Interim consolidated financial statements
for 6 months ended 30 June 2010

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

VÚB BANKA

Contents

VÚB BANKA

Consolidated statement of financial position at 30 June 2010

(In thousands of euro)

	Note	June 2010	Dec 2009
Assets			
Cash and balances with central banks	4	271,125	244,171
Due from banks	5	362,518	163,076
Financial assets held for trading	6	248,676	164,812
Derivative financial instruments	7	55,674	42,783
Available-for-sale financial assets	8	1,728,148	995,561
Non-current assets held for sale	15	9	-
Loans and advances to customers	9	6,030,454	5,863,647
Held-to-maturity investments	11	1,847,462	2,046,247
Associates and jointly controlled entities	12	5,877	5,620
Intangible assets	13	41,673	47,022
Goodwill	14	29,305	29,305
Property and equipment	15	155,502	164,104
Current income tax assets	20	11,825	6,036
Deferred income tax assets	20	57,217	47,834
Other assets	16	29,985	32,179
		10,875,450	9,852,397
Liabilities			
Due to central and other banks	17	619,599	796,345
Derivative financial instruments	7	61,631	52,471
Due to customers	18	7,717,677	6,609,926
Debt securities in issue	19	1,409,998	1,298,075
Provisions	21	26,279	25,111
Other liabilities	22	59,328	84,075
		9,894,512	8,866,003
Equity			
Share capital	23	430,819	430,819
Share premium	23	13,368	13,368
Reserves		82,306	94,248
Retained earnings		454,445	447,959
		980,938	986,394
		10,875,450	9,852,397
Financial commitments and contingencies	24	2,508,271	2,327,063

The accompanying notes on pages 7 to 65 form an integral part of these financial statements.

These financial statements were authorised for issue by the Management Board on 10 August 2010.

Ignacio Jaquotot
Chairman of the Management Board

Elena Kohútiková
Member of the Management Board

VÚB BANKA

Consolidated statement of comprehensive income for 6 months ended 30 June 2010

(In thousands of euro)

	Note	June 2010	June 2009
Interest and similar income		234,391	264,288
Interest expense and similar charges		(55,828)	(82,037)
Net interest income	25	178,563	182,251
Fee and commission income		65,786	60,208
Fee and commission expense		(13,382)	(13,312)
Net fee and commission income	26	52,404	46,896
Net trading income	27	3,605	3,405
Other operating income	28	3,595	9,345
Dividend income		-	1
Operating income		238,167	241,898
Salaries and employee benefits	29	(48,426)	(47,101)
Other operating expenses	30	(46,112)	(39,564)
Amortisation	13	(7,940)	(10,225)
Depreciation	15	(10,720)	(10,906)
Operating expenses		(113,198)	(107,796)
Operating profit before impairment		124,969	134,102
Impairment losses on financial assets	31	(40,420)	(58,529)
Profit from operations		84,549	75,573
Share of profit of associates and jointly controlled entities		281	387
Profit before tax		84,830	75,960
Income tax expense	32	(17,742)	(14,502)
NET PROFIT FOR 6 MONTHS		67,088	61,458
Other comprehensive income for 6 months, after tax:			
Exchange difference on translating foreign operation		462	473
Available-for-sale financial assets		(11,059)	(2,416)
Cash flow hedges		(3,529)	(5)
Other comprehensive income for 6 months, net of tax	33, 34	(14,126)	(1,948)
TOTAL COMPREHENSIVE INCOME FOR 6 MONTHS		52,962	59,510
Basic and diluted earnings per € 33.2 share in €	23	5.17	4.74

The accompanying notes on pages 7 to 65 form an integral part of these financial statements.

VÚB BANKA

Consolidated statement of changes in equity for 6 months ended 30 June 2010

(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 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	430,819	13,368	91,541	367,561	(1,268)	(2,958)	(834)	898,229
At 1 January 2010	430,819	13,368	91,541	447,959	(1,649)	5,995	(1,639)	986,394
Total comprehensive income for 6 months	-	-	-	67,088	462	(11,059)	(3,529)	52,962
Dividends to shareholders	-	-	-	(58,394)	-	-	-	(58,394)
Legal reserve fund	-	-	1,549	(1,549)	-	-	-	-
Other *	-	-	-	(1,188)	1,188	(24)	-	(24)
Effect of FX hedge *	-	-	-	529	-	-	(529)	-
At 30 June 2010	430,819	13,368	93,090	454,445	1	(5,088)	(5,697)	980,938

* Foreign currency difference disclosed under Translation of foreign operation was settled within transfer of retained earnings and profit for 2009 from foreign branch. These retained earnings were originally generated in CZK and the FX effect of this translation was hedged since 2009.

The accompanying notes on pages 7 to 65 form an integral part of these financial statements.

VÚB BANKA

Consolidated statement of cash flows for 6 months ended 30 June 2010

(In thousands of euro)

	Note	June 2010	June 2009
Cash flows from operating activities			
Profit before tax		84,830	75,960
Adjustments for:			
Amortisation		7,940	10,225
Depreciation		10,720	10,906
Securities held for trading, available-for-sale securities and FX differences		5,025	(22,302)
Share of profit of associates and jointly controlled entities		(257)	(387)
Share of revaluation reserves of associates and jointly controlled entities		-	23
Interest income		(234,391)	(264,288)
Interest expense		55,828	82,037
Dividend income		-	(1)
Sale of property and equipment		177	(86)
Sale of available for sale shares		-	(133)
Impairment losses on financial assets and similar charges		41,302	50,076
Interest received		255,402	284,308
Interest paid		(48,593)	(70,197)
Dividends received		-	1
Tax paid		(32,914)	(30,177)
Due from banks		(176,235)	(2,952)
Financial assets held for trading		(82,730)	20,967
Derivative financial instruments (assets)		(16,949)	17,077
Available-for-sale financial assets		(742,675)	(873,636)
Loans and advances to customers		(205,577)	(151,132)
Other assets		2,232	(10,665)
Due to central and other banks		(177,527)	(386,774)
Derivative financial instruments (liabilities)		9,160	(4,670)
Due to customers		1,098,526	(1,409,868)
Other liabilities		(22,922)	(18,078)
Net cash used in operating activities		(169,628)	(2,693,766)
Cash flows from investing activities			
Purchase of held-to-maturity investments		(19,083)	-
Repayments of held-to-maturity investments		191,027	266,187
Purchase of intangible assets and property and equipment		(5,263)	(4,267)
Disposal of property and equipment		364	3,812
Net cash from investing activities		167,045	265,732
Cash flows from financing activities			
Proceeds from issue of debt securities		202,150	195,750
Repayments of debt securities		(93,547)	(96,992)
Dividends paid		(58,394)	-
Net cash from financing activities		50,209	98,758
Net change in cash and cash equivalents		47,626	(2,329,276)
Cash and cash equivalents at beginning of the year	3	333,340	2,518,059
Cash and cash equivalents at 30 June	3	380,966	188,783

The accompanying notes on pages 7 to 65 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 2010, the Bank had a network of 251 points of sale (including Retail Branches, Corporate Branches and Mortgage centers) located throughout Slovakia (December 2009: 254). The Bank also has one branch in the Czech Republic.

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

Members of the Supervisory Board are: György Surányi (Chairman), Fabrizio Centrone (Vice Chairman), Adriano Arietti, Jana Finková, Antonio Furesi, Ján Gallo, Juraj Jurenka and Massimo Malagoli.

1.2 The VUB Group

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

	Share 2009	Share 2008	Principal business activity
Subsidiaries			
Consumer Finance Holding, a.s. ('CFH')	100%	100%	Consumer finance business
VÚB Leasing, a. s. ('VÚB 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 2010, the VUB Group had a total network of 258 points of sale (31 December 2009: 267).

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.

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 financial statements are set out below.

The accounting policies adopted are consistent with those used in 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 recognised 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 recognised 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 recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

2. Summary of significant accounting policies (continued)

2.4 Segment reporting

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

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

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

Most of the transactions of the VUB Group are related to the Slovak market. Due to 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 euro 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 euro at the foreign exchange rate prevailing at the end of reporting period. The revenues and expenses of foreign operations are translated to euro at rates approximating the foreign exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on these translations are recognised directly in equity.

2.7 Cash and balances with central banks

Cash and balances with central banks comprise cash in hand and balances 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 Due from banks

Due from banks include receivables from current accounts in other than central banks, deposits and loans provided to commercial banks.

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

2. Summary of significant accounting policies (continued)

2.10 Debt securities

Debt securities held by the VUB Group are categorised 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 recognised 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 recognised in the profit or loss and in equity respectively.

(a) Securities held for trading

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

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

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

Day 1 profit or loss

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

(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.

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

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

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

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

2. Summary of significant accounting policies (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised 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 recognised in 'Impairment losses on financial assets' in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

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

(c) Held-to-maturity investments

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

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

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

2.11 Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to purchase and resell ('reverse repo transactions') are recorded only in the off-balance sheet and the loan provided is reported in the statement of financial position in 'Due from 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. Summary of significant accounting policies (continued)

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 recognised 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 recognised 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 recognised in other comprehensive income as 'Cash flow hedges'. The ineffective portion of the gain or loss on the hedging instrument is recognised 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 recognised 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 recognised. 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 recognised 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 recognised 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 amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the EIR. If the hedged item is derecognised, the unamortised 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 amortised cost less any impairment losses. All loans and advances to customers are recognised 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 recognised 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 recognised 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 amortisation and impairment losses. Amortisation is calculated on a straight-line basis in order to write off the cost of each asset to its residual value over its estimated useful economic life as follows:

	Years
Software	5 – 10
Other intangible assets	5

Intangible assets acquired in a business combination are capitalised 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 amortised 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 – 9

Amortisation 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, modernisation or improvements leading to increased productivity, capacity or efficiency are capitalised. 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 capitalised 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'.

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

2.21 Provisions for employee benefits

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

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

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

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

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

2.22 Financial guarantees

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

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised 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 amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within 'Other liabilities'. Any increase in the liability relating to financial guarantees is recorded in the statement of comprehensive income in 'Impairment losses on financial assets'.

2.23 Legal reserve fund

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

2. Summary of significant accounting policies (continued)

2.24 Equity reserves

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

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

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

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

2.25 Interest income

Interest income and expense is recognised in the statement of comprehensive income on an accrual basis using the effective interest rate method. Interest income and expense includes the amortisation 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 amortised over the life of the loan.

2.26 Fee and commission income

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

2.27 Net trading income

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

2.28 Dividend income

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

2.29 Income tax

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

Deferred tax assets and liabilities are recognised, 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 realised, are used to determine deferred tax.

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

2.30 Fiduciary assets

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

2. Summary of significant accounting policies (continued)

2.31 Significant accounting judgements and estimates

Judgements

In the process of applying the VUB Group's accounting policies, management has made judgements, apart from those involving estimations, that significantly affect the amounts recognised 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 amortised 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:

	Note	June 2010	Dec 2009
Cash and balances with central banks	4	271,125	244,171
Current accounts in other banks	5	29,513	23,630
Term deposits with other banks	5	71,032	56,093
Held-to-maturity investments	11	9,296	9,446
		380,966	333,340

4. Cash and balances with central banks

	June 2010	Dec 2009
Balances with central banks:		
Compulsory minimum reserves	164,570	135,813
Current accounts	534	221
Term deposits	6,577	5,668
	171,681	141,702
Cash in hand	99,444	102,469
	271,125	244,171

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

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

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

5. Due from banks

	Note	June 2010	Dec 2009
Current accounts	3	29,513	23,630
Term deposits			
with contractual maturity less than 90 days	3	71,032	56,093
with contractual maturity over 90 days		171,828	-
Loans and advances		90,296	83,504
Impairment losses	10	(151)	(151)
		362,518	163,076

6. Financial assets held for trading

	June 2010	Dec 2009
Treasury bills and other eligible bills with contractual maturity over 90 days	164,579	93,302
State bonds with contractual maturity over 90 days	82,366	69,780
Mutual funds	1,731	1,730
	248,676	164,812

At 30 June 2010 and 31 December 2009, no such securities were pledged by the VUB Group to secure transactions with counterparties.

7. Derivative financial instruments

	June 2010 Assets	Dec 2009 Assets	June 2010 Liabilities	Dec 2009 Liabilities
Trading derivatives	55,674	42,037	45,240	44,480
Cash flow hedges of interest rate risk	-	-	7,033	2,770
Cash flow hedge of foreign exchange risk	-	746	-	-
Fair value hedges of interest rate risk	-	-	9,358	5,221
	55,674	42,783	61,631	52,471

Trading derivatives also include 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 2010, the total positive fair value of such derivatives was € 4,874 thousand (31 December 2009: € 2,800 thousand) and the negative fair value was nil (31 December 2009: € 1,386 thousand).

7. Derivative financial instruments (continued)

	June 2010 Assets	Dec 2009 Assets	June 2010 Liabilities	Dec 2009 Liabilities
Trading derivatives – Fair values				
Interest rate instruments				
Swaps	24,688	25,771	32,240	28,641
Forward rate agreements	-	-	-	159
Options	1,960	1,487	1,966	1,494
	26,648	27,258	34,206	30,294
Foreign currency instruments				
Forwards and swaps	14,629	965	1,013	2,787
Cross currency swaps	4,630	2,800	-	240
Options	4,597	7,511	4,851	7,656
	23,856	11,276	5,864	10,683
Equity and commodity instruments				
Equity options	5,170	3,423	5,170	3,423
Commodity options	-	80	-	80
	5,170	3,503	5,170	3,503
	55,674	42,037	45,240	44,480

	June 2010 Assets	Dec 2009 Assets	June 2010 Liabilities	Dec 2009 Liabilities
Trading derivatives – Notional values				
Interest rate instruments				
Swaps	910,402	881,941	910,402	881,941
Forward rate agreements	-	160,000	-	160,000
Options	96,580	57,266	96,580	57,266
	1,006,982	1,099,207	1,006,982	1,099,207
Foreign currency instruments				
Forwards and swaps	307,929	197,397	297,203	199,418
Cross currency swaps	70,063	67,994	65,433	65,433
Options	58,451	44,095	57,380	43,910
	436,443	309,486	420,016	308,761
Equity and commodity instruments				
Equity options	23,137	35,640	23,137	35,640
Commodity options	2,658	3,495	2,658	3,495
	25,795	39,135	25,795	39,135
	1,469,220	1,447,828	1,452,793	1,447,103

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

8. Available-for-sale financial assets

	Share June 2010	**Share Dec 2009**	**June 2010**	**Dec 2009**
State bonds			1,608,890	932,649
Treasury bills and other eligible bills			99,433	-
Bank bonds			19,186	62,281
Equity shares at cost				
RVS Studené, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.02%	0.02%	65	57
			639	631
			1,728,148	995,561

At 30 June 2010, the state bonds with a total nominal value of € 300 million were pledged by the VUB Group (31 December 2009: € 100 million) to secure transactions with counterparties.

9. Loans and advances to customers

30 June 2010	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	66,946	(158)	66,788
Municipalities – Leasing	3,662	(387)	3,275
	70,608	(545)	70,063
Corporate			
Large Corporates	782,243	(15,513)	766,730
Project Financing	602,697	(17,332)	585,365
SME	624,533	(38,332)	586,201
Other Financial Institutions	257,034	(224)	256,810
Private Sector Entities	2,836	(34)	2,802
Leasing	163,084	(17,325)	145,759
Factoring	53,898	(2,356)	51,542
	2,486,325	(91,116)	2,395,209
Retail			
Small business	246,226	(25,109)	221,117
Small business – Leasing	6,592	(696)	5,896
Consumer Loans	835,168	(113,440)	721,728
Mortgages	2,295,039	(20,147)	2,274,892
Credit Cards	248,809	(36,450)	212,359
Overdrafts	104,500	(12,152)	92,348
Leasing	9,898	(1,051)	8,847
Other	28,102	(107)	27,995
	3,774,334	(209,152)	3,565,182
	6,331,267	(300,813)	6,030,454

9. Loans and advances to customers (continued)

31 December 2009	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	31,955	-	31,955
Municipalities – Leasing	4,039	(296)	3,743
	35,994	(296)	35,698
Corporate			
Large Corporates	750,014	(14,485)	735,529
Project Financing	551,171	(15,850)	535,321
SME	697,168	(41,799)	655,369
Other Financial Institutions	294,141	(280)	293,861
Private Sector Entities	16,270	(195)	16,075
Leasing	180,217	(13,368)	166,849
Factoring	62,448	(1,391)	61,057
	2,551,429	(87,368)	2,464,061
Retail			
Small business	232,351	(21,125)	211,226
Small business – Leasing	7,204	(535)	6,669
Consumer Loans	823,334	(98,301)	725,033
Mortgages	2,114,581	(16,999)	2,097,582
Credit Cards	247,740	(30,546)	217,194
Overdrafts	102,998	(9,620)	93,378
Leasing	10,990	(810)	10,180
Other	2,803	(177)	2,626
	3,542,001	(178,113)	3,363,888
	6,129,424	(265,777)	5,863,647

Maturities of gross finance lease receivables are as follows:

	June 2010	Dec 2009
Up to 1 year	74,576	83,158
1 to 5 years	111,062	118,128
Over 5 years	25,755	34,793
	211,393	236,079
Unearned future finance income on finance leases	(28,157)	(33,629)
Impairment losses	(19,459)	(15,009)
	163,777	187,441

Maturities of net finance lease receivables are as follows:

	June 2010	Dec 2009
Up to 1 year	44,325	64,704
1 to 5 years	96,302	93,601
Over 5 years	23,150	29,136
	163,777	187,441

10. Impairment losses

	Note	1 Jan 2010	Creation/ (Reversal) (note 31)	FX gains	Other	30 June 2010
Due from banks	5	151	-	-	-	151
Non-current assets held for sale	15	-	4	-	-	4
Loans and advances to customers	9	265,777	35,290	279	(533) *	300,813
Held-to-maturity investments	11	377	(62)	-	-	315
Property and equipment	15	305	-	-	-	305
Other assets	16	10,752	(38)	27	-	10,741
		277,362	35,194	306	(533)	312,329

* Interest portion (unwinding of interest)

11. Held-to-maturity investments

	June 2010	Dec 2009
State restructuring bonds	617,628	618,775
State bonds	1,104,516	1,302,480
Bank bonds and other bonds issued by financial sector	79,428	78,038
Corporate notes and bonds with contractual maturity less than 90 days (note 3)	9,296	9,446
Corporate notes and bonds with contractual maturity over 90 days	36,909	37,885
	1,847,777	2,046,624
Impairment losses (note 10)	(315)	(377)
	1,847,462	2,046,247

At 30 June 2010, bonds in the total nominal amount of € 447,950 thousand were pledged by the Group (31 December 2009: € 455,495 thousand) to secure transactions with counterparties.

State restructuring bonds

As part of the pre-privatisation 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 recapitalised 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.

11. Held-to-maturity investments (continued)

At 30 June 2010 and at 31 December 2009, the Group held in its portfolio the following state restructuring bonds:

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

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

12. Associates and jointly controlled entities

	Share %	Cost	Revaluation	Carrying amount
At 30 June 2010				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	28	31
VÚB Generali DSS, a.s.	50.0	16,597	(10,751)	5,846
		16,600	(10,723)	5,877
At 31 December 2009				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	26	29
VÚB Generali DSS, a.s.	50.0	16,597	(11,006)	5,591
		16,600	(10,980)	5,620

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

	June 2010	June 2009
Revaluation at 1 January	(10,980)	(11,437)
Share of profit	281	387
Share of revaluation reserves	(24)	(23)
Revaluation at 30 June	(10,723)	(11,073)

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

	June 2010	Dec 2009
Assets	6,061	5,873
Liabilities	215	282
Equity	5,846	5,591
Net profit for the period	279	496
Change of revaluation reserves for the period	(66)	(42)

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

	June 2010	Dec 2009
Assets	146	143
Liabilities	115	114
Equity	31	29
Net profit for the period	2	3

13. Intangible assets

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2010	159,778	55,258	3,697	218,733
Additions	-	-	2,630	2,630
Disposals	(19,378)	-	(39)	(19,417)
Transfers	4,823	494	(5,317)	-
FX differences	13	-	-	13
At 30 June 2010	145,236	55,752	971	201,959
Accumulated amortisation				
At 1 January 2010	(134,847)	(36,864)	-	(171,711)
Amortisation for the period	(4,218)	(3,722)	-	(7,940)
Disposals	19,378	-	-	19,378
FX differences	(13)	-	-	(13)
At 30 June 2010	(119,700)	(40,586)	-	(160,286)
Carrying amount				
At 1 January 2010	24,931	18,394	3,697	47,022
At 30 June 2010	25,536	15,166	971	41,673

14. Goodwill

	June 2010	Dec 2009
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a.s.	18,871	18,871
	29,305	29,305

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.

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

The basis on which the recoverable amount of VÚB Leasing and CFH has been determined is the value in use calculation, using cash flow projections based on the 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:

	VÚB Leasing		CFH	
	June 2010	**Dec 2009**	**June 2010**	**Dec 2009**
Discount rate	12.60%	13.23%	16.05%	16.68%
Projected growth rate	4.50%	4.50%	2.00%	2.00%

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

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

Interest margins

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

Discount rates

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

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 2010	207,287	97,028	40,507	3,783	348,605
Additions	-	-	-	2,505	2,505
Disposals	(973)	(4,622)	(1,569)	-	(7,164)
Transfers	833	3,331	813	(4,977)	-
FX differences	3	11	2	-	16
At 30 June 2010	207,150	95,748	39,753	1,311	343,962
Accumulated depreciation					
At 1 January 2010	(76,614)	(79,155)	(28,427)	-	(184,196)
Depreciation for the period	(4,573)	(3,957)	(2,190)	-	(10,720)
Disposals	873	4,594	1,309	-	6,776
FX differences	(2)	(11)	(2)	-	(15)
At 30 June 2010	(80,316)	(78,529)	(29,310)	-	(188,155)
Impairment losses (note 10)					
At 1 January 2010	(43)	-	(262)	-	(305)
At 30 June 2010	(43)	-	(262)	-	(305)
Carrying amount					
At 1 January 2010	130,630	17,873	11,818	3,783	164,104
At 30 June 2010	126,791	17,219	10,181	1,311	155,502

At 30 June 2010 and 31 December 2009, the VUB Group held in its portfolio of non-current assets held for sale buildings as follows:

	June 2010	Dec 2009
Cost	18	-
Accumulated depreciation	(5)	-
Impairment (note 10)	(4)	-
	9	-

16. Other assets

	June 2010	Dec 2009
Operating receivables and advances	25,662	25,261
Prepayments and accrued income	2,632	3,562
Other tax receivables	1,377	1,217
Inventories	9,729	11,405
Settlement of operations with financial instruments	638	600
Other	688	886
	40,726	42,931
Impairment losses (note 10)	(10,741)	(10,752)
	29,985	32,179

17. Due to central and other banks

	June 2010	Dec 2009
Due to central banks		
Current accounts	105,934	28,657
Loans received	181,365	180,460
	287,299	209,117
Due to other banks		
Current accounts	15,257	27,267
Term deposits	76,925	280,595
Loans received	240,118	279,366
	332,300	587,228
	619,599	796,345

18. Due to customers

	June 2010	Dec 2009
Current accounts	2,770,288	2,572,607
Term deposits	3,420,314	3,013,491
Savings accounts	294,722	307,154
Government and municipal deposits	1,052,156	650,744
Loans received	40,109	35,712
Promissory notes	94,505	12,414
Other deposits	45,583	17,804
	7,717,677	6,609,926

19. Debt securities in issue

	June 2010	Dec 2009
Bonds	64,313	67,761
Mortgage bonds	1,345,685	1,230,314
	1,409,998	1,298,075

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

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	June 2010	Dec 2009
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	33,551	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	33,344	34,191
Mortgage bonds VÚB, a.s. XI.	4.40	EUR	500	33,194	25.8.2004	25.8.2010	17,218	16,853
Mortgage bonds VÚB, a.s. XIII.	4.50	EUR	1,000	33,194	29.9.2004	29.9.2010	34,323	33,576
Mortgage bonds VÚB, a.s. XV.	0.80	EUR	1,000	33,194	30.3.2005	30.3.2010	-	33,195
Mortgage bonds VÚB, a.s. XVII.	0.80	EUR	2,500	22,280	28.11.2005	28.11.2015	55,740	55,742
Mortgage bonds VÚB, a.s. XVIII.	3.00	EUR	39	331,939	19.12.2005	19.12.2010	13,114	12,874
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,819	17,176
Mortgage bonds VÚB, a.s. XXI.	0.78	EUR	500	33,194	10.3.2006	10.3.2011	16,605	16,605
Mortgage bonds VÚB, a.s. XXII.	0.92	EUR	1,200	50,000	29.6.2006	29.6.2011	60,003	60,003
Mortgage bonds VÚB, a.s. XXIII.	0.79	EUR	60	1,000,000	26.10.2006	26.10.2011	60,086	60,095
Mortgage bonds VÚB, a.s. XXIV.	1.06	EUR	1,500	33,194	24.11.2006	24.11.2011	49,845	49,845
Mortgage bonds VÚB, a.s. XXV.	0.86	EUR	30	1,000,000	5.12.2006	5.12.2011	30,019	30,019
Mortgage bonds VÚB, a.s. XXVII.	4.25	EUR	500	33,194	13.3.2007	13.3.2010	-	17,161
Mortgage bonds VÚB, a.s. XXVIII.	1.99	CZK	1,000	1,000,000	20.6.2007	20.6.2012	39,351	38,293
Mortgage bonds VÚB, a.s. XXIX.	0.97	EUR	500	33,194	16.10.2007	16.10.2012	16,628	16,631
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	34,148	33,309
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,105	19,610

(Table continues on the next page)

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	June 2010	Dec 2009
Mortgage bonds VÚB, a.s. 32.	3.02	CZK	800	1,000,000	17.12.2007	17.12.2017	34,137	33,327
Mortgage bonds VÚB, a.s. 34.	4.30	EUR	900	33,194	27.2.2008	27.2.2010	-	30,959
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	20,662	21,077
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,330	18,747
Mortgage bonds VÚB, a.s. 37.	1.08	EUR	40	1,000,000	30.4.2008	30.4.2011	40,074	40,081
Mortgage bonds VÚB, a.s. 38.	4.75	EUR	317	33,194	26.6.2008	26.6.2010	-	10,764
Mortgage bonds VÚB, a.s. 39.	1.43	EUR	60	1,000,000	26.6.2008	26.6.2015	60,005	60,008
Mortgage bonds VÚB, a.s. 40.	1.43	EUR	70	1,000,000	28.8.2008	28.8.2015	70,095	70,096
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	28,882	23,937
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	20,140	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,762	15,290
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	15,277	15,633
Mortgage bonds VÚB, a.s. 45.	5.30	EUR	321	16,597	16.10.2008	16.10.2010	5,528	5,386
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	150	1,000,000	19.5.2009	19.5.2016	150,807	154,262
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	20,000	1,000	11.5.2009	11.5.2013	20,111	20,511
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	103,626	101,666
Mortgage bonds VÚB, a.s. 50.	3.40	EUR	8,407	1,000	2.11.2009	2.11.2013	8,596	8,454
Mortgage bonds VÚB, a.s. 51.	1.21	EUR	100	1,000,000	8.4.2010	8.4.2014	100,279	-
Mortgage bonds VÚB, a.s. 52.	2.16	EUR	43	50,000	15.3.2010	15.3.2014	2,164	-
Mortgage bonds VÚB, a.s. 53.	1.35	EUR	100	1,000,000	8.4.2010	8.4.2017	100,311	-
							1,345,685	1,230,314

20. Current and deferred income taxes

	June 2010	Dec 2009
Current income tax assets	11,825	6,036

	June 2010	Dec 2009
Deferred income tax asset	57,217	47,834

Deferred income taxes are calculated on all temporary differences using a tax rate of 19% (2009: 19%) as follows:

	June 2010	Profit/ (loss) (note 32)	Dec 2009
Due from banks	28	-	28
Derivative financial instruments	1,336	-	384
Available-for-sale financial assets	1,178	-	(1,416)
Loans and advances to customers	56,156	5,470	50,686
Held-to-maturity investments	60	(11)	71
Intangible assets identified on acquisition	(2,203)	596	(2,799)
Property and equipment	(2,748)	19	(2,767)
Other liabilities	3,387	(291)	3,678
Other	23	54	(31)
Deferred income tax asset	57,217	5,837	47,834

21. Provisions

	June 2010	Dec 2009
Litigations	26,279	25,111

The movement in provisions was as follows:

	1 Jan 2010	Creation/ (Reversal)	30 June 2010
Litigations (note 24, note 30)	25,111	1,168	26,279

22. Other liabilities

	June 2010	Dec 2009
Various creditors	20,769	25,199
Settlement with employees	18,546	19,442
Financial guarantees and commitments	7,974	9,595
Factoring	3,691	4,324
Accruals and deferred income	2,004	2,968
Settlement with shareholders	1,512	1,237
VAT payables and other tax payables	1,500	3,819
Severance and Jubilee benefits	1,286	1,286
Retention program	740	1,026
Settlement with securities	44	17
Payables for the non-controlling interest – VÚB Leasing	-	13,678
Other	1,262	1,484
	59,328	84,075

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

	Note	1 Jan 2010	Creation/ (Reversal)	30 June 2010
Financial guarantees and commitments	31	9,595	(1,621)	7,974
Severance and Jubilee benefits	29	1,286	-	1,286
Retention program	29	1,026	(286)	740
		11,907	(1,907)	10,000

23. Share capital

	June 2010	June 2009
Authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Net profit for 6 months attributable to shareholders	67,088	61,458
Divided by 12,976,478 ordinary shares of € 33.2 each		
Basic and diluted earnings per € 33.2 share in €	5.17	4.74

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

23. Share capital (continued)

The structure of shareholders is as follows:

	June 2010	Dec 2009
Intesa Holding International S.A.	96.76%	96.76%
Domestic shareholders	2.95%	2.95%
Foreign shareholders	0.29%	0.29%
	100.00%	100.00%

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

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

The VUB Group's regulatory capital position at 30 June 2010 and 31 December 2009 was as follows:

	June 2010	Dec 2009
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,368	13,368
Translation of foreign operation	-	(1,649)
Retained earnings without net profit for the period	387,356	306,288
Legal reserve fund	93,090	91,541
Less goodwill and software (including software in Assets in progress)	(55,812)	(57,933)
	868,821	782,434
Tier 2 capital	-	-
Regulatory adjustment		
Associates and jointly controlled entities	(5,846)	(5,591)
Total regulatory capital	862,975	776,843

23. Share capital (continued)

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).

	June 2010 Actual	**June 2010 Required**	**Dec 2009 Actual**	**Dec 2009 Required**
Tier 1 capital	868,821	537,105	782,434	535,100
Tier 2 capital	-	-	-	-
Regulatory adjustment	(5,846)	(5,846)	(5,591)	(5,591)
Total regulatory capital	862,975	531,259	776,843	529,509
Total Risk Weighted Assets	6,640,740	6,640,740	6,621,693	6,621,693
Tier 1 capital ratio	13.08%	8.09%	11.82%	8.08%
Total capital ratio	13.00%	8.00%	11.73%	8.00%

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

The VUB Group must maintain a capital adequacy ratio of at least 8% according to NBS regulations. The capital adequacy ratio is the ratio between the Group's capital and the risk-weighted assets. Risk-weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The VUB Group complied with the NBS requirement for the capital adequacy ratio as at 30 June 2010 and 31 December 2009.

24. Financial commitments and contingencies

	June 2010	Dec 2009
Issued guarantees	561,709	492,359
Commitments and undrawn credit facilities	1,946,562	1,834,704
	2,508,271	2,327,063

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

In the normal course of business, the VUB Group enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 30 June 2010 and 31 December 2009 was as follows:

	June 2010	Dec 2009
Up to 1 year	1,714	1,968
1 to 5 years	1,142	1,842
Over 5 years	-	-
	2,856	3,810

(d) Operating lease – the Group as a lessor

The VUB Group has entered into a number of non-cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 30 June 2010 and 31 December 2009 are as follows:

	June 2010	Dec 2009
Up to 1 year	1,183	1,417
1 to 5 years	840	1,056
Over 5 years	-	-
	2,023	2,473

(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 2010. Pursuant to this review, Management has recorded total provisions of € 26,279 thousand (31 December 2009: € 25,111 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 € 18,819 thousand, as at 30 June 2010 (31 December 2009: € 15,371 thousand). This amount represents existing legal proceedings against the VUB Group that according to the opinion of the Legal Department of the VUB will most probably not result in any payments due by the VUB Group.

25. Net interest income

	June 2010	June 2009
Interest and similar income		
Due from banks	3,935	6,487
Loans and advances to customers	175,904	194,371
Bonds, treasury bills and other securities:		
Financial assets held for trading	4,523	5,548
Available-for-sale financial assets	19,460	14,678
Held-to-maturity investments	30,569	43,204
	234,391	264,288
Interest expense and similar charges		
Due to banks	(4,768)	(5,720)
Due to customers	(30,244)	(53,743)
Debt securities in issue	(20,816)	(22,574)
	(55,828)	(82,037)
	178,563	182,251

26. Net fee and commission income

	June 2010	June 2009
Fee and commission income		
Received from banks	2,267	2,346
Received from customers:		
Current accounts	21,481	21,541
Mutual funds	3,369	1,768
Term deposits	338	407
Insurance mediation	4,244	3,687
Loans and guarantees	20,332	18,398
Overdrafts	1,404	1,746
Securities	462	329
Transactions and payments	10,930	9,162
Other	959	824
	65,786	60,208
Fee and commission expense		
Paid to banks	(5,442)	(4,958)
Paid to mediators:		
Credit cards	(4,805)	(5,919)
Securities	(323)	(304)
Services	(1,558)	(803)
Other	(1,254)	(1,328)
	(13,382)	(13,312)
	52,404	46,896

27. Net trading income

	June 2010	June 2009
Foreign currency derivatives and transactions	(1,660)	(3,898)
Customer FX margins	2,514	3,153
Cross currency swaps	2,395	2,217
Interest rate derivatives *	(6,843)	2,223
Securities:		
Financial assets held for trading	1,244	1,148
Available-for-sale financial assets *	5,955	(1,438)
	3,605	3,405

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

The Day 1 profit of all deals that were realised during 2010 and 2009 is disclosed within the Net trading income, therefore there is no amount still to be recognised in income at 30 June 2010.

28. Other operating income

	June 2010	June 2009
Profit from purchase of debt securities	-	3,906
Income from leasing	1,909	1,203
Rent	738	797
Other services	182	643
Sales of consumer goods	29	679
Net profit from sale of available-for-sale shares	-	133
Net (loss)/profit from sale of fixed assets	(177)	86
Other	914	1,898
	3,595	9,345

29. Salaries and employee benefits

	June 2010	June 2009
Remuneration	(37,017)	(35,583)
Social security costs	(11,256)	(11,619)
Social fund	(439)	(462)
Retention program (note 22)	286	424
Severance and Jubilee benefits (note 22)	-	139
	(48,426)	(47,101)

The total number of employees of the VUB Group at 30 June 2010 was 3,952 (31 December 2009: 3,959).

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 recognised 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 2010	June 2009
Post and telecom	(6,572)	(6,550)
Property related expenses	(6,309)	(7,247)
IT systems maintenance	(5,754)	(6,304)
Advertising and marketing	(4,994)	(4,912)
Contribution to the Deposit Protection Fund	(4,182)	(4,138)
Equipment related expenses	(3,679)	(3,897)
VAT and other taxes	(3,319)	(3,556)
Security	(1,863)	(2,933)
Stationery	(1,723)	(2,588)
Professional services	(1,234)	(1,612)
Sales of consumer goods	(982)	-
Other damages	(581)	(226)
Travelling	(460)	(582)
Audit *	(424)	(386)
Insurance	(398)	(261)
Transport	(365)	(598)
Trainings	(297)	(452)
Litigations paid	(145)	(116)
Provisions for litigations (note 21)	(1,168)	7,890
Other operating expenses	(1,663)	(1,096)
	(46,112)	(39,564)

* As at 30 June 2010 the audit expense consists of the statutory audit in the amount of € 276 thousand (30 June 2009: € 265 thousand), group reporting in the amount of € 105 thousand (30 June 2009: € 87 thousand) and other reporting in the amount of € 43 thousand (30 June 2009: € 34 thousand).

31. Impairment losses on financial assets

	June 2010	June 2009
Net creation of impairment losses (note 10)	(35,194)	(56,362)
Net reversal of liabilities – financial guarantees and commitments (note 22)	1,621	228
	(33,573)	(56,134)
Nominal value of loans written-off	(6,754)	(4,426)
Nominal value of loans sold	(3,107)	(6,385)
Proceeds from loans written-off	2,182	2,267
Proceeds from loans sold	832	6,149
	(6,847)	(2,395)
	(40,420)	(58,529)

32. Income tax expense

	June 2010	June 2009
Current income tax	(23,579)	(30,020)
Deferred income tax (note 20)	5,837	15,518
	(17,742)	(14,502)

33. Components of other comprehensive income

	June 2010	June 2009
Exchange differences on translating foreign operations	462	473
Available-for-sale financial assets:		
Losses arising for the period	(13,653)	(2,993)
Less: Reclassification adjustments for gains included in profit or loss	-	10
	(13,653)	(2,983)
Cash flow hedges:		
Losses arising for the period	(4,357)	(6)
Total other comprehensive income	(17,548)	(2,516)
Income tax relating to components of other comprehensive income	3,422	568
Other comprehensive income for 6 months	(14,126)	(1,948)

34. Income tax effects relating to comprehensive income

	June 2010			June 2009		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Exchange differences on translating foreign operations	462	-	462	473	-	473
Available-for-sale financial assets	(13,653)	2,594	(11,059)	(2,983)	567	(2,416)
Net movement on cash flow hedges	(4,357)	828	(3,529)	(6)	1	(5)
	(17,548)	3,422	(14,126)	(2,516)	568	(1,948)

35. Estimated fair value of financial assets and liabilities

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

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

(f) Due to banks and customers

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

(g) Debt securities in issue

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

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

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

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

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

36. Financial risk management

Introduction and overview

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

(a) credit risk,

(b) market risk,

(c) liquidity risk,

(d) operational risk.

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

Risk management framework

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

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

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

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

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and 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, Authorised 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 organisationally structured to provide support to the Business Units, as well as to provide reporting of credit, market and operational risks to the Supervisory Board and Management Board. The Risk Management Division is responsible for overseeing the Group's credit risk including:

36. Financial risk management (continued)

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

Allowances for impairment

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

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

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

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

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

VÚB BANKA

36. Financial risk management (continued)

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

	Category	June 2010 Amortised cost	June 2010 Impairment losses	June 2010 Carrying amount	December 2009 Amortised cost	December 2009 Impairment losses	December 2009 Carrying amount
Banks							
	Performing	362,518	-	362,518	163,076	-	163,076
	Bad and Doubtful	151	(151)	-	151	(151)	-
		362,669	(151)	362,518	163,227	(151)	163,076
Sovereigns							
	Performing	69,985	(158)	69,827	35,994	(296)	35,698
	Substandard	366	(147)	219			
	Bad and Doubtful	257	(240)	17			
		70,608	(545)	70,063	35,994	(296)	35,698
Corporate							
	Performing	2,406,320	(43,824)	2,362,496	2,469,239	(37,049)	2,432,190
	Substandard	39,621	(12,903)	26,718	105,892	(22,763)	83,129
	Bad and Doubtful	40,384	(34,389)	5,995	56,954	(34,263)	22,691
		2,486,325	(91,116)	2,395,209	2,632,085	(94,075)	2,538,010
Retail							
	Performing	3,548,274	(74,583)	3,473,691	3,271,222	(62,792)	3,208,430
	Substandard	86,636	(23,937)	62,699	77,269	(20,465)	56,804
	Bad and Doubtful	139,424	(110,632)	28,792	112,854	(88,149)	24,705
		3,774,334	(209,152)	3,565,182	3,461,345	(171,406)	3,289,939
Securities							
	Performing	3,824,601	(315)	3,824,286	3,205,116	-	3,205,116
	Substandard	-	-	-	1,881	(377)	1,504
		3,824,601	(315)	3,824,286	3,206,997	(377)	3,206,620

36. Financial risk management (continued)

The table below shows the maximum amount of credit risk regardless of received collateral. The credit risk of financial assets approximates their carrying amounts with the exception of Derivative financial instruments.

	June 2010	Dec 2009
Cash and balances with central banks	271,125	244,171
Due from banks	362,518	163,076
Financial assets held for trading	248,676	164,812
Derivative financial instruments	73,269	59,667
Available-for-sale financial assets	1,728,148	995,561
Non-current assets held for sale	9	-
Loans and advances to customers	6,030,454	5,863,647
Held-to-maturity investments	1,847,462	2,046,247
Associates and jointly controlled entities	5,877	5,620
Intangible assets	41,673	47,022
Goodwill	29,305	29,305
Property and equipment	155,502	164,104
Current income tax assets	11,825	6,036
Deferred income tax assets	57,217	47,834
Other assets	29,985	32,179
	10,893,045	9,869,281

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 2010			December 2009		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	362,518	-	362,518	163,076	-	163,076
1 – 30 days	-	-	-	-	-	-
91 – 180 days	-	-	-	151	(151)	-
Over 181 days *	151	(151)	-	-	-	-
	362,669	(151)	362,518	163,227	(151)	163,076
Sovereigns						
No delinquency	66,391	(158)	66,233	35,871	(296)	35,575
1 – 30 days	3,884	(387)	3,497	60	-	60
31 – 60 days	-	-	-	18	-	18
61 – 90 days	276	-	276	-	-	-
91 – 180 days	-	-	-	18	-	18
Over 181 days *	57	-	57	27	-	27
	70,608	(545)	70,063	35,994	(296)	35,698

36. Financial risk management (continued)

	June 2010			December 2009		
	Amortised cost	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Corporate						
No delinquency	2,353,549	(54,594)	2,298,955	2,430,191	(47,368)	2,382,823
1 – 30 days	44,203	(3,165)	41,038	70,319	(3,356)	66,963
31 – 60 days	5,520	(905)	4,615	24,275	(3,627)	20,648
61 – 90 days	3,791	(552)	3,239	12,090	(1,189)	10,901
91 – 180 days	13,264	(4,943)	8,321	47,097	(11,060)	36,037
Over 181 days *	65,998	(26,957)	39,041	48,113	(27,475)	20,638
	2,486,325	(91,116)	2,395,209	2,632,085	(94,075)	2,538,010
Retail						
No delinquency	3,314,932	(65,470)	3,249,462	3,049,378	(53,529)	2,995,849
1 – 30 days	184,863	(11,551)	173,312	179,562	(10,516)	169,046
31 – 60 days	41,571	(5,565)	36,006	42,942	(5,778)	37,164
61 – 90 days	24,453	(5,017)	19,436	24,199	(5,106)	19,093
91 – 180 days	43,700	(18,703)	24,997	40,009	(18,391)	21,618
Over 181 days *	164,815	(102,846)	61,969	125,255	(78,086)	47,169
	3,774,334	(209,152)	3,565,182	3,461,345	(171,406)	3,289,939
Securities						
No delinquency	3,824,601	(315)	3,824,286	3,206,997	(377)	3,206,620
	3,824,601	(315)	3,824,286	3,206,997	(377)	3,206,620

*** Write-off Policy**

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

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

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

36. Financial risk management (continued)

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

	June 2010			December 2009		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Europe						
Banks	325,653	(151)	325,502	137,169	(151)	137,018
Sovereigns	70,608	(545)	70,063	35,994	(296)	35,698
Corporate	2,486,275	(91,113)	2,395,162	2,632,085	(93,588)	2,538,497
Retail	3,771,843	(209,129)	3,562,714	3,458,746	(171,864)	3,286,882
Securities	3,819,321	-	3,819,321	3,201,739	-	3,201,739
	10,473,700	(300,938)	10,172,762	9,465,733	(265,899)	9,199,834
North America						
Banks	36,157	-	36,157	30,956	-	30,956
Retail	944	(11)	933	977	(19)	958
Securities	5,280	(315)	4,965	5,258	(377)	4,881
	42,381	(326)	42,055	37,191	(396)	36,795
Asia						
Banks	805	-	805	645	-	645
Corporate	50	(3)	47	-	-	-
Retail	669	(11)	658	695	(9)	686
	1,524	(14)	1,510	1,340	(9)	1,331
Rest of the World						
Banks	54	-	54	125	-	125
Retail	878	(1)	877	927	(1)	926
	932	(1)	931	1,052	(1)	1,051

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

36. Financial risk management (continued)

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

30 June 2010	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	50,445	33,761	-
Construction	-	-	152,657	15,356	-
Consumers	-	-	4,489	3,340,420	-
Energy and water supply	-	-	116,554	2,709	-
Financial services	362,518	-	153,922	704	136,011
Government	-	70,063	-	-	3,677,413
Manufacturing	-	-	418,844	33,960	-
Professional services	-	-	101,576	12,257	-
Real estate	-	-	387,080	22,548	-
Retail & Wholesale	-	-	600,624	71,100	9,296
Services	-	-	56,912	17,469	-
Transportation	-	-	275,784	10,060	-
Other	-	-	76,322	4,838	1,566
	362,518	70,063	2,395,209	3,565,182	3,824,286

31 December 2009	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	66,904	5,639	-
Construction	-	-	164,185	15,043	-
Consumers	-	-	5,839	3,136,346	-
Energy and water supply	-	-	141,790	1,221	-
Financial services	163,076	-	214,277	4,103	178,109
Government	-	35,698	-	-	3,016,987
Manufacturing	-	-	466,962	24,162	-
Professional services	-	-	65,155	7,622	-
Real estate	-	-	381,228	2,745	-
Retail & Wholesale	-	-	637,931	54,502	9,446
Services	-	-	60,253	12,274	574
Transportation	-	-	246,155	11,139	-
Other	-	-	87,331	15,143	1,504
	163,076	35,698	2,538,010	3,289,939	3,206,620

36. Financial risk management (continued)

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

	Neither past due nor impaired			Impaired			Past due but not impaired		
30 June 2010	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	362,486	-	362,486	151	(151)	-	-	-	-
Sovereigns									
Municipalities	66,391	(158)	66,233	-	-	-	555	-	555
Municipalities – Leasing	-	-	-	623	(387)	236	3,039	-	3,039
	66,391	(158)	66,233	623	(387)	236	3,594	-	3,594
Corporate									
Large Corporates	757,550	(6,540)	751,010	8,562	(7,426)	1,136	16,131	(1,547)	14,584
Project Financing	579,328	(14,089)	565,239	1,493	(603)	890	21,876	(2,640)	19,236
SME	551,088	(12,853)	538,235	36,096	(21,307)	14,789	37,349	(4,172)	33,177
Other Fin. Organisations	257,027	(224)	256,803	-	-	-	7	-	7
Private Sector Entities	2,829	(34)	2,795	-	-	-	7	-	7
Leasing	5,349	(731)	4,618	27,829	(15,777)	12,052	129,906	(817)	129,089
Factoring	44,370	(152)	44,218	6,025	(2,179)	3,846	3,503	(25)	3,478
	2,197,541	(34,623)	2,162,918	80,005	(47,292)	32,713	208,779	(9,201)	199,578
Retail									
Small business	217,383	(9,521)	207,862	24,373	(15,003)	9,370	4,470	(585)	3,885
Small business – Leasing	-	-	-	1,120	(633)	487	5,471	(63)	5,408
Consumer Loans	627,203	(19,023)	608,180	125,755	(87,397)	38,358	82,210	(7,020)	75,190
Mortgages	2,131,010	(4,375)	2,126,635	50,009	(12,692)	37,317	114,020	(3,080)	110,940
Credit Cards	232,054	(28,742)	203,312	10,258	(7,497)	2,761	6,497	(211)	6,286
Overdrafts	61,350	(591)	60,759	12,770	(10,307)	2,463	30,380	(1,254)	29,126
Leasing	11	-	11	1,692	(957)	735	8,196	(94)	8,102
Other	27,897	(24)	27,873	83	(83)	-	122	-	122
	3,296,908	(62,276)	3,234,632	226,060	(134,569)	91,491	251,366	(12,307)	239,059
Securities									
Trading	248,676	-	248,676	-	-	-	-	-	-
AFS	1,728,148	-	1,728,148	-	-	-	-	-	-
HTM	1,847,777	(315)	1,847,462	-	-	-	-	-	-
	3,824,601	(315)	3,824,286	-	-	-	-	-	-

36. Financial risk management (continued)

	Neither past due nor impaired			Impaired			Past due but not impaired		
31 December 2009	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	163,076	-	163,076	151	(151)	-	-	-	-
Sovereigns									
State organisations	11,049	-	11,049	-	-	-	-	-	-
Municipalities	24,474	(103)	24,371	-	-	-	471	(193)	278
	35,523	(103)	35,420	-	-	-	471	(193)	278
Corporate									
Large Corporates	724,781	(3,622)	721,159	14,758	(10,694)	4,064	10,471	(169)	10,302
Project Financing	532,418	(11,446)	520,972	17,189	(4,326)	12,863	1,564	(78)	1,486
SME	610,789	(14,466)	596,323	62,881	(25,903)	36,978	23,498	(1,430)	22,068
Other Fin. Organisations	293,797	(279)	293,518	-	-	-	344	(1)	343
Private Sector Entities	16,263	(195)	16,068	-	-	-	7	-	7
Leasing	108,910	(351)	108,559	54,733	(11,689)	43,044	16,578	(1,328)	15,250
Factoring	48,009	(1,005)	47,004	487	(320)	167	13,952	(66)	13,886
	2,334,967	(31,364)	2,303,603	150,048	(52,932)	97,116	66,414	(3,072)	63,342
Retail									
Small business	201,620	(7,867)	193,753	26,816	(12,766)	14,050	3,915	(492)	3,423
Small business – Leasing	11,908	(31)	11,877	4,447	(1,195)	3,252	1,839	(119)	1,720
Consumer Loans	634,894	(17,787)	617,107	113,779	(74,546)	39,233	74,661	(5,968)	68,693
Mortgages	1,970,479	(4,224)	1,966,255	39,107	(10,024)	29,083	104,995	(2,751)	102,244
Credit Cards	232,194	(24,070)	208,124	8,621	(6,133)	2,488	6,925	(343)	6,582
Overdrafts	61,315	(553)	60,762	9,977	(7,869)	2,108	31,706	(1,198)	30,508
Other	2,622	-	2,622	177	(177)	-	4	-	4
	3,115,032	(54,532)	3,060,500	202,924	(112,710)	90,214	224,045	(10,871)	213,174
Securities									
Trading	165,443	-	165,443	-	-	-	-	-	-
AFS	994,930	-	994,930	-	-	-	-	-	-
HTM	2,044,743	-	2,044,743	1,881	(377)	1,504	-	-	-
	3,205,116	-	3,205,116	1,881	(377)	1,504	-	-	-

36. Financial risk management (continued)

(b) Market risk

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

Management of market risk

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

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

Exposure to market risk – trading portfolios

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

The Group uses VaR limits for total market risk in the trading book, foreign exchange risk and interest rate risk. The overall structure of VaR limits is subject to review and approval by ALCO and Intesa Sanpaolo. VaR is measured on a daily basis. Daily reports of utilisation 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 2010 and at 31 December 2009 is as follows:

€ '000	**June 2010**				**December 2009**			
	Balance	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	96	103	307	18	38	93	236	11
Interest rate risk	111	106	141	75	96	169	384	72
Overall	171	165	367	80	132	207	469	80

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

36. Financial risk management (continued)

Exposure to interest rate risk

The main risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to 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 the maturity, i.e. fixed rate instruments, or by next re-pricing date, i.e. floating rate instruments. Assets and liabilities that do not have contractual maturity date or are not interest bearing are mapped according to internal models based on behavioural assumptions.

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

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

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

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

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

Models applied for the calculation of interest rate gap

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

Contractual

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

Behavioural

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

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

36. Financial risk management (continued)

Interest margin sensitivity in a one year time frame – in the event of a 100 basis points rise in interest rates – was € -2,118 thousand at 30 June 2010, compared to € -282 thousand at 31 December 2009.

In 2010, interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 1 basis point, registered € -87 thousand at 30 June 2010, compared to the € 28 thousand at 31 December 2009.

€ '000	**June 2010**	**Dec 2009**
EUR	(86)	21
CZK	-	7
Other	(1)	-
	(87)	28

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

	June 2010 %	**Dec 2009 %**
Assets		
Cash and balances with central banks	0.84	1.39
Due from banks	2.48	2.90
Financial assets held for trading	4.12	5.03
Available-for-sale financial assets	2.90	2.83
Loans and advances to customers	5.76	6.25
Held-to-maturity investments	3.26	3.92
Liabilities		
Due to central and other banks	1.69	1.57
Due to customers	0.90	1.66
Debt securities in issue	2.96	3.46

36. Financial risk management (continued)

Currency denominations of assets and liabilities

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

(c) Liquidity risk

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

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

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

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

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

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

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

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

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

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

36. Financial risk management (continued)

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

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

Rule 1: Real Estate + Equity Investments <= Regulatory Capital
Rule 2: Medium term assets + 0.5 x Long Term Assets <= Long term liabilities + 0.5 x Medium term liabilities + 0.25 x (short term customer liabilities + interbank liabilities) + excess in Rule 1

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

30 June 2010	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	271,125	-	271,125
Due from banks	335,626	26,892	362,518
Financial assets held for trading	165,539	83,137	248,676
Derivative financial instruments	55,674	-	55,674
Available-for-sale financial assets	324,615	1,403,533	1,728,148
Non-current assets held for sale	9	-	9
Loans and advances to customers	1,967,837	4,062,617	6,030,454
Held-to-maturity investments	748,082	1,099,380	1,847,462
Associates and jointly controlled entities	-	5,877	5,877
Intangible assets	553	41,120	41,673
Goodwill	-	29,305	29,305
Property and equipment	4,437	151,065	155,502
Current income tax assets	11,825	-	11,825
Deferred income tax assets	3,378	53,839	57,217
Other assets	24,102	5,883	29,985
	3,912,802	6,962,648	10,875,450
Liabilities			
Due to central and other banks	(520,936)	(98,663)	(619,599)
Derivative financial instruments	(61,631)	-	(61,631)
Due to customers	(6,792,441)	(925,236)	(7,717,677)
Debt securities in issue	(202,720)	(1,207,278)	(1,409,998)
Provisions	-	(26,279)	(26,279)
Other liabilities	(59,328)	-	(59,328)
	(7,637,056)	(2,257,456)	(9,894,512)
	(3,724,254)	4,705,192	980,938

36. Financial risk management (continued)

31 December 2009	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	238,503	-	244,171
Due from banks	103,883	64,861	163,076
Financial assets held for trading	95,328	69,484	164,812
Derivative financial instruments	42,783	-	42,783
Available-for-sale financial assets	75,756	919,805	995,561
Loans and advances to customers	2,015,153	3,848,494	5,863,647
Held-to-maturity investments	297,715	1,748,532	2,046,247
Associates and jointly controlled entities	-	5,620	5,620
Intangible assets	-	47,022	47,022
Goodwill	-	29,305	29,305
Property and equipment	-	164,104	164,104
Current income tax assets	6,036	-	6,036
Deferred income tax assets	-	47,834	47,834
Other assets	32,179	-	32,179
	2,907,336	6,945,061	9,852,397
Liabilities			
Due to central and other banks	(656,534)	(139,811)	(796,345)
Derivative financial instruments	(52,471)	-	(52,471)
Due to customers	(5,885,135)	(724,791)	(6,609,926)
Debt securities in issue	(182,212)	(1,115,863)	(1,298,075)
Provisions	-	(25,111)	(25,111)
Other liabilities	(81,763)	(2,312)	(84,075)
	(6,858,115)	(2,007,888)	(8,866,003)
	(3,950,779)	4,937,173	986,394

36. Financial risk management (continued)

(d) Operational risk

Operational risk management strategies and processes

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

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

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

Organisational structure of the associated risk management function

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

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

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

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

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

Policies for hedging and mitigating risk

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

37. Segment reporting

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

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

The Group comprises the following main operating segments:

- Retail Banking
- Corporate Banking
- Central Treasury

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

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

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

37. Segment reporting (continued)

30 June 2010	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	136,563	38,492	56,922	2,414	234,391
Interest expense	(25,754)	(5,349)	(23,872)	(853)	(55,828)
Inter-segment revenue	(2,335)	(5,476)	(3,856)	11,667	-
Net interest income	108,474	27,667	29,194	13,228	178,563
Net fee and commission income	18,174	23,055	(1,976)	13,151	52,404
Net trading income	1,773	1,912	124	(204)	3,605
Other operating income	1,976	965	222	432	3,595
Total segment operating income	130,397	53,599	27,564	26,607	238,167
Operating expenses					(113,198)
Operating profit before impairment					124,969
Impairment losses on financial assets					(40,420)
Share of profit of associates and jointly controlled entities					281
Income tax expense					(17,742)
Net profit for 6 months					67,088
Segment assets	3,526,628	2,774,642	4,065,603	508,577	10,875,450
Segment liabilities	4,549,018	1,945,602	3,321,562	1,059,268	10,875,450

37. 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					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

38. Related parties

Related parties are those counterparties that represent:

(a) enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, or are under the common control of, the reporting enterprise;

(b) associates – enterprises in which the parent company has significant influence and which are neither a subsidiary nor a joint venture;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

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

38. Related parties (continued)

At 30 June 2010, significant outstanding balances with related parties comprised:

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	227,237	227,237
Derivative financial instruments	-	-	-	8,962	8,962
Loans and advances to customers	671	933	-	-	1,604
Other assets	-	-	8	-	8
	671	933	8	236,199	237,811
Liabilities					
Due to central and other banks	-	-	-	260,371	260,371
Derivative financial instruments	-	-	-	259	259
Due to customers	2,008	2	100	-	2,110
Debt securities in issue					
Bonds	194	-	6,676	-	6,870
Mortgage bonds	-	-	-	804,186	804,186
	2,202	2	6,776	1,064,816	1,073,796
Derivative transactions (notional amount – receivable)	-	-	-	212,516	212,516
Derivative transactions (notional amount – payable)	-	-	-	24,271	24,271
Income and expense items					
Interest and similar income	19	25	-	2,723	2,767
Interest expense and similar charges	(20)	-	(68)	(11,387)	(11,475)
Fee and commission income	2	-	6	-	8
Fee and commission expense	-	-	-	(141)	(141)
Net trading income	-	-	-	5,664	5,664
Operating income	-	-	48	88	136
	1	25	(14)	(3,053)	(3,041)

* Key management personnel

38. Related parties (continued)

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

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	109,201	109,201
Derivative financial instruments	-	-	-	4,721	4,721
Available-for-sale financial assets	-	-	-	43,047	43,047
Loans and advances to customers	717	928	-	-	1,645
Other assets	-	-	13	-	13
	717	928	13	156,969	158,627
Liabilities					
Due to central and other banks	-	-	-	282,642	282,642
Derivative financial instruments	-	-	-	2,025	2,025
Due to customers	1,597	2	109	-	1,708
Debt securities in issue					
Bonds	154	-	6,630	-	6,784
Mortgage bonds	-	-	-	600,169	600,169
	1,751	2	6,739	884,836	893,328
Derivative transactions (notional amount – receivable)	-	-	-	178,284	178,284
Derivative transactions (notional amount – payable)	-	-	-	160,000	160,000

For the period ended 30 June 2009, significant outstanding balances with related parties comprised:

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Income and expense items					
Interest and similar income	14	22	-	3,783	3,819
Interest expense and similar charges	(17)	-	(3,487)	(6,498)	(10,002)
Fee and commission income	-	-	3	-	3
Net trading income	-	-	-	(5,978)	(5,978)
Operating income	-	-	50	139	189
	(3)	22	(3,434)	(8,554)	(11,969)

39. Events after the end of reporting period

There were no events after 30 June 2010 that would have a material effect on a fair presentation of the matters disclosed in these financial statements.