



**Interim separate financial statements
for 3 months ended 31 March 2010**

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

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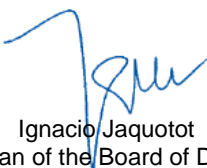
Statement of financial position at 31 March 2010

(In thousands of euro)

	Note	Mar 2010	Dec 2009
Assets			
Cash and balances with central banks	4	204,926	244,114
Due from banks	5	294,922	162,978
Financial assets held for trading	6	235,855	163,082
Derivative financial instruments	7	43,748	42,783
Available-for-sale financial assets	8	1,395,981	995,561
Loans and advances to customers	9	5,575,034	5,549,836
Held-to-maturity investments	11	1,859,970	2,046,247
Subsidiaries, associates and jointly controlled entities	12	115,260	101,559
Intangible assets	13	26,570	28,207
Property and equipment	14	153,839	157,992
Current income tax assets	19	5,329	6,722
Deferred income tax assets	19	41,775	39,511
Other assets	15	13,196	11,581
		<u>9,966,405</u>	<u>9,550,173</u>
Liabilities			
Due to central and other banks	16	932,100	559,697
Derivative financial instruments	7	56,403	52,471
Due to customers	17	6,693,905	6,613,327
Debt securities in issue	18	1,214,359	1,285,310
Provisions	20	25,251	24,993
Other liabilities	21	45,048	50,585
		<u>8,967,066</u>	<u>8,586,383</u>
Equity			
Share capital	22	430,819	430,819
Share premium	22	13,368	13,368
Reserves		95,153	90,242
Retained earnings		459,999	429,361
		<u>999,339</u>	<u>963,790</u>
		<u>9,966,405</u>	<u>9,550,173</u>
Financial commitments and contingencies	23	<u>2,440,959</u>	<u>2,353,842</u>

The accompanying notes on pages 7 to 59 form an integral part of these financial statements.

These financial statements were authorized for issue on 27 April 2010.



Ignacio Jaquotot
Chairman of the Board of Directors



Domenico Cristarella
Member of the Board of Directors

Statement of comprehensive income for 3 months ended 31 March 2010

(In thousands of euro)

	Note	Mar 2010	Mar 2009
Interest and similar income		102,071	121,784
Interest expense and similar charges		(25,729)	(42,291)
Net interest income	24	76,342	79,493
Fee and commission income		30,938	27,676
Fee and commission expense		(11,088)	(8,725)
Net fee and commission income	25	19,850	18,951
Net trading income	26	2,104	1,751
Other operating income	27	776	2,635
Operating income		99,072	102,830
Salaries and employee benefits	28	(21,700)	(21,769)
Other operating expenses	29	(18,296)	(8,264)
Amortisation	13	(1,972)	(3,127)
Depreciation	14	(4,938)	(4,805)
Operating expenses		(46,906)	(37,965)
Operating profit before impairment		52,166	64,865
Impairment losses on financial assets	30	(12,827)	(16,697)
Profit before tax		39,339	48,168
Income tax expense	31	(7,715)	(7,907)
NET PROFIT FOR 3 MONTHS		31,624	40,261
Other comprehensive income for 3 months, after tax:			
Exchange difference on translating foreign operation		237	(387)
Available-for-sale financial assets		5,916	(722)
Cash flow hedges		(2,757)	(657)
Other comprehensive income for 3 months, net of tax	32, 33	3,396	(1,766)
TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS		35,020	38,495
Basic and diluted earnings per € 33.2 share in €	22	2.44	3.10

The accompanying notes on pages 7 to 59 form an integral part of these financial statements.

Statement of changes in equity for 3 months ended 31 March 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	87,518	282,937	(1,741)	(542)	(829)	811,505
Transition to euro	25	-	(25)	-	-	-	-	-
Total comprehensive income for 3 months	-	-	-	40,261	(387)	(722)	(657)	38,495
At 31 March 2009	<u>430,819</u>	<u>13,368</u>	<u>87,493</u>	<u>323,198</u>	<u>(2,128)</u>	<u>(1,264)</u>	<u>(1,486)</u>	<u>850,000</u>
At 1 January 2010	430,819	13,368	87,493	429,361	(1,649)	6,037	(1,639)	963,790
Total comprehensive income for 3 months	-	-	-	31,624	237	5,916	(2,757)	35,020
Other *	-	-	-	(1,515)	1,515	-	-	-
Effect of FX hedge *	-	-	-	529	-	-	-	529
At 31 March 2010	<u>430,819</u>	<u>13,368</u>	<u>87,493</u>	<u>459,999</u>	<u>103</u>	<u>11,953</u>	<u>(4,396)</u>	<u>999,339</u>

* Foreign currency difference disclosed under Translation of foreign operation was settled within transfer of retained earnings 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 59 form an integral part of these financial statements.

Statement of cash flows for 3 months ended 31 March 2010

(In thousands of euro)

	Note	Mar 2010	Mar 2009
Cash flows from operating activities			
Profit before tax		39,339	48,168
Adjustments for:			
Amortisation		1,972	3,127
Depreciation		4,938	4,805
Securities held for trading, available-for-sale securities and FX differences		3,456	(23,260)
Interest income		(102,071)	(121,784)
Interest expense		25,729	42,291
Sale of property and equipment		-	(326)
Impairment losses on financial assets and similar charges		13,085	4,930
Interest received		117,952	132,379
Interest paid		(20,330)	(35,162)
Tax paid		(8,586)	(6,920)
Due from banks		(169,199)	(3,740)
Financial assets held for trading		(73,365)	65,420
Derivative financial instruments (assets)		(2,976)	15,321
Available-for-sale financial assets		(395,859)	(650,694)
Loans and advances to customers		(38,507)	(152,735)
Other assets		(1,591)	176
Due to central and other banks		372,103	(191,412)
Derivative financial instruments (liabilities)		3,932	(2,348)
Due to customers		78,268	(1,061,285)
Other liabilities		(4,347)	19,078
<i>Net cash used in operating activities</i>		<u>(156,057)</u>	<u>(1,913,971)</u>
Cash flows from investing activities			
Purchase of held-to-maturity investments		(9,768)	-
Repayments of held-to-maturity investments		181,712	67,120
Purchase of intangible assets and property and equipment		(1,125)	(302)
Disposal of property and equipment		5	2,274
Acquisition of subsidiaries		(13,701)	-
<i>Net cash from investing activities</i>		<u>157,123</u>	<u>69,092</u>
Cash flows from financing activities			
Proceeds from issue of debt securities		1,500	6,550
Repayments of debt securities		(79,665)	(33,193)
<i>Net cash used in financing activities</i>		<u>(78,165)</u>	<u>(26,643)</u>
Net change in cash and cash equivalents		(77,099)	(1,871,522)
Cash and cash equivalents at beginning of the year	3	<u>333,185</u>	<u>2,517,406</u>
Cash and cash equivalents at 31 March	3	<u>256,086</u>	<u>645,884</u>

The accompanying notes on pages 7 to 59 form an integral part of these financial statements.

1. General information

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

At 31 March 2010, the Bank had a network of 252 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.

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

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The separate financial statements of the Bank ('the financial statements') have been prepared in accordance with International 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 of the previous financial year.

2.3 Segment reporting

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

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

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

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

2. Summary of significant accounting policies (continued)

2.4 Foreign currency transactions

Monetary assets and liabilities in foreign currencies are translated to 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.

2.5 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.

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

2.6 Cash and balances with central banks

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

2.7 Treasury bills and other eligible bills

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

2.8 Due from banks

Loans and advances to other 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 Bank will not be able to collect all amounts due.

2.9 Debt securities

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

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

The principal differences among the portfolios relate to the measurement and recognition of fair values in the financial statements. All securities held by the Bank are 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.

2. Summary of significant accounting policies (continued)

(a) Securities held for trading

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

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

The Bank monitors changes in fair values on a daily basis and recognizes 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 Bank assesses at each end of reporting period whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at 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 Bank has the positive intent and ability to hold to maturity.

2. Summary of significant accounting policies (continued)

Held-to-maturity investments are carried at 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 Bank assesses on a regular basis whether there is any objective evidence that a held-to-maturity investment may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

2.10 Repurchase and reverse repurchase agreements

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

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

2.11 Derivative financial instruments

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

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

Credit risk of financial derivatives

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

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

2. Summary of significant accounting policies (continued)

Embedded derivatives

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

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

Hedging derivatives

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

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

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

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially 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. Summary of significant accounting policies (continued)

2.12 Offsetting financial instruments

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

2.13 Non-current assets held for sale

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

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

2.14 Loans and advances to customers and impairment losses

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are recorded at 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 Bank writes off loans and advances when it determines that the loans and advances are uncollectible. Loans and advances are written off against the reversal of the related impairment losses. Any recoveries of written off loans are credited to the statement of comprehensive income on receipt.

2.15 Subsidiaries, associates and jointly controlled entities

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

Dividend discount model

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

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

Net assets method

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

2. Summary of significant accounting policies (continued)

2.16 Intangible assets

Intangible assets are recorded at historical cost less accumulated 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

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

2.17 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and impairment losses. Acquisition cost includes the purchase price plus other costs related to acquisition such as freight, duties or commissions. The costs of expansion, 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 Bank periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to this recoverable amount.

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

2.18 Provisions

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

2.19 Provisions for employee benefits

The Bank's obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is determined by reference to a risk-free curve, with 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 Bank are covered by the retirement and jubilee employee benefits program.

2. Summary of significant accounting policies (continued)

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

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

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

2.20 Financial guarantees

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

Financial guarantee liabilities are initially 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'.

2.21 Legal reserve fund

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

2.22 Equity reserves

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

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

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

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

2.23 Interest income

Interest income and expense is 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. Summary of significant accounting policies (continued)

2.24 Fee and commission income

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

2.25 Net trading income

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

2.26 Dividend income

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

2.27 Income tax

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

Deferred tax assets and liabilities are 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 Bank is also subject to various indirect operating taxes, which are included in 'Other operating expenses'.

2.28 Fiduciary assets

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

2.29 Significant accounting judgements and estimates

Judgements

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

Held-to-maturity investments

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

Financial assets held for trading

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

2. Summary of significant accounting policies (continued)

Estimates

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

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

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

3. Cash and cash equivalents

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

	Note	Mar 2010	Dec 2009
Cash and balances with central banks	4	204,926	244,114
Current accounts in other banks	5	31,219	23,532
Term deposits with other banks	5	10,189	56,093
Held-to-maturity investments	11	9,752	9,446
		<u>256,086</u>	<u>333,185</u>

4. Cash and balances with central banks

	Mar 2010	Dec 2009
Balances with central banks:		
Compulsory minimum reserves	91,420	135,813
Current accounts	530	221
Term deposits	10,415	5,668
	<u>102,365</u>	<u>141,702</u>
Cash in hand	102,561	102,412
	<u>204,926</u>	<u>244,114</u>

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

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

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

5. Due from banks

	Note	Mar 2010	Dec 2009
Current accounts	3	31,219	23,532
Term deposits			
with contractual maturity less than 90 days	3	10,189	56,093
with contractual maturity over 90 days		165,783	-
Loans and advances		87,882	83,504
Impairment losses	10	(151)	(151)
		<u>294,922</u>	<u>162,978</u>

6. Financial assets held for trading

	Mar 2010	Dec 2009
Treasury bills and other eligible bills with contractual maturity over 90 days	154,376	93,302
State bonds with contractual maturity over 90 days	81,479	69,780
	<u>235,855</u>	<u>163,082</u>

At 31 March 2010 and 31 December 2009, no such securities were pledged by the Bank to secure transactions with counterparties.

7. Derivative financial instruments

	Mar 2010 Assets	Dec 2009 Assets	Mar 2010 Liabilities	Dec 2009 Liabilities
Trading derivatives	43,748	42,037	45,207	44,480
Cash flow hedges of interest rate risk	-	-	5,427	2,770
Cash flow hedge of foreign exchange risk	-	746	-	-
Fair value hedges of interest rate risk	-	-	5,769	5,221
	<u>43,748</u>	<u>42,783</u>	<u>56,403</u>	<u>52,471</u>

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 March 2010, the total positive fair value of such derivatives was € 5,676 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)

	Mar 2010 Assets	Dec 2009 Assets	Mar 2010 Liabilities	Dec 2009 Liabilities
Trading derivatives – Fair values				
Interest rate instruments				
Swaps	24,645	25,771	32,157	28,641
Forward rate agreements	-	-	-	159
Options	1,565	1,487	1,572	1,494
	<u>26,210</u>	<u>27,258</u>	<u>33,729</u>	<u>30,294</u>
Foreign currency instruments				
Forwards and swaps	1,330	965	1,955	2,787
Cross currency swaps	5,461	2,800	-	240
Options	4,839	7,511	4,925	7,656
	<u>11,630</u>	<u>11,276</u>	<u>6,880</u>	<u>10,683</u>
Equity and commodity instruments				
Equity options	5,881	3,423	4,571	3,423
Commodity options	27	80	27	80
	<u>5,908</u>	<u>3,503</u>	<u>4,598</u>	<u>3,503</u>
	<u>43,748</u>	<u>42,037</u>	<u>45,207</u>	<u>44,480</u>
	Mar 2010 Assets	Dec 2009 Assets	Mar 2010 Liabilities	Dec 2009 Liabilities
Trading derivatives – Notional values				
Interest rate instruments				
Swaps	852,061	881,941	852,061	881,941
Forward rate agreements	-	160,000	-	160,000
Options	59,915	57,266	59,915	57,266
Futures	6,000	-	6,000	-
	<u>917,976</u>	<u>1,099,207</u>	<u>917,976</u>	<u>1,099,207</u>
Foreign currency instruments				
Forwards and swaps	247,040	197,397	249,583	199,418
Cross currency swaps	70,755	67,994	65,433	65,433
Options	28,239	44,095	27,971	43,910
	<u>346,034</u>	<u>309,486</u>	<u>342,987</u>	<u>308,761</u>
Equity and commodity instruments				
Equity options	21,960	49,581	18,360	49,581
Commodity options	2,658	3,495	2,658	3,495
	<u>24,618</u>	<u>53,076</u>	<u>21,018</u>	<u>53,076</u>
	<u>1,288,628</u>	<u>1,461,769</u>	<u>1,281,981</u>	<u>1,461,044</u>

7. Derivative financial instruments (continued)

In 2009, equity and commodity instruments also included options for the purchase of a 30% shareholding in VÚB Leasing, a. s. held by the Bank with notional values of € 13,941 thousand in assets and € 13,941 thousand in liabilities. These options were derecognised in February 2010 when the Bank acquired the abovementioned 30% stake.

Cash flow hedges

Cash flow hedges of interest rate risk

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

Fair value hedges of interest rate risk

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

8. Available-for-sale financial assets

	Share Mar 2010	Share Dec 2009	Mar 2010	Dec 2009
State bonds			1,361,577	932,649
Bank bonds			33,773	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%	57	57
			631	631
			1,395,981	995,561

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

9. Loans and advances to customers

31 March 2010	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	35,959	-	35,959
Corporate			
Large Corporates	835,028	(15,697)	819,331
Project Financing	558,869	(15,292)	543,577
SME	671,257	(38,632)	632,625
Other Financial Institutions	254,067	(301)	253,766
Private Sector Entities	16,175	(194)	15,981
Factoring	17,341	(136)	17,205
	<u>2,352,737</u>	<u>(70,252)</u>	<u>2,282,485</u>
Retail			
Small business	244,580	(24,322)	220,258
Consumer Loans	604,262	(61,862)	542,400
Mortgages	2,188,259	(18,547)	2,169,712
Credit Cards	253,496	(34,680)	218,816
Overdrafts	106,309	(11,101)	95,208
Other	10,196	-	10,196
	<u>3,407,102</u>	<u>(150,512)</u>	<u>3,256,590</u>
	<u>5,795,798</u>	<u>(220,764)</u>	<u>5,575,034</u>
31 December 2009			
Sovereigns			
Municipalities	31,955	-	31,955
Corporate			
Large Corporates	842,987	(14,485)	828,502
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
Factoring	25,188	(1,023)	24,165
	<u>2,426,925</u>	<u>(73,632)</u>	<u>2,353,293</u>
Retail			
Small business	232,351	(21,125)	211,226
Consumer Loans	600,503	(56,045)	544,458
Mortgages	2,114,581	(16,999)	2,097,582
Credit Cards	247,740	(30,546)	217,194
Overdrafts	102,998	(9,620)	93,378
Other	750	-	750
	<u>3,298,923</u>	<u>(134,335)</u>	<u>3,164,588</u>
	<u>5,757,803</u>	<u>(207,967)</u>	<u>5,549,836</u>

10. Impairment losses

	Note	1 Jan 2010	Creation/ (Reversal) (note 30)	FX gains	Other	31 Mar 2010
Due from banks	5	151	-	-	-	151
Loans and advances to customers	9	207,967	12,492	305	-	220,764
Held-to-maturity investments	11	377	(31)	-	-	346
Subsidiaries, associates and JVs	12	29,639	-	-	-	29,639
Other assets	15	2,877	(24)	36	-	2,889
		<u>241,011</u>	<u>12,437</u>	<u>341</u>	<u>-</u>	<u>253,789</u>

11. Held-to-maturity investments

	Mar 2010	Dec 2009
State restructuring bonds	616,097	618,775
State bonds	1,117,278	1,302,480
Bank bonds and other bonds issued by financial sector	78,813	78,038
Corporate notes and bonds with contractual maturity less than 90 days (note 3)	9,752	9,446
Corporate notes and bonds with contractual maturity over 90 days	38,376	37,885
	<u>1,860,316</u>	<u>2,046,624</u>
Impairment losses (note 10)	(346)	(377)
	<u>1,859,970</u>	<u>2,046,247</u>

At 31 March 2010, bonds in the total nominal amount of € 375,500 thousand were pledged by the Bank (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.

At 31 March 2010 and at 31 December 2009, the Bank held in its portfolio the following state restructuring bonds:

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

12. Subsidiaries, associates and jointly controlled entities

	Share %	Cost	Impairment losses (note 10)	Carrying amount
At 31 March 2010				
VÚB Factoring, a.s.	100.0	16,535	(10,210)	6,325
VÚB Leasingová, a.s. v likvidácii (in liquidation)	100.0	7,767	(7,443)	324
Recovery, a.s.	100.0	3,652	(3,182)	470
VÚB Asset Management, správ. spol. a.s.	100.0	2,821	-	2,821
Consumer Finance Holding, a.s.	100.0	53,114	-	53,114
VÚB Leasing, a. s.	100.0	44,410	(7,769)	36,641
VÚB Generali DSS, a.s.	50.0	16,597	(1,035)	15,562
Slovak Banking Credit Bureau, s.r.o.	33.3	3	-	3
		<u>144,899</u>	<u>(29,639)</u>	<u>115,260</u>
At 31 December 2009				
VÚB Factoring, a.s.	100.0	16,535	(10,210)	6,325
VÚB Leasingová, a.s. v likvidácii (in liquidation)	100.0	7,767	(7,443)	324
Recovery, a.s.	100.0	3,652	(3,182)	470
VÚB Asset Management, správ. spol. a.s.	100.0	2,821	-	2,821
Consumer Finance Holding, a.s.	100.0	53,114	-	53,114
VÚB Leasing, a. s.	70.0	30,709	(7,769)	22,940
VÚB Generali DSS, a.s.	50.0	16,597	(1,035)	15,562
Slovak Banking Credit Bureau, s.r.o.	33.3	3	-	3
		<u>131,198</u>	<u>(29,639)</u>	<u>101,559</u>

13. Intangible assets

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2010	151,702	10,013	3,160	164,875
Additions	-	-	335	335
Disposals	(9)	-	-	(9)
Transfers	3,036	205	(3,241)	-
FX differences	17	-	-	17
At 31 March 2010	<u>154,746</u>	<u>10,218</u>	<u>254</u>	<u>165,218</u>
Accumulated amortisation				
At 1 January 2010	(130,322)	(6,346)	-	(136,668)
Amortisation for the period	(1,687)	(285)	-	(1,972)
Disposals	9	-	-	9
FX differences	(17)	-	-	(17)
At 31 March 2010	<u>(132,017)</u>	<u>(6,631)</u>	<u>-</u>	<u>(138,648)</u>
Carrying amount				
At 1 January 2010	<u>21,380</u>	<u>3,667</u>	<u>3,160</u>	<u>28,207</u>
At 31 March 2010	<u>22,729</u>	<u>3,587</u>	<u>254</u>	<u>26,570</u>

14. Property and equipment

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2010	205,604	93,904	31,830	3,759	335,097
Additions	-	-	-	822	822
Disposals	(315)	(89)	(32)	-	(436)
Transfers	109	2,752	11	(2,872)	-
FX differences	4	15	3	-	22
At 31 March 2010	<u>205,402</u>	<u>96,582</u>	<u>31,812</u>	<u>1,709</u>	<u>335,505</u>
Accumulated depreciation					
At 1 January 2010	(75,910)	(76,881)	(24,314)	-	(177,105)
Depreciation for the period	(2,313)	(1,867)	(758)	-	(4,938)
Disposals	312	85	-	-	397
FX differences	(3)	(15)	(2)	-	(20)
At 31 March 2010	<u>(77,914)</u>	<u>(78,678)</u>	<u>(25,074)</u>	<u>-</u>	<u>(181,666)</u>
Carrying amount					
At 1 January 2010	<u>129,694</u>	<u>17,023</u>	<u>7,516</u>	<u>3,759</u>	<u>157,992</u>
At 31 March 2010	<u>127,488</u>	<u>17,904</u>	<u>6,738</u>	<u>1,709</u>	<u>153,839</u>

15. Other assets

	Mar 2010	Dec 2009
Operating receivables and advances	10,035	8,762
Prepayments and accrued income	2,997	2,898
Other tax receivables	1,472	1,163
Inventories	965	913
Settlement of operations with financial instruments	616	600
Other	-	122
	<u>16,085</u>	<u>14,458</u>
Impairment losses (note 10)	(2,889)	(2,877)
	<u>13,196</u>	<u>11,581</u>

16. Due to central and other banks

	Mar 2010	Dec 2009
Due to central banks		
Current accounts	107,371	28,657
Loans received	<u>180,910</u>	<u>180,460</u>
	<u>288,281</u>	<u>209,117</u>
Due to other banks		
Current accounts	15,550	27,267
Term deposits	575,159	280,595
Loans received	<u>53,110</u>	<u>42,718</u>
	<u>643,819</u>	<u>350,580</u>
	<u>932,100</u>	<u>559,697</u>

17. Due to customers

	Mar 2010	Dec 2009
Current accounts	2,568,329	2,574,080
Term deposits	3,051,362	3,015,419
Savings accounts	302,651	307,154
Government and municipal deposits	596,149	650,744
Loans received	42,824	35,712
Promissory notes	93,721	12,414
Other deposits	<u>38,869</u>	<u>17,804</u>
	<u>6,693,905</u>	<u>6,613,327</u>

18. Debt securities in issue

	Mar 2010	Dec 2009
Bonds	55,036	54,996
Mortgage bonds	<u>1,159,323</u>	<u>1,230,314</u>
	<u>1,214,359</u>	<u>1,285,310</u>

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

18. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	Mar 2010	Dec 2009
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	34,821	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	34,614	34,191
Mortgage bonds VÚB, a.s. XI.	4.40	EUR	500	33,194	25.8.2004	25.8.2010	17,035	16,853
Mortgage bonds VÚB, a.s. XIII.	4.50	EUR	1,000	33,194	29.9.2004	29.9.2010	33,949	33,576
Mortgage bonds VÚB, a.s. XV.	3M EURIBOR + 0.10	EUR	1,000	33,194	30.3.2005	30.3.2010	-	33,195
Mortgage bonds VÚB, a.s. XVII.	3M EURIBOR + 0.11	EUR	2,500	22,280	28.11.2005	28.11.2015	55,738	55,742
Mortgage bonds VÚB, a.s. XVIII.	3.00	EUR	39	331,939	19.12.2005	19.12.2010	12,994	12,874
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,641	17,176
Mortgage bonds VÚB, a.s. XXI.	3M EURIBOR + 0.07	EUR	500	33,194	10.3.2006	10.3.2011	16,604	16,605
Mortgage bonds VÚB, a.s. XXII.	3M EURIBOR + 0.17	EUR	1,200	50,000	29.6.2006	29.6.2011	60,003	60,003
Mortgage bonds VÚB, a.s. XXIII.	3M EURIBOR + 0.15	EUR	60	1,000,000	26.10.2006	26.10.2011	60,089	60,095
Mortgage bonds VÚB, a.s. XXIV.	6M EURIBOR + 0.08	EUR	1,500	33,194	24.11.2006	24.11.2011	49,977	49,845
Mortgage bonds VÚB, a.s. XXV.	3M EURIBOR + 0.16	EUR	30	1,000,000	5.12.2006	5.12.2011	30,018	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. XVIII.	6M PRIBOR + 0.50	CZK	1,000	1,000,000	20.6.2007	20.6.2012	40,024	38,293
Mortgage bonds VÚB, a.s. XXIX.	6M EURIBOR + 0.02	EUR	500	33,194	16.10.2007	16.10.2012	16,674	16,631
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	33,728	33,309
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	19,857	19,610

18. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	Mar 2010	Dec 2009
Mortgage bonds VÚB, a.s. 32.	6M PRIBOR + 1.5	CZK	800	1,000,000	17.12.2007	17.12.2017	34,852	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	20,409	21,077
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,097	18,747
Mortgage bonds VÚB, a.s. 37.	3M EURIBOR + 0.43	EUR	40	1,000,000	30.4.2008	30.4.2011	40,072	40,081
Mortgage bonds VÚB, a.s. 38.	4.75	EUR	317	33,194	26.6.2008	26.6.2010	10,897	10,764
Mortgage bonds VÚB, a.s. 39.	3M EURIBOR + 0.69	EUR	60	1,000,000	26.6.2008	26.6.2015	60,007	60,008
Mortgage bonds VÚB, a.s. 40.	3M EURIBOR + 0.74	EUR	70	1,000,000	28.8.2008	28.8.2015	70,087	70,096
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	25,938	23,937
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	20,740	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,526	15,290
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	15,099	15,633
Mortgage bonds VÚB, a.s. 45.	5.30	EUR	321	16,597	16.10.2008	16.10.2010	5,457	5,386
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	150	1,000,000	19.5.2009	19.5.2016	155,993	154,262
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	20,000	1,000	11.5.2009	11.5.2013	20,711	20,511
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	102,646	101,666
Mortgage bonds VÚB, a.s. 50.	3.40	EUR	8,407	1,000	2.11.2009	2.11.2013	8,525	8,454
Mortgage bonds VÚB, a.s. 52.	3M EURIBOR + 0.61	EUR	30	50,000	15.3.2010	15.3.2014	1,501	-
							1,159,323	1,230,314

19. Current and deferred income taxes

	Mar 2010	Dec 2009
Deferred income tax asset	<u>41,775</u>	<u>39,511</u>
Current income tax assets	<u>5,329</u>	<u>6,722</u>

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

	Mar 2010	Profit/ (loss) (note 31)	Dec 2009
Due from banks	28	-	28
Derivative financial instruments	1,031	-	384
Available-for-sale financial assets	(2,804)	-	(1,416)
Loans and advances to customers	41,849	2,428	39,421
Held-to-maturity investments	66	(5)	71
Property and equipment	(2,277)	14	(2,291)
Other liabilities	3,882	568	3,314
Deferred income tax asset	<u>41,775</u>	<u>3,005</u>	<u>39,511</u>

20. Provisions

	Mar 2010	Dec 2009
Litigations	<u>25,251</u>	<u>24,993</u>

The movement in provisions was as follows:

	1 Jan 2010	Creation/ (Reversal)	31 Mar 2010
Litigations (note 23, note 29)	<u>24,993</u>	<u>258</u>	<u>25,251</u>

21. Other liabilities

	Mar 2010	Dec 2009
Settlement with employees	20,204	17,943
Various creditors	10,099	14,508
Financial guarantees and commitments	8,405	9,595
VAT payables and other tax payables	1,508	3,714
Settlement with shareholders	1,228	1,237
Severance and Jubilee benefits	1,215	1,215
Retention program	1,213	1,026
Accruals and deferred income	1,156	1,321
Settlement with securities	18	17
Other	2	9
	<u>45,048</u>	<u>50,585</u>

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

	Note	1 Jan 2010	Creation/ (Reversal)	31 Mar 2010
Financial guarantees and commitments	30	9,595	(1,190)	8,405
Severance and Jubilee benefits	28	1,215	-	1,215
Retention program	28	1,026	187	1,213
		<u>11,836</u>	<u>(1,003)</u>	<u>10,833</u>

22. Share capital

	Mar 2010	Mar 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
	<u>430,819</u>	<u>430,819</u>
Net profit for 3 months attributable to shareholders	31,624	40,261
Divided by 12,976,478 ordinary shares of € 33.2 each		
Basic and diluted earnings per € 33.2 share in €	<u>2.44</u>	<u>3.10</u>

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

The structure of shareholders is as follows:

	Mar 2010	Dec 2009
Intesa Holding International S.A.	96.76%	96.76%
Domestic shareholders	2.95%	2.95%
Foreign shareholders	0.29%	0.29%
	<u>100.00%</u>	<u>100.00%</u>

22. Share capital (continued)

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes 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 Bank's regulatory capital position at 31 March 2010 and 31 December 2009 was as follows:

	Mar 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	282,135	283,121
Legal reserve fund	87,493	87,493
Less software (including software in Assets in progress)	<u>(22,983)</u>	<u>(24,540)</u>
	790,832	788,612
Tier 2 capital	-	-
Regulatory adjustment		
Subsidiaries, associates and jointly controlled entities	<u>(115,257)</u>	<u>(101,556)</u>
Total regulatory capital	<u>675,575</u>	<u>687,056</u>

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

	Mar 2010 Actual	Mar 2010 Required	Dec 2009 Actual	Dec 2009 Required
Tier 1 capital	790,832	601,111	788,612	593,699
Tier 2 capital	-	-	-	-
Regulatory adjustment	<u>(115,257)</u>	<u>(115,257)</u>	<u>(101,556)</u>	<u>(101,556)</u>
Total regulatory capital	<u>675,575</u>	<u>485,854</u>	<u>687,056</u>	<u>492,143</u>
Total Risk Weighted Assets	<u>6,073,171</u>	<u>6,073,171</u>	<u>6,154,692</u>	<u>6,154,692</u>
Tier 1 capital ratio	13.02%	9.90%	12.81%	9.65%
Total capital ratio	11.12%	8.00%	11.16%	8.00%

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

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

23. Financial commitments and contingencies

	Mar 2010	Dec 2009
Issued guarantees	558,808	487,600
Commitments and undrawn credit facilities	<u>1,882,151</u>	<u>1,866,242</u>
	<u><u>2,440,959</u></u>	<u><u>2,353,842</u></u>

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

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

	Mar 2010	Dec 2009
Up to 1 year	1,588	1,739
1 to 5 years	1,285	1,693
Over 5 years	-	-
	<u><u>2,873</u></u>	<u><u>3,432</u></u>

(d) Legal

In the ordinary course of business the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 31 March 2010. Pursuant to this review, Management has recorded total provisions of € 25,251 thousand (31 December 2009: € 24,993 thousand) in respect of such legal proceedings (see also note 20). The Bank will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 15,752 thousand, as at 31 March 2010 (31 December 2009: € 15,371 thousand). This amount represents existing legal proceedings against the Bank that according to the opinion of the Legal Department of the Bank will most probably not result in any payments due by the Bank.

24. Net interest income

	Mar 2010	Mar 2009
Interest and similar income		
Due from banks	1,841	4,511
Loans and advances to customers	73,915	84,324
Bonds, treasury bills and other securities:		
Financial assets held for trading	2,168	5,157
Available-for-sale financial assets	8,255	5,130
Held-to-maturity investments	15,892	22,662
	<u>102,071</u>	<u>121,784</u>
Interest expense and similar charges		
Due to banks	(989)	(747)
Due to customers	(14,589)	(30,149)
Debt securities in issue	(10,151)	(11,395)
	<u>(25,729)</u>	<u>(42,291)</u>
	<u>76,342</u>	<u>79,493</u>

25. Net fee and commission income

	Mar 2010	Mar 2009
Fee and commission income		
Received from banks	1,120	1,208
Received from customers:		
Current accounts	10,414	10,685
Term deposits	180	227
Insurance mediation	2,179	1,417
Loans and guarantees	9,545	8,008
Overdrafts	633	761
Securities	1,303	364
Transactions and payments	5,125	4,562
Other	439	444
	<u>30,938</u>	<u>27,676</u>
Fee and commission expense		
Paid to banks	(2,584)	(2,350)
Paid to mediators:		
Credit cards	(7,403)	(5,659)
Securities	(141)	(135)
Services	(634)	(287)
Other	(326)	(294)
	<u>(11,088)</u>	<u>(8,725)</u>
	<u>19,850</u>	<u>18,951</u>

26. Net trading income

	Mar 2010	Mar 2009
Foreign currency derivatives and transactions	(2,761)	15
Customer FX margins	1,150	1,922
Cross currency swaps	2,901	(1,814)
Interest rate derivatives *	(4,124)	(808)
Securities:		
Financial assets held for trading	1,272	1,351
Available-for-sale financial assets *	3,666	1,085
	<u>2,104</u>	<u>1,751</u>

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

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 31 March 2010.

27. Other operating income

	Mar 2010	Mar 2009
Rent	431	459
Net profit from sale of fixed assets	-	326
Other	345	1,850
	<u>776</u>	<u>2,635</u>

28. Salaries and employee benefits

	Mar 2010	Mar 2009
Remuneration	(15,923)	(16,239)
Social security costs	(5,418)	(5,383)
Social fund	(172)	(184)
Retention program (note 21)	(187)	3
Severance and Jubilee benefits (note 21)	-	34
	<u>(21,700)</u>	<u>(21,769)</u>

The total number of employees of the Bank at 31 March 2010 was 3,467 (31 December 2009: 3,469).

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

29. Other operating expenses

	Mar 2010	Mar 2009
Property related expenses	(3,254)	(3,617)
Post and telecom	(2,368)	(2,324)
IT systems maintenance	(2,208)	(2,769)
Contribution to the Deposit Protection Fund	(2,123)	(1,938)
Equipment related expenses	(1,782)	(1,795)
Advertising and marketing	(1,359)	(1,184)
VAT and other taxes	(1,311)	(1,684)
Security	(952)	(1,982)
Stationery	(635)	(886)
Professional services	(496)	(732)
Provisions for litigations (note 20)	(258)	11,730
Travelling	(196)	(174)
Insurance	(186)	(114)
Other damages	(141)	(87)
Audit *	(137)	(107)
Transport	(92)	(105)
Trainings	(63)	(160)
Litigations paid	(42)	(71)
Other operating expenses	(693)	(265)
	<u>(18,296)</u>	<u>(8,264)</u>

* As at 31 March 2010 the audit expense consists of the statutory audit in the amount of € 65 thousand (31 March 2009: € 45 thousand), group reporting in the amount of € 51 thousand (31 March 2009: € 45 thousand) and other reporting in the amount of € 21 thousand (31 March 2009: € 17 thousand).

30. Impairment losses on financial assets

	Mar 2010	Mar 2009
Net creation of impairment losses (note 10)	(12,437)	(18,404)
Net reversal of liabilities - financial guarantees and commitments (note 21)	1,190	1,259
	<u>(11,247)</u>	<u>(17,145)</u>
Nominal value of loans written-off	(2,077)	(32)
Nominal value of loans sold	-	-
Proceeds from loans written-off	497	480
Proceeds from loans sold	-	-
	<u>(1,580)</u>	<u>448</u>
	<u>(12,827)</u>	<u>(16,697)</u>

31. Income tax expense

	Mar 2010	Mar 2009
Current income tax	(10,720)	(7,907)
Deferred income tax (note 19)	3,005	-
	<u>(7,715)</u>	<u>(7,907)</u>

32. Components of other comprehensive income

	Mar 2010	Mar 2009
Exchange differences on translating foreign operations	237	(387)
Available-for-sale financial assets:		
Gains/(losses) arising for the period	7,304	(901)
Less: Reclassification adjustments for gains included in profit or loss	-	10
	<u>7,304</u>	<u>(891)</u>
Cash flow hedges:		
Losses arising for the period	(3,403)	(811)
Total other comprehensive income	4,138	(2,089)
Income tax relating to components of other comprehensive income	(742)	323
Other comprehensive income for 3 months	<u>3,396</u>	<u>(1,766)</u>

33. Income tax effects relating to comprehensive income

	March 2010			March 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	237	-	237	(387)	-	(387)
Available-for-sale financial assets	7,304	(1,388)	5,916	(891)	169	(722)
Net movement on cash flow hedges	(3,403)	646	(2,757)	(811)	154	(657)
	<u>4,138</u>	<u>(742)</u>	<u>3,396</u>	<u>(2,089)</u>	<u>323</u>	<u>(1,766)</u>

34. Estimated fair value of financial assets and liabilities

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

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

(a) Cash and balances with central banks

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

(b) 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) Subsidiaries, associates and jointly controlled entities

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

(f) Due to banks and customers

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

(g) Debt securities in issue

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

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

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

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

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

35. Financial risk management

Introduction and overview

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

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

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

Risk management framework

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

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

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

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

(a) Credit risk

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

The basic document for credit risk management is the Risk Management Credit Principles and Policies Charter which contains: Principles for managing credit risk, 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, Management Board and the CCC. The Risk Management Division is responsible for overseeing the Bank's credit risk including:

35. Financial risk management (continued)

- The development of credit risk strategy, policies, processes and procedures covering rules for credit assessment, collateral requirements, risk grading and reporting.
- Setting limits for the concentration of exposure to counterparties, related parties, countries and total assets and monitoring compliance with those limits.
- Establishment of the authorisation structure for the approval and renewal of credit facilities. 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 Bank's portfolios and appropriate corrective measures are taken.
- Development, maintenance and validation of scoring and rating models – both application and behavioural.
- Development, maintenance and back-testing of impairment losses model (the Markov chains methodology is used).

Allowances for impairment

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

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

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

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

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

35. Financial risk management (continued)

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

Category	March 2010			December 2009		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
Performing	294,922	-	294,922	168,646	-	168,646
Bad and Doubtful	151	(151)	-	151	(151)	-
	<u>295,073</u>	<u>(151)</u>	<u>294,922</u>	<u>168,797</u>	<u>(151)</u>	<u>168,646</u>
Sovereigns						
Performing	35,959	-	35,959	31,955	-	31,955
	<u>35,959</u>	<u>-</u>	<u>35,959</u>	<u>31,955</u>	<u>-</u>	<u>31,955</u>
Corporate						
Performing	2,301,590	(37,464)	2,264,126	2,332,067	(32,697)	2,299,370
Substandard	19,148	(6,797)	12,351	64,736	(17,054)	47,682
Bad and Doubtful	31,999	(25,991)	6,008	30,122	(23,881)	6,241
	<u>2,352,737</u>	<u>(70,252)</u>	<u>2,282,485</u>	<u>2,426,925</u>	<u>(73,632)</u>	<u>2,353,293</u>
Retail						
Performing	3,257,312	(68,280)	3,189,032	3,158,404	(61,046)	3,097,358
Substandard	72,444	(19,452)	52,992	74,192	(19,561)	54,631
Bad and Doubtful	77,346	(62,780)	14,566	66,327	(53,728)	12,599
	<u>3,407,102</u>	<u>(150,512)</u>	<u>3,256,590</u>	<u>3,298,923</u>	<u>(134,335)</u>	<u>3,164,588</u>
Securities						
Performing	3,492,152	(346)	3,491,806	3,203,386	-	3,203,386
Substandard	-	-	-	1,881	(377)	1,504
	<u>3,492,152</u>	<u>(346)</u>	<u>3,491,806</u>	<u>3,205,267</u>	<u>(377)</u>	<u>3,204,890</u>

35. Financial risk management (continued)

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

	Mar 2010	Dec 2009
Cash and balances with central banks	204,926	244,114
Due from banks	294,922	162,978
Financial assets held for trading	235,855	163,082
Derivative financial instruments	59,716	59,667
Available-for-sale financial assets	1,395,981	995,561
Loans and advances to customers	5,575,034	5,549,836
Held-to-maturity investments	1,859,970	2,046,247
Subsidiaries, associates and jointly controlled entities	115,260	101,559
Intangible assets	26,570	28,207
Property and equipment	153,839	157,992
Current income tax assets	5,329	6,722
Deferred income tax assets	41,775	39,511
Other assets	13,196	11,581
	<u>9,982,373</u>	<u>9,567,057</u>

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

	March 2010			December 2009		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	294,739	-	294,739	168,646	-	168,646
1 – 30 days	183	-	183	-	-	-
91 – 180 days	151	(151)	-	151	(151)	-
	<u>295,073</u>	<u>(151)</u>	<u>294,922</u>	<u>168,797</u>	<u>(151)</u>	<u>168,646</u>
Sovereigns						
No delinquency	35,262	-	35,262	31,832	-	31,832
1 – 30 days	443	-	443	60	-	60
31 – 60 days	189	-	189	18	-	18
91 – 180 days	48	-	48	18	-	18
Over 181 days *	17	-	17	27	-	27
	<u>35,959</u>	<u>-</u>	<u>35,959</u>	<u>31,955</u>	<u>-</u>	<u>31,955</u>

35. Financial risk management (continued)

	March 2010			December 2009		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Corporate						
No delinquency	2,236,768	(34,986)	2,201,782	2,326,119	(42,169)	2,283,950
1 – 30 days	21,312	(1,423)	19,889	30,399	(2,108)	28,291
31 – 60 days	16,745	(651)	16,094	3,648	(1,017)	2,631
61 – 90 days	7,959	(2,449)	5,510	1,375	(534)	841
91 – 180 days	5,500	(2,144)	3,356	35,307	(9,072)	26,235
Over 181 days *	64,453	(28,599)	35,854	30,077	(18,732)	11,345
	<u>2,352,737</u>	<u>(70,252)</u>	<u>2,282,485</u>	<u>2,426,925</u>	<u>(73,632)</u>	<u>2,353,293</u>
Retail						
No delinquency	3,050,007	(59,013)	2,990,994	2,966,964	(53,803)	2,913,161
1 – 30 days	160,422	(9,603)	150,819	159,030	(9,115)	149,915
31 – 60 days	35,526	(3,858)	31,668	32,164	(3,585)	28,579
61 – 90 days	23,105	(3,860)	19,245	17,991	(2,979)	15,012
91 – 180 days	30,950	(12,982)	17,968	31,423	(13,234)	18,189
Over 181 days *	107,092	(61,196)	45,896	91,351	(51,619)	39,732
	<u>3,407,102</u>	<u>(150,512)</u>	<u>3,256,590</u>	<u>3,298,923</u>	<u>(134,335)</u>	<u>3,164,588</u>
Securities						
No delinquency	3,492,152	(346)	3,491,806	3,205,267	(377)	3,204,890
	<u>3,492,152</u>	<u>(346)</u>	<u>3,491,806</u>	<u>3,205,267</u>	<u>(377)</u>	<u>3,204,890</u>

*** Write-off Policy**

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

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

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

35. Financial risk management (continued)

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

	March 2010			December 2009		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Europe						
Banks	261,039	(151)	260,888	137,071	(151)	136,920
Sovereigns	35,959	-	35,959	31,955	-	31,955
Corporate	2,352,669	(70,251)	2,282,418	2,426,925	(73,632)	2,353,293
Retail	3,404,573	(150,482)	3,254,091	3,296,324	(134,306)	3,162,018
Securities	3,486,839	-	3,486,839	3,200,009	-	3,200,009
	<u>9,541,079</u>	<u>(220,884)</u>	<u>9,320,195</u>	<u>9,092,284</u>	<u>(208,089)</u>	<u>8,884,195</u>
North America						
Banks	33,428	-	33,428	30,956	-	30,956
Retail	959	(19)	940	977	(19)	958
Securities	5,313	(346)	4,967	5,258	(377)	4,881
	<u>39,700</u>	<u>(365)</u>	<u>39,335</u>	<u>37,191</u>	<u>(396)</u>	<u>36,795</u>
Asia						
Banks	553	-	553	645	-	645
Corporate	68	(1)	67	-	-	-
Retail	682	(10)	672	695	(9)	686
	<u>1,303</u>	<u>(11)</u>	<u>1,292</u>	<u>1,340</u>	<u>(9)</u>	<u>1,331</u>
Rest of the World						
Banks	53	-	53	125	-	125
Retail	888	(1)	887	927	(1)	926
	<u>941</u>	<u>(1)</u>	<u>940</u>	<u>1,052</u>	<u>(1)</u>	<u>1,051</u>

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

35. Financial risk management (continued)

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

31 March 2010	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	46,823	25,786	-
Construction	-	-	150,057	17,827	-
Consumers	-	-	-	3,034,776	-
Energy and water supply	-	-	119,342	1,422	-
Financial services	294,922	-	242,202	672	149,711
Government	-	35,959	-	-	3,330,808
Manufacturing	-	-	413,263	34,050	-
Professional services	-	-	64,083	8,532	-
Real estate	-	-	362,445	24,514	-
Retail & Wholesale	-	-	581,379	70,901	9,752
Services	-	-	36,866	15,738	-
Transportation	-	-	228,866	8,758	-
Other	-	-	37,159	13,614	1,535
	294,922	35,959	2,282,485	3,256,590	3,491,806

31 December 2009	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	44,786	22,453	-
Construction	-	-	154,294	15,728	-
Consumers	-	-	-	2,953,289	-
Energy and water supply	-	-	139,755	1,548	-
Financial services	168,646	-	271,315	729	176,379
Government	-	31,955	-	-	3,016,987
Manufacturing	-	-	420,261	33,337	-
Professional services	-	-	64,258	8,469	-
Real estate	-	-	363,453	20,523	-
Retail & Wholesale	-	-	587,500	70,275	9,446
Services	-	-	46,644	16,149	574
Transportation	-	-	222,619	9,407	-
Other	-	-	38,408	12,681	1,504
	168,646	31,955	2,353,293	3,164,588	3,204,890

35. Financial risk management (continued)

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

31 March 2010	Neither past due nor impaired			Impaired			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	294,739	-	294,739	151	(151)	-	183	-	183
Sovereigns									
State organisations	14,752	-	14,752	-	-	-	-	-	-
Municipalities	20,510	-	20,510	-	-	-	697	-	697
	35,262	-	35,262	-	-	-	697	-	697
Corporate									
Large Corporates	812,299	(3,893)	808,406	14,498	(11,665)	2,833	8,231	(139)	8,092
Project Financing	531,989	(12,031)	519,958	1,480	(604)	876	25,400	(2,657)	22,743
SME	594,559	(12,977)	581,582	35,169	(20,519)	14,650	41,529	(5,136)	36,393
Other Fin. Organisations	254,066	(301)	253,765	-	-	-	1	-	1
Private Sector Entities	16,144	(194)	15,950	-	-	-	31	-	31
Factoring	16,145	(110)	16,035	-	-	-	1,196	(26)	1,170
	2,225,202	(29,506)	2,195,696	51,147	(32,788)	18,359	76,388	(7,958)	68,430
Retail									
Small business	214,783	(9,771)	205,012	22,964	(13,564)	9,400	6,833	(987)	5,846
Consumer Loans	489,572	(16,272)	473,300	61,165	(41,196)	19,969	53,525	(4,394)	49,131
Mortgages	2,034,927	(4,313)	2,030,614	44,428	(11,318)	33,110	108,904	(2,916)	105,988
Credit Cards	237,260	(27,435)	209,825	9,738	(7,023)	2,715	6,498	(222)	6,276
Overdrafts	61,397	(593)	60,804	11,495	(9,131)	2,364	33,417	(1,377)	32,040
Other	10,194	-	10,194	-	-	-	2	-	2
	3,048,133	(58,384)	2,989,749	149,790	(82,232)	67,558	209,179	(9,896)	199,283
Securities									
Trading	235,855	-	235,855	-	-	-	-	-	-
AFS	1,395,981	-	1,395,981	-	-	-	-	-	-
HTM	1,860,316	(346)	1,859,970	-	-	-	-	-	-
	3,492,152	(346)	3,491,806	-	-	-	-	-	-

35. Financial risk management (continued)

31 December 2009	Neither past due nor impaired			Impaired			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	168,646	-	168,646	151	(151)	-	-	-	-
Sovereigns									
State organisations	11,049	-	11,049	-	-	-	-	-	-
Municipalities	20,782	-	20,782	-	-	-	124	-	124
	31,831	-	31,831	-	-	-	124	-	124
Corporate									
Large Corporates	817,758	(3,622)	814,136	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
Factoring	23,308	(1,005)	22,303	30	(12)	18	1,850	(6)	1,844
	2,294,333	(31,013)	2,263,320	94,858	(40,935)	53,923	37,734	(1,684)	36,050
Retail									
Small business	201,620	(7,867)	193,753	26,816	(12,766)	14,050	3,915	(492)	3,423
Consumer Loans	493,699	(15,447)	478,252	55,998	(36,497)	19,501	50,806	(4,101)	46,705
Mortgages	1,970,479	(4,224)	1,966,255	39,107	(10,024)	29,083	104,995	(2,751)	102,244
Credit Cards	232,194	(24,070)	208,124	8,621	(6,133)	2,488	6,925	(343)	6,582
Overdrafts	61,315	(553)	60,762	9,977	(7,869)	2,108	31,706	(1,198)	30,508
Other	746	-	746	-	-	-	4	-	4
	2,960,053	(52,161)	2,907,892	140,519	(73,289)	67,230	198,351	(8,885)	189,466
Securities									
Trading	163,713	-	163,713	-	-	-	-	-	-
AFS	994,930	-	994,930	-	-	-	-	-	-
HTM	2,044,743	-	2,044,743	1,881	(377)	1,504	-	-	-
	3,203,386	-	3,203,386	1,881	(377)	1,504	-	-	-

35. Financial risk management (continued)

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

Management of market risk

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

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

Exposure to market risk – trading portfolios

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

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

€ '000	March 2010				December 2009			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	40	84	245	18	38	93	236	11
Interest rate risk	104	115	141	84	96	169	384	72
Overall	112	158	291	94	132	207	469	80

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

35. Financial risk management (continued)

Exposure to interest rate risk

The main risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments 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.

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

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

Behavioural

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

35. 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 € 860 thousand at 31 March 2010, compared to € -282 thousand at 31 December 2009.

In 2010, interest rate risk generated by the banking book, measured through shift sensitivity analysis to 1 basis point, registered € -13 thousand at 31 March 2010, compared to the € 28 thousand at 31 December 2009.

€ '000	Mar 2010	Dec 2009
SKK	-	-
EUR	(14)	21
CZK	-	7
USD	1	-
Other	-	-
	<u>(13)</u>	<u>28</u>

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

	Mar 2010 %	Dec 2009 %
Assets		
Cash and balances with central banks	1.08	1.39
Due from banks	2.26	2.91
Financial assets held for trading	4.37	5.07
Available-for-sale financial assets	2.83	2.83
Loans and advances to customers	5.23	5.64
Held-to-maturity investments	3.34	3.92
Liabilities		
Due to central and other banks	0.60	0.64
Due to customers	0.90	1.65
Debt securities in issue	3.12	3.46

35. Financial risk management (continued)

Currency denominations of assets and liabilities

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

(c) Liquidity risk

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

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

The basic principles underpinning the Liquidity Policy of the Bank are:

- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- a prudential approach to the 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 Bank's liquidity or system liquidity.

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

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

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

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

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

35. Financial risk management (continued)

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

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

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

Rule 2: Medium term assets + 0.5 x Long Term Assets \leq 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.

31 March 2009	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	204,926	-	204,926
Due from banks	220,125	74,797	294,922
Financial assets held for trading	154,819	81,036	235,855
Derivative financial instruments	43,748	-	43,748
Available-for-sale financial assets	27,904	1,368,077	1,395,981
Loans and advances to customers	1,814,316	3,760,718	5,575,034
Held-to-maturity investments	726,251	1,133,719	1,859,970
Subsidiaries, associates and jointly controlled entities	-	115,260	115,260
Intangible assets	-	26,570	26,570
Property and equipment	-	153,839	153,839
Current income tax assets	5,329	-	5,329
Deferred income tax assets	-	41,775	41,775
Other assets	13,196	-	13,196
	<u>3,210,614</u>	<u>6,755,791</u>	<u>9,966,405</u>
Liabilities			
Due to central and other banks	(882,975)	(49,125)	(932,100)
Derivative financial instruments	(56,403)	-	(56,403)
Due to customers	(5,839,401)	(854,504)	(6,693,905)
Debt securities in issue	(114,061)	(1,100,298)	(1,214,359)
Provisions	-	(25,251)	(25,251)
Other liabilities	(45,048)	-	(45,048)
	<u>(6,937,888)</u>	<u>(2,029,178)</u>	<u>(8,967,066)</u>
	<u>(3,727,274)</u>	<u>4,726,613</u>	<u>999,339</u>

35. Financial risk management (continued)

31 December 2009	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	244,114	-	244,114
Due from banks	98,117	64,861	162,978
Financial assets held for trading	95,328	67,754	163,082
Derivative financial instruments	42,783	-	42,783
Available-for-sale financial assets	75,756	919,805	995,561
Loans and advances to customers	1,909,678	3,640,158	5,549,836
Held-to-maturity investments	297,715	1,748,532	2,046,247
Subsidiaries, associates and jointly controlled entities	-	101,559	101,559
Intangible assets	-	28,207	28,207
Property and equipment	-	157,992	157,992
Current income tax assets	6,722	-	6,722
Deferred income tax assets	-	39,511	39,511
Other assets	11,581	-	11,581
	<u>2,781,794</u>	<u>6,768,379</u>	<u>9,550,173</u>
Liabilities			
Due to central and other banks	(523,866)	(35,831)	(559,697)
Derivative financial instruments	(52,471)	-	(52,471)
Due to customers	(5,888,536)	(724,791)	(6,613,327)
Debt securities in issue	(174,350)	(1,110,960)	(1,285,310)
Provisions	-	(24,993)	(24,993)
Other liabilities	(48,344)	(2,241)	(50,585)
	<u>(6,687,567)</u>	<u>(1,898,816)</u>	<u>(8,586,383)</u>
	<u>(3,905,773)</u>	<u>4,869,563</u>	<u>963,790</u>

35. Financial risk management (continued)

(d) Operational risk

Operational risk management strategies and processes

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

The control of operational risk was attributed to the Operational Risk Committee, which identified risk management policies and submits for approval and verification to 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 Operational Risk Committee (made up of the heads of the areas of the governance centre and of the business areas more involved in operational risk management), has the task of periodically verifying the Bank's overall operational risk profile, defining any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk management transfer strategies.

Organisational structure of the associated risk management function

For some time, the Bank has had a centralised function within the Risk Management Division for the management of the Bank's operational risks. This function is responsible, in coordination with parent company, for the definition, implementation and monitoring of the methodological and 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. This self-assessment is verified by the Internal Auditing Department and submitted to the Management Board for the annual certification of compliance with the requirements established by the regulation.

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

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

Policies for hedging and mitigating risk

The Bank, in coordination with 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.

36. Segment reporting

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

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

The Bank comprises the following main operating segments:

- Retail Banking
- Corporate Banking
- Central Treasury

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

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

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

36. Segment reporting (continued)

31 March 2010	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	57,609	15,986	27,599	877	102,071
Interest expense	(12,633)	(1,253)	(11,838)	(5)	(25,729)
Inter-segment revenue	(1,502)	(2,699)	(1,622)	5,823	-
Net interest income	43,474	12,034	14,139	6,695	76,342
Net fee and commission income	15,303	4,654	(201)	94	19,850
Net trading income	748	864	709	(217)	2,104
Other operating income	640	11	125	-	776
Total segment operating income	60,165	17,563	14,772	6,572	99,072
Operating expenses					(46,906)
Operating profit before impairment					52,166
Impairment losses on financial assets					(12,827)
Income tax expense					(7,715)
Net profit for 3 months					31,624
Segment assets	3,200,743	2,404,306	3,849,667	511,689	9,966,405
Segment liabilities	4,225,491	1,655,040	3,019,389	1,066,485	9,966,405

36. Segment reporting (continued)

31 March 2009	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	59,086	25,002	37,173	523	121,784
Interest expense	(22,875)	(4,550)	(14,822)	(44)	(42,291)
Inter-segment revenue	4,235	(7,347)	(21,264)	24,376	-
Net interest income	40,446	13,105	1,087	24,855	79,493
Net fee and commission income	14,922	2,763	111	1,155	18,951
Net trading income	1,454	1,084	19,478	(20,265)	1,751
Other operating income	6	(5)	1,579	1,055	2,635
Total segment operating income	56,828	16,947	22,255	6,800	102,830
Operating expenses					(37,965)
Operating profit before impairment					64,865
Impairment losses on financial assets					(16,697)
Income tax expense					(7,907)
Net profit for 3 months					40,261
Segment assets	2,881,626	2,470,773	3,771,185	478,991	9,602,575
Segment liabilities	4,558,465	1,749,230	2,340,831	954,049	9,602,575

37. Related parties

Related parties are those counterparties that represent:

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

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

37. Related parties (continued)

At 31 March 2010, significant outstanding balances with related parties comprised:

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	219,754	219,754
Derivative financial instruments	-	-	-	5,829	5,829
Available-for-sale financial assets	-	-	-	14,428	14,428
Loans and advances to customers	713	920	79,671	-	81,304
Other assets	-	-	535	-	535
	<u>713</u>	<u>920</u>	<u>80,206</u>	<u>240,011</u>	<u>321,850</u>
Liabilities					
Due to central and other banks	-	-	-	253,339	253,339
Derivative financial instruments	-	-	-	579	579
Due to customers	1,747	14	3,965	-	5,726
Debt securities in issue					
Bonds	-	-	6,681	-	6,681
Mortgage bonds	-	-	-	604,851	604,851
Other liabilities	-	-	1,284	-	1,284
	<u>1,747</u>	<u>14</u>	<u>11,930</u>	<u>858,769</u>	<u>872,460</u>
Financial commitments and contingencies					
	-	-	36,856	-	36,856
Derivative transactions (notional amount – receivable)					
	-	-	-	58,340	58,340
Derivative transactions (notional amount – payable)					
	-	-	-	29,845	29,845
Income and expense items					
Interest and similar income	10	12	323	1,369	1,714
Interest expense and similar charges	(9)	-	(36)	(4,111)	(4,156)
Fee and commission income	-	-	1,096	-	1,096
Fee and commission expense	-	-	(5,707)	-	(5,707)
Net trading income	-	-	-	2,441	2,441
Operating income	-	-	231	31	262
Operating expenses	-	-	-	-	-
	<u>1</u>	<u>12</u>	<u>(4,093)</u>	<u>(270)</u>	<u>(4,350)</u>

* Key management personnel

37. Related parties (continued)

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

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
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	92,972	-	94,617
Other assets	-	-	374	-	374
	<u>717</u>	<u>928</u>	<u>93,346</u>	<u>156,969</u>	<u>251,960</u>
Liabilities					
Due to central and other banks	-	-	-	81,732	81,732
Derivative financial instruments	-	-	-	2,025	2,025
Due to customers	1,597	2	3,510	-	5,109
Debt securities in issue					
Bonds	-	-	6,630	-	6,630
Mortgage bonds	-	-	-	600,169	600,169
Other liabilities	-	-	3,048	-	3,048
	<u>1,597</u>	<u>2</u>	<u>13,188</u>	<u>683,926</u>	<u>698,713</u>
Financial commitments and contingencies	<u>-</u>	<u>-</u>	<u>31,538</u>	<u>-</u>	<u>31,538</u>
Derivative transactions (notional amount – receivable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,284</u>	<u>178,284</u>
Derivative transactions (notional amount – payable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,000</u>	<u>160,000</u>

For the period ended 31 March 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	6	12	570	1,716	2,304
Interest expense and similar charges	(8)	-	(84)	(3,197)	(3,289)
Fee and commission income	-	-	256	-	256
Fee and commission expense	-	-	(3,919)	-	(3,919)
Net trading income	-	-	-	14,674	14,674
Operating income	-	-	93	3	96
	<u>(2)</u>	<u>12</u>	<u>(3,084)</u>	<u>13,196</u>	<u>10,122</u>

38. Profit distribution

On 7 April 2010, the Bank's shareholders approved the following profit distribution for the year 2009.

Dividends to shareholders (€ 4.50 per € 33.2 share)	58,394
Retained earnings	<u>87,846</u>
	<u>146,240</u>

39. Events after the end of reporting period

There were no events after 31 March 2010 that would have a material effect on a fair presentation of the matters disclosed in these financial statements.