



**Interim consolidated financial statements
for 6 months ended 30 June 2009**

Prepared in accordance with International Accounting Standard
IAS 34 Interim Financial Reporting

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Consolidated statement of financial position at 30 June 2009

(In thousands of euro)

	Notes	June 2009	Dec 2008
Assets			
Cash and balances with central banks	4	158,022	505,030
Loans and advances to banks	5	120,925	1,437,286
Financial assets held for trading	6	106,653	791,204
Derivative financial instruments	7	43,878	60,961
Available-for-sale financial assets	8	1,147,140	265,048
Non-current assets held for sale	15	-	1,705
Loans and advances to customers	9	5,758,479	5,667,718
Held-to-maturity investments	11	1,905,272	2,199,632
Investments in associates and jointly controlled entities	12	5,527	5,163
Intangible assets	13	48,036	56,419
Goodwill	14	29,305	29,355
Property and equipment	15	171,803	182,305
Deferred income tax assets	20	24,579	8,474
Other assets	16	32,512	22,032
		<u>9,552,131</u>	<u>11,232,332</u>
Liabilities			
Deposits from central and other banks	17	528,088	915,729
Derivative financial instruments	7	47,801	52,471
Deposits from customers	18	6,735,031	8,129,757
Debt securities in issue	19	1,211,645	1,137,999
Current income tax liabilities	20	27,120	26,690
Provisions	21	22,275	30,165
Other liabilities	22	81,942	100,796
		<u>8,653,902</u>	<u>10,393,607</u>
Equity			
Share capital	23	430,819	430,794
Share premium	23	13,368	13,368
Reserves		86,481	86,538
Retained earnings		367,561	308,025
		<u>898,229</u>	<u>838,725</u>
		<u>9,552,131</u>	<u>11,232,332</u>
Financial commitments and contingencies	24	<u>2,291,503</u>	<u>2,293,436</u>

The accompanying notes on pages 7 to 52 form an integral part of these financial statements.

These financial statements were authorized for issue on 18 August 2009.



Ignacio Jaquotot
Chairman of the Board of Directors



Domenico Cristarella
Member of the Board of Directors

Consolidated statement of comprehensive income for 6 months ended 30 June 2009

(In thousands of euro)

	Notes	June 2009	June 2008
Interest and similar income		264,288	276,705
Interest expense and similar charges		(82,037)	(113,922)
Net interest income	25	182,251	162,783
Fee and commission income		60,208	67,516
Fee and commission expense		(13,312)	(13,842)
Net fee and commission income	26	46,896	53,674
Net trading income	27	3,405	17,327
Other operating income	28	9,345	7,801
Dividend income		1	-
Operating income		241,898	241,585
Salaries and employee benefits	29	(47,101)	(45,675)
Other operating expenses	30	(39,564)	(45,907)
Amortization	13	(10,225)	(10,788)
Depreciation	15	(10,906)	(10,854)
Operating expenses		(107,796)	(113,224)
Operating profit before impairment losses		134,102	128,361
Impairment losses on financial assets	31	(58,529)	(18,821)
Profit from operations		75,573	109,540
Share of profit of associates and jointly controlled entities		387	100
Profit before tax		75,960	109,640
Income tax expense	32	(14,502)	(26,190)
NET PROFIT FOR 6 MONTHS		61,458	83,450
Other comprehensive income for 6 months, after tax:			
Exchange difference on translating foreign operation		473	(33)
Available-for-sale financial assets		(2,416)	(398)
Cash flow hedges		(5)	299
Other comprehensive income for 6 months, net of tax		(1,948)	(132)
TOTAL COMPREHENSIVE INCOME FOR 6 MONTHS		59,510	83,318
Basic and diluted earnings per € 33.2 (Sk 1,000) share in €	23	4.74	6.43

The accompanying notes on pages 7 to 52 form an integral part of these financial statements.

Consolidated statement of changes in equity for 6 months ended 30 June 2009
(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2008	430,794	13,368	87,518	199,825	(135)	(818)	(56)	730,496
Total comprehensive income for 6 months	-	-	-	83,450	(33)	(398)	299	83,318
Dividends to shareholders	-	-	-	(58,089)	-	-	-	(58,089)
Legal reserve fund	-	-	2,132	(2,132)	-	-	-	-
At 30 June 2008	<u>430,794</u>	<u>13,368</u>	<u>89,650</u>	<u>223,054</u>	<u>(168)</u>	<u>(1,216)</u>	<u>243</u>	<u>755,725</u>
At 1 January 2009	430,794	13,368	89,650	308,025	(1,741)	(542)	(829)	838,725
Transition to euro	25	-	(25)	-	-	-	-	-
Total comprehensive income for 6 months	-	-	-	61,458	473	(2,416)	(5)	59,510
Legal reserve fund	-	-	1,916	(1,916)	-	-	-	-
Other	-	-	-	(6)	-	-	-	(6)
At 30 June 2009	<u>430,819</u>	<u>13,368</u>	<u>91,541</u>	<u>367,561</u>	<u>(1,268)</u>	<u>(2,958)</u>	<u>(834)</u>	<u>898,229</u>

The accompanying notes on pages 7 to 52 form an integral part of these financial statements.

Consolidated statement of cash flows for 6 months ended 30 June 2009
(In thousands of euro)

	Notes	June 2009	June 2008
Cash flows from operating activities			
<i>Profit before changes in operating assets and liabilities</i>	33	125,965	172,044
Loans and advances to banks		(2,952)	(5,842)
Financial assets held for trading		20,967	(23,767)
Derivative financial instruments (assets)		17,077	(25,659)
Available-for-sale financial assets		(873,636)	12,315
Loans and advances to customers		(151,132)	(767,576)
Other assets		(10,665)	(6,340)
Deposits from central banks		10,206	35,318
Deposits from other banks		(396,980)	(189,936)
Derivative financial instruments (liabilities)		(4,670)	49,990
Deposits from customers		(1,409,868)	311,260
Other liabilities		(18,078)	(47,866)
<i>Net cash used in operating activities</i>		<u>(2,693,766)</u>	<u>(486,059)</u>
Cash flows from investing activities			
Repayments of held-to-maturity investments		266,187	597,690
Purchase of intangible assets and property and equipment		(4,267)	(6,142)
Disposal of property and equipment		3,812	8,996
Acquisition of consolidated companies		-	(3,651)
<i>Net cash from investing activities</i>		<u>265,732</u>	<u>596,893</u>
Cash flows from financing activities			
Proceeds from issue of debt securities		195,750	190,633
Repayments of debt securities		(96,992)	(44,679)
Dividends paid		-	(57,857)
<i>Net cash from financing activities</i>		<u>98,758</u>	<u>88,097</u>
Net change in cash and cash equivalents		(2,329,276)	198,931
Cash and cash equivalents at beginning of the year	3	<u>2,518,059</u>	<u>1,568,911</u>
Cash and cash equivalents at 30 June	3	<u>188,783</u>	<u>1,767,842</u>

The accompanying notes on pages 7 to 52 form an integral part of these financial statements.

1. General information

1.1 The Bank

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

At 30 June 2009, the Bank had a network of 258 points of sale (including Retail Branches, Corporate Branches and Mortgage centers) located throughout Slovakia (December 2008: 259). The Bank also has one branch in the Czech Republic.

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

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

1.2 The VUB Group

The consolidated financial statements for 6 months ended 30 June 2009 comprise the Bank and its subsidiaries (together referred to as 'the VUB Group' or 'the Group') and the Group's interest in associates and jointly controlled entities as follows:

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

All entities are incorporated in the Slovak Republic.

At 30 June 2009, the VUB Group had a total network of 270 points of sale (31 December 2008: 268).

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The interim consolidated financial statements of the VUB Group ('the financial statements') have been prepared in accordance with International Accounting Standard *IAS 34 Interim Financial Reporting*.

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.

2. Summary of significant accounting policies (continued)

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

Negative values are presented in brackets.

2.2 Changes in accounting policies

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

The accounting policies adopted are consistent with those of the previous financial year.

2.3 Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Jointly controlled entities

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

2.4 Segment reporting

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

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

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

2. Summary of significant accounting policies (continued)

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

2.5 Foreign currency transactions

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

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

2.6 Foreign operations

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

2.7 Cash and balances with central banks

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

2.8 Treasury bills and other eligible bills

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

2.9 Loans and advances to banks

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

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

2.10 Debt securities

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

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

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

2. Summary of significant accounting policies (continued)

(a) Securities held for trading

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

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

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

(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.

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

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

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 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 profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in equity.

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

(c) Held-to-maturity investments

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

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

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

2. Summary of significant accounting policies (continued)

2.11 Repurchase and reverse repurchase agreements

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

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

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

2.12 Derivative financial instruments

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

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

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

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

Credit risk of financial derivatives

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

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

Embedded derivatives

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

2. Summary of significant accounting policies (continued)

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

Hedging derivatives

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

2.13 Offsetting financial instruments

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

2. Summary of significant accounting policies (continued)

2.14 Non-current assets held for sale

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

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

2.15 Loans and advances to customers and impairment losses

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

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

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

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

2.16 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
Other intangible assets	5

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

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

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

2.17 Goodwill

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

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

2. Summary of significant accounting policies (continued)

2.18 Property and equipment

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

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

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

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

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

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

2.19 Leasing

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

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

VUB Group as a lessee

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

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

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

VUB Group as a lessor

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

2. Summary of significant accounting policies (continued)

2.20 Provisions

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

2.21 Financial guarantees

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

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

2.22 Legal reserve fund

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

2.23 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.

2.24 Fee and commission income

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

2.25 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 VUB Group operates.

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

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

2. Summary of significant accounting policies (continued)

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 VUB Group.

2.29 Significant accounting judgements and estimates

Judgements

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

Held-to-maturity investments

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

Financial assets held for trading

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

Estimates

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

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

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

3. Cash and cash equivalents

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

	Notes	June 2009	Dec 2008
Cash and balances with central banks	4	158,022	505,030
Current accounts in other banks	5	22,865	54,820
Treasury bills and other eligible bills	6	-	662,970
Term deposits with central and other banks	5	7,896	665,363
Loans and advances to central and other banks	5	-	629,876
		<u>188,783</u>	<u>2,518,059</u>

4. Cash and balances with central banks

	June 2009	Dec 2008
Balances with central banks:		
Compulsory minimum reserves	52,133	96,573
Current accounts	177	66,442
	<u>52,310</u>	<u>163,015</u>
Cash in hand	105,712	342,015
	<u>158,022</u>	<u>505,030</u>

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

5. Loans and advances to banks

	June 2009	Dec 2008
Current accounts in other banks (note 3)	22,865	54,820
Loans and advances to:		
Central banks (note 3)	-	629,876
Other banks	91,136	88,033
Term deposits with:		
Central banks (note 3)	-	637,947
Other banks (note 3)	7,896	27,416
Impairment losses (note 10)	(972)	(806)
	<u>120,925</u>	<u>1,437,286</u>

6. Financial assets held for trading

	June 2009	Dec 2008
Treasury bills and other eligible bills		
with contractual maturity less than 90 days (note 3)	-	662,970
with contractual maturity over 90 days	48,297	64,915
State bonds		
with contractual maturity over 90 days	51,968	58,971
Bank bonds	4	-
Corporate bonds	4,669	4,348
Mutual funds	1,715	-
	<u>106,653</u>	<u>791,204</u>

All securities held for trading are listed. At 30 June 2009 and 31 December 2008, the VUB Group did not pledge any bonds to secure transactions with counterparties.

7. Derivative financial instruments

	June 2009 Assets	Dec 2008 Assets	June 2009 Liabilities	Dec 2008 Liabilities
Trading derivatives	41,819	60,961	46,341	51,447
Cash flow hedges of interest rate risk	320	-	1,350	1,024
Fair value hedges of interest rate risk	1,739	-	110	-
	<u>43,878</u>	<u>60,961</u>	<u>47,801</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 June 2009, the total positive fair value of such derivatives was € 4,065 thousand (31 December 2008: € 2,563 thousand) and the negative fair value was € 1,310 thousand (31 December 2008: € 2,039 thousand).

7. Derivative financial instruments (continued)

	June 2009 Assets	Dec 2008 Assets	June 2009 Liabilities	Dec 2008 Liabilities
Trading derivatives – Fair values				
Interest rate instruments				
Swaps	25,048	22,180	33,327	22,084
Forward rate agreements	-	74	-	380
Options	1,311	1,028	1,336	1,050
	<u>26,359</u>	<u>23,282</u>	<u>34,663</u>	<u>23,514</u>
Foreign currency instruments				
Forwards and swaps	4,217	27,895	4,323	20,139
Cross currency swaps	4,065	2,563	-	442
Options	7,012	6,917	7,189	7,048
	<u>15,294</u>	<u>37,375</u>	<u>11,512</u>	<u>27,629</u>
Equity and commodity instruments				
Equity options	17	126	17	126
Commodity options	149	178	149	178
	<u>166</u>	<u>304</u>	<u>166</u>	<u>304</u>
	<u>41,819</u>	<u>60,961</u>	<u>46,341</u>	<u>51,447</u>
	June 2009 Assets	Dec 2008 Assets	June 2009 Liabilities	Dec 2008 Liabilities
Trading derivatives – Notional values				
Interest rate instruments				
Swaps	1,124,787	840,193	1,124,787	840,193
Forward rate agreements	-	297,791	-	297,791
Options	19,989	18,055	19,989	18,055
Futures	100,000	-	100,000	-
	<u>1,244,776</u>	<u>1,156,039</u>	<u>1,244,776</u>	<u>1,156,039</u>
Foreign currency instruments				
Forwards and swaps	381,961	1,091,328	382,745	1,083,600
Cross currency swaps	69,546	67,576	65,433	65,433
Options	54,751	29,392	33,626	29,392
	<u>506,258</u>	<u>1,188,296</u>	<u>481,804</u>	<u>1,178,425</u>
Equity and commodity instruments				
Equity options	30,046	30,910	29,617	30,910
Commodity options	3,495	4,331	3,495	4,331
	<u>33,541</u>	<u>35,241</u>	<u>33,112</u>	<u>35,241</u>
	<u>1,784,575</u>	<u>2,379,576</u>	<u>1,759,692</u>	<u>2,369,705</u>

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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

Fair value hedges of interest rate risk

The VUB Group uses four interest rate swaps to hedge interest rate risk of four 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.

8. Available-for-sale financial assets

	Share June 2009	Share Dec 2008	June 2009	Dec 2008
State bonds			825,812	41,038
Treasury bills and other eligible bills			234,095	128,861
Bank bonds			86,602	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
			631	984
			1,147,140	265,048

At 30 June 2009 and 31 December 2008, the VUB Group did not pledge any bonds to secure transactions with counterparties.

9. Loans and advances to customers

30 June 2009	Amortized cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
State organizations/Municipalities	28,276	-	28,276
State organizations/Municipalities – Leasing	4,406	(252)	4,154
	<u>32,682</u>	<u>(252)</u>	<u>32,430</u>
Corporate			
Other Financial Institutions	208,240	(287)	207,953
Large Corporates – Amortizing assets	1,026,730	(26,148)	1,000,582
Large Corporates – Revolving facilities	260,884	(5,516)	255,368
SME – Amortizing assets	613,719	(5,632)	608,087
SME – Revolving facilities	285,020	(7,974)	277,046
Non-profit organizations	1,105	(13)	1,092
Leasing	183,458	(10,644)	172,814
Factoring	32,467	(508)	31,959
	<u>2,611,623</u>	<u>(56,722)</u>	<u>2,554,901</u>
Retail			
Small business – Amortizing assets	134,012	(18,611)	115,401
Small business – Revolving facilities	61,559	(12,852)	48,707
Small business – Leasing	13,250	(758)	12,492
Private individuals – Consumer Loans	799,763	(88,358)	711,405
Private individuals – Credit Cards	231,685	(25,913)	205,772
Private individuals – Overdrafts	90,463	(7,851)	82,612
Private individuals – Mortgages	1,990,877	(26,088)	1,964,789
Private individuals – Leasing	20,005	(1,151)	18,854
Other	11,519	(403)	11,116
	<u>3,353,133</u>	<u>(181,985)</u>	<u>3,171,148</u>
	<u>5,997,438</u>	<u>(238,959)</u>	<u>5,758,479</u>

9. Loans and advances to customers (continued)

31 December 2008	Amortized cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
State organizations/Municipalities	32,518	-	32,518
Corporate			
Other Financial Institutions	233,442	(326)	233,116
Large Corporates – Amortizing assets	1,033,132	(28,885)	1,004,247
Large Corporates – Revolving facilities	273,758	(6,240)	267,518
SME – Amortizing assets	575,577	(6,527)	569,050
SME – Revolving facilities	267,269	(6,817)	260,452
Non-profit organizations	5,238	(63)	5,175
Leasing	218,896	(5,308)	213,588
Factoring	71,561	(945)	70,616
	<u>2,678,873</u>	<u>(55,111)</u>	<u>2,623,762</u>
Retail			
Small business – Amortizing assets	118,001	(10,815)	107,186
Small business – Revolving facilities	44,370	(7,472)	36,898
Small business – Leasing	14,226	(351)	13,875
Private individuals – Consumer Loans	765,473	(64,530)	700,943
Private individuals – Credit Cards	198,746	(16,138)	182,608
Private individuals – Overdrafts	80,754	(5,533)	75,221
Private individuals – Mortgages	1,908,177	(22,316)	1,885,861
Private individuals – Leasing	4,796	(114)	4,682
Other	4,566	(402)	4,164
	<u>3,139,109</u>	<u>(127,671)</u>	<u>3,011,438</u>
	<u>5,850,500</u>	<u>(182,782)</u>	<u>5,667,718</u>

Maturities of gross finance lease receivables are as follows:

	June 2009	Dec 2008
Up to 1 year	92,956	107,670
1 to 5 years	128,483	144,619
Over 5 years	33,560	26,490
	<u>254,999</u>	<u>278,779</u>
Unearned future finance income on finance leases	(33,880)	(40,861)
Impairment losses	(12,805)	(5,773)
	<u>208,314</u>	<u>232,145</u>

Maturities of net finance lease receivables are as follows:

	June 2009	Dec 2008
Up to 1 year	74,526	90,576
1 to 5 years	105,600	119,759
Over 5 years	28,188	21,810
	<u>208,314</u>	<u>232,145</u>

10. Impairment losses

	Notes	1 Jan 2009	Creation/ (Reversal) (note 31)	FX gains	Other	30 June 2009
Loans and advances to banks	5	806	166	-	-	972
Loans and advances to customers	9	182,782	55,935	242	-	238,959
Held-to-maturity investments	11	496	(57)	-	-	439
Intangible assets	13	197	-	-	(197)	-
Property and equipment	15	43	-	-	-	43
Other assets	16	4,678	318	(94)	-	4,902
		<u>189,002</u>	<u>56,362</u>	<u>148</u>	<u>(197)</u>	<u>245,315</u>

11. Held-to-maturity investments

	June 2009	Dec 2008
State restructuring bonds	624,584	625,181
State bonds	1,040,195	1,289,477
Bank bonds and other bonds issued by financial sector	204,032	237,632
Corporate notes and bonds	36,900	47,838
	<u>1,905,711</u>	<u>2,200,128</u>
Impairment losses (note 10)	(439)	(496)
	<u>1,905,272</u>	<u>2,199,632</u>

The VUB Group pledged state bonds in total nominal value of € 367,255 thousand (31 December 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 30 June 2009 and at 31 December 2008, the Group 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. Investments in associates and jointly controlled entities

	Share in %	Cost	Revaluation	Carrying amount
At 30 June 2009				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	23	26
VÚB Generali DSS, a.s.	50.0	<u>16,597</u>	<u>(11,096)</u>	<u>5,501</u>
		<u>16,600</u>	<u>(11,073)</u>	<u>5,527</u>
At 31 December 2008				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	23	26
VÚB Generali DSS, a.s.	50.0	<u>16,597</u>	<u>(11,460)</u>	<u>5,137</u>
		<u>16,600</u>	<u>(11,437)</u>	<u>5,163</u>

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

	June 2009	June 2008
Revaluation at 1 January	(11,437)	(11,783)
Share of profit	387	100
Share of revaluation reserves	(23)	-
Revaluation at 30 June	<u>(11,073)</u>	<u>(11,683)</u>

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

	June 2009	Dec 2008
Assets	5,766	5,452
Liabilities	265	315
Equity	5,501	5,137
Net profit for the period	386	341
Change of revaluation reserves for the period	(23)	-

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

	June 2009	Dec 2008
Assets	128	129
Liabilities	102	103
Equity	26	26
Net profit for the period	1	5

13. Intangible assets

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2009	149,185	54,321	5,482	208,988
Additions	21	-	1,824	1,845
Disposals	(891)	(56)	(3)	(950)
Transfers	6,368	386	(6,754)	-
FX differences	13	-	-	13
At 30 June 2009	<u>154,696</u>	<u>54,651</u>	<u>549</u>	<u>209,896</u>
Accumulated amortization				
At 1 January 2009	(126,843)	(25,529)	(197)	(152,569)
Amortization for the period	(6,743)	(3,679)	197 *	(10,225)
Disposals	891	56	-	947
FX differences	(13)	-	-	(13)
At 30 June 2009	<u>(132,708)</u>	<u>(29,152)</u>	<u>-</u>	<u>(161,860)</u>
Carrying amount				
At 1 January 2009	<u>22,342</u>	<u>28,792</u>	<u>5,285</u>	<u>56,419</u>
At 30 June 2009	<u>21,988</u>	<u>25,499</u>	<u>549</u>	<u>48,036</u>

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

14. Goodwill

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

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

The goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. In terms of IFRS 3, both VUB Leasing, a. s. and CFH are considered to be one cash generating unit.

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

14. Goodwill (continued)

The following rates are used by the Group:

	VUB Leasing		CFH	
	June 2009	Dec 2008	June 2009	Dec 2008
Discount rate	12.42%	12.31%	16.92%	22.81%
Projected growth rate	4.50%	4.50%	2.00%	1.50%

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

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

Interest margins

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

Discount rates

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

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

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2009	210,753	96,416	43,298	8,314	358,781
Additions	14	19	2	2,404	2,439
Disposals	(2,960)	(1,811)	(2,220)	(68)	(7,059)
Transfers	1,618	5,706	1,447	(8,771)	-
FX differences	4	13	3	-	20
At 30 June 2009	<u>209,429</u>	<u>100,343</u>	<u>42,530</u>	<u>1,879</u>	<u>354,181</u>
Accumulated depreciation					
At 1 January 2009	(69,909)	(78,531)	(27,993)	-	(176,433)
Depreciation for the period	(4,929)	(3,563)	(2,414)	-	(10,906)
Disposals	1,001	1,779	2,242	-	5,022
FX differences	(3)	(13)	(2)	-	(18)
At 30 June 2009	<u>(73,840)</u>	<u>(80,328)</u>	<u>(28,167)</u>	<u>-</u>	<u>(182,335)</u>
Impairment losses (note 10)					
At 1 January 2009	(43)	-	-	-	(43)
At 30 June 2009	(43)	-	-	-	(43)
Carrying amount					
At 1 January 2009	<u>140,801</u>	<u>17,885</u>	<u>15,305</u>	<u>8,314</u>	<u>182,305</u>
At 30 June 2009	<u>135,546</u>	<u>20,015</u>	<u>14,363</u>	<u>1,879</u>	<u>171,803</u>

At 30 June 2009 and 31 December 2008, the VUB Group held in its portfolio of non-current assets held for sale buildings as follows:

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

16. Other assets

	June 2009	Dec 2008
Operating receivables and advances	22,438	14,172
Inventories	7,601	3,276
Prepayments and accrued income	3,734	4,980
Other tax receivables	2,348	2,976
Settlement of operations with financial instruments	617	274
Other	676	1,032
	<u>37,414</u>	<u>26,710</u>
Impairment losses (note 10)	(4,902)	(4,678)
	<u>32,512</u>	<u>22,032</u>

17. Deposits from central and other banks

	June 2009	Dec 2008
Deposits from central banks		
Current accounts	64,077	53,821
Loans received	-	50
	<u>64,077</u>	<u>53,871</u>
Deposits from other banks		
Current accounts	26,442	176,720
Term deposits	163,669	386,109
Loans received	273,900	299,029
	<u>464,011</u>	<u>861,858</u>
	<u>528,088</u>	<u>915,729</u>

18. Deposits from customers

	June 2009	Dec 2008
Current accounts	2,302,783	2,608,509
Term deposits	3,354,624	3,455,388
Savings accounts	322,395	339,037
Government and municipal deposits	678,527	1,510,725
Loans received	12,116	18,757
Promissory notes	24,304	157,514
Other deposits	40,282	39,827
	<u>6,735,031</u>	<u>8,129,757</u>

19. Debt securities in issue

	June 2009	Dec 2008
Bonds	69,508	97,617
Mortgage bonds	1,142,137	1,040,382
	<u>1,211,645</u>	<u>1,137,999</u>

19. Debt securities in issue (continued)

	Currency	Nominal amount (CCY '000)	Nominal amount (€ '000)
Mortgage bonds issued in 2009			
Mortgage bonds VÚB, a.s. 42	EUR	10,750	10,750
Mortgage bonds VÚB, a.s. 44	EUR	15,000	15,000
Mortgage bonds VÚB, a.s. 46	EUR	150,000	150,000
Mortgage bonds VÚB, a.s. 48	EUR	20,000	20,000
Mortgage bonds matured in 2009			
	EUR	96,992	96,992
Mortgage bonds issued in 2008			
Mortgage bonds VÚB, a.s. 34	SKK	900,000	29,875
Mortgage bonds VÚB, a.s. 35	SKK	630,000	20,912
Mortgage bonds VÚB, a.s. 36	SKK	560,000	18,589
Mortgage bonds VÚB, a.s. 37	EUR	40,000	40,000
Mortgage bonds VÚB, a.s. 38	SKK	317,000	10,522
Mortgage bonds VÚB, a.s. 39	EUR	60,000	60,000
Mortgage bonds VÚB, a.s. 40	EUR	70,000	70,000
Mortgage bonds VÚB, a.s. 41	USD	34,000	24,132
Mortgage bonds VÚB, a.s. 43	SKK	500,000	16,597
Mortgage bonds VÚB, a.s. 45	SKK	161,000	5,344
Mortgage bonds matured in 2008			
	EUR	50,481	50,481

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

20. Current and deferred income taxes

	June 2009	Dec 2008
Deferred income tax asset	24,579	8,474
Current income tax liabilities	27,120	26,690

21. Provisions

	June 2009	Dec 2008
Litigations	22,275	30,165

The movement in provisions was as follows:

	1 Jan 2009	Creation/ (Reversal)	30 June 2009
Litigations (note 24, note 30)	30,165	(7,890)	22,275

22. Other liabilities

	June 2009	Dec 2008
Various creditors	22,528	28,544
Settlement with employees	17,769	21,675
Payables for the non-controlling interest – VÚB Leasing	13,515	14,122
Financial guarantees and commitments	11,527	11,755
Payables from the acquisition of subsidiaries – VÚB Leasing	4,303	4,243
Factoring	3,686	6,850
Accruals and deferred income	2,902	5,474
VAT payables and other tax payables	1,853	4,041
Settlements with shareholders	1,438	1,474
Severance	469	608
Retention program	441	865
Settlements with securities	6	195
Other	1,505	950
	<u>81,942</u>	<u>100,796</u>

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

	Notes	1 Jan 2009	Creation/ (Reversal)	30 June 2009
Financial guarantees and commitments	31	11,755	(228)	11,527
Retention program	29	865	(424)	441
Severance	29	608	(139)	469
		<u>13,228</u>	<u>(791)</u>	<u>12,437</u>

23. Share capital

	June 2009	June 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 6 months attributable to shareholders	61,458	83,450
Divided by 12,976,478 (12,978,108) ordinary shares of € 33.2 (Sk 1,000) each		
Basic and diluted earnings per € 33.2 (Sk 1,000) share in €	<u>4.74</u>	<u>6.43</u>

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

23. Share capital (continued)

The structure of shareholders is as follows:

	June 2009	Dec 2008
Intesa Holding International S.A.	96.76%	96.49%
Domestic shareholders	2.96%	2.95%
Foreign shareholders	0.28%	0.56%
	<u>100.00%</u>	<u>100.00%</u>

The VUB Group's regulatory capital position at 30 June 2009 and 31 December 2008 was as follows:

	June 2009	Dec 2008
Tier 1 capital		
Share capital	430,819	430,794
Share premium	13,368	13,368
Translation of foreign operation	(1,268)	(1,741)
Retained earnings without net profit for the period	306,103	139,536
Legal reserve fund	91,541	89,650
Less goodwill and software (incl. software in Assets in progress)	(47,946)	(56,887)
	<u>792,617</u>	<u>614,720</u>
Tier 2 capital	-	-
Regulatory adjustment		
Investments in associates and jointly controlled entities	(5,527)	(5,163)
	<u>(5,527)</u>	<u>(5,163)</u>
Total regulatory capital	<u>787,090</u>	<u>609,557</u>

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

The Group must maintain a capital adequacy ratio of at least 8% according to NBS regulations. The capital adequacy ratio is the ratio between the Group's capital and the risk-weighted assets. Risk-weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The Group complied with the NBS requirement for the capital adequacy ratio as at 30 June 2009 and 31 December 2008.

24. Financial commitments and contingencies

	June 2009	Dec 2008
Issued guarantees	471,349	414,986
Commitments and undrawn credit facilities	1,820,154	1,878,450
	<u>2,291,503</u>	<u>2,293,436</u>

(a) Issued guarantees

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

24. Financial commitments and contingencies (continued)

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

In the normal course of business, the VUB Group enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 30 June 2009 and 31 December 2008 was as follows:

	June 2009	Dec 2008
Up to 1 year	2,503	1,936
1 to 5 years	3,185	3,797
Over 5 years	-	-
	<u>5,688</u>	<u>5,733</u>

(d) Operating lease – the Group as a lessor

The Group has entered into a number of non-cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 30 June 2009 and 31 December 2008 are as follows:

	June 2009	Dec 2008
Up to 1 year	1,385	1,660
1 to 5 years	1,705	1,527
Over 5 years	-	-
	<u>3,090</u>	<u>3,187</u>

(e) Legal

In the ordinary course of business the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 30 June 2009. Pursuant to this review, Management has recorded as of 30 June 2009 total provisions of € 22,275 thousand (31 December 2008: € 30,165 thousand) in respect of such legal proceedings (see also note 21). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 18,687 thousand, as at 30 June 2009 (31 December 2008: € 15,523 thousand). This amount represents existing legal proceedings against the VUB Group that according to the opinion of the Legal Department of the Bank will most probably not result in any payments due by the VUB Group.

25. Net interest income

	June 2009	June 2008
Interest and similar income		
Loans and advances to banks	6,487	18,058
Loans and advances to customers	194,371	188,973
Bonds, treasury bills and other securities:		
Financial assets held for trading	5,548	13,776
Available-for-sale financial assets	14,678	1,792
Held-to-maturity investments	43,204	54,106
	<u>264,288</u>	<u>276,705</u>
Interest expense and similar charges		
Deposits from banks	(5,720)	(10,025)
Deposits from customers	(53,743)	(77,773)
Debt securities in issue	(22,574)	(26,124)
	<u>(82,037)</u>	<u>(113,922)</u>
	<u>182,251</u>	<u>162,783</u>

26. Net fee and commission income

	June 2009	June 2008
Fee and commission income		
Received from banks	2,346	3,386
Received from customers	56,800	59,682
Received from other financial operations	1,062	4,448
	<u>60,208</u>	<u>67,516</u>
Fee and commission expense		
Paid to banks	(4,983)	(4,481)
Paid to agents	(7,336)	(7,967)
Paid due to other financial operations	(993)	(1,394)
	<u>(13,312)</u>	<u>(13,842)</u>
	<u>46,896</u>	<u>53,674</u>

27. Net trading income

	June 2009	June 2008
Foreign currency derivatives and transactions	1,472	16,697
Interest rate derivatives	2,223	1,327
Securities:		
Financial assets held for trading	1,148	(697)
Available-for-sale financial assets *	(1,438)	-
	<u>3,405</u>	<u>17,327</u>

* Includes revaluation of financial instruments that are part of the hedging relationship, i.e. fair value hedges of interest rate risk.

28. Other operating income

	June 2009	June 2008
Profit from purchase of debt securities	3,906	-
Income from leasing	1,203	1,411
Rent	797	896
Sales of consumer goods	679	1,909
Other services	643	863
Net profit from sale of available-for-sale shares	133	-
Net profit from sale of fixed assets	86	1,560
Other	1,898	1,162
	<u>9,345</u>	<u>7,801</u>

29. Salaries and employee benefits

	June 2009	June 2008
Remuneration	(35,583)	(33,916)
Social security costs	(11,619)	(11,253)
Social fund	(462)	(398)
Retention program (note 22)	424	(241)
Severance (note 22)	139	133
	<u>(47,101)</u>	<u>(45,675)</u>

The total number of employees of the VUB Group at 30 June 2009 was 4,131 (31 December 2008: 4,111).

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

30. Other operating expenses

	June 2009	June 2008
Property related expenses	(7,247)	(6,705)
Post and telecom	(6,550)	(7,003)
IT systems maintenance	(6,304)	(5,145)
Advertising and marketing	(4,912)	(8,331)
Contribution to the Deposit Protection Fund	(4,138)	(3,187)
Equipment related expenses	(3,897)	(3,950)
VAT and other taxes	(3,556)	(3,685)
Security	(2,933)	(2,224)
Stationery	(2,588)	(2,556)
Professional services	(1,612)	(1,428)
Transport	(598)	(266)
Travelling	(582)	(465)
Trainings	(452)	(365)
Audit	(386)	(364)
Insurance	(261)	(266)
Other damages	(226)	(284)
Litigations paid	(116)	(133)
Provisions for litigations (note 21)	7,890	3,353
Other operating expenses	(1,096)	(2,903)
	<u>(39,564)</u>	<u>(45,907)</u>

The VUB Group has released a provision to litigation case in the total amount of € 11,950 thousand, because the court claim was cancelled by the plaintiff. In addition to this, the VUB Group has created a provision for the penalty from the Antimonopoly Office (PMU) related to administrative proceedings in the total amount of € 2,981 thousand.

31. Impairment losses on financial assets

	June 2009	June 2008
Net creation of impairment losses (note 10)	(56,362)	(20,613)
Net reversal/(creation) of financial guarantees and commitments (note 22)	228	(100)
	<u>(56,134)</u>	<u>(20,713)</u>
Nominal value of loans written-off	(4,426)	(2,589)
Nominal value of loans transferred	(6,385)	(1,759)
Proceeds from loans written-off	2,267	4,779
Proceeds from loans transferred	6,149	1,461
	<u>(2,395)</u>	<u>1,892</u>
	<u>(58,529)</u>	<u>(18,821)</u>

32. Income tax expense

	June 2009	June 2008
Current income tax	(30,020)	(35,883)
Deferred income tax	15,518	9,693
	<u>(14,502)</u>	<u>(26,190)</u>

33. Profit before changes in operating assets and liabilities

	June 2009	June 2008
Profit before tax	75,960	109,640
Adjustments for:		
Amortization	10,225	10,788
Depreciation	10,906	10,854
Securities held for trading and available-for-sale securities and FX differences	(22,302)	(1,659)
Share of profit of associates and jointly controlled entities	(387)	(100)
Share of revaluation reserves of associates and jointly controlled entities	23	-
Interest income	(264,288)	(276,705)
Interest expense	82,037	113,922
Dividend income	(1)	-
Sale of property and equipment	(86)	(1,559)
Sale of available-for-sale shares	(133)	-
Impairment losses on financial assets and similar charges	50,076	15,468
Interest received	284,308	312,620
Interest paid	(70,197)	(107,416)
Dividends received	1	-
Tax paid	(30,177)	(13,809)
	<u>125,965</u>	<u>172,044</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 Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates might not be realized in a current sale of the financial instrument.

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

(a) Cash and balances with central banks

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

(b) Loans and advances to banks

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

(c) Loans and advances to customers

The fair value of loans and advances to customers is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. The estimated fair value of loans and advances to customers approximates their carrying amounts. 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. The estimated fair value of held-to-maturity investments approximates their carrying amounts.

(e) Investments in associates and jointly controlled entities

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

(f) Deposits from banks and customers

The estimated fair value of deposits from banks approximates their carrying amounts. The fair value of deposits from customers with short term maturity (under one year) is estimated by discounting their future cash flows using the risk free interest rate curve. 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 Group is based on quoted market prices. Where no market prices are available, the fair value was calculated by discounting future cash flows using the risk free interest rate curve adjusted by credit spreads reflecting the credit quality of VUB Group as the issuer. The estimated fair value of debt securities in issue approximates their carrying amounts.

35. Financial risk management

Introduction and overview

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

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

35. Financial risk management (continued)

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

Risk management framework

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

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

(a) Credit risk

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

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

Management of credit risk

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

- 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).

35. Financial risk management (continued)

Allowances for impairment

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

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

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

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

Clients are divided into three classification categories according to the level of impairment for each client. Performing loans are those, for which there is an impairment of up to 20% of the outstanding amount. Loans with impairment coverage higher than 20% and below 50% are classified as Substandard. Loans with coverage ratio higher than 50% are classified as Bad and Doubtful.

35. Financial risk management (continued)

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

Category	June 2009			December 2008		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Loans and advances to banks						
Performing	121,897	(972)	120,925	1,438,092	(806)	1,437,286
Loans and advances to customers						
Performing	5,765,455	(122,676)	5,642,779	5,682,895	(108,896)	5,573,999
Substandard	69,482	(17,493)	51,989	76,311	(13,163)	63,148
Bad and Doubtful	162,501	(98,790)	63,711	91,294	(60,723)	30,571
	<u>5,997,438</u>	<u>(238,959)</u>	<u>5,758,479</u>	<u>5,850,500</u>	<u>(182,782)</u>	<u>5,667,718</u>
Held-to-maturity investments						
Performing	1,903,830	-	1,903,830	2,198,247	-	2,198,247
Substandard	1,881	(439)	1,442	1,881	(496)	1,385
	<u>1,905,711</u>	<u>(439)</u>	<u>1,905,272</u>	<u>2,200,128</u>	<u>(496)</u>	<u>2,199,632</u>

35. Financial risk management (continued)

At 30 June 2009, the VUB Group had a potential credit exposure of € 62,942 thousand (31 December 2008: €83,373 thousand) in the event of non-performance by counterparties to its financial derivative instruments. This represents the gross replacement cost at market rates at 30 June 2009 and 31 December 2008 of all outstanding agreements in the event of all counterparties defaulting and not allowing for netting arrangements.

The credit risk of financial assets not discussed above approximates their carrying amounts.

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

	June 2009			December 2008		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Loans and advances to banks						
No delinquency	121,897	(972)	120,925	1,428,100	(336)	1,427,764
91 – 180 days	-	-	-	4,950	(234)	4,716
Over 181 days	-	-	-	5,042	(236)	4,806
	<u>121,897</u>	<u>(972)</u>	<u>120,925</u>	<u>1,438,092</u>	<u>(806)</u>	<u>1,437,286</u>
Loans and advances to customers						
No delinquency	5,412,271	(107,563)	5,304,708	5,405,536	(99,927)	5,305,609
1 – 30 days	294,501	(17,978)	276,523	235,618	(11,842)	223,776
31 – 60 days	64,031	(11,759)	52,272	70,629	(7,026)	63,603
61 – 90 days	32,887	(8,664)	24,223	31,859	(5,626)	26,233
91 – 180 days	65,006	(24,890)	40,116	38,829	(12,801)	26,028
Over 181 days *	128,742	(68,105)	60,637	68,029	(45,560)	22,469
	<u>5,997,438</u>	<u>(238,959)</u>	<u>5,758,479</u>	<u>5,850,500</u>	<u>(182,782)</u>	<u>5,667,718</u>
Held-to-maturity investments						
No delinquency	<u>1,905,711</u>	<u>(439)</u>	<u>1,905,272</u>	<u>2,200,128</u>	<u>(496)</u>	<u>2,199,632</u>

* Write-off Policy

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

35. Financial risk management (continued)

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

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

	June 2009			December 2008		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Europe						
Loans and advances to banks	88,264	(210)	88,054	1,406,836	(209)	1,406,627
Loans and advances to customers	5,995,253	(238,921)	5,756,332	5,848,369	(182,745)	5,665,624
Held-to-maturity securities	1,903,830	-	1,903,830	2,198,247	-	2,198,247
	<u>7,987,347</u>	<u>(239,131)</u>	<u>7,748,216</u>	<u>9,453,452</u>	<u>(182,954)</u>	<u>9,270,498</u>
North America						
Loans and advances to banks	33,524	(762)	32,762	31,135	(597)	30,538
Loans and advances to customers	734	(18)	716	737	(17)	720
Held-to-maturity securities	1,881	(439)	1,442	1,881	(496)	1,385
	<u>36,139</u>	<u>(1,219)</u>	<u>34,920</u>	<u>33,753</u>	<u>(1,110)</u>	<u>32,643</u>
Asia						
Loans and advances to banks	66	-	66	121	-	121
Loans and advances to customers	711	(13)	698	781	(14)	767
	<u>777</u>	<u>(13)</u>	<u>764</u>	<u>902</u>	<u>(14)</u>	<u>888</u>
Rest of the World						
Loans and advances to banks	43	-	43	-	-	-
Loans and advances to customers	740	(7)	733	613	(6)	607
	<u>783</u>	<u>(7)</u>	<u>776</u>	<u>613</u>	<u>(6)</u>	<u>607</u>

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

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 Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

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

A summary of the VaR position of the Bank's trading portfolios at 30 June 2009 and during the period is as follows:

€ '000	June 2009				December 2008			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	205	118	266	18	92	80	251	22
Interest rate risk	146	216	384	146	412	298	435	152
Overall	297	255	469	161	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 – non-trading portfolios

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-price 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 model.

The Risk Management division is responsible for monitoring these gaps at least on a monthly basis.

The management of interest rate risk is supported by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios, which are considered on monthly basis, include a 1 basis point parallel rise in all yield curves worldwide and the same for 200 basis point shift.

An analysis of the Bank's sensitivity to an increase in market interest rates is as follows:

€ '000	June 2009	Dec 2008
1 basis point increase	(185)	(130)

Overall non-trading 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 non-trading activities.

The interest rate risk comprises 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.

Model applied for calculation of interest rate gap

Each item is mapped to the gap based on contractual or behavioural re-pricing day.

Contractual

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

Behavioural

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

Based on statistical methods a core portion of cash is calculated and this portion is amortized on a linear basis over 10 years and 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 gap as a linearly amortized item from 1 to 10 years. The remaining amount is classified in the overnight segment.

35. Financial risk management (continued)

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

	June 2009 %	Dec 2008 %
Assets		
Cash and balances with central banks	1.77	1.44
Loans and advances to banks	2.74	3.78
Financial assets held for trading	5.45	4.18
Available-for-sale financial assets	3.17	3.92
Loans and advances to customers	6.75	7.69
Held-to-maturity investments	4.25	4.28
Liabilities		
Deposits from central and other banks	2.05	3.32
Deposits from customers	1.66	2.34
Debt securities in issue	3.73	4.60

Currency denominations of assets and liabilities

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

(c) Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the NBS.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The daily liquidity position is monitored and regular liquidity stress testing is conducted. The daily liquidity position is limited by set of liquidity limits for particular time buckets. The Group has approved a liquidity contingency plan, which defines how to identify potential liquidity problems and how to act in liquidity crisis situations. All liquidity policies and procedures are subject to review and approval by ALCO and Intesa Sanpaolo.

The key measures used by the Group for managing medium and long term liquidity are two maturity mismatch rules.

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

35. Financial risk management (continued)

(d) Operational risk

Operational risk is defined as 'the risk of losses resulting from the unsuitability or failure of procedures, human resources and internal systems, or from external events. Operational Risk also includes legal risk ... while strategic and reputational risks are not included'.

The definition of operational risk, according to Basel II, excludes strategic and reputational risk but includes legal risk. Legal risk means the risk of losses coming from the violation of laws and regulations, from contractual liabilities or from liabilities outside the terms of a contract, or from other disputes.

In recent years, the Group has commenced projects aimed at the adoption of the Standardized Approach under Basel II from 1 January 2008 and the advanced operational risk management model in 2009. The local project activities are coordinated by the Intesa Sanpaolo Head Office.

The Bank has a centralized function within the Risk Management division for the management of the Group's operational risks. This function is responsible 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 accordance with the standards and principles defined by Intesa Sanpaolo Head Office.

In compliance with current requirements, the Group's organizational units have been involved in the process and each of them was assigned responsibility for the identification, assessment, management and mitigation of its operational risks; specific officers and departments have been identified within these organizational units to be responsible for Operational Risk Management.

The Intesa Sanpaolo Group's internal model is designed to combine all the main quantitative (historical loss data) and qualitative information sources (scenario analysis). The quantitative component is based on a statistical analysis of historical loss data, relating to internal or external events (including through the participation of Intesa Sanpaolo in consortium initiatives). The qualitative component focuses on an assessment of the risk exposure of each unit and is based on the structured collection of subjective estimates aimed at assessment of specific scenarios identified on the basis of event types set out in the New Capital Accord (Basel II).

Capital-at-Risk is therefore identified as the sum required at the Group's level, net of insurance cover, to cover the maximum potential annual loss. Capital-at-Risk is estimated using the Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-Risk of operational losses), applied on quantitative and qualitative data assuming a one-year estimation period, with a level of confidence of 99,9% (99,96% for economic measurement).

The Group utilizes a traditional operational risk transfer policy (insurance) with the objective of mitigating the impact of any unexpected losses.

Compliance with the Group's standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and the senior management of the Group.

36. Segment reporting

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

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

The Group comprises the following main operating segments:

- Retail Banking
- Corporate Banking
- Central Treasury

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

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

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

36. Segment reporting (continued)

30 June 2009	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	141,104	52,076	69,227	1,881	264,288
Interest expense	(44,733)	(7,012)	(25,891)	(4,401)	(82,037)
Inter-segment revenue	6,553	(12,391)	(5,587)	11,425	-
Net interest income	102,924	32,673	37,749	8,905	182,251
Net fee and commission income	26,839	18,981	233	843	46,896
Net trading income	2,372	1,928	(839)	(56)	3,405
Other operating income	3,558	984	3,905	898	9,345
Dividend income	-	-	-	1	1
Total segment operating income	135,693	54,566	41,048	10,591	241,898
Operating expenses					(107,796)
Operating profit before impairment losses					134,102
Impairment losses on financial assets					(58,529)
Share of profit of associates and jointly controlled entities					387
Income tax expense					(14,502)
Net profit for 6 months					61,458
Segment assets	3,230,099	2,469,669	3,381,852	470,511	9,552,131
Segment liabilities	4,710,247	1,646,540	2,032,773	1,162,571	9,552,131

36. Segment reporting (continued)

30 June 2008	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	118,934	69,409	86,902	1,460	276,705
Interest expense	(50,256)	(33,028)	(30,107)	(531)	(113,922)
Inter-segment revenue	<u>37,941</u>	<u>(432)</u>	<u>(53,177)</u>	<u>15,668</u>	<u>-</u>
Net interest income	106,619	35,949	3,618	16,597	162,783
Net fee and commission income	42,554	10,191	531	398	53,674
Net trading income	6,937	8,597	1,859	(66)	17,327
Other operating income	<u>4,714</u>	<u>1361</u>	<u>-</u>	<u>1,726</u>	<u>7,801</u>
Total segment operating income	160,824	56,098	6,008	18,655	241,585
Operating expenses					<u>(113,224)</u>
Operating profit before impairment losses					128,361
Impairment losses on financial assets					(18,821)
Share of profit of associates and jointly controlled entities					100
Income tax expense					<u>(26,190)</u>
Net profit for 6 months					<u>83,450</u>
Segment assets	2,888,601	2,387,506	4,289,617	222,034	9,787,758
Segment liabilities	4,577,872	2,186,583	2,156,211	867,092	9,787,758

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 Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

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

At 30 June 2009 and 31 December 2008, significant outstanding balances with related parties comprised:

	June 2009	Dec 2008
Assets		
Loans and advances		
Key management personnel	646	272
Enterprises controlled by close members of key management personnel	933	-
Shareholder and companies controlled by shareholder	62,667	66,481
	<hr/> 64,246	<hr/> 66,753
Derivative financial instruments (assets)		
Shareholder and companies controlled by shareholder	1,272	4,405
Available-for-sale financial assets		
Shareholder and companies controlled by shareholder	62,675	60,863
Other assets		
Affiliated companies	10	-

37. Related parties (continued)

	June 2009	Dec 2008
Liabilities		
Deposits from customers and banks		
Key management personnel	1,804	2,155
Enterprises controlled by close members of key management personnel	14	-
Shareholder and companies controlled by shareholder	257,717	263,482
	<u>259,535</u>	<u>265,637</u>
Derivative financial instruments (liabilities)		
Shareholder and companies controlled by shareholder	401	121
Debt securities in issue		
Bonds - Key management personnel	348	395
Bonds - Affiliated companies	6,640	3,196
Mortgage bonds - Shareholder and companies controlled by shareholder	496,361	345,850
	<u>503,349</u>	<u>349,441</u>
Derivative transactions (notional amount - receivable)		
Shareholder and companies controlled by shareholder	308,110	124,888
Derivative transactions (notional amount - payable)		
Shareholder and companies controlled by shareholder	137,934	168,529
Income and expense items		
Interest income		
Key management personnel	14	5
Enterprises controlled by close members of key management personnel	22	16
Shareholder and companies controlled by shareholder	3,783	3,350
	<u>3,819</u>	<u>3,371</u>
Interest expense		
Key management personnel	(17)	(8)
Affiliated companies	(3,487)	(71)
Shareholder and companies controlled by shareholder	(6,498)	(6,389)
	<u>(10,002)</u>	<u>(6,468)</u>
Fee and commission income		
Affiliated companies	3	66
Shareholder and companies controlled by shareholder	-	11
	<u>3</u>	<u>77</u>

37. Related parties (continued)

	June 2009	June 2008
Fee and commission expense		
Shareholder and companies controlled by shareholder	-	(28)
Net trading income		
Shareholder and companies controlled by shareholder	(5,978)	(1,810)
Operating income		
Affiliated companies	50	62
Shareholder and companies controlled by shareholder	139	-
	<hr/>	<hr/>
	189	62
Operating expenses		
Shareholder and companies controlled by shareholder	-	(139)

38. Events after the end of reporting period

There were no events after 30 June 2009 that would have a material effect on a fair presentation of the matters disclosed in these financial statements.