>	<u>(14,065)</u>	<u>(5,585)</u>	<u>(19,600)</u>

**38. Profit distribution**

On 7 April 2009, the Bank's shareholders approved the following profit distribution for 2008.

Dividends to shareholders	-
Retained earnings	<u>144,811</u>
	<u>144,811</u>

The Board of Directors will propose the following 2009 profit distribution:

Dividends to shareholders (4.50 € per share)	58,394
Retained earnings	<u>87,846</u>
	<u>146,240</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.