VÚB BANKA

Interim separate financial statements for 3 months ended 31 March 2011

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

VÚB BANKA

Contents

VÚB BANKA

Statement of financial position at 31 March 2011

(In thousands of euro)

	Note	Mar 2011	Dec 2010
Assets			
Cash and balances with central banks	4	128,805	179,064
Due from banks	5	286,727	108,598
Financial assets held for trading	6	226,217	249,973
Derivative financial instruments	7	43,411	45,205
Available-for-sale financial assets	8	1,772,774	1,615,823
Non-current assets held for sale	14	3,154	3,374
Loans and advances to customers	9	6,223,555	6,141,301
Held-to-maturity investments	11	1,164,116	1,788,263
Subsidiaries, associates and jointly controlled entities	12	113,486	113,810
Intangible assets	13	28,525	30,639
Property and equipment	14	139,016	142,801
Current income tax assets	19	4,784	6,882
Deferred income tax assets	19	59,202	54,092
Other assets	15	14,436	12,991
		10,208,208	10,492,816
Liabilities			
Due to central and other banks	16	450,466	439,151
Derivative financial instruments	7	51,178	60,729
Due to customers	17	6,961,991	7,276,689
Debt securities in issue	18	1,627,884	1,619,591
Provisions	20	23,878	23,517
Other liabilities	21	55,168	52,934
		9,170,565	9,472,611
Equity			
Share capital	22	430,819	430,819
Share premium	22	13,368	13,368
Reserves		36,857	56,333
Retained earnings		556,599	519,685
		1,037,643	1,020,205
		10,208,208	10,492,816
Financial commitments and contingencies	23	2,660,067	2,606,950

The accompanying notes on pages 7 to 58 form an integral part of these financial statements.

These financial statements were authorised for issue on 27 April 2011.

Ignacio Jaquotot
Chairman of the Management Board

Domenico Cristarella
Member of the Management Board

VÚB BANKA

Statement of comprehensive income for 3 months ended 31 March 2011

(In thousands of euro)

	Note	Mar 2011	Mar 2010
Interest and similar income		112,934	102,071
Interest expense and similar charges		(28,450)	(25,729)
Net interest income	24	84,484	76,342
Fee and commission income		32,787	30,938
Fee and commission expense		(13,599)	(11,088)
Net fee and commission income	25	19,188	19,850
Net trading income	26	1,359	2,104
Other operating income	27	1,839	776
Operating income		106,870	99,072
Salaries and employee benefits	28	(22,177)	(21,700)
Other operating expenses	29	(20,013)	(18,296)
Amortisation	13	(2,166)	(1,972)
Depreciation	14	(4,144)	(4,938)
Operating expenses		(48,500)	(46,906)
Operating profit before impairment		58,370	52,166
Impairment losses on financial assets	30	(11,970)	(12,827)
Profit before tax		46,400	39,339
Income tax expense	31	(9,486)	(7,715)
NET PROFIT FOR 3 MONTHS		36,914	31,624
Other comprehensive income for 3 months, after tax:			
Exchange difference on translating foreign operation		51	237
Available-for-sale financial assets		(22,502)	5,916
Cash flow hedges		2,975	(2,228)
Other comprehensive income for 3 months, net of tax	32, 33	(19,476)	3,925
TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS		17,438	35,549
Basic and diluted earnings per € 33.2 share in €	22	2.84	2.44

The accompanying notes on pages 7 to 58 form an integral part of these financial statements.

VÚB BANKA

Statement of changes in equity for 3 months ended 31 March 2011

(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 2010	430,819	13,368	87,493	429,361	(1,649)	6,037	(1,639)	963,790
Total comprehensive income for 3 months	-	-	-	31,624	237	5,916	(2,228)	35,549
Other *	-	-	-	(1,515)	1,515	-	-	-
Effect of FX hedge *	-	-	-	529	-	-	(529)	-
At 31 March 2010	430,819	13,368	87,493	459,999	103	11,953	(4,396)	999,339
At 1 January 2011	430,819	13,368	87,493	519,685	24	(27,579)	(3,605)	1,020,205
Total comprehensive income for 3 months	-	-	-	36,914	51	(22,502)	2,975	17,438
At 31 March 2011	430,819	13,368	87,493	556,599	75	(50,081)	(630)	1,037,643

* The foreign currency difference disclosed under Translation of foreign operation was settled within the transfer of retained earnings and profit for 2009 from the foreign branch. Retained earnings were originally generated in Czech Crowns ('CZK') and the foreign exchange effect of this translation was hedged since 2009.

The accompanying notes on pages 7 to 58 form an integral part of these financial statements.

VÚB BANKA

Statement of cash flows for 3 months ended 31 March 2011

(In thousands of euro)

	Note	Mar 2011	Mar 2010
Cash flows from operating activities			
Profit before tax		46,400	39,339
Adjustments for:			
Amortisation		2,166	1,972
Depreciation		4,144	4,938
Securities held for trading, available-for-sale securities and FX differences		515	3,456
Interest income		(112,934)	(102,071)
Interest expense		28,450	25,729
Sale of property and equipment		(1,245)	-
Impairment losses on financial assets and similar charges		12,543	13,085
Interest received		130,443	117,952
Interest paid		(23,071)	(20,330)
Tax paid		(12,498)	(8,586)
Due from banks		(163,241)	(169,199)
Financial assets held for trading		21,981	(73,365)
Derivative financial instruments (assets)		4,788	(2,976)
Available-for-sale financial assets		(189,440)	(395,859)
Loans and advances to customers		(93,388)	(38,507)
Other assets		(1,440)	(1,591)
Due to central and other banks		11,225	372,103
Derivative financial instruments (liabilities)		(9,551)	3,932
Due to customers		(316,706)	78,268
Other liabilities		2,466	(4,347)
Net cash used in operating activities		(658,393)	(156,057)
Cash flows from investing activities			
Purchase of held-to-maturity investments		-	(9,768)
Repayments of held-to-maturity investments		615,448	181,712
Purchase of intangible assets and property and equipment		(573)	(1,125)
Disposal of property and equipment		1,631	5
Disposal/(acquisition) of subsidiaries		324	(13,701)
Net cash from investing activities		616,830	157,123
Cash flows from financing activities			
Proceeds from issue of debt securities		21,111	1,500
Repayments of debt securities		(16,597)	(79,665)
Net cash from/(used in) financing activities		4,514	(78,165)
Net change in cash and cash equivalents		(37,049)	(77,099)
Cash and cash equivalents at the beginning of the year	3	194,854	333,185
Cash and cash equivalents at 31 March	3	157,805	256,086

The accompanying notes on pages 7 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 31 March 2011, the Bank had a network of 251 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2010: 250). 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 which 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 balances are presented in brackets.

2.2 Changes in accounting policies

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

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

2.3 Segment reporting

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

The Bank operates in three operating segments – Retail Banking, Corporate Banking and Central Treasury. Each 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.

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 central 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 of the Slovak republic.

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 Statement of comprehensive income and in equity respectively.

(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.

2. Summary of significant accounting policies (continued)

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 recognises 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 recognises 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 Statement of comprehensive income 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 whose fair value cannot be reliably measured are held at cost less impairment. For ‘available-for-sale’ equity investments, the Bank assesses at each reporting date 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 Statement of comprehensive income; 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.

‘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. Summary of significant accounting policies (continued)

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 deferred 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 daily 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 the 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.

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.

2. Summary of significant accounting policies (continued)

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 the Statement of comprehensive income.

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%.

In 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 gain 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 effective interest rate (‘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.

2.12 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. Summary of significant accounting policies (continued)

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 in 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.

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.

CAPM 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%.

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. Summary of significant accounting policies (continued)

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

Land, assets in progress 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.

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

	Jubilee benefits	Retirement benefits
Discount rate	2.5%	3.6%
Future growth of wages	n/a	3%
Fluctuation of employees (based on age)	9 – 54%	9 – 54%
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 in the Statement of financial position in 'Other liabilities'.

2. Summary of significant accounting policies (continued)

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.

2.24 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.

2. Summary of significant accounting policies (continued)

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.

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.

2. Summary of significant accounting policies (continued)

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 Statement of cash flows, cash and cash equivalents comprise the following balances with contractual maturity of less than 90 days:

	Note	Mar 2011	Dec 2010
Cash and balances with central banks	4	128,805	179,064
Current accounts in other banks	5	11,795	8,248
Term deposits with other banks	5	17,205	7,542
Held-to-maturity investments	11	-	-
		157,805	194,854

4. Cash and balances with central banks

	Mar 2011	Dec 2010
Balances with central banks:		
Compulsory minimum reserves	33,666	87,693
Current accounts	45	33
	33,711	87,726
Cash in hand	95,094	91,338
	128,805	179,064

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and the Czech National Bank. The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the Bank and the amount of 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 the Target2 system. Target2 is a Trans-European Automated Real-Time Gross Settlement Express Transfer System, where payments with priority are realised in real-time.

5. Due from banks

	Note	Mar 2011	Dec 2010
Current accounts	3	11,795	8,248
Term deposits			
with contractual maturity less than 90 days	3	17,205	7,542
with contractual maturity over 90 days		171,341	5,081
Loans and advances		86,606	87,878
Impairment losses	10	(220)	(151)
		286,727	108,598

6. Financial assets held for trading

	Mar 2011	Dec 2010
Treasury bills and other eligible bills		
with contractual maturity over 90 days	170,398	174,201
State bonds		
with contractual maturity over 90 days	55,819	75,772
	226,217	249,973

At 31 March 2011 and 31 December 2010, no such securities were pledged by the Bank to secure transactions with counterparties.

7. Derivative financial instruments

	Mar 2011 Assets	Dec 2010 Assets	Mar 2011 Liabilities	Dec 2010 Liabilities
Trading derivatives	43,289	45,179	49,297	46,834
Cash flow hedges of interest rate risk	-	-	798	4,451
Cash flow hedge of foreign exchange risk	19	-	-	-
Fair value hedges of interest rate risk	103	26	1,083	9,444
	43,411	45,205	51,178	60,729

Trading derivatives also include hedge instruments that are non-qualifying according to IAS 39, which are held for risk management purposes rather than for trading. The instruments used include cross-currency interest rate swaps. In March 2011, the total positive fair value of such derivatives was € 8,011 thousand (31 December 2010: € 6,386 thousand) and the negative fair value was nil (31 December 2010: nil).

7. Derivative financial instruments (continued)

Trading derivatives – Fair values	**Mar 2011 Assets**	**Dec 2010 Assets**	**Mar 2011 Liabilities**	**Dec 2010 Liabilities**
Interest rate instruments				
Swaps	16,233	21,632	20,064	23,780
Forward rate agreements	60	-	-	-
Options	1,705	1,806	1,710	1,813
	17,998	23,438	21,774	25,593
Foreign currency instruments				
Forwards and swaps	3,932	2,059	14,120	7,894
Cross currency swaps	8,011	6,386	-	-
Options	7,554	8,842	7,609	8,893
	19,497	17,287	21,729	16,787
Equity and commodity instruments				
Equity options	5,553	4,047	5,553	4,047
Commodity options	241	407	241	407
	5,794	4,454	5,794	4,454
	43,289	45,179	49,297	46,834

Trading derivatives – Notional values	**Mar 2011 Assets**	**Dec 2010 Assets**	**Mar 2011 Liabilities**	**Dec 2010 Liabilities**
Interest rate instruments				
Swaps	975,111	954,181	975,111	954,181
Forward rate agreements	49,868	-	49,868	-
Options	85,184	78,991	85,184	78,991
	1,110,163	1,033,172	1,110,163	1,033,172
Foreign currency instruments				
Forwards and swaps	339,089	280,758	351,327	288,177
Cross currency swaps	73,341	71,825	65,433	65,433
Options	86,543	50,266	84,970	49,754
	498,973	402,849	501,730	403,364
Equity and commodity instruments				
Equity options	22,591	22,630	22,591	22,630
Commodity options	3,276	3,280	3,276	3,280
	25,867	25,910	25,867	25,910
	1,635,003	1,461,931	1,637,760	1,462,446

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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

Cash flow hedge of foreign exchange risk

The Bank entered into a foreign exchange ('FX') forward contract to hedge cash inflows in CZK in relation to the transfer of prior year profit from the Prague branch. The cash flow profiles of both items are identical.

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.

The foreign branch of VUB uses one interest rate swap to hedge the interest rate risk of one fixed income loan originated in the Czech Republic. The changes in fair value of this interest rate swap substantially offset the change in fair value of the loan, both in relation to changes of interest rates.

8. Available-for-sale financial assets

	Share Mar 2011	Share Dec 2010	Mar 2011	Dec 2010
State bonds			1,752,769	1,595,839
Bank bonds			19,557	19,345
Equity shares at cost				
RVS Studené, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.06%	0.06%	65	65
Impairment losses (note 10)			(191)	-
			1,772,774	1,615,823

At 31 March 2011, no State bonds were pledged by the Bank (31 December 2010: nil) to secure transactions with counterparties.

9. Loans and advances to customers

31 March 2011	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	101,661	(221)	101,440
Corporate			
Large Corporates	829,727	(10,941)	818,786
Project Financing	660,210	(26,652)	633,558
Small and medium enterprises ('SME')	673,279	(39,851)	633,428
Other Financial Institutions	368,470	(249)	368,221
Private Sector Entities	6,603	(58)	6,545
Factoring	36,767	(661)	36,106
	2,575,056	(78,412)	2,496,644
Retail			
Small business	241,755	(15,053)	226,702
Consumer Loans	655,907	(58,706)	597,201
Mortgages	2,510,344	(27,364)	2,482,980
Credit Cards	249,096	(41,742)	207,354
Overdrafts	108,805	(14,602)	94,203
Other	17,035	(4)	17,031
	3,782,942	(157,471)	3,625,471
	6,459,659	(236,104)	6,223,555

31 December 2010	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	101,730	(205)	101,525
Corporate			
Large Corporates	847,014	(17,011)	830,003
Project Financing	651,086	(16,443)	634,643
Small and medium enterprises ('SME')	636,480	(39,651)	596,829
Other Financial Institutions	393,177	(203)	392,974
Private Sector Entities	6,787	(81)	6,706
Factoring	53,756	(695)	53,061
	2,588,300	(74,084)	2,514,216
Retail			
Small business	188,861	(14,053)	174,808
Consumer Loans	644,061	(67,635)	576,426
Mortgages	2,476,074	(26,690)	2,449,384
Credit Cards	260,141	(39,763)	220,378
Overdrafts	112,084	(13,736)	98,348
Other	6,216	-	6,216
	3,687,437	(161,877)	3,525,560
	6,377,467	(236,166)	6,141,301

10. Impairment losses

	Note	1 Jan 2011	Creation/ (Reversal) (note 30)	FX losses/ (gains)	Other	31 Mar 2011
Due from banks	5	151	69	-	-	220
Available-for-sale financial assets	8	-	191	-	-	191
Non-current assets held for sale	14	1,272	(4)	-	-	1,268
Loans and advances to customers	9	236,166	(278)	216	-	236,104
Held-to-maturity investments	11	249	408	-	-	657
Subsidiaries, associates and JVs	12	31,089	-	-	(7,443) *	23,646
Property and equipment	14	461	-	-	-	461
Other assets	15	3,690	(5)	21	-	3,706
		273,078	381	237	(7,443)	266,253

* Liquidation of VÚB Leasingová, a.s. v likvidácii (in liquidation) (see also note 12)

11. Held-to-maturity investments

	Mar 2011	Dec 2010
State restructuring bonds	-	617,613
State bonds	1,116,374	1,123,031
Bank bonds and other bonds issued by financial sector	10,014	9,974
Corporate notes and bonds with contractual maturity less than 90 days (note 3)	-	-
Corporate notes and bonds with contractual maturity over 90 days	38,385	37,894
	1,164,773	1,788,512
Impairment losses (note 10)	(657)	(249)
	1,164,116	1,788,263

At 31 March 2011, bonds in the total nominal amount of € 104,797 thousand were pledged by the Bank (31 December 2010: € 106,460 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.

Last two 10-year state restructuring bonds held in held-to-maturity portfolio at 31 December 2010 with nominal values of € 366,594 thousand and € 248,855 thousand were fully repaid on 30 January 2011 and 29 March 2011.

12. Subsidiaries, associates and jointly controlled entities

	Share %	Cost	Impairment losses (note 10)	Carrying amount
At 31 March 2011				
VÚB Factoring, a.s.	100.0	16,535	(12,300)	4,235
Recovery, a.s.	100.0	3,652	(3,194)	458
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
		137,132	(23,646)	113,486
At 31 December 2010				
VÚB Factoring, a.s.	100.0	16,535	(12,300)	4,235
VÚB Leasingová, a.s. v likvidácii (in liquidation)	100.0	7,767	(7,443)	324
Recovery, a.s.	100.0	3,652	(3,194)	458
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	(31,089)	113,810

In January 2011, VÚB Leasingová, a.s. v likvidácii (in liquidation) was removed from the Business Register of the Slovak Republic. This act concluded the process of liquidation.

13. Intangible assets

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2011	140,687	7,246	4,679	152,612
Additions	-	-	52	52
Disposals	-	-	-	-
Transfers	1,537	233	(1,770)	-
FX differences	9	-	-	9
At 31 March 2011	142,233	7,479	2,961	152,673
Accumulated amortisation				
At 1 January 2011	(117,790)	(4,183)	-	(121,973)
Amortisation for the period	(1,882)	(284)	-	(2,166)
Disposals	-	-	-	-
FX differences	(9)	-	-	(9)
At 31 March 2011	(119,681)	(4,467)	-	(124,148)
Carrying amount				
At 1 January 2011	22,897	3,063	4,679	30,639
At 31 March 2011	22,552	3,012	2,961	28,525

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 2011	197,348	91,537	31,565	3,492	323,942
Additions	-	-	-	521	521
Disposals	(306)	(575)	(289)	-	(1,170)
Transfers	464	1,141	104	(1,709)	-
FX differences	3	6	2	-	11
At 31 March 2011	197,509	92,109	31,382	2,304	323,304
Accumulated depreciation					
At 1 January 2011	(79,807)	(74,499)	(26,374)	-	(180,680)
Depreciation for the period	(1,697)	(1,954)	(493)	-	(4,144)
Disposals	163	562	282	-	1,007
FX differences	(2)	(6)	(2)	-	(10)
At 31 March 2011	(81,343)	(75,897)	(26,587)	-	(183,827)
Impairment losses (note 10)					
At 1 January 2011	(461)	-	-	-	(461)
Additions	-	-	-	-	-
At 31 March 2011	(461)	-	-	-	(461)
Carrying amount					
At 1 January 2011	117,080	17,038	5,191	3,492	142,801
At 31 March 2011	115,705	16,212	4,795	2,304	139,016

At 31 March 2011 and 31 December 2010, the Bank held in its portfolio of non-current assets held for sale buildings as follows:

	Mar 2011	Dec 2010
Cost	6,547	7,768
Accumulated depreciation	(2,125)	(3,122)
Impairment (note 10)	(1,268)	(1,272)
	3,154	3,374

15. Other assets

	Mar 2011	Dec 2010
Operating receivables and advances	10,710	10,834
Prepayments and accrued income	4,151	3,940
Other tax receivables	1,884	1,274
Inventories	1,105	448
Settlement of operations with financial instruments	292	185
	18,142	16,681
Impairment losses (note 10)	(3,706)	(3,690)
	14,436	12,991

16. Due to central and other banks

	Mar 2011	Dec 2010
Due to central banks		
Current accounts	138,243	53,019
Due to other banks		
Current accounts	6,364	8,374
Term deposits	259,916	330,642
Loans received	45,943	47,116
	312,223	386,132
	450,466	439,151

17. Due to customers

	Mar 2011	Dec 2010
Current accounts	2,825,036	3,067,880
Term deposits	3,377,887	3,330,072
Savings accounts	277,347	285,567
Government and municipal deposits	278,968	434,586
Loans received	75,393	75,180
Promissory notes	93,079	58,136
Other deposits	34,281	25,268
	6,961,991	7,276,689

18. Debt securities in issue

	Mar 2011	Dec 2010
Bonds	55,050	55,001
Mortgage bonds	1,572,834	1,564,590
	1,627,884	1,619,591

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

18. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	Mar 2011	Dec 2010
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	34,821	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	34,614	34,191
Mortgage bonds VÚB, a.s. XVII.	1.20	EUR	2,500	22,280	28.11.2005	28.11.2015	55,761	55,757
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,640	17,176
Mortgage bonds VÚB, a.s. XXI.	1.10	EUR	500	33,194	10.3.2006	10.3.2011	-	16,608
Mortgage bonds VÚB, a.s. XXII.	1.37	EUR	1,200	50,000	29.6.2006	29.6.2011	60,005	60,004
Mortgage bonds VÚB, a.s. XXIII.	1.18	EUR	60	1,000,000	26.10.2006	26.10.2011	60,128	60,128
Mortgage bonds VÚB, a.s. XXIV.	1.35	EUR	1,500	33,194	24.11.2006	24.11.2011	50,027	49,860
Mortgage bonds VÚB, a.s. XXV.	1.26	EUR	30	1,000,000	5.12.2006	5.12.2011	30,027	30,026
Mortgage bonds VÚB, a.s. XXVIII.	2.07	CZK	1,000	1,000,000	20.6.2007	20.6.2012	40,720	40,240
Mortgage bonds VÚB, a.s. XXIX.	1.23	EUR	500	33,194	16.10.2007	16.10.2012	16,688	16,637
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	34,540	33,327
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,623	19,624

(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	Mar 2011	Dec 2010
Mortgage bonds VÚB, a.s. 32.	3.06	CZK	800	1,000,000	17.12.2007	17.12.2017	30,098	34,791
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	21,386	21,167
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	19,031	18,796
Mortgage bonds VÚB, a.s. 37.	1.49	EUR	40	1,000,000	30.4.2008	30.4.2011	40,101	40,103
Mortgage bonds VÚB, a.s. 39.	1.89	EUR	60	1,000,000	26.6.2008	26.6.2015	60,014	60,012
Mortgage bonds VÚB, a.s. 40.	1.83	EUR	70	1,000,000	28.8.2008	28.8.2015	70,114	70,117
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	24,609	25,807
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	20,740	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	18,441	15,387
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	15,099	15,633
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	150	1,000,000	19.5.2009	19.5.2016	155,993	154,264
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	20,000	1,000	11.5.2009	11.5.2013	20,711	20,511
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	102,646	101,666
Mortgage bonds VÚB, a.s. 50.	3.40	EUR	8,407	1,000	2.11.2009	2.11.2013	8,525	8,454
Mortgage bonds VÚB, a.s. 51.	1.58	EUR	100	1,000,000	8.4.2010	8.4.2014	100,364	100,355
Mortgage bonds VÚB, a.s. 52.	2.16	EUR	161	50,000	15.3.2010	15.3.2014	8,058	8,102
Mortgage bonds VÚB, a.s. 53.	1.72	EUR	100	1,000,000	8.4.2010	8.4.2017	100,396	100,387
Mortgage bonds VÚB, a.s. 54.	3.00	EUR	15,000	1,000	1.7.2010	1.7.2014	15,337	15,225
Mortgage bonds VÚB, a.s. 55.	2.85	EUR	14,000	1,000	1.10.2010	1.10.2015	14,199	14,100
Mortgage bonds VÚB, a.s. 56.	2.84	EUR	70	1,000,000	30.9.2010	30.9.2017	70,005	70,434
Mortgage bonds VÚB, a.s. 57.	2.83	EUR	100	1,000,000	30.9.2010	30.9.2018	100,008	100,620
Mortgage bonds VÚB, a.s. 58.	3.06	EUR	80	1,000,000	10.12.2010	10.12.2019	80,755	80,143
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	21,111	1,000	1.3.2011	1.3.2015	21,644	-
							1,572,868	1,564,590

19. Current and deferred income taxes

	Mar 2011	Dec 2010
Current income tax assets	4,784	6,882

	Mar 2011	Dec 2010
Deferred income tax assets	59,202	54,092

Deferred income taxes are calculated on all temporary differences using a tax rate of 19% (31 December 2010: 19%) as follows:

	Mar 2011	Profit/ (loss) (note 31)	Equity	Dec 2010
Due from banks	42	13	-	29
Derivative financial instruments designated as cash flow hedges	148	-	(698)	846
Available-for-sale financial assets	11,784	36	5,279	6,469
Loans and advances to customers	44,698	(13)	-	44,711
Held-to-maturity investments	125	78	-	47
Property and equipment	(2,167)	(49)	-	(2,118)
Other liabilities	4,572	464	-	4,108
Deferred income tax asset	59,202	529	4,581	54,092

20. Provisions

	Mar 2011	Dec 2010
Litigations	23,878	23,517

The movement in provisions was as follows:

	1 Jan 2011	Creation/ (Reversal)	FX diff	31 Mar 2011
Litigations (note 23, note 29)	23,517	376	(15)	23,878

21. Other liabilities

	Mar 2011	Dec 2010
Settlement with employees	21,250	19,160
Financial guarantees and commitments	13,245	13,674
Various creditors	12,539	11,927
Accruals and deferred income	2,696	1,976
Severance and Jubilee benefits	1,321	1,321
VAT payables and other tax payables	1,276	2,681
Retention program	1,213	1,016
Settlement with shareholders	1,150	1,178
Settlement with securities	20	1
Other	458	-
	55,168	52,934

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

	Note	1 Jan 2011	Creation/ (Reversal)	31 Mar 2011
Financial guarantees and commitments	30	13,674	(429)	13,245
Severance and Jubilee benefits	28	1,321	-	1,321
Retention program	28	1,016	197	1,213
		16,011	(232)	15,779

22. Share capital

	Mar 2011	Mar 2010
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 3 months attributable to shareholders	36,914	31,624
Divided by 12,976,478 ordinary shares of € 33.2 each		
Basic and diluted earnings per € 33.2 share in €	2.84	2.44

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

22. Share capital (continued)

The structure of shareholders is as follows:

	Mar 2011	Dec 2010
Intesa Holding International S.A.	96.76%	96.76%
Domestic shareholders	2.97%	2.97%
Foreign shareholders	0.27%	0.27%
	100.00%	100.00%

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

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

The Bank's regulatory capital position at 31 March 2011 and 31 December 2010 was as follows:

	Mar 2011	Dec 2010
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,368	13,368
Retained earnings without net profit for the period	370,307	370,308
Legal reserve fund	87,493	87,493
Less software (including software in Assets in progress)	(25,513)	(27,576)
Less expected loss	(40,368)	-
	836,106	874,412
Tier 2 capital	-	-
Regulatory adjustment		
Subsidiaries, associates and jointly controlled entities	(113,483)	(113,807)
Expected loss (equity instruments)	(15)	-
	(113,498)	(113,807)
Total regulatory capital	722,608	760,605

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). Since 1 January 2011, new item is deducted from regulatory capital – difference between expected loss and impairment losses on exposures treated under standard approach. Methodology is prescribed by NBS decree 11/2010 stipulating methods of valuing banking book positions and details of the valuation of banking book positions, including the frequency of such valuations. Since February 2011, the Bank is also obliged to deduct difference between expected loss and provisions if positive for IRB portfolio (Corporate segment) and expected loss for equities (Simple IRB approach).

22. Share capital (continued)

	Mar 2011 Actual	Mar 2011 Required	Dec 2010 Actual	Dec 2010 Required
Tier 1 capital	836,106	661,518	874,412	631,675
Tier 2 capital	-	-	-	-
Regulatory adjustment	(113,498)	(113,498)	(113,807)	(113,807)
Total regulatory capital	722,608	548,020	760,605	517,868
Total Risk Weighted Assets	6,850,245	6,850,245	6,473,350	6,473,350
Tier 1 capital ratio	12.22%	9.66%	13.51%	9.76%
Total capital ratio	10.55%	8.00%	11.75%	8.00%

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

The Bank must maintain a capital adequacy ratio of at least 8% according to NBS regulations. The capital adequacy ratio is the ratio between the Bank's capital and the risk weighted assets. Risk weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The Bank complied with the NBS requirement for the capital adequacy ratio as at 31 March 2011 and 31 December 2010.

23. Financial commitments and contingencies

	Mar 2011	Dec 2010
Issued guarantees	545,570	585,782
Commitments and undrawn credit facilities	2,114,497	2,021,168
	2,660,067	2,606,950

(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.

23. Financial commitments and contingencies (continued)

(c) Lease obligations

In the normal course of business, the Bank enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 March 2011 and 31 December 2010 was as follows:

	Mar 2011	**Dec 2010**
Up to 1 year	1,501	1,501
1 to 5 years	1,272	1,272
Over 5 years	-	-
	2,773	2,773

(d) Legal

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 31 March 2011. Pursuant to this review, management has recorded total provisions of € 23,878 thousand (31 December 2010: € 23,517 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 € 19,248 thousand, as at 31 March 2011 (31 December 2010: € 19,039 thousand). This amount represents existing legal proceedings against the Bank that according to the opinion of the Legal Department of the Bank will most probably not result in any payments due by the Bank.

24. Net interest income

	Mar 2011	**Mar 2010**
Interest and similar income		
Due from banks	2,444	1,841
Loans and advances to customers	81,830	73,915
Bonds, treasury bills and other securities:		
Financial assets held for trading	2,293	2,168
Available-for-sale financial assets	13,195	8,255
Held-to-maturity investments	13,172	15,892
	112,934	102,071
Interest expense and similar charges		
Due to banks	(580)	(989)
Due to customers	(15,840)	(14,589)
Debt securities in issue	(12,030)	(10,151)
	(28,450)	(25,729)
	84,484	76,342

25. Net fee and commission income

	Mar 2011	Mar 2010
Fee and commission income		
Received from banks	1,441	1,120
Received from customers:		
Current accounts	11,200	10,414
Term deposits	215	180
Insurance mediation	1,941	2,179
Loans and guarantees	9,604	9,545
Overdrafts	524	633
Securities	1,604	1,303
Transactions and payments	5,624	5,125
Other	634	439
	32,787	30,938
Fee and commission expense		
Paid to banks	(3,119)	(2,584)
Paid to mediators:		
Credit cards	(9,342)	(7,403)
Securities	(147)	(141)
Services	(652)	(634)
Other	(339)	(326)
	(13,599)	(11,088)
	19,188	19,850

26. Net trading income

	Mar 2011	Mar 2010
Foreign currency derivatives and transactions	(1,432)	(2,761)
Customer FX margins	907	1,150
Cross currency swaps	1,625	2,901
Interest rate derivatives *	5,459	(4,124)
Securities:		
Financial assets held for trading	(793)	1,272
Available-for-sale financial assets *	(4,407)	3,666
	1,359	2,104

* 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 amount still to be recognised in income resulting from Day 1 profit amounted to € 116 thousand at 31 March 2011 (31 December 2010: € 257 thousand), thereof € 100 thousand is to be recognised within one year (31 December 2010: € 241 thousand) and the remaining € 16 thousand in the period 1 to 5 years (31 December 2010: € 16 thousand).

27. Other operating income

	Mar 2011	Mar 2010
Rent	395	431
Net profit from sale of fixed assets	1,245	-
Other	199	345
	1,839	776

28. Salaries and employee benefits

	Mar 2011	Mar 2010
Remuneration	(16,128)	(15,923)
Social security costs	(5,679)	(5,418)
Social fund	(173)	(172)
Retention program (note 21)	(197)	(187)
	(22,177)	(21,700)

The total number of employees of the Bank at 31 March 2011 was 3,494 (31 December 2010: 3,487).

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

29. Other operating expenses

	Mar 2011	Mar 2010
Property related expenses	(3,548)	(3,254)
IT systems maintenance	(2,914)	(2,208)
Post and telecom	(2,525)	(2,368)
Contribution to the Deposit Protection Fund	(2,136)	(2,123)
Advertising and marketing	(1,772)	(1,359)
Equipment related expenses	(1,687)	(1,782)
VAT and other taxes	(1,351)	(1,311)
Security	(892)	(952)
Professional services	(773)	(496)
Stationery	(674)	(635)
Insurance	(186)	(186)
Travelling	(176)	(196)
Audit*	(137)	(137)
Other damages	(99)	(141)
Transport	(99)	(92)
Trainings	(51)	(63)
Litigations paid	(38)	(42)
Provisions for litigations (note 20)	(376)	(258)
Other operating expenses	(579)	(693)
	(20,013)	(18,296)

29. Other operating expenses (continued)

* As at 31 March 2011 the audit expense accruals consists of the statutory audit in the amount of € 65 thousand (31 March 2010: € 65 thousand), group reporting in the amount of € 51 thousand (31 March 2010: € 51 thousand) and other reporting in the amount of € 21 thousand (31 March 2010: € 21 thousand).

30. Impairment losses on financial assets

	Mar 2011	Mar 2010
Net creation of impairment losses (note 10)	(381)	(12,437)
Net reversal of liabilities - financial guarantees and commitments (note 21)	429	1,190
	48	(11,247)
Nominal value of loans written-off	(13,491)	(2,077)
Nominal value of loans sold	(1,534)	-
Proceeds from loans written-off	1,626	497
Proceeds from loans sold	1,381	-
	(12,018)	(1,580)
	(11,970)	(12,827)

31. Income tax expense

	Mar 2011	Mar 2010
Current income tax	(10,015)	(10,720)
Deferred income tax (note 19)	529	3,005
	(9,486)	(7,715)

32. Components of other comprehensive income

	Mar 2011	Mar 2010
Exchange differences on translating foreign operations	51	237
Available-for-sale financial assets:		
Revaluation (losses)/gains arising during the period	(27,781)	7,304
Cash flow hedges:		
Revaluation gains/(losses) arising during the period	3,673	(2,751)
Total other comprehensive income	(24,056)	4,790
Income tax relating to components of other comprehensive income	4,580	(865)
Other comprehensive income for the period	(19,476)	3,925

33. Income tax effects relating to comprehensive income

	March 2011			March 2010		
	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	51	-	51	237	-	237
Available-for-sale financial assets	(27,781)	5,279	(22,502)	7,304	(1,388)	5,916
Net movement on cash flow hedges	3,673	(698)	2,975	(2,751)	523	(2,228)
	(24,057)	4,581	(19,476)	4,790	(865)	3,925

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. Impairment losses and liquidity premiums are taken into consideration when calculating fair values. The estimated fair value of loans and advances to customers approximates their carrying amounts.

(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 is 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 fair value of due to customers with short term maturity (under one year, including current accounts) is estimated by discounting their future expected cash flows using the risk free interest rate curve. The fair value of deposits with maturity over one year is discounted using the risk free interest rate curve adjusted by credit spreads reflecting the credit quality of VUB as the borrower. The estimated fair value of due to banks approximates their carrying amounts.

(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 Credit Risk 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 a 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 Credit Risk Charter which contains: Principles for managing credit risk, Authorised approval authority, Collateral Policy, Impairment Losses Policy, Rules for new product proposals, Credit Concentration Limits, Governance of rating and scoring systems, Write-off Policy and Credit Policies for each segment (Retail Banking, Corporate Banking and Central Treasury).

Management of credit risk

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

35. Financial risk management (continued)

- The development of credit risk strategies, 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 Credit Risk 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 Credit Risk Charter or can be found in the internal Provisioning Policy procedure.

From September 2010, the Bank implemented the definitions of non-performing loans derived from the Harmonisation project. The Harmonisation project is driven by Intesa Sanpaolo in order to unify the definitions and categories of non-performing loans across the foreign subsidiaries of the Intesa Sanpaolo Group. 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 a delinquency of higher than or equal to 90 days and a materiality threshold of higher than or equal to 5% of outstanding total credit exposures to client (corporate clients) respectively 50 € (retail clients) are considered to be non-performing.

Credit risk measurement

Bank generally uses standardised approach for capital requirement calculation. However, for the calculation of credit and counterparty risk capital requirements, the Bank, having received authorisation from the Supervisory Authority, uses the Foundation IRB approach for the Corporate segment from February 2011. The Bank is also proceeding with the development of the rating models for other segments, to which the standard methods are currently applied, and also with the extension of the scope of companies in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

35. Financial risk management (continued)

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

	Category	March 2011 Amortised cost	March 2011 Impairment losses	March 2011 Carrying amount	December 2010 Amortised cost	December 2010 Impairment losses	December 2010 Carrying amount
Banks							
	Performing	286,776	(69)	286,707	108,421	-	108,421
	Doubtful	171	(151)	20	328	(151)	177
		286,947	(220)	286,727	108,749	(151)	108,598
Sovereigns							
	Performing	100,226	(174)	100,052	100,800	(163)	100,637
	Past due	124	-	124	95	-	95
	Substandard	1,311	(47)	1,264	835	(42)	793
		101,661	(221)	101,440	101,730	(205)	101,525
Corporate							
	Performing	2,428,109	(28,587)	2,399,522	2,448,334	(29,806)	2,418,528
	Past due	65	(27)	38	115	(15)	100
	Restructured	18,649	(4,203)	14,446	19,332	(4,314)	15,018
	Substandard	89,488	(24,143)	65,345	74,189	(12,643)	61,546
	Doubtful	38,745	(21,452)	17,293	46,330	(27,306)	19,024
		2,575,056	(78,412)	2,496,644	2,588,300	(74,084)	2,514,216
Retail							
	Performing	3,614,809	(68,707)	3,546,102	3,521,637	(72,487)	3,449,150
	Past due	27,198	(10,496)	16,702	27,747	(10,898)	16,849
	Substandard	21,776	(8,579)	13,197	23,076	(9,353)	13,723
	Doubtful	119,159	(69,689)	49,470	114,977	(69,139)	45,838
		3,782,942	(157,471)	3,625,471	3,687,437	(161,877)	3,525,560
Securities							
	Performing	3,163,955	(848)	3,163,107	3,652,427	-	3,652,427
	Substandard	-	-	-	1,881	(249)	1,632
		3,163,955	(848)	3,163,107	3,654,308	(249)	3,654,059

35. Financial risk management (continued)

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

	Mar 2011	Dec 2010
Cash and balances with central banks	128,805	179,064
Due from banks	286,727	108,598
Financial assets held for trading	226,217	249,973
Derivative financial instruments	63,288	65,528
Available-for-sale financial assets	1,772,774	1,615,823
Non-current assets held for sale	3,154	3,374
Loans and advances to customers	6,223,555	6,141,301
Held-to-maturity investments	1,164,116	1,788,263
Subsidiaries, associates and jointly controlled entities	113,486	113,810
Intangible assets	28,525	30,639
Property and equipment	139,016	142,801
Current income tax assets	4,784	6,882
Deferred income tax assets	59,202	54,092
Other assets	14,436	12,991
	10,228,085	10,513,139

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

	March 2011			December 2010		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	286,666	(69)	286,597	96,009	-	96,009
1 – 30 days	110	-	110	12,412	-	12,412
Over 181 days *	171	(151)	20	328	(151)	177
	286,947	(220)	286,727	108,749	(151)	108,598
Sovereigns						
No delinquency	99,162	(169)	98,993	98,586	(163)	98,423
1 – 30 days	932	(5)	927	2,023	-	2,023
31 – 60 days	552	-	552	191	-	191
61 – 90 days	27	-	27	95	-	95
91 – 180 days	327	(14)	313	834	(42)	792
Over 181 days *	661	(33)	628	1	-	1
	101,661	(221)	101,440	101,730	(205)	101,525

35. Financial risk management (continued)

	March 2011			December 2010		
	Amortised cost	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Corporate						
No delinquency	2,512,859	(53,505)	2,459,354	2,522,740	(43,351)	2,479,389
1 – 30 days	7,118	(721)	6,397	6,924	(496)	6,428
31 – 60 days	6,667	(816)	5,851	3,099	(1,821)	1,278
61 – 90 days	170	(17)	153	965	(449)	516
91 – 180 days	4,420	(2,712)	1,708	837	(516)	321
Over 181 days *	43,822	(20,641)	23,181	53,735	(27,451)	26,284
	2,575,056	(78,412)	2,496,644	2,588,300	(74,084)	2,514,216
Retail						
No delinquency	3,437,587	(56,146)	3,381,441	3,350,375	(59,917)	3,290,458
1 – 30 days	124,633	(6,855)	117,778	123,172	(7,065)	116,107
31 – 60 days	35,630	(3,476)	32,154	31,792	(3,309)	28,483
61 – 90 days	18,885	(2,472)	16,413	17,883	(2,496)	15,387
91 – 180 days	29,190	(11,022)	18,168	30,471	(11,599)	18,872
Over 181 days *	137,017	(77,500)	59,517	133,744	(77,491)	56,253
	3,782,942	(157,471)	3,625,471	3,687,437	(161,877)	3,525,560
Securities						
No delinquency	3,163,955	(848)	3,163,107	3,654,308	(249)	3,654,059
	3,163,955	(848)	3,163,107	3,654,308	(249)	3,654,059

*** 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 1 January 2008, the write-off policy has been changed from 180 to 1,080 days past due. Thus receivables are no longer written off and sold after 180 days past due, but are collected by external collection agencies until they qualify for write-off and tax deductibility.

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

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

35. Financial risk management (continued)

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

	March 2011			December 2010		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Europe						
Banks	257,977	(197)	257,780	76,702	(151)	76,551
Sovereigns	101,661	(221)	101,440	101,730	(205)	101,525
Corporate	2,575,056	(78,412)	2,496,644	2,588,287	(74,084)	2,514,203
Retail	3,780,795	(157,423)	3,623,372	3,685,211	(161,845)	3,523,366
Securities	3,158,583	(630)	3,157,953	3,648,971	-	3,648,971
	9,874,072	(236,883)	9,637,189	10,100,901	(236,285)	9,864,616
North America						
Banks	28,838	(23)	28,815	31,856	-	31,856
Retail	678	(15)	663	739	(16)	723
Securities	5,372	(218)	5,154	5,337	(249)	5,088
	34,888	(256)	34,632	37,932	(265)	37,667
Asia						
Banks	67	-	67	99	-	99
Corporate	-	-	-	13	-	13
Retail	678	(32)	646	686	(15)	671
	745	(32)	713	798	(15)	783
Rest of the World						
Banks	65	-	65	92	-	92
Retail	791	(1)	790	801	(1)	800
	856	(1)	855	893	(1)	892

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

35. Financial risk management (continued)

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

31 March 2011	**Banks**	**Sovereigns**	**Corporate**	**Retail**	**Securities**
Agriculture	-	-	41,551	25,042	-
Construction	-	-	138,272	13,674	-
Consumers	-	-	-	3,397,661	-
Energy and water supply	-	-	150,690	1,276	-
Financial services	286,723	-	323,537	593	65,797
Government	-	88,136	-	-	3,095,071
Manufacturing	-	-	392,197	28,740	-
Professional services	-	-	82,106	8,440	-
Real estate	-	-	360,218	52,575	-
Retail & Wholesale	-	-	566,566	63,451	-
Services	-	-	104,957	13,959	-
Transportation	-	12,282	276,288	7,887	-
Other	4	1,022	60,262	12,173	2,239
	286,727	101,440	2,496,644	3,625,471	3,163,107

31 December 2010	**Banks**	**Sovereigns**	**Corporate**	**Retail**	**Securities**
Agriculture	-	-	41,294	20,749	-
Construction	-	-	120,514	13,046	-
Consumers	-	-	-	3,348,756	-
Energy and water supply	-	-	197,858	1,213	-
Financial services	108,598	-	353,414	616	65,331
Government	-	88,268	-	-	3,587,096
Manufacturing	-	-	395,130	29,579	-
Professional services	-	-	82,965	8,476	-
Real estate	-	-	380,944	7,743	-
Retail & Wholesale	-	-	555,124	61,623	-
Services	-	-	68,908	14,077	-
Transportation	-	12,501	270,726	7,264	-
Other	-	756	47,339	12,418	1,632
	108,598	101,525	2,514,216	3,525,560	3,654,059

35. Financial risk management (continued)

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances. Past due but not impaired financial assets are more than one day overdue.

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
31 March 2011	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	286,666	(69)	286,597	171	(151)	20	110	-	110
Sovereigns									
Municipalities	99,134	(169)	98,965	1,435	(47)	1,388	1,092	(5)	1,087
Corporate									
Large Corporates	799,580	(5,986)	793,594	30,147	(4,955)	25,192	-	-	-
Project Financing	614,517	(10,300)	604,217	44,769	(16,277)	28,492	924	(75)	849
SME	599,780	(11,100)	588,680	72,023	(28,593)	43,430	1,476	(158)	1,318
Other Fin. Organisations	368,469	(249)	368,220	1	-	1	-	-	-
Private Sector Entities	6,160	(54)	6,106	7	-	7	436	(4)	432
Factoring	33,910	(471)	33,439	-	-	-	2,857	(190)	2,667
	2,422,416	(28,160)	2,394,256	146,947	(49,825)	97,122	5,693	(427)	5,266
Retail									
Small business	217,729	(2,098)	215,631	18,326	(11,622)	6,704	5,700	(1,333)	4,367
Consumer Loans	534,846	(11,469)	523,377	65,273	(41,383)	23,890	55,788	(5,854)	49,934
Mortgages	2,343,471	(7,635)	2,335,836	58,257	(14,886)	43,371	108,616	(4,843)	103,773
Credit Cards	233,482	(33,621)	199,861	10,460	(7,840)	2,620	5,154	(281)	4,873
Overdrafts	89,901	(1,074)	88,827	15,815	(13,033)	2,782	3,089	(495)	2,594
Other	17,033	(4)	17,029	2	-	2	-	-	-
	3,436,462	(55,901)	3,380,561	168,133	(88,764)	79,369	178,347	(12,806)	165,541
Securities									
Trading	226,217	-	226,217	-	-	-	-	-	-
AFS	1,772,965	(191)	1,772,774	-	-	-	-	-	-
HTM	1,164,773	(657)	1,164,116	-	-	-	-	-	-
	3,163,955	(848)	3,163,107	-	-	-	-	-	-

35. Financial risk management (continued)

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
31 December 2010	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	96,009	-	96,009	328	(151)	177	12,412	-	12,412
Sovereigns									
Municipalities	98,586	(163)	98,423	930	(42)	888	2,214	-	2,214
Corporate									
Large Corporates	808,778	(5,682)	803,096	38,236	(11,329)	26,907	-	-	-
Project Financing	619,057	(11,272)	607,785	31,436	(5,123)	26,313	593	(48)	545
SME	561,233	(11,542)	549,691	70,116	(27,806)	42,310	5,131	(303)	4,828
Other Fin. Organisations	393,176	(203)	392,973	1	-	1	-	-	-
Private Sector Entities	6,758	(81)	6,677	7	-	7	22	-	22
Factoring	53,507	(673)	52,834	170	(20)	150	79	(2)	77
	2,442,509	(29,453)	2,413,056	139,966	(44,278)	95,688	5,825	(353)	5,472
Retail									
Small business	164,804	(1,484)	163,320	18,158	(11,473)	6,685	5,899	(1,096)	4,803
Consumer Loans	526,745	(17,789)	508,956	65,124	(43,046)	22,078	52,192	(6,800)	45,392
Mortgages	2,312,865	(7,604)	2,305,261	56,756	(14,633)	42,123	106,453	(4,453)	102,000
Credit Cards	244,072	(31,754)	212,318	10,581	(7,828)	2,753	5,488	(181)	5,307
Overdrafts	94,201	(959)	93,242	15,179	(12,410)	2,769	2,704	(367)	2,337
Other	6,208	-	6,208	2	-	2	6	-	6
	3,348,895	(59,590)	3,289,305	165,800	(89,390)	76,410	172,742	(12,897)	159,845
Securities									
Trading	249,973	-	249,973	-	-	-	-	-	-
AFS	1,615,824	-	1,615,824	-	-	-	-	-	-
HTM	1,786,630	-	1,786,630	1,881	(249)	1,632	-	-	-
	3,652,427	-	3,652,427	1,881	(249)	1,632	-	-	-

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% confidence level and assumes a one-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:

€ '000	**March 2011**				**December 2010**			
	Balance	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	40	86	208	18	58	99	307	8
Interest rate risk	194	170	246	55	96	105	161	75
Overall	212	204	374	57	113	163	367	80

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position 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, in a period of 12 months and for all periods. 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.

The 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 actual 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 interest rate 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 € 6,489 thousand at 31 March 2011, compared to € 6,197 thousand at 31 December 2010.

Interest rate risk generated by the banking book, measured through shift sensitivity analysis to 1 basis point, registered € 47 thousand at 31 March 2011, compared to the € 119 thousand at 31 December 2010.

	Mar 2011	Dec 2010
EUR	37	111
CZK	9	8
Other	1	-
	47	119

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

	Mar 2011 %	Dec 2010 %
Assets		
Cash and balances with central banks	0.71	0.91
Due from banks	2.64	1.78
Financial assets held for trading	3.81	4.06
Available-for-sale financial assets	3.19	2.90
Loans and advances to customers	5.25	5.13
Held-to-maturity investments	3.49	3.23
Liabilities		
Due to central and other banks	0.56	0.65
Due to customers	0.90	0.89
Debt securities in issue	2.86	2.91

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.

35. Financial risk management (continued)

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.

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

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

The Contingency Liquidity Plan sets the objectives of safeguarding the Bank's capital and, at the same time, guarantees the continuity of operations under conditions of extreme liquidity emergency. It also 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 indices, 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.

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35. Financial risk management (continued)

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

31 March 2011	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	128,805	-	128,805
Due from banks	245,949	40,778	286,727
Financial assets held for trading	170,608	55,609	226,217
Derivative financial instruments	43,411	-	43,411
Available-for-sale financial assets	331,631	1,441,143	1,772,774
Non-current assets held for sale	3,154	-	3,154
Loans and advances to customers	1,934,539	4,289,016	6,223,555
Held-to-maturity investments	62,825	1,101,291	1,164,116
Subsidiaries, associates and jointly controlled entities	-	113,486	113,486
Intangible assets	-	28,525	28,525
Property and equipment	-	139,016	139,016
Current income tax assets	4,784	-	4,784
Deferred income tax assets	-	59,202	59,202
Other assets	14,436	-	14,436
	2,940,142	7,268,066	10,208,208
Liabilities			
Due to central and other banks	(408,201)	(42,265)	(450,466)
Derivative financial instruments	(51,178)	-	(51,178)
Due to customers	(5,744,390)	(1,217,601)	(6,961,991)
Debt securities in issue	(287,172)	(1,340,712)	(1,627,884)
Provisions	-	(23,878)	(23,878)
Other liabilities	(53,407)	(1,761)	(55,168)
	(6,544,348)	(2,626,217)	(9,170,565)
	(3,604,206)	4,641,849	1,037,643

35. Financial risk management (continued)

31 December 2010	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	179,064	-	179,064
Due from banks	70,954	37,644	108,598
Financial assets held for trading	176,187	73,786	249,973
Derivative financial instruments	45,205	-	45,205
Available-for-sale financial assets	244,614	1,371,209	1,615,823
Non-current assets held for sale	3,374	-	3,374
Loans and advances to customers	1,902,745	4,238,556	6,141,301
Held-to-maturity investments	687,236	1,101,027	1,788,263
Subsidiaries, associates and jointly controlled entities	-	113,810	113,810
Intangible assets	-	30,639	30,639
Property and equipment	-	142,801	142,801
Current income tax assets	6,882	-	6,882
Deferred income tax assets	-	54,092	54,092
Other assets	12,991	-	12,991
	3,329,252	7,163,564	10,492,816
Liabilities			
Due to central and other banks	(395,694)	(43,457)	(439,151)
Derivative financial instruments	(60,729)	-	(60,729)
Due to customers	(6,005,385)	(1,271,304)	(7,276,689)
Debt securities in issue	(285,446)	(1,334,145)	(1,619,591)
Provisions	-	(23,517)	(23,517)
Other liabilities	(51,173)	(1,761)	(52,934)
	(6,798,427)	(2,674,184)	(9,472,611)
	(3,469,175)	4,489,380	1,020,205

(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 identifies risk management policies. The Supervisory and Management Board of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Operational Risk Committee (composing 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 reviewing the Bank's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk 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 the 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.

35. Financial risk management (continued)

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

Upon request of the parent company, VÚB Bank as part of the Group request has received in February 2010, from the relevant Supervisory authorities, approval for usage and thus adopted the Advanced Measurement Approach (AMA), for Operational Risk management and measurement.

As such, VÚB Group uses combination of Advanced Measurement Approach (for VÚB Bank), and Standardized and Basic Indicator Approach (for Bank's subsidiaries).

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

Under the AMA approach, the capital requirement is calculated by internal model, which combines all elements stipulated in Supervisory regulation, allowing to measure the exposure in a more risk sensitive way. 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 set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does not currently include the benefit from this transfer of operational risk through insurance policies, however, it is due to be included in the future, after its validation by the Supervisory authority, so that it can contribute to reducing the risk capital calculated through the internal models. The process required to obtain this approval is planned to start in 2011.

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 Centre that manages the Bank's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

36. Segment reporting (continued)

31 March 2011	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	62,046	19,449	30,708	731	112,934
Interest expense	(11,120)	(2,771)	(14,553)	(6)	(28,450)
Inter-segment revenue	1,053	(1,755)	(5,417)	6,119	-
Net interest income	51,979	14,923	10,738	6,844	84,484
Net fee and commission income	13,979	5,012	331	(134)	19,188
Net trading income	636	979	(286)	30	1,359
Other operating income	1,700	139	-	-	1,839
Total segment operating income	68,294	21,053	10,783	6,740	106,870
Operating expenses					(48,500)
Operating profit before impairment					58,370
Impairment losses on financial assets					(11,970)
Income tax expense					(9,486)
Net profit for 3 months					36,914
Segment assets	3,548,236	2,821,916	3,347,431	490,625	10,208,208
Segment liabilities	4,383,271	1,954,410	2,795,881	1,074,646	10,208,208

36. Segment reporting (continued)

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

37. Related parties

Related parties are those counterparties that represent:

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

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

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

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

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

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

37. Related parties (continued)

At 31 March 2011, significant outstanding balances with related parties comprised:

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	244,527	244,527
Derivative financial instruments	-	-	-	7,588	7,588
Loans and advances to customers	895	626	115,211	-	116,732
Other assets	-	-	593	285	878
	895	626	115,804	252,400	369,725
Liabilities					
Due to central and other banks	-	-	-	58,879	58,879
Derivative financial instruments	-	-	-	2,536	2,536
Due to customers	1,913	-	2,859	-	4,772
Debt securities in issue	-	-	-	-	-
Bonds	-	-	6,764	-	6,764
Mortgage bonds	-	-	-	1,055,164	1,055,164
Other liabilities	-	-	2,790	-	2,790
	1,913	-	12,413	1,116,579	1,130,905
Financial commitments and contingencies	-	-	27,315	-	27,315
Derivative transactions (notional amount – receivable)	-	-	-	146,006	146,006
Derivative transactions (notional amount – payable)	-	-	-	10,000	10,000
Income and expense items					
Interest and similar income	11	3	386	1,689	2,089
Interest expense and similar charges	(10)	-	(37)	(6,827)	(6,874)
Fee and commission income	1	-	1,347	-	1,348
Fee and commission expense	-	-	(7,546)	(913)	(8,459)
Net trading income	-	-	-	4,402	4,402
Operating income	-	-	156	15	171
	2	3	(5,694)	(1,634)	(7,323)

* Key management personnel

37. Related parties (continued)

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

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	65,319	65,319
Derivative financial instruments	-	-	-	6,260	6,260
Loans and advances to customers	931	878	97,627	-	99,436
Other assets	-	-	535	-	535
	931	878	98,162	71,579	171,550
Liabilities					
Due to central and other banks	-	-	-	132,787	132,787
Derivative financial instruments	-	-	-	1,537	1,537
Due to customers	1,567	-	11,438	-	13,005
Debt securities in issue	-	-	-	-	-
Bonds	-	-	6,726	-	6,726
Mortgage bonds	-	-	-	1,054,067	1,054,067
Other liabilities	-	-	3,182	-	3,182
	1,567	-	21,346	1,188,391	1,211,304
Financial commitments and contingencies	-	-	26,913	-	26,913
Derivative transactions (notional amount – receivable)	-	-	-	136,382	136,382

* Key management personnel

For the period ended 31 March 2010, 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	10	12	323	1,369	1,714
Interest expense and similar charges	(9)	-	(36)	(4,111)	(4,156)
Fee and commission income	-	-	1,096	-	1,096
Fee and commission expense	-	-	(5,707)	-	(5,707)
Net trading income	-	-	-	2,441	2,441
Operating income	-	-	231	31	262
	1	12	(4,093)	(270)	(4,350)

38. Profit distribution

On 4 April 2011, the Bank's shareholders approved the following profit distribution for 2010.

Dividends to shareholders (€ 4.60 per € 33.2 share)	59,692
Retained earnings	89,685
	149,377

39. Events after the end of reporting period

There were no events after 31 March 2011 that would have a material effect on a fair presentation of the matters disclosed in these financial statements.