VÚB BANKA

Interim separate financial statements for 9 months ended 30 September 2010

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

VÚB BANKA

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Statement of financial position at 30 September 2010

(In thousands of euro)

	Note	Sep 2010	Dec 2009
Assets			
Cash and balances with central banks	4	141,290	244,114
Due from banks	5	263,393	162,978
Financial assets held for trading	6	252,483	163,082
Derivative financial instruments	7	47,651	42,783
Available-for-sale financial assets	8	1,736,480	995,561
Non-current assets held for sale	14	-	-
Loans and advances to customers	9	5,984,736	5,549,836
Held-to-maturity investments	11	1,787,404	2,046,247
Subsidiaries, associates and jointly controlled entities	12	113,948	101,559
Intangible assets	13	26,564	28,207
Property and equipment	14	145,839	157,992
Current income tax assets	19	13,896	6,722
Deferred income tax assets	19	48,183	39,511
Other assets	15	13,112	11,581
		10,574,979	9,550,173
Liabilities			
Due to central and other banks	16	689,887	559,697
Derivative financial instruments	7	69,566	52,471
Due to customers	17	7,209,483	6,613,327
Debt securities in issue	18	1,539,640	1,285,310
Provisions	20	26,232	24,993
Other liabilities	21	51,941	50,585
		9,586,749	8,586,383
Equity			
Share capital	22	430,819	430,819
Share premium	22	13,368	13,368
Reserves		76,560	90,242
Retained earnings		467,483	429,361
		988,230	963,790
		10,574,979	9,550,173
Financial commitments and contingencies	23	2,688,745	2,353,842

The accompanying notes on pages 8 to 58 form an integral part of these financial statements.

These financial statements were authorized for issue on 22 October 2010.

Ignacio Jaquotot
Chairman of the Management Board

Domenico Cristarella
Member of the Management Board

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Statement of comprehensive income for 9 months ended 30 September 2010

(In thousands of euro)

	Note	Sep 2010	Sep 2009
Interest and similar income		319,706	338,996
Interest expense and similar charges		(80,379)	(106,744)
Net interest income	24	239,327	232,252
Fee and commission income		100,874	87,725
Fee and commission expense		(45,546)	(35,395)
Net fee and commission income	25	55,328	52,330
Net trading income	26	5,361	6,591
Other operating income	27	1,987	6,149
Dividend income		332	3,201
Operating income		302,335	300,523
Salaries and employee benefits	28	(65,490)	(63,354)
Other operating expenses	29	(57,814)	(49,809)
Amortisation	13	(5,961)	(9,923)
Depreciation	14	(14,512)	(14,970)
Operating expenses		(143,777)	(138,056)
Operating profit before impairment		158,558	162,467
Impairment losses on financial assets	30	(36,542)	(57,348)
Profit before tax		122,016	105,119
Income tax expense	31	(24,841)	(19,258)
NET PROFIT FOR 9 MONTHS		97,175	85,861
Other comprehensive income for 9 months, after tax:			
Exchange difference on translating foreign operation		532	948
Available-for-sale financial assets		(11,811)	5,792
Cash flow hedges		(3,062)	(1,606)
Other comprehensive income for 9 months, net of tax	32, 33	(14,341)	5,134
TOTAL COMPREHENSIVE INCOME FOR 9 MONTHS		82,834	90,995
Basic and diluted earnings per € 33.2 share in €	22	7.49	6.62

The accompanying notes on pages 8 to 58 form an integral part of these financial statements.

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Statement of comprehensive income for 3 months ended 30 September 2010

(In thousands of euro)

	Note	Sep 2010	Sep 2009
Interest and similar income		110,819	105,217
Interest expense and similar charges		(27,635)	(29,856)
Net interest income	24	83,184	75,361
Fee and commission income		37,671	30,076
Fee and commission expense		(20,770)	(13,914)
Net fee and commission income	25	16,901	16,162
Net trading income	26	1,747	3,208
Other operating income	27	562	441
Dividend income		-	1
Operating income		102,394	95,173
Salaries and employee benefits	28	(21,895)	(21,203)
Other operating expenses	29	(19,693)	(18,355)
Amortisation	13	(1,967)	(3,408)
Depreciation	14	(4,749)	(5,179)
Operating expenses		(48,304)	(48,145)
Operating profit before impairment		54,090	47,028
Impairment losses on financial assets	30	(9,017)	(11,583)
Profit before tax		45,073	35,445
Income tax expense	31	(8,961)	(6,928)
NET PROFIT FOR 3 MONTHS		36,112	28,517
Other comprehensive income for 3 months, after tax:			
Exchange difference on translating foreign operation		70	475
Available-for-sale financial assets		(752)	8,185
Cash flow hedges		467	(1,601)
Other comprehensive income for 3 months, net of tax		(215)	7,059
TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS		35,897	35,576
Basic and diluted earnings per € 33.2 share in €		2.78	2.20

The accompanying notes on pages 8 to 58 form an integral part of these financial statements.

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Statement of changes in equity for 9 months ended 30 September 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 9 months	-	-	-	85,861	948	5,792	(1,606)	90,995
Other	-	-	-	184	-	-	-	184
At 30 September 2009	430,819	13,368	87,493	368,982	(793)	5,250	(2,435)	902,684
At 1 January 2010	430,819	13,368	87,493	429,361	(1,649)	6,037	(1,639)	963,790
Total comprehensive income for 9 months	-	-	-	97,175	532	(11,811)	(3,062)	82,834
Dividends to shareholders	-	-	-	(58,394)	-	-	-	(58,394)
Other *	-	-	-	(1,188)	1,188	-	-	-
Effect of FX hedge *	-	-	-	529	-	-	(529)	-
At 30 September 2010	430,819	13,368	87,493	467,483	71	(5,774)	(5,230)	988,230

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

The accompanying notes on pages 8 to 58 form an integral part of these financial statements.

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Statement of cash flows for 9 months ended 30 September 2010

(In thousands of euro)

	Note	Sep 2010	Sep 2009
Cash flows from operating activities			
Profit before tax		122,016	105,119
Adjustments for:			
Amortisation		5,961	9,923
Depreciation		14,512	14,970
Securities held for trading, available-for-sale securities and FX differences		5,368	(21,532)
Interest income		(319,706)	(338,996)
Interest expense		80,379	106,744
Dividend income		(332)	(3,201)
Sale of property and equipment		85	(47)
Impairment losses on financial assets and similar charges		37,657	48,479
Interest received		325,052	346,188
Interest paid		(77,181)	(92,105)
Dividends received		332	3,201
Tax paid		(40,687)	(32,880)
Due from banks		(154,044)	3,271
Financial assets held for trading		(88,365)	(22,689)
Derivative financial instruments (assets)		(7,713)	10,286
Available-for-sale financial assets		(742,268)	(904,517)
Loans and advances to customers		(465,470)	(376,593)
Other assets		(1,481)	805
Due to central and other banks		130,572	(85,701)
Derivative financial instruments (liabilities)		17,095	5,043
Due to customers		587,303	(1,524,372)
Other liabilities		(112)	(17,726)
Net cash used in operating activities		(571,027)	(2,766,330)
Cash flows from investing activities			
Purchase of held-to-maturity investments		(19,083)	(79,998)
Repayments of held-to-maturity investments		249,017	266,188
Purchase of intangible assets and property and equipment		(7,360)	(8,074)
Disposal of property and equipment		598	3,763
Acquisition of subsidiaries		(13,702)	-
Net cash from investing activities		209,470	181,879
Cash flows from financing activities			
Proceeds from issue of debt securities		393,050	305,000
Repayments of debt securities		(139,979)	(93,673)
Dividends paid		(58,394)	-
Net cash from financing activities		194,677	211,327
Net change in cash and cash equivalents		(166,880)	(2,373,124)
Cash and cash equivalents at beginning of the year	3	333,185	2,517,406
Cash and cash equivalents at 30 September	3	166,305	144,282

The accompanying notes on pages 8 to 58 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 30 September 2010, the Bank had a network of 250 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 Management Board are: Ignacio Jaquotot (Chairman), Domenico Cristarella, Daniele Fanin, Jozef Kausich, Elena Kohútiková, Tomislav Lazarić, Silvia Púchovská, Alexander Resch and Adrián Ševčík.

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

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 used in 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

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

Balances are presented at amortised cost including interest accruals less any impairment losses. An impairment loss is established if there is objective evidence that the 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' is not significant. In cases where 'Day 1 profit or loss' is significant, the difference is amortised over the period of the respective deals. 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	Sep 2010	Dec 2009
Cash and balances with central banks	4	141,290	244,114
Current accounts in other banks	5	19,795	23,532
Term deposits with other banks	5	5,220	56,093
Held-to-maturity investments	11	-	9,446
		166,305	333,185

4. Cash and balances with central banks

	Sep 2010	Dec 2009
Balances with central banks:		
Compulsory minimum reserves	46,636	135,813
Current accounts	657	221
Short term deposits	-	5,668
	47,293	141,702
Cash in hand	93,997	102,412
	141,290	244,114

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	Sep 2010	Dec 2009
Current accounts	3	19,795	23,532
Term deposits			
with contractual maturity less than 90 days	3	5,220	56,093
with contractual maturity over 90 days		151,676	-
Loans and advances		86,853	83,504
Impairment losses	10	(151)	(151)
		263,393	162,978

6. Financial assets held for trading

	Sep 2010	Dec 2009
Treasury bills and other eligible bills with contractual maturity over 90 days	172,116	93,302
State bonds with contractual maturity over 90 days	80,367	69,780
	252,483	163,082

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

7. Derivative financial instruments

	Sep 2010 Assets	Dec 2009 Assets	Sep 2010 Liabilities	Dec 2009 Liabilities
Trading derivatives	47,651	42,037	52,989	44,480
Cash flow hedges of interest rate risk	-	-	6,457	2,770
Cash flow hedge of foreign exchange risk	-	746	-	-
Fair value hedges of interest rate risk	-	-	10,120	5,221
	47,651	42,783	69,566	52,471

Trading derivatives also include hedge instruments that are non-qualifying according to IAS 39, but are held for risk management purposes rather than for trading. The instruments used include interest rate swaps and cross-currency interest rate swaps. In September 2010, the total positive fair value of such derivatives was € 8,088 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)

Trading derivatives – Fair values	Sep 2010 Assets	Dec 2009 Assets	Sep 2010 Liabilities	Dec 2009 Liabilities
Interest rate instruments				
Swaps	24,115	25,771	30,584	28,641
Forward rate agreements	-	-	-	159
Options	2,026	1,487	2,035	1,494
	26,141	27,258	32,619	30,294
Foreign currency instruments				
Forwards and swaps	2,502	965	9,236	2,787
Cross currency swaps	7,842	2,800	-	240
Options	7,095	7,511	7,063	7,656
	17,439	11,276	16,299	10,683
Equity and commodity instruments				
Equity options	4,050	3,423	4,050	3,423
Commodity options	21	80	21	80
	4,071	3,503	4,071	3,503
	47,651	42,037	52,989	44,480

Trading derivatives – Notional values	Sep 2010 Assets	Dec 2009 Assets	Sep 2010 Liabilities	Dec 2009 Liabilities
Interest rate instruments				
Swaps	921,081	881,941	921,081	881,941
Forward rate agreements	-	160,000	-	160,000
Options	81,014	57,266	81,014	57,266
	1,002,095	1,099,207	1,002,095	1,099,207
Foreign currency instruments				
Forwards and swaps	295,559	197,397	305,192	199,418
Cross currency swaps	73,171	67,994	65,433	65,433
Options	78,851	44,095	77,141	43,910
	447,581	309,486	447,766	308,761
Equity and commodity instruments				
Equity options	23,074	49,581	23,074	49,581
Commodity options	2,658	3,495	2,658	3,495
	25,732	53,076	25,732	53,076
	1,475,408	1,461,769	1,475,593	1,461,044

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 of interest rate risk

The Bank uses five 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 Sep 2010	**Share Dec 2009**	**Sep 2010**	**Dec 2009**
State bonds			1,616,803	932,649
Treasury bills and other eligible bills			99,738	-
Bank bonds			19,300	62,281
Equity shares at cost				
RVS Studené, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.02%	0.02%	65	57
			639	631
			1,736,480	995,561

At 30 September 2010, State bonds with a total nominal value of € 100 million were pledged by the Bank (31 December 2009: € 100 million) to secure transactions with counterparties.

9. Loans and advances to customers

30 September 2010	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	87,253	(155)	87,098
Corporate			
Large Corporates	847,310	(14,426)	832,884
Project Financing	622,666	(19,124)	603,542
SME	651,309	(40,079)	611,230
Other Financial Institutions	361,888	(174)	361,714
Private Sector Entities	3,121	(38)	3,083
Factoring	43,287	(316)	42,971
	2,529,581	(74,157)	2,455,424
Retail			
Small business	208,068	(13,877)	194,191
Consumer Loans	619,926	(65,695)	554,231
Mortgages	2,390,619	(27,084)	2,363,535
Credit Cards	264,104	(38,851)	225,253
Overdrafts	108,239	(13,459)	94,780
Other	10,224	-	10,224
	3,601,180	(158,966)	3,442,214
	6,218,014	(233,278)	5,984,736

31 December 2009	Amortised cost	Impairment losses (note 10)	Carrying amount
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
	2,426,925	(73,632)	2,353,293
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
	3,298,923	(134,335)	3,164,588
	5,757,803	(207,967)	5,549,836

10. Impairment losses

	Note	1 Jan 2010	Creation/ (Reversal) (note 30)	FX gains	Other	30 Sep 2010
Due from banks	5	151	-	-	-	151
Non-current assets held for sale	14	-	-	-	-	-
Loans and advances to customers	9	207,967	25,306	538	(533) *	233,278
Held-to-maturity investments	11	377	(95)	-	-	282
Subsidiaries, associates and JVs	12	29,639	1,313	-	-	30,952
Other assets	15	2,877	(50)	67	-	2,894
		241,011	26,474	605	(533)	267,557

* Interest portion (unwinding of interest)

11. Held-to-maturity investments

	Sep 2010	Dec 2009
State restructuring bonds	616,090	618,775
State bonds	1,111,013	1,302,480
Bank bonds and other bonds issued by financial sector	23,185	78,038
Corporate notes and bonds with contractual maturity less than 90 days (note 3)	-	9,446
Corporate notes and bonds with contractual maturity over 90 days	37,398	37,885
	1,787,686	2,046,624
Impairment losses (note 10)	(282)	(377)
	1,787,404	2,046,247

At 30 September 2010, bonds in the total nominal amount of € 188,363 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 30 September 2010 and at 31 December 2009, the Bank held in its portfolio the following state restructuring bonds:

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

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

12. Subsidiaries, associates and jointly controlled entities

	Share %	Cost	Impairment losses (note 10)	Carrying amount
At 30 September 2010				
VÚB Factoring, a.s.	100.0	16,535	(12,168)	4,367
VÚB Leasingová, a.s. v likvidácii (in liquidation)	100.0	7,767	(7,443)	324
Recovery, a.s.	100.0	3,652	(3,188)	464
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	(8,152)	36,258
VÚB Generali DSS, a.s.	50.0	16,597	-	16,597
Slovak Banking Credit Bureau, s.r.o.	33.3	3	-	3
		144,899	(30,951)	113,948
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
		131,198	(29,639)	101,559

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	-	-	4,318	4,318
Disposals	(19,385)	-	-	(19,385)
Transfers	4,972	504	(5,476)	-
FX differences	30	1	-	31
At 30 September 2010	137,319	10,518	2,002	149,839
Accumulated amortisation				
At 1 January 2010	(130,322)	(6,346)	-	(136,668)
Amortisation for the period	(5,088)	(873)	-	(5,961)
Disposals	19,385	-	-	19,385
FX differences	(30)	(1)	-	(31)
At 30 September 2010	(116,055)	(7,220)	-	(123,275)
Carrying amount				
At 1 January 2010	21,380	3,667	3,160	28,207
At 30 September 2010	21,264	3,298	2,002	26,564

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

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2010	205,604	93,904	31,830	3,759	335,097
Additions	-	2	-	3,114	3,116
Disposals	(2,337)	(9,044)	(509)	-	(11,890)
Transfers	1,011	4,686	213	(5,910)	-
FX differences	7	27	6	-	40
At 30 September 2010	204,285	89,575	31,540	963	326,363
Accumulated depreciation					
At 1 January 2010	(75,910)	(76,881)	(24,314)	-	(177,105)
Depreciation for the period	(6,830)	(5,512)	(2,170)	-	(14,512)
Disposals	1,717	8,952	461	-	11,130
FX differences	(6)	(25)	(6)	-	(37)
At 30 September 2010	(81,029)	(73,466)	(26,029)	-	(180,524)
Carrying amount					
At 1 January 2010	129,694	17,023	7,516	3,759	157,992
At 30 September 2010	123,256	16,109	5,511	963	145,839

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

	Sep 2010	Dec 2009
Cost	79	-
Accumulated depreciation	(79)	-
Impairment (note 10)	-	-
	-	-

15. Other assets

	Sep 2010	Dec 2009
Operating receivables and advances	10,041	8,762
Prepayments and accrued income	3,168	2,898
Other tax receivables	1,488	1,163
Inventories	672	913
Settlement of operations with financial instruments	637	600
Other	-	122
	16,006	14,458
Impairment losses (note 10)	(2,894)	(2,877)
	13,112	11,581

16. Due to central and other banks

	Sep 2010	Dec 2009
Due to central banks		
Current accounts	78,660	28,657
Loans received	-	180,460
	78,660	209,117
Due to other banks		
Current accounts	9,658	27,267
Term deposits	550,888	280,595
Loans received	50,681	42,718
	611,227	350,580
	689,887	559,697

17. Due to customers

	Sep 2010	Dec 2009
Current accounts	2,786,432	2,574,080
Term deposits	3,416,853	3,015,419
Savings accounts	289,190	307,154
Government and municipal deposits	560,017	650,744
Loans received	40,179	35,712
Promissory notes	73,340	12,414
Other deposits	43,472	17,804
	7,209,483	6,613,327

18. Debt securities in issue

	Sep 2010	Dec 2009
Bonds	55,038	54,996
Mortgage bonds	1,484,602	1,230,314
	1,539,640	1,285,310

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	Sep 2010	Dec 2009
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	33,975	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	33,768	34,191
Mortgage bonds VÚB, a.s. XI.	4.40	EUR	500	33,194	25.8.2004	25.8.2010	-	16,853
Mortgage bonds VÚB, a.s. XIII.	4.50	EUR	1,000	33,194	29.9.2004	29.9.2010	-	33,576
Mortgage bonds VÚB, a.s. XV.	0.80	EUR	1,000	33,194	30.3.2005	30.3.2010	-	33,195
Mortgage bonds VÚB, a.s. XVII.	1.00	EUR	2,500	22,280	28.11.2005	28.11.2015	55,750	55,742
Mortgage bonds VÚB, a.s. XVIII.	3.00	EUR	39	331,939	19.12.2005	19.12.2010	13,234	12,874
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,997	17,176
Mortgage bonds VÚB, a.s. XXI.	0.95	EUR	500	33,194	10.3.2006	10.3.2011	16,606	16,605
Mortgage bonds VÚB, a.s. XXII.	1.05	EUR	1,200	50,000	29.6.2006	29.6.2011	60,004	60,003
Mortgage bonds VÚB, a.s. XXIII.	1.03	EUR	60	1,000,000	26.10.2006	26.10.2011	60,112	60,095
Mortgage bonds VÚB, a.s. XXIV.	1.07	EUR	1,500	33,194	24.11.2006	24.11.2011	49,977	49,845
Mortgage bonds VÚB, a.s. XXV.	1.04	EUR	30	1,000,000	5.12.2006	5.12.2011	30,022	30,019
Mortgage bonds VÚB, a.s. XXVII.	4.25	EUR	500	33,194	13.3.2007	13.3.2010	-	17,161
Mortgage bonds VÚB, a.s. XXVIII.	1.99	CZK	1,000	1,000,000	20.6.2007	20.6.2012	41,251	38,293
Mortgage bonds VÚB, a.s. XXIX.	0.97	EUR	500	33,194	16.10.2007	16.10.2012	16,669	16,631
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	32,908	33,309
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,352	19,610

(Table continues on the next page)

18. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	Sep 2010	Dec 2009
Mortgage bonds VÚB, a.s. 32.	3.02	CZK	800	1,000,000	17.12.2007	17.12.2017	35,792	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	20,914	21,077
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,563	18,747
Mortgage bonds VÚB, a.s. 37.	1.33	EUR	40	1,000,000	30.4.2008	30.4.2011	40,093	40,081
Mortgage bonds VÚB, a.s. 38.	4.75	EUR	317	33,194	26.6.2008	26.6.2010	-	10,764
Mortgage bonds VÚB, a.s. 39.	1.57	EUR	60	1,000,000	26.6.2008	26.6.2015	60,008	60,008
Mortgage bonds VÚB, a.s. 40.	1.63	EUR	70	1,000,000	28.8.2008	28.8.2015	70,107	70,096
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	24,916	23,937
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	20,340	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,151	15,290
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	15,455	15,633
Mortgage bonds VÚB, a.s. 45.	5.30	EUR	321	16,597	16.10.2008	16.10.2010	5,598	5,386
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	150	1,000,000	19.5.2009	19.5.2016	152,536	154,262
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	20,000	1,000	11.5.2009	11.5.2013	20,311	20,511
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	100,686	101,666
Mortgage bonds VÚB, a.s. 50.	3.40	EUR	8,407	1,000	2.11.2009	2.11.2013	8,668	8,454
Mortgage bonds VÚB, a.s. 51.	1.38	EUR	100	1,000,000	8.4.2010	8.4.2014	100,318	-
Mortgage bonds VÚB, a.s. 52.	2.16	EUR	43	50,000	15.3.2010	15.3.2014	8,058	-
Mortgage bonds VÚB, a.s. 53.	1.52	EUR	100	1,000,000	8.4.2010	8.4.2017	100,350	-
Mortgage bonds VÚB, a.s. 54.	3.00	EUR	15,000	1,000	1.7.2010	1.7.2014	15,113	-
Mortgage bonds VÚB, a.s. 56.	2.46	EUR	70	1,000,000	30.9.2010	30.9.2017	70,000	-
Mortgage bonds VÚB, a.s. 57.	2.45	EUR	100	1,000,000	30.9.2010	30.9.2018	100,000	-
							1,484,602	1,230,314

19. Current and deferred income taxes

	Sep 2010	Dec 2009
Deferred income tax asset	48,183	39,511

	Sep 2010	Dec 2009
Current income tax assets	13,896	6,722

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

	Sep 2010	Profit/ (loss) (note 31)	Equity	Dec 2009
Due from banks	29	1	-	28
Derivative financial instruments designated as cash flow hedges	1,227	-	843	384
Available-for-sale financial assets	1,354	-	2,770	(1,416)
Loans and advances to customers	44,223	4,802	-	39,421
Held-to-maturity investments	54	(17)	-	71
Property and equipment	(2,353)	(62)	-	(2,291)
Other liabilities	3,649	335	-	3,314
Deferred income tax asset	48,183	5,059	3,613	39,511

20. Provisions

	Sep 2010	Dec 2009
Litigations	26,232	24,993

The movement in provisions was as follows:

	1 Jan 2010	Creation/ (Reversal)	FX diff	30 Sep 2010
Litigations (note 23, note 29)	24,993	1,255	(16)	26,232

21. Other liabilities

	Sep 2010	Dec 2009
Settlement with employees	17,725	17,943
Various creditors	16,286	14,508
Financial guarantees and commitments	11,203	9,595
VAT payables and other tax payables	2,010	3,714
Accruals and deferred income	1,259	1,321
Settlement with shareholders	1,248	1,237
Severance and Jubilee benefits	1,215	1,215
Retention program	886	1,026
Settlement with securities	109	17
Other	-	9
	51,941	50,585

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

	Note	1 Jan 2010	Creation/ (Reversal)	30 Sep 2010
Financial guarantees and commitments	30	9,595	1,608	11,203
Severance and Jubilee benefits	28	1,215	-	1,215
Retention program	28	1,026	(140)	886
		11,836	1,468	13,304

22. Share capital

	Sep 2010	Sep 2009
Authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Net profit for 9 months attributable to shareholders	97,175	85,861
Divided by 12,976,478 ordinary shares of € 33.2 each		
Basic and diluted earnings per € 33.2 share in €	7.49	6.62

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:

	Sep 2010	Dec 2009
Intesa Holding International S.A.	96.76%	96.76%
Domestic shareholders	2.98%	2.95%
Foreign shareholders	0.26%	0.29%
	100.00%	100.00%

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 30 September 2010 and 31 December 2009 was as follows:

	Sep 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	370,308	283,121
Legal reserve fund	87,493	87,493
Less software (including software in Assets in progress)	(23,266)	(24,540)
	878,722	788,612
Tier 2 capital	-	-
Regulatory adjustment		
Subsidiaries, associates and jointly controlled entities	(113,945)	(101,556)
Total regulatory capital	764,777	687,056

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).

	Sep 2010 Actual	**Sep 2010 Required**	**Dec 2009 Actual**	**Dec 2009 Required**
Tier 1 capital	878,722	627,946	788,612	593,699
Tier 2 capital	-	-	-	-
Regulatory adjustment	(113,945)	(113,945)	(101,556)	(101,556)
Total regulatory capital	764,777	514,001	687,056	492,143
Total Risk Weighted Assets	6,425,008	6,425,008	6,154,692	6,154,692
Tier 1 capital ratio	13.68%	9.77%	12.81%	9.65%
Total capital ratio	11.90%	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.

23. Financial commitments and contingencies

	Sep 2010	Dec 2009
Issued guarantees	566,198	487,600
Commitments and undrawn credit facilities	2,122,547	1,866,242
	2,688,745	2,353,842

(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 30 September 2010 and 31 December 2009 was as follows:

	Sep 2010	Dec 2009
Up to 1 year	1,492	1,739
1 to 5 years	1,025	1,693
Over 5 years	-	-
	2,517	3,432

(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 30 September 2010. Pursuant to this review, Management has recorded total provisions of € 26,232 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 € 18,876 thousand, as at 30 September 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

	9 months		3 months	
	Sep 2010	**Sep 2009**	**Sep 2010**	**Sep 2009**
Interest and similar income				
Due from banks	6,444	9,875	2,051	2,719
Loans and advances to customers	228,959	239,853	79,017	76,660
Bonds, treasury bills and other securities:				
Financial assets held for trading	6,943	7,100	2,420	1,552
Available-for-sale financial assets	32,151	20,533	12,691	5,855
Held-to-maturity investments	45,209	61,635	14,640	18,431
	319,706	338,996	110,819	105,217
Interest expense and similar charges				
Due to banks	(3,039)	(1,784)	(1,188)	(424)
Due to customers	(46,062)	(73,997)	(15,835)	(20,433)
Debt securities in issue	(31,278)	(30,963)	(10,612)	(8,999)
	(80,379)	(106,744)	(27,635)	(29,856)
	239,327	232,252	83,184	75,361

25. Net fee and commission income

	9 months		3 months	
	Sep 2010	**Sep 2009**	**Sep 2010**	**Sep 2009**
Fee and commission income				
Received from banks	3,825	3,542	1,558	1,196
Received from customers:				
Current accounts	32,624	32,416	11,143	10,875
Term deposits	482	569	144	162
Insurance mediation	6,478	5,567	2,234	1,880
Loans and guarantees	28,266	26,342	9,312	9,410
Overdrafts	2,037	2,402	633	656
Securities	3,928	1,880	1,304	867
Transactions and payments	21,800	13,787	10,857	4,599
Other	1,434	1,220	486	431
	100,874	87,725	37,671	30,076
Fee and commission expense				
Paid to banks	(13,753)	(7,783)	(8,316)	(2,836)
Paid to mediators:				
Credit cards	(28,037)	(24,902)	(11,164)	(10,042)
Securities	(404)	(456)	(81)	(152)
Services	(2,396)	(1,365)	(884)	(587)
Other	(956)	(889)	(325)	(297)
	(45,546)	(35,395)	(20,770)	(13,914)
	55,328	52,330	16,901	16,162

26. Net trading income

	9 months		3 months	
	Sep 2010	**Sep 2009**	**Sep 2010**	**Sep 2009**
Foreign currency derivatives and transactions	(4,783)	(6,976)	(3,135)	(3,072)
Customer FX margins	3,948	4,692	1,434	1,539
Cross currency swaps	5,607	4,354	3,212	2,137
Interest rate derivatives *	(6,356)	(3,242)	487	(5,465)
Securities:				
Financial assets held for trading	1,461	2,525	220	1,393
Available-for-sale financial assets *	5,484	5,238	(471)	6,676
	5,361	6,591	1,747	3,208

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

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

27. Other operating income

	9 months		3 months	
	Sep 2010	**Sep 2009**	**Sep 2010**	**Sep 2009**
Profit from purchase of debt securities	-	3,906	-	-
Rent	1,239	1,561	393	701
Net profit from sale of available-for-sale shares	-	133	-	-
Net (loss)/profit from sale of fixed assets	(85)	47	(18)	6
Other	833	502	187	(266)
	1,987	6,149	562	441

28. Salaries and employee benefits

	9 months		3 months	
	Sep 2010	**Sep 2009**	**Sep 2010**	**Sep 2009**
Remuneration	(48,472)	(47,451)	(15,917)	(15,654)
Social security costs	(16,748)	(15,859)	(5,832)	(5,407)
Social fund	(410)	(595)	-	(168)
Retention program (note 21)	140	431	(146)	7
Severance and Jubilee benefits (note 21)	-	120	-	19
	(65,490)	(63,354)	(21,895)	(21,203)

The total number of employees of the Bank at 30 September 2010 was 3,487 (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

	9 months		3 months	
	Sep 2010	**Sep 2009**	**Sep 2010**	**Sep 2009**
Property related expenses	(9,478)	(9,929)	(3,433)	(3,027)
IT systems maintenance	(7,358)	(7,581)	(2,700)	(2,383)
Post and telecom	(7,337)	(7,174)	(2,323)	(2,390)
Contribution to the Deposit Protection Fund	(6,289)	(6,353)	(2,107)	(2,215)
Equipment related expenses	(5,220)	(5,415)	(1,714)	(1,753)
Advertising and marketing	(4,321)	(3,630)	(1,024)	(792)
VAT and other taxes	(4,150)	(4,339)	(1,274)	(1,266)
Security	(2,732)	(3,872)	(888)	(961)
Stationery	(1,945)	(2,370)	(544)	(673)
Professional services	(1,582)	(2,322)	(530)	(901)
Other damages	(1,134)	(604)	(553)	(378)
Insurance	(538)	(312)	(178)	(95)
Travelling	(525)	(665)	(153)	(164)
Audit *	(409) *	(368)	(131)	(160)
Trainings	(369)	(486)	(140)	(109)
Transport	(311)	(340)	(106)	(105)
Litigations paid	(156)	(144)	(45)	(28)
Provisions for litigations (note 20)	(1,255)	8,318	(722)	417
Other operating expenses	(2,705)	(2,223)	(1,128)	(1,372)
	(57,814)	(49,809)	(19,693)	(18,355)

* As at 30 September 2010 the audit expense accruals consists of the statutory audit in the amount of € 194 thousand (30 September 2009: € 153 thousand), group reporting in the amount of € 153 thousand (30 September 2009: € 153 thousand) and other reporting in the amount of € 62 thousand (30 September 2009: € 62 thousand).

30. Impairment losses on financial assets

	9 months		3 months	
	Sep 2010	**Sep 2009**	**Sep 2010**	**Sep 2009**
Net creation of impairment losses (note 10)	(26,474)	(55,911)	(3,129)	(12,431)
Net reversal/(creation) of liabilities – financial guarantees and commitments (note 21)	(1,608)	938	(3,229)	711
	(28,082)	(54,973)	(6,358)	(11,720)
Nominal value of loans written-off	(6,859)	(3,994)	(2,490)	(172)
Nominal value of loans sold	(4,726)	(335)	(1,619)	(335)
Proceeds from loans written-off	1,464	1,712	621	402
Proceeds from loans sold	1,661	242	829	242
	(8,460)	(2,375)	(2,659)	137
	(36,542)	(57,348)	(9,017)	(11,583)

31. Income tax expense

	9 months		3 months	
	Sep 2010	**Sep 2009**	**Sep 2010**	**Sep 2009**
Current income tax	(29,900)	(35,989)	(10,096)	(11,202)
Deferred income tax (note 19)	5,059	16,731	1,135	4,274
	(24,841)	(19,258)	(8,961)	(6,928)

32. Components of other comprehensive income

	Sep 2010	**Sep 2009**
Exchange differences on translating foreign operations	532	948
Available-for-sale financial assets:		
Losses arising for the period	(14,581)	10,362
Less: Reclassification adjustments for gains included in profit or loss	-	(3,212)
	(14,581)	7,150
Cash flow hedges:		
Losses arising for the period	(4,434)	(1,982)
Total other comprehensive income	(18,483)	6,116
Income tax relating to components of other comprehensive income	3,613	(982)
Other comprehensive income for 9 months	(14,870)	5,134

33. Income tax effects relating to comprehensive income

	Sep 2010			Sep 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	532	-	532	948	-	948
Available-for-sale financial assets	(14,581)	2,770	(11,811)	7,150	(1,358)	5,792
Net movement on cash flow hedges	(4,434)	843	(3,591)	(1,982)	376	(1,606)
	(18,483)	3,613	(14,870)	6,116	(982)	5,134

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 Management Board is the statutory body governing the executive management of the Bank, and has absolute authority over all matters concerning risk. The Management Board 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 Management Board 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.

From September 2010 the VUB Bank implemented the definitions of non-performing loans coming from the Harmonization project. The Harmonization project is driven by Intesa Sanpaolo with the goal to unify the definitions and categories of non-performing loans across the Intesa Sanpaolo foreign subsidiaries. The definition covers non-performing (past due, substandard, doubtful) loans as well as the restructured exposures. Definition of non-performing loans is based on delinquency (days past due - DPD) and materiality threshold of client (corporate clients) respectively of the loan (retail clients). Generally all credit receivables with delinquency higher or equal than 90 days and materiality threshold higher or equal than 5% of outstanding (corporate clients) respectively 50€ (retail clients) are considered as non-performing.

35. Financial risk management (continued)

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

	Category	September 2010 Amortised cost	September 2010 Impairment losses	September 2010 Carrying amount	December 2009 Amortised cost	December 2009 Impairment losses	December 2009 Carrying amount
Banks							
	Performing	263,393	-	263,393	162,978	-	162,978
	Doubtful	151	(151)	-	151	(151)	-
		263,544	(151)	263,393	163,129	(151)	162,978
Sovereigns							
	Performing	87,253	(155)	87,098	31,955	-	31,955
Corporate							
	Performing	2,394,542	(33,132)	2,361,410	2,315,628	(33,336)	2,282,292
	Past due	368	(34)	334	3,255	(1,366)	1,889
	Restructured	20,016	(3,361)	16,655	2,006	(1,212)	794
	Substandard	71,617	(14,533)	57,084	83,962	(21,378)	62,584
	Doubtful	43,038	(23,097)	19,941	22,074	(16,340)	5,734
		2,529,581	(74,157)	2,455,424	2,426,925	(73,632)	2,353,293
Retail							
	Performing	3,438,441	(72,866)	3,365,575	3,167,814	(67,550)	3,100,264
	Past due	31,054	(11,890)	19,164	29,109	(12,426)	16,683
	Substandard	23,252	(10,209)	13,043	35,200	(14,665)	20,535
	Doubtful	108,433	(64,001)	44,432	66,800	(39,694)	27,106
		3,601,180	(158,966)	3,442,214	3,298,923	(134,335)	3,164,588
Securities							
	Performing	3,776,649	(282)	3,776,367	3,205,267	(377)	3,204,890

35. Financial risk management (continued)

The table below shows the maximum amount of credit risk regardless of received collateral.

	Sep 2010	Dec 2009
Cash and balances with central banks	141,290	244,114
Due from banks	263,393	162,978
Financial assets held for trading	252,483	163,082
Derivative financial instruments	66,106	59,667
Available-for-sale financial assets	1,736,480	995,561
Non-current assets held for sale	-	-
Loans and advances to customers	5,984,736	5,549,836
Held-to-maturity investments	1,787,404	2,046,247
Subsidiaries, associates and jointly controlled entities	113,948	101,559
Intangible assets	26,564	28,207
Property and equipment	145,839	157,992
Current income tax assets	13,896	6,722
Deferred income tax assets	48,183	39,511
Other assets	13,112	11,581
	10,593,434	9,567,057

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.

	September 2010			December 2009		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	263,352	-	263,352	162,978	-	162,978
1 – 30 days	41	-	41	-	-	-
91 – 180 days	-	-	-	151	(151)	-
Over 181 days *	151	(151)	-	-	-	-
	263,544	(151)	263,393	163,129	(151)	162,978
Sovereigns						
No delinquency	84,835	(155)	84,680	31,832	-	31,832
1 – 30 days	558	-	558	60	-	60
31 – 60 days	1,541	-	1,541	18	-	18
61 – 90 days	275	-	275	-	-	-
91 – 180 days	-	-	-	18	-	18
Over 181 days *	44	-	44	27	-	27
	87,253	(155)	87,098	31,955	-	31,955

35. Financial risk management (continued)

	September 2010			December 2009		
	Amortised cost	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Corporate						
No delinquency	2,440,149	(44,607)	2,395,542	2,326,119	(42,169)	2,283,950
1 – 30 days	26,806	(2,039)	24,767	30,399	(2,108)	28,291
31 – 60 days	1,305	(123)	1,182	3,648	(1,017)	2,631
61 – 90 days	876	(270)	606	1,375	(534)	841
91 – 180 days	10,102	(2,530)	7,572	35,307	(9,072)	26,235
Over 181 days *	50,343	(24,588)	25,755	30,077	(18,732)	11,345
	2,529,581	(74,157)	2,455,424	2,426,925	(73,632)	2,353,293
Retail						
No delinquency	3,223,186	(57,454)	3,165,732	2,966,964	(53,803)	2,913,161
1 – 30 days	166,611	(9,447)	157,164	159,030	(9,115)	149,915
31 – 60 days	31,143	(3,436)	27,707	32,164	(3,585)	28,579
61 – 90 days	20,272	(2,993)	17,279	17,991	(2,979)	15,012
91 – 180 days	32,979	(12,566)	20,413	31,423	(13,234)	18,189
Over 181 days *	126,989	(73,070)	53,919	91,351	(51,619)	39,732
	3,601,180	(158,966)	3,442,214	3,298,923	(134,335)	3,164,588
Securities						
No delinquency	3,776,649	(282)	3,776,367	3,205,267	(377)	3,204,890
	3,776,649	(282)	3,776,367	3,205,267	(377)	3,204,890

*** 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.

	September 2010			December 2009		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Europe						
Banks	249,810	(151)	249,659	131,403	(151)	131,252
Sovereigns	87,253	(155)	87,098	31,955	-	31,955
Corporate	2,529,550	(74,156)	2,455,394	2,426,925	(73,632)	2,353,293
Retail	3,598,957	(158,941)	3,440,016	3,296,324	(134,306)	3,162,018
Securities	3,771,310	-	3,771,310	3,200,009	-	3,200,009
	10,236,880	(233,403)	10,003,477	9,086,616	(208,089)	8,878,527
North America						
Banks	13,519	-	13,519	30,956	-	30,956
Retail	743	(11)	732	977	(19)	958
Securities	5,339	(282)	5,057	5,258	(377)	4,881
	19,601	(293)	19,308	37,191	(396)	36,795
Asia						
Banks	73	-	73	645	-	645
Corporate	31	(1)	30	-	-	-
Retail	669	(13)	656	695	(9)	686
	773	(14)	759	1,340	(9)	1,331
Rest of the World						
Banks	142	-	142	125	-	125
Retail	811	(1)	810	927	(1)	926
	953	(1)	952	1,052	(1)	1,051

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.

30 September 2010	**Banks**	**Sovereigns**	**Corporate**	**Retail**	**Securities**
Agriculture	-	-	47,177	35,750	-
Construction	-	-	151,893	14,249	-
Consumers	-	-	-	3,259,218	-
Energy and water supply	-	-	163,087	1,234	-
Financial services	263,393	-	345,935	679	78,001
Government	-	74,342	-	-	3,696,767
Manufacturing	-	-	395,669	29,351	-
Professional services	-	-	77,496	8,496	-
Real estate	-	-	383,910	7,600	-
Retail & Wholesale	-	-	566,073	63,132	-
Services	-	-	43,385	14,046	-
Transportation	-	12,756	238,386	7,463	-
Other	-	-	42,413	996	1,599
	263,393	87,098	2,455,424	3,442,214	3,776,367

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	162,978	-	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
	162,978	31,955	2,353,293	3,164,588	3,204,890

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 30 September 2010 and at 31 December 2009 is as follows:

€ '000	**September 2010**				**December 2009**			
	Balance	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	222	113	307	18	38	93	236	11
Interest rate risk	92	107	161	75	96	169	384	72
Overall	296	170	367	80	132	207	469	80

The limitations of the VaR methodology are recognised by supplementing VaR limits with other positions limit structures. In addition, the 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 € 3,116 thousand at 30 September 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 € 69 thousand at 30 September 2010, compared to the € 28 thousand at 31 December 2009.

€ '000	**Sep 2010**	**Dec 2009**
EUR	61	21
CZK	9	7
Other	(1)	-
	69	28

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

	Sep 2010 %	**Dec 2009 %**
Assets		
Cash and balances with central banks	0.93	1.39
Due from banks	2.12	2.91
Financial assets held for trading	4.06	5.07
Available-for-sale financial assets	2.90	2.83
Loans and advances to customers	5.21	5.64
Held-to-maturity investments	3.23	3.92
Liabilities		
Due to central and other banks	0.82	0.64
Due to customers	0.88	1.65
Debt securities in issue	2.91	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 <= Regulatory Capital
Rule 2: Medium term assets + 0.5 x Long Term Assets <= Long term liabilities + 0.5 x Medium term liabilities + 0.25 x (short term customer liabilities + interbank liabilities) + excess in Rule 1

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

30 September 2010	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	141,290	-	141,290
Due from banks	226,442	36,951	263,393
Financial assets held for trading	173,632	78,851	252,483
Derivative financial instruments	47,651	-	47,651
Available-for-sale financial assets	333,740	1,402,740	1,736,480
Non-current assets held for sale	-	-	-
Loans and advances to customers	2,008,698	3,976,038	5,984,736
Held-to-maturity investments	687,261	1,100,143	1,787,404
Subsidiaries, associates and jointly controlled entities	-	113,948	113,948
Intangible assets	-	26,564	26,564
Property and equipment	-	145,839	145,839
Current income tax assets	13,896	-	13,896
Deferred income tax assets	-	48,183	48,183
Other assets	13,112	-	13,112
	3,645,722	6,929,257	10,574,979
Liabilities			
Due to central and other banks	(641,637)	(48,250)	(689,887)
Derivative financial instruments	(69,566)	-	(69,566)
Due to customers	(6,170,693)	(1,038,790)	(7,209,483)
Debt securities in issue	(145,874)	(1,393,766)	(1,539,640)
Provisions	-	(26,232)	(26,232)
Other liabilities	(51,941)	-	(51,941)
	(7,079,711)	(2,507,038)	(9,586,749)
	(3,433,989)	4,422,219	988,230

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
	2,781,794	6,768,379	9,550,173
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)
	(6,687,567)	(1,898,816)	(8,586,383)
	(3,905,773)	4,869,563	963,790

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)

30 September 2010	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	176,934	50,758	89,093	2,921	319,706
Interest expense	(37,755)	(4,605)	(38,014)	(5)	(80,379)
Inter-segment revenue	(2,812)	(8,482)	(6,396)	17,690	-
Net interest income	136,367	37,671	44,683	20,606	239,327
Net fee and commission income	40,924	14,029	727	(352)	55,328
Net trading income	2,736	2,922	(110)	(187)	5,361
Other operating income	1,486	417	-	84	1,987
Dividend income	-	-	-	332	332
Total segment operating income	181,513	55,039	45,300	20,483	302,335
Operating expenses					(143,777)
Operating profit before impairment					158,558
Impairment losses on financial assets					(36,542)
Income tax expense					(24,841)
Net profit for 9 months					97,175
Segment assets	3,389,707	2,790,452	3,882,016	512,804	10,574,979
Segment liabilities	4,403,447	1,800,239	3,308,044	1,063,249	10,574,979

36. Segment reporting (continued)

30 September 2009	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue					
Interest income	177,070	61,721	98,038	2,167	338,996
Interest expense	(60,582)	(9,345)	(36,532)	(285)	(106,744)
Inter-segment revenue	8,108	(15,816)	(9,661)	17,369	-
Net interest income	124,596	36,560	51,845	19,251	232,252
Net fee and commission income	40,405	11,914	96	(85)	52,330
Net trading income	3,477	3,036	138	(60)	6,591
Other operating income	793	2	3,905	1,449	6,149
Dividend income	-	-	-	3,201	3,201
Total segment operating income	169,271	51,512	55,984	23,756	300,523
Operating expenses					(138,056)
Operating profit before impairment					162,467
Impairment losses on financial assets					(57,348)
Income tax expense					(19,258)
Net profit for 9 months					85,861
Segment assets	3,045,099	2,432,174	3,534,856	507,019	9,519,148
Segment liabilities	4,427,826	1,678,986	2,443,624	968,712	9,519,148

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 30 September 2010, significant outstanding balances with related parties comprised:

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	211,544	211,544
Derivative financial instruments	-	-	-	5,590	5,590
Loans and advances to customers	963	920	91,242	-	93,125
Other assets	-	-	504	-	504
	963	920	91,746	217,134	310,763
Liabilities					
Due to central and other banks	-	-	-	339,975	339,975
Derivative financial instruments	-	-	-	1,838	1,838
Due to customers	2,047	-	2,348	-	4,395
Debt securities in issue					
Bonds	-	-	6,698	-	6,698
Mortgage bonds	-	-	-	969,151	969,151
Other liabilities	-	-	3,360	-	3,360
	2,047	-	12,406	1,310,964	1,325,417
Financial commitments and contingencies	-	-	33,458	-	33,458
Derivative transactions (notional amount – receivable)	-	-	-	85,248	85,248
Derivative transactions (notional amount – payable)	-	-	-	30,659	30,659
Income and expense items					
Interest and similar income	24	37	943	4,185	5,189
Interest expense and similar charges	(26)	-	(110)	(13,739)	(13,875)
Fee and commission income	3	-	3,262	-	3,265
Fee and commission expense	-	-	(22,856)	-	(22,856)
Net trading income	-	-	-	633	633
Dividend income	-	-	332	-	332
Operating income	-	-	769	180	949
Operating expenses	-	-	(8)	-	(8)
	1	37	(17,668)	(8,741)	(26,371)

* 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
	717	928	93,346	156,969	251,960
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
	1,597	2	13,188	683,926	698,713
Financial commitments and contingencies	-	-	31,538	-	31,538
Derivative transactions (notional amount – receivable)	-	-	-	178,284	178,284
Derivative transactions (notional amount – payable)	-	-	-	160,000	160,000

For the period ended 30 September 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	22	39	1,311	6,085	7,457
Interest expense and similar charges	(25)	-	(167)	(10,562)	(10,754)
Fee and commission income	-	-	1,384	-	1,384
Fee and commission expense	-	-	(19,436)	-	(19,436)
Net trading income	-	-	-	12,334	12,334
Dividend income	-	-	3,201	-	3,201
Operating income	-	-	284	212	496
	(3)	39	(13,423)	8,069	(5,318)

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	87,846
	146,240

39. Events after the end of reporting period

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