



**Consolidated financial statements
for the year ended 31 December 2008**

Prepared in accordance with
International Financial Reporting Standards

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Independent Auditors' Report

To the Shareholders of Všeobecná úverová banka, a. s.:

We have audited the accompanying consolidated financial statements of Všeobecná úverová banka, a. s. and consolidated companies ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

6 March 2009
Bratislava, Slovak Republic



Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257



Ing. Peter Mátějička
SKAU Licence No. 909

Consolidated balance sheet at 31 December 2008
(In millions of Slovak crowns)

	Notes	2008	2007
Assets			
Cash and balances with central banks	4	15,214	4,493
Loans and advances to banks	5	43,299	35,279
Financial assets held for trading	6	23,836	10,664
Derivative financial instruments	7	1,836	1,055
Available-for-sale financial assets	8	7,985	2,673
Non-current assets held for sale	15	51	348
Loans and advances to customers	9	170,747	130,020
Held-to-maturity investments	11	66,266	90,721
Investments in associates and jointly controlled entities	12	156	146
Intangible assets	13	1,701	2,037
Goodwill	14	885	885
Property and equipment	15	5,492	5,703
Deferred income tax assets	20	255	-
Other assets	16	663	543
		338,386	284,567
Liabilities			
Deposits from central and other banks	17	27,588	21,663
Derivative financial instruments	7	1,581	1,034
Deposits from customers	18	244,916	205,278
Debt securities in issue	19	34,283	28,033
Current income tax liabilities	20	804	739
Deferred income tax liabilities	20	-	458
Provisions	21	909	973
Other liabilities	22	3,036	4,383
		313,117	262,561
Equity			
Share capital	23	12,978	12,978
Share premium	23	403	403
Reserves		2,595	2,609
Retained earnings		9,293	6,016
		25,269	22,006
		338,386	284,567
Financial commitments and contingencies	24	69,091	77,245

The accompanying notes on pages 8 to 67 form an integral part of these financial statements.

These financial statements were authorized for issue by the Board of Directors on 6 March 2009.



Ignacio Jaquotot
Chairman of the Board of Directors



Domenico Cristarella
Member of the Board of Directors

Consolidated income statement for the year ended 31 December 2008

(In millions of Slovak crowns)

	Notes	2008	2007
Interest and similar income		17,295	14,788
Interest expense and similar charges		(7,154)	(6,279)
Net interest income	25	10,141	8,509
Fee and commission income		3,963	3,518
Fee and commission expense		(808)	(718)
Net fee and commission income	26	3,155	2,800
Net trading income	27	1,251	1,264
Other operating income	28	511	322
Dividend income		33	-
Operating income		15,091	12,895
Salaries and employee benefits	29	(2,946)	(2,483)
Other operating expenses	30	(3,182)	(3,206)
Amortization	13	(639)	(504)
Depreciation	15	(702)	(615)
Operating expenses		(7,469)	(6,808)
Operating profit before impairment and provisions		7,622	6,087
Impairment losses and provisions	31	(1,394)	(879)
Profit from operations		6,228	5,208
Share of profit of associates and jointly controlled entities		10	7
Profit before tax		6,238	5,215
Income tax expense	32	(1,162)	(1,148)
Net profit for the year		5,076	4,067
Basic and diluted earnings per share in Slovak crowns	23	391	313

The accompanying notes on pages 8 to 67 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2008

(In millions of Slovak crowns)

	Share capital	Share premium	Legal reserve fund	Other capital funds	Revaluation reserve	Hedging reserve	Retained earnings	Total
At 1 January 2007	12,978	403	2,636	9	(27)	-	4,750	20,749
Translation of a foreign operation	-	-	-	-	-	-	6	6
Available-for-sale financial assets	-	-	-	-	2	-	-	2
Derivatives held for hedging	-	-	-	-	-	(2)	-	(2)
<i>Total income and expense recognized directly in equity</i>	-	-	-	-	2	(2)	6	6
Net profit for the year	-	-	-	-	-	-	4,067	4,067
Total income and expense for the year	-	-	-	-	2	(2)	4,073	4,073
Dividends to shareholders	-	-	-	-	-	-	(2,816)	(2,816)
Other	-	-	-	(9)	-	-	9	-
At 31 December 2007	<u>12,978</u>	<u>403</u>	<u>2,636</u>	<u>-</u>	<u>(25)</u>	<u>(2)</u>	<u>6,016</u>	<u>22,006</u>
At 1 January 2008	12,978	403	2,636	-	(25)	(2)	6,016	22,006
Translation of a foreign operation	-	-	-	-	-	-	(47)	(47)
Available-for-sale financial assets	-	-	-	-	9	-	-	9
Derivatives held for hedging	-	-	-	-	-	(23)	-	(23)
<i>Total income and expense recognized directly in equity</i>	-	-	-	-	9	(23)	(47)	(61)
Net profit for the year	-	-	-	-	-	-	5,076	5,076
Total income and expense for the year	-	-	-	-	9	(23)	5,029	5,015
Dividends to shareholders	-	-	-	-	-	-	(1,752)	(1,752)
At 31 December 2008	<u>12,978</u>	<u>403</u>	<u>2,636</u>	<u>-</u>	<u>(16)</u>	<u>(25)</u>	<u>9,293</u>	<u>25,269</u>

The accompanying notes on pages 8 to 67 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2008

(In millions of Slovak crowns)

	Notes	2008	2007
Cash flows from operating activities			
<i>Profit before changes in operating assets and liabilities</i>	33	6,794	7,168
Loans and advances to banks		(178)	7,004
Financial assets held for trading		(3,171)	(77)
Derivative financial instruments (positive)		(804)	1,335
Available-for-sale financial assets		(5,304)	70
Loans and advances to customers		(41,889)	(38,221)
Other assets		(121)	48
Deposits from central banks		(8)	(1,225)
Deposits from other banks		6,005	5,089
Derivative financial instruments (negative)		547	(1,020)
Deposits from customers		39,414	26,355
Other liabilities		(1,309)	228
<i>Net cash (used in)/from operating activities</i>		(24)	6,754
Cash flows from investing activities			
Purchase of held-to-maturity investments		(1,648)	(9,451)
Repayments of held-to-maturity investments		25,536	5,684
Purchase of intangible assets and property and equipment		(863)	(727)
Disposal of property and equipment		415	38
Acquisition of consolidated companies		(110)	(299)
<i>Net cash from/(used in) investing activities</i>		23,330	(4,755)
Cash flows from financing activities			
Proceeds from issue of debt securities		8,926	6,583
Repayments of debt securities		(1,886)	(1,000)
Dividends paid		(1,752)	(2,816)
<i>Net cash from financing activities</i>		5,288	2,767
Net change in cash and cash equivalents		28,594	4,766
Cash and cash equivalents at beginning of the year	3	47,265	42,499
Cash and cash equivalents at end of the year	3	75,859	47,265

The accompanying notes on pages 8 to 67 form an integral part of these financial statements.

1. General information

1.1 The Bank

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

At 31 December 2008, the Bank had a network of 259 points of sale (including Retail Branches, Corporate Branches and Mortgage centers) located throughout Slovakia (December 2007: 225 without detached sub-branches). The year to year increase was caused mainly by the reclassification of 24 detached sub-branches to retail branches. The Bank also has one branch in the Czech Republic.

Members of the Board of Directors are: Ignacio Jaquotot (Chairman), Domenico Cristarella, Daniele Fanin, Ivan Golian, Jozef Kausich, Elena Kohútiková, Jonathan Locke, Dinko Lucić, Silvia Púchovská, and Alexander Resch.

Members of the Supervisory Board are: György Surányi (Chairman), Ezio Salvai (Vice Chairman), Adriano Arietti, Paolo Grandi, Pavel Kárász, Ján Mikušinec, Massimo Pierdicchi, Paolo Sarcinelli, and Milan Sedláček.

1.2 The VUB Group

The consolidated financial statements for the year ended 31 December 2008 comprise the Bank and its subsidiaries (together referred to as 'the VUB Group' or 'the Group') and the Group's interest in associates and jointly controlled entities as follows:

	Share in 2008	Share in 2007	Principal business activity
Subsidiaries			
Consumer Finance Holding, a.s. ('CFH')	100%	100%	Consumer finance business
VUB Leasing, a. s. ('VUB Leasing') (previously B.O.F., a.s.)	100%	100%	Finance leases
VUB poisťovací maklér s. r. o. (previously B.O.F. poisťovací maklér s.r.o.)	100%	100%	Insurance mediation
VUB Asset Management, správ. spol. a.s.	100%	100%	Asset management
VUB Factoring, a.s.	100%	100%	Factoring of receivables
VUB Leasingová, a.s.	100%	100%	Finance leases
Recovery, a.s.	100%	100%	Finance leases
Associates			
Slovak Banking Credit Bureau, s.r.o.	33.3%	33.3%	Credit databases administration
Jointly controlled entities			
VUB Generali D.S.S., a.s.	50%	50%	Pension fund administration

All entities are incorporated in the Slovak Republic.

At 31 December 2008, the VUB Group had a total network of 268 points of sale (2007: 233).

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the VUB Group ('the financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ('IFRIC') as approved by the Commission of European Union in accordance with the Regulation of European Parliament and Council of European Union and in accordance with the Act No. 431/2002 Collection on Accounting.

The Group decided to apply IFRS 8 Operating Segments for the accounting period beginning on 1 January 2007 as permitted by the Standard.

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 millions of Slovak crowns ('Sk'), unless indicated otherwise.

Negative values are presented in brackets.

2.2 Changes in accounting policies

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

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

The following standards, amendments and interpretations of published standards are mandatory for accounting periods beginning on or after 1 January 2008:

- IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosures (Amendments)

The amendments allow reclassification of certain financial instruments from held for trading and available for sale categories. The VUB Group did not reclassify any financial instruments during 2008.

Standards, amendments and interpretations of existing applicable standards that are not yet effective and have not been early adopted by the VUB Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the VUB Group's accounting periods beginning on or after 1 January 2009 or later periods, but the VUB Group has not adopted them early:

- IFRS 1 (Revised), First-time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 January 2009)
- IFRS 3 (Revised), Business Combinations (effective for annual periods beginning on or after July 1, 2009)
- IAS 1 (Revised), Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)
- IAS 23 (Revised), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
- IAS 27 (Amended), Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009)
- IAS 32 (Amended) Financial Instruments: Presentation (effective for annual periods beginning on or after 1 January 2009)

2. Summary of significant accounting policies (continued)

▪ IFRS Improvements Standard (May 2008)

Part I - contains amendments that result in accounting changes for presentation, recognition or measurement purposes

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after July 1, 2009)
- IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)
- IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2009)
- IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2009)
- IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2009)
- IAS 28 Investments in Associates (effective for annual periods beginning on or after 1 January 2009)
- IAS 31 Interests in Joint Ventures (effective for annual periods beginning on or after 1 January 2009)
- IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2009)
- IAS 38 Intangible Assets (effective for annual periods beginning on or after 1 January 2009)
- IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2009)

Part II - contains amendments that are terminology or editorial changes only, which the Board expects to have no or minimal effect on accounting (all effective for annual periods beginning on or after 1 January 2009)

- IFRS 7 Financial Instruments: Disclosure
- IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10: Events after the Reporting Period
- IAS 18 Revenue

Management of the Group believes that the future adoption of these standards, interpretations and amendments will not have any material effect on the financial performance or position of the VUB Group and is assessing the impact of the interpretations.

2.3 Basis of consolidation

(a) Subsidiaries

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

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

2. Summary of significant accounting policies (continued)

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

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

(b) Associates

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

(c) Jointly controlled entities

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

2.4 Segment reporting

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

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

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

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

2.5 Foreign currency transactions

Monetary assets and liabilities in foreign currencies are translated to Sk at the official National Bank of Slovakia ('NBS') exchange rates prevailing at the balance sheet date. Income and expenses denominated in foreign currencies are reported at the NBS exchange rates prevailing at the date of the transaction.

The difference between the contractual exchange rate of a transaction and the 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. Summary of significant accounting policies (continued)

2.6 Foreign operations

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

2.7 Cash and balances with central banks

Cash and balances with central banks comprise cash in hand and current accounts with the NBS and the Czech National Bank ('CNB'), including compulsory minimum reserves.

2.8 Treasury bills and other eligible bills

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

2.9 Loans and advances to banks

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

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

2.10 Debt securities

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

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

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

2. Summary of significant accounting policies (continued)

(a) Securities held for trading

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

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

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

(b) Available-for-sale securities

Available-for-sale securities are those financial assets that are not classified as held for trading or held-to-maturity. Subsequent to their initial recognition, these assets are accounted for and re-measured at fair value.

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

Equity investments are held at cost less impairment as their fair value cannot be reliably measured. For available-for-sale equity investments, the Group assesses at each balance sheet 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 amortized cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

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

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

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

(c) Held-to-maturity investments

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

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

2. Summary of significant accounting policies (continued)

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

2.11 Repurchase and reverse repurchase agreements

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

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

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

2.12 Derivative financial instruments

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

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

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

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

Credit risk of financial derivatives

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

2. Summary of significant accounting policies (continued)

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

Embedded derivatives

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

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

Hedging derivatives

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

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

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

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the 'Hedging reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the income statement in 'Net trading income'.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the income statement. 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 existing in equity at that time remains in equity and is recognized when the hedged expected transaction is ultimately recognized in the income statement. When an expected transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement in 'Net trading income'.

2. Summary of significant accounting policies (continued)

2.13 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet, 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 balance sheet.

2.14 Non-current assets held for sale

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

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

2.15 Loans and advances to customers and impairment losses

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are recorded at amortized cost less any impairment losses. All loans and advances to customers are recognized on the balance sheet 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 income statement.

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

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

2.16 Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization and impairment losses. Amortization is calculated on a straight-line basis in order to write off the cost of each asset to its residual value over its estimated useful economic life as follows:

	Years
Software	5
Other intangible assets	5

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

2. Summary of significant accounting policies (continued)

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

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

2.17 Goodwill

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

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

2.18 Property and equipment

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

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

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

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

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

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

2.19 Leasing

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

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

2. Summary of significant accounting policies (continued)

VUB Group as a lessee

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

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

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

VUB Group as a lessor

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

2.20 Provisions

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

2.21 Financial guarantees

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

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

2.22 Legal reserve fund

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

2. Summary of significant accounting policies (continued)

2.23 Interest income

Interest income and expense is recognized in the income statement on an accrual basis using the effective interest rate method. Interest income and expense includes the amortization of any discount or premium on financial instruments. Interest income also includes up-front and commitment fees, which are subject to the effective interest rate calculation and are amortized over the life of the loan.

2.24 Fee and commission income

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

2.25 Net trading income

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

2.26 Dividend income

Dividend income is recognized in the income statement on the date that the dividend is declared.

2.27 Income tax

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

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

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

2.28 Fiduciary assets

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

2.29 Significant accounting judgements and estimates

Judgements

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

2. Summary of significant accounting policies (continued)

Held-to-maturity investments

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

Financial assets held for trading

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

Estimates

The preparation of the financial statements required management to make certain estimates and assumptions, which impact the carrying amounts of the VUB Group's assets and liabilities and the disclosure of contingent items at the balance sheet date 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, provisions for off-balance sheet risks, depreciable lives and residual values of tangible and intangible assets, impairment losses on tangible and intangible assets, provisions for employee benefits and legal claims.

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

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

3. Cash and cash equivalents

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

	Notes	2008	2007
Cash and balances with central banks	4	15,214	4,493
Current accounts in other banks	5	1,651	973
Treasury bills and other eligible bills	6	19,973	9,967
Term deposits with central and other banks		20,045	3,117
Loans and advances to central and other banks		18,976	28,715
		<u>75,859</u>	<u>47,265</u>

4. Cash and balances with central banks

	2008	2007
Balances with central banks:		
Compulsory minimum reserves	2,909	666
Current accounts	2,002	1,022
	<u>4,911</u>	1,688
Cash in hand	10,303	2,805
	<u>15,214</u>	<u>4,493</u>

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and the CNB. The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the VUB Group and is calculated as 2% of a monthly average balance of selected customer deposits.

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

The increased Cash in hand was caused by increased Deposits from customers due to the introduction of the Euro (note 38).

5. Loans and advances to banks

	2008	2007
Current accounts in other banks (note 3)	1,651	973
Loans and advances to:		
Central banks	18,976	19,912
Other banks	2,651	11,101
Term deposits with:		
Central banks	19,219	2,396
Other banks	826	923
Impairment losses (note 10)	(24)	(26)
	<u>43,299</u>	<u>35,279</u>

6. Financial assets held for trading

	2008	2007
Treasury bills and other eligible bills with contractual maturity less than 90 days (note 3)	19,973	9,967
Treasury bills and other eligible bills with contractual maturity over 90 days	1,955	-
State bonds	1,777	514
Bank bonds	-	8
Corporate bonds	131	175
	<u>23,836</u>	<u>10,664</u>

All securities held for trading are listed. At 31 December 2008 and 2007, the VUB Group did not pledge any bonds to secure transactions with counterparties.

7. Derivative financial instruments

	2008 Positive	2007 Positive	2008 Negative	2007 Negative
Trading derivatives	1,836	1,055	(1,550)	(1,032)
Cash flow hedges of interest rate risk	-	-	(31)	(2)
	<u>1,836</u>	<u>1,055</u>	<u>(1,581)</u>	<u>(1,034)</u>

Trading derivatives include also hedge instruments that are non-qualifying according to IAS 39, but are held for risk management purposes rather than for trading. The instruments used include interest rate swaps and cross-currency interest rate swaps. In 2008, the total positive fair value of such derivatives was Sk 77 million (2007: Sk 86 million) and the negative fair value was Sk 61 million (2007: Sk 45 million).

7. Derivative financial instruments (continued)

	2008 Positive	2007 Positive	2008 Negative	2007 Negative
Trading derivatives - Fair values				
Interest rate instruments				
Swaps	668	517	(665)	(439)
Forward rate agreements	2	18	(11)	(12)
Options	31	-	(32)	-
	<u>701</u>	<u>535</u>	<u>(708)</u>	<u>(451)</u>
Foreign currency instruments				
Forwards and swaps	841	183	(607)	(314)
Cross currency swaps	77	86	(13)	(16)
Options	208	143	(213)	(143)
	<u>1,126</u>	<u>412</u>	<u>(833)</u>	<u>(473)</u>
Equity and commodity instruments				
Equity options	4	103	(4)	(103)
Commodity options	5	5	(5)	(5)
	<u>9</u>	<u>108</u>	<u>(9)</u>	<u>(108)</u>
	<u>1,836</u>	<u>1,055</u>	<u>(1,550)</u>	<u>(1,032)</u>
	2008 Assets	2007 Assets	2008 Liabilities	2007 Liabilities
Trading derivatives - Notional values				
Interest rate instruments				
Swaps	25,312	38,428	25,312	38,428
Forward rate agreements	8,971	21,482	8,971	21,482
Options	544	-	544	-
	<u>34,827</u>	<u>59,910</u>	<u>34,827</u>	<u>59,910</u>
Foreign currency instruments				
Forwards and swaps	32,877	36,734	32,645	36,841
Cross currency swaps	2,036	2,273	1,971	2,199
Options	885	3,541	885	3,539
	<u>35,798</u>	<u>42,548</u>	<u>35,501</u>	<u>42,579</u>
Equity and commodity instruments				
Equity options	931	680	931	680
Commodity options	130	76	130	76
	<u>1,061</u>	<u>756</u>	<u>1,061</u>	<u>756</u>
	<u>71,686</u>	<u>103,214</u>	<u>71,389</u>	<u>103,245</u>

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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

8. Available-for-sale financial assets

	Share in 2008	Share in 2007	2008	2007
Treasury bills and other eligible bills			3,882	-
Bank bonds at fair value			2,837	2,654
State bonds at fair value			1,236	-
Equity shares at cost				
RVS, a.s.	8.38%	8.26%	17	17
S.W.I.F.T.	0.02%	0.02%	2	2
Visa Inc.	0.04%	0.00%	11	-
			<u>30</u>	<u>19</u>
			<u>7,985</u>	<u>2,673</u>

In 2008 and in 2007, the VUB Group did not pledge any bonds to secure transactions with counterparties.

9. Loans and advances to customers

31 December 2008	Amortized cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
State organizations/Municipalities	980	-	980
	980	-	980
Corporate			
Other Financial Institutions	7,034	(10)	7,024
Large Corporates - Amortizing assets	31,124	(870)	30,254
Large Corporates - Revolving facilities	8,247	(188)	8,059
SME - Amortizing assets	17,339	(197)	17,142
SME - Revolving facilities	8,052	(205)	7,847
Non-profit organizations	158	(2)	156
Leasing	6,595	(160)	6,435
Factoring	2,155	(28)	2,127
	80,704	(1,660)	79,044
Retail			
Small business - Amortizing assets	3,555	(326)	3,229
Small business - Revolving facilities	1,337	(225)	1,112
Small business - Leasing	429	(11)	418
Private individuals - Consumer Loans	23,062	(1,945)	21,117
Private individuals - Credit Cards	5,987	(486)	5,501
Private individuals - Overdrafts	2,433	(167)	2,266
Private individuals - Mortgages	57,485	(672)	56,813
Private individuals - Leasing	144	(3)	141
Other	138	(12)	126
	94,570	(3,847)	90,723
	176,254	(5,507)	170,747

9. Loans and advances to customers (continued)

31 December 2007	Amortized cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
State organizations/Municipalities	1,205	-	1,205
	<u>1,205</u>	<u>-</u>	<u>1,205</u>
Corporate			
Other Financial Institutions	4,580	(7)	4,573
Large Corporates - Amortizing assets	26,140	(747)	25,393
Large Corporates - Revolving facilities	4,598	(112)	4,486
SME - Amortizing assets	13,057	(249)	12,808
SME - Revolving facilities	6,470	(167)	6,303
Non-profit organizations	37	-	37
Leasing	4,512	(126)	4,386
Factoring	1,802	(13)	1,789
	<u>61,196</u>	<u>(1,421)</u>	<u>59,775</u>
Retail			
Small business - Amortizing assets	2,075	(238)	1,837
Small business - Revolving facilities	855	(106)	749
Small business - Leasing	1,219	(33)	1,186
Private individuals - Consumer Loans	18,096	(1,040)	17,056
Private individuals - Credit Cards	5,068	(397)	4,671
Private individuals - Overdrafts	2,192	(137)	2,055
Private individuals - Mortgages	41,726	(558)	41,168
Private individuals - Leasing	231	(7)	224
Other	107	(13)	94
	<u>71,569</u>	<u>(2,529)</u>	<u>69,040</u>
	<u>133,970</u>	<u>(3,950)</u>	<u>130,020</u>

At 31 December 2008, the 20 largest corporate customers represented a total balance of Sk 20,611 million (2007: Sk 19,751 million) or 12% (2007: 15%) of the gross loan portfolio.

During 2008, the net gain from loans and advances to customers written off and transferred amounted to Sk 230 million (2007: net loss of Sk 1,251 million) (note 31).

9. Loans and advances to customers (continued)

Maturities of gross finance lease receivables are as follows:

	2008	2007
Up to 1 year	3,244	2,800
1 to 5 years	4,357	4,846
Over 5 years	798	216
	<u>8,399</u>	<u>7,862</u>
Unearned future finance income on finance leases	(1,231)	(1,900)
Impairment losses	(174)	(166)
	<u>6,994</u>	<u>5,796</u>

Maturities of net finance lease receivables are as follows:

	2008	2007
Up to 1 year	2,730	2,513
1 to 5 years	3,607	3,078
Over 5 years	657	205
	<u>6,994</u>	<u>5,796</u>

10. Impairment losses

	Note	1 Jan 2008	Creation/ (Reversal) (note 31)	FX gains	Other	31 Dec 2008
Loans and advances to banks	5	26	1	(3)	-	24
Loans and advances to customers	9	3,950	1,587	(30)	-	5,507
Held-to-maturity investments	11	20	(3)	(2)	-	15
Intangible fixed assets	13	-	-	-	6	6
Property and equipment	15	2	(1)	-	-	1
Other assets	16	139	1	1	-	141
		<u>4,137</u>	<u>1,585</u>	<u>(34)</u>	<u>6</u>	<u>5,694</u>

10. Impairment losses (continued)

	Note	1 Jan 2007	(Reversal)/ Creation (note 31)	FX gains	Other ⁽¹⁾	31 Dec 2007
Loans and advances to banks	5	33	(6)	(1)	-	26
Loans and advances to customers	9	4,236	(443)	(1)	158	3,950
Held-to-maturity investments	11	24	(3)	(1)	-	20
Property and equipment	15	2	-	-	-	2
Non-current assets held for sale	-	12	(12)	-	-	-
Other assets	16	27	40	-	72	139
		<u>4,334</u>	<u>(424)</u>	<u>(3)</u>	<u>230</u>	<u>4,137</u>

⁽¹⁾ Other represents the acquired company

11. Held-to-maturity investments

	2008	2007
State restructuring bonds	18,835	35,065
State bonds	38,846	47,134
Bank bonds and other bonds issued by financial sector	7,159	7,270
Corporate notes and bonds	1,441	1,272
	<u>66,281</u>	<u>90,741</u>
Impairment losses (note 10)	(15)	(20)
	<u>66,266</u>	<u>90,721</u>

The VUB Group pledged state bonds in total nominal value of Sk 38,525 million (31 December 2007: Sk 2,862 million) to secure transactions with counterparties.

State restructuring bonds

As part of the pre-privatization restructuring process of the Bank, the Slovak government decided to transfer the receivables of the Bank arising from non-performing loans to state agencies. These special purpose agencies were created and are under the full control of the state. In December 1999 and June 2000, the Slovak government recapitalized the Bank by transferring the non-performing loans, including principal and interest, to Konsolidačná banka Bratislava ('KBB') with a gross value of Sk 58.6 billion, and Slovenská konsolidačná ('SKO') with a gross value of Sk 7.6 billion, which gave rise to the Bank's receivables from KBB and SKO in the total amount of Sk 66.2 billion. 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.

Restructuring bonds were issued by the Ministry of Finance of the Slovak Republic, acting on behalf of the Slovak government as the financial intermediary. The bonds are legally considered to represent sovereign and unconditioned direct obligations of the Slovak Republic and therefore there is no need for additional state guarantees.

The bond conditions are the same as for any other similar type of securities issued by the Slovak Republic, i.e. are fully redeemable by the Slovak Republic, there is no clause regarding rollover, early or late extinguishments and are not convertible into any other type of financial instruments.

11. Held-to-maturity investments (continued)

At 31 December 2008 and 2007, the Group held in its portfolio the following state restructuring bonds:

- (a) 10-year state bonds with a nominal value of Sk 11,044 million, due on 30 January 2011, bearing variable interest rate for 6M BRIBOR;
- (b) 10-year state bonds with a nominal value of Sk 7,497 million, due on 29 March 2011, bearing variable interest rate of 6M BRIBOR.

Two 7-year state restructuring bonds held in held-to-maturity portfolio at 31 December 2007 with nominal values of Sk 11,300 million and Sk 4,700 million were fully repaid on 30 January 2008 and 29 March 2008.

12. Investments in associates and jointly controlled entities

	Share in %	Cost	Revaluation	Carrying amount
At 31 December 2008				
Slovak Banking Credit Bureau, s.r.o.	33.3	-	1	1
VÚB Generali DSS, a.s.	50.0	500	(345)	155
		<u>500</u>	<u>(344)</u>	<u>156</u>
At 31 December 2007				
Slovak Banking Credit Bureau, s.r.o.	33.3	-	1	1
VÚB Generali DSS, a.s.	50.0	500	(355)	145
		<u>500</u>	<u>(354)</u>	<u>146</u>

The net investment in the Slovak Banking Credit Bureau is Sk 100 thousand.

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

	2008	2007
Revaluation at 1 January	(354)	(361)
Share of profit	10	7
Revaluation at 31 December	<u>(344)</u>	<u>(354)</u>

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

	2008	2007
Assets	165	154
Liabilities	10	9
Equity	155	145
Net profit for the year	10	7

13. Intangible assets

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2008	4,251	1,723	161	6,135
Additions	7	-	299	306
Disposals	(20)	(122)	-	(142)
Transfers	260	34	(294)	-
At 31 December 2008	4,498	1,635	166	6,299
Amortization				
At 1 January 2008	(3,463)	(635)	-	(4,098)
Amortization for the year	(381)	(252)	(6) *	(639)
Disposals	19	120	-	139
At 31 December 2008	(3,825)	(767)	(6)	(4,598)
Carrying amount				
At 1 January 2008	788	1,088	161	2,037
At 31 December 2008	673	868	160	1,701

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

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2007	3,835	1,361	172	5,368
Additions	-	-	510	510
Disposals	(16)	-	(30)	(46)
Transfers	399	92	(491)	-
Acquisition of subsidiaries	33	270	-	303
At 31 December 2007	4,251	1,723	161	6,135
Amortization				
At 1 January 2007	(3,136)	(447)	-	(3,583)
Amortization for the year	(316)	(188)	-	(504)
Disposals	12	-	-	12
Acquisition of subsidiaries	(23)	-	-	(23)
At 31 December 2007	(3,463)	(635)	-	(4,098)
Carrying amount				
At 1 January 2007	699	914	172	1,785
At 31 December 2007	788	1,088	161	2,037

14. Goodwill

	2008	2007
VÚB Leasing, a. s.	315	315
Consumer Finance Holding, a.s.	570	570
	<u>885</u>	<u>885</u>

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

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

The basis on which the recoverable amount of VÚB Leasing and CFH has been determined is the value in use calculation, using cash flow projections based on most recent financial budgets approved by senior management covering a 3-year period. The discount rate applied to cash flow projections beyond the three year period are extrapolated using a projected growth rate.

The following rates are used by the Group:

	VUB Leasing		CFH	
	2008	2007	2008	2007
Discount rate	12.31%	13.01%	22.81%	25.77%
Projected growth rate	4.50%	6.00%	1.50%	2.90%

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

- Interest margins
- Discount rates
- Market share during the budget period
- Projected growth rates used to extrapolate cash flows beyond the budget period
- Current local Gross Domestic Product (GDP)
- Local inflation rates.

Interest margins

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

VUB Leasing

On the tumble market, company forecasts stable volume of new business with comparable or slightly decreasing margins. This will reinforce VÚB Leasing market position again. VÚB Leasing puts emphasis on financial leasing as core product and does not expand loan products as installment sale or pre-financing of suppliers bearing higher risks. Moreover, company carefully watches operating leasing market and opportunities which offers this type of financing in depressed economy.

14. Goodwill (continued)

CFH

According to the product curve, maturing products, such as instalment loans, have been forecasted with a stable or slightly decreasing volume and decreasing margins assuming that the market share of CFH is kept constant. More recent product lines, such as credit cards, have been forecasted with an increasing volume and slightly decreasing margins.

Discount rates

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

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

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2008	6,288	3,198	1,323	157	10,966
Additions	-	6	85	497	588
Disposals	(90)	(475)	(209)	-	(774)
Transfers	150	177	75	(402)	-
At 31 December 2008	6,348	2,906	1,274	252	10,780
Depreciation					
At 1 January 2008	(1,846)	(2,589)	(826)	-	(5,261)
Depreciation for the year	(318)	(231)	(153)	-	(702)
Disposals	59	452	165	-	676
At 31 December 2008	(2,105)	(2,368)	(814)	-	(5,287)
Impairment losses (note 10)					
At 1 January 2008	(2)	-	-	-	(2)
Net reversal	1	-	-	-	1
At 31 December 2008	(1)	-	-	-	(1)
Carrying amount					
At 1 January 2008	4,440	609	497	157	5,703
At 31 December 2008	4,242	538	460	252	5,492

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

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2007	6,701	3,127	1,136	324	11,288
Additions	-	-	-	226	226
Disposals	(556)	(217)	(96)	-	(869)
Transfers	120	234	39	(393)	-
Acquisition of subsidiaries	23	54	244	-	321
At 31 December 2007	<u>6,288</u>	<u>3,198</u>	<u>1,323</u>	<u>157</u>	<u>10,966</u>
Depreciation					
At 1 January 2007	(1,759)	(2,546)	(708)	-	(5,013)
Depreciation for the year	(279)	(237)	(99)	-	(615)
Disposals	200	225	89	-	514
Acquisition of subsidiaries	(8)	(31)	(108)	-	(147)
At 31 December 2007	<u>(1,846)</u>	<u>(2,589)</u>	<u>(826)</u>	<u>-</u>	<u>(5,261)</u>
Impairment losses (note 10)					
At 1 January 2007	(2)	-	-	-	(2)
Net reversal	-	-	-	-	-
At 31 December 2007	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>
Carrying amount					
At 1 January 2007	<u>4,940</u>	<u>581</u>	<u>428</u>	<u>324</u>	<u>6,273</u>
At 31 December 2007	<u>4,440</u>	<u>609</u>	<u>497</u>	<u>157</u>	<u>5,703</u>

At 31 December 2008 and 31 December 2007, the VUB Group held in its portfolio of non-current assets held for sale buildings as follows:

	2008	2007
Cost	72	533
Accumulated depreciation	(21)	(185)
	<u>51</u>	<u>348</u>

16. Other assets

	2008	2007
Operating receivables and advances	429	465
Prepayments and accrued income	150	110
Inventories	99	56
Other tax receivables	90	51
Settlement of operations with financial instruments	8	-
Other	28	-
	<u>804</u>	<u>682</u>
Impairment losses (note 10)	(141)	(139)
	<u>663</u>	<u>543</u>

17. Deposits from central and other banks

	2008	2007
Deposits from central banks		
Current accounts	1,621	1,626
Loans received	2	5
	<u>1,623</u>	<u>1,631</u>
Deposits from other banks		
Current accounts	5,324	2,951
Term deposits	11,632	11,390
Loans received	9,009	5,193
Promissory notes	-	498
	<u>25,965</u>	<u>20,032</u>
	<u>27,588</u>	<u>21,663</u>

18. Deposits from customers

	2008	2007
Current accounts	78,574	67,256
Term deposits	104,106	81,914
Savings accounts	10,214	9,436
Government and municipal deposits	45,512	40,921
Loans received	565	685
Promissory notes	4,745	4,645
Other deposits	1,200	421
	<u>244,916</u>	<u>205,278</u>

19. Debt securities in issue

	2008	2007
Bonds	2,940	3,308
Mortgage bonds	31,343	24,725
	<u>34,283</u>	<u>28,033</u>

	Nominal amount (currency)	Nominal amount (Sk)
Mortgage bonds issued in 2008		
Mortgage bonds VUB, a.s. 34	SKK 900	900
Mortgage bonds VUB, a.s. 35	SKK 630	630
Mortgage bonds VUB, a.s. 36	SKK 560	560
Mortgage bonds VUB, a.s. 37	EUR 40	1,205
Mortgage bonds VUB, a.s. 38	SKK 317	317
Mortgage bonds VUB, a.s. 39	EUR 60	1,808
Mortgage bonds VUB, a.s. 40	EUR 70	2,109
Mortgage bonds VUB, a.s. 41	USD 34	727
Mortgage bonds VUB, a.s. 43	SKK 500	500
Mortgage bonds VUB, a.s. 45	SKK 161	161
Mortgage bonds matured in 2008	SKK 1,521	1,521
Mortgage bonds issued in 2007		
Mortgage bonds VUB, a.s. XXVII	SKK 500	500
Mortgage bonds VUB, a.s. XXVIII	CZK 1,000	1,263
Mortgage bonds VUB, a.s. XXIX	SKK 500	500
Mortgage bonds VUB, a.s. XXX	SKK 1,000	1,000
Mortgage bonds VUB, a.s. XXXI	SKK 600	600
Mortgage bonds VUB, a.s. 32	CZK 800	1,010
Mortgage bonds VUB, a.s. 33	SKK 550	550
Mortgage bonds matured in 2007	SKK 1,000	1,000

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

20. Current and deferred income taxes

	2008	2007
Deferred income tax asset	255	-
	<u>255</u>	<u>-</u>
	2008	2007
Current income tax liabilities	804	739
Deferred income tax liabilities	-	458
	<u>804</u>	<u>1,197</u>

20. Current and deferred income taxes (continued)

Deferred income taxes are calculated on all temporary differences using a tax rate of 19% (2007: 19%) as follows:

	2008	2007
Loans and advances to banks and Held-to-maturity investments	(343)	(346)
Derivative financial instruments	6	-
Available-for-sale financial assets	4	7
Loans and advances to customers	725	99
Intangible assets	(105)	(132)
Property and equipment	(98)	(99)
Other liabilities and provisions	118	58
Tax losses carried forward	-	6
Intangible assets identified on acquisition	(40)	(51)
Other	(12)	-
	<u>255</u>	<u>(458)</u>

21. Provisions

	2008	2007
Litigations (note 30, note 24)	<u>909</u>	<u>973</u>

The movement in provisions was as follows:

	1 Jan 2008	Creation/ (Reversal)	31 Dec 2008
Litigations (note 30, note 24)	<u>973</u>	<u>(64)</u>	<u>909</u>

In May 2008, the Group released Sk 100 million provision to litigation in relation to the litigation case that was won on the Supreme court.

	1 Jan 2007	Creation/ (Reversal)	Acquired Company	31 Dec 2007
Litigations (note 30, note 24)	<u>990</u>	<u>(22)</u>	<u>5</u>	<u>973</u>

22. Other liabilities

	2008	2007
Various creditors	859	1,263
Factoring	206	262
Payables from the acquisition of subsidiaries – CFH	-	501
Payables from the acquisition of subsidiaries – VÚB Leasing	128	471
Payables for the minority interest – VÚB Leasing	426	420
Payables from dividends	-	343
Settlement with employees	652	608
Financial guarantees and commitments	354	315
VAT payables and other tax payables	122	87
Settlements with shareholders	44	-
Accruals and deferred income	165	76
Retention program	26	12
Severance	18	25
Other	36	-
	<u>3,036</u>	<u>4,383</u>

The movements in provision for financial guarantees and commitments, severance and retention program were as follows:

	Note	1 Jan 2008	Creation/ (Reversal)	31 Dec 2008
Financial guarantees and commitments	31	315	39	354
Retention program	29	12	14	26
Severance	29	25	(7)	18
		<u>352</u>	<u>46</u>	<u>398</u>

23. Share capital

	2008	2007
Authorized, issued and fully paid:		
89 ordinary shares of Sk 100,000,000 each, not traded	8,900	8,900
4,078,108 ordinary shares of Sk 1,000 each, publicly traded	4,078	4,078
	<u>12,978</u>	<u>12,978</u>
Net profit for the year attributable to shareholders	5,076	4,067
Divided by 12,978,108 ordinary shares of Sk 1,000 each		
Basic and diluted earnings per share in Sk	<u>391</u>	<u>313</u>

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

23. Share capital (continued)

The structure of shareholders is as follows:

	2008	2007
Intesa Holding International S.A.	96.49%	96.49%
Domestic shareholders	2.95%	2.94%
Foreign shareholders	0.56%	0.57%
	<u>100.00%</u>	<u>100.00%</u>

The VUB Group's regulatory capital position at 31 December 2008 and 2007 was as follows:

	2008	2007
Tier 1 capital		
Share capital	12,978	12,978
Share premium	403	403
Retained earnings without net profit for the year	4,217	1,946
Legal reserve fund	2,636	2,636
Less goodwill and software (incl. software in Assets in progress)	(1,715)	(1,790)
	18,519	16,173
Tier 2 capital	-	-
Regulatory adjustment		
Investments in associates and jointly controlled entities	(156)	(146)
Total regulatory capital	<u>18,363</u>	<u>16,027</u>

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

The Group must maintain a capital adequacy ratio of at least 8% according to NBS regulations. The capital adequacy ratio is the ratio between the Group's capital and the risk-weighted assets. Risk-weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The Group complied with the NBS requirement for the capital adequacy ratio as at 31 December 2008 and 2007.

24. Financial commitments and contingencies

	2008	2007
Issued guarantees	12,502	11,417
Commitments and undrawn credit facilities	56,589	65,828
	<u>69,091</u>	<u>77,245</u>

24. Financial commitments and contingencies

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

In the normal course of business, the VUB Group enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 December 2008 and 2007 was as follows:

	2008	2007
Up to 1 year	58	53
1 to 5 years	115	87
Over 5 years	-	-
	<u>173</u>	<u>140</u>

(d) Operating lease - the Group as a lessor

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

	2008	2007
Up to 1 year	50	41
1 to 5 years	46	59
Over 5 years	-	-
	<u>96</u>	<u>100</u>

(e) Legal

In the ordinary course of business the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2008. Pursuant to this review, Management has recorded as of 31 December 2008 total provisions of Sk 909 million (31 December 2007: Sk 973 million) in respect of such legal proceedings (see also note 21). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of Sk 468 million, as at 31 December 2008 (31 December 2007: Sk 460 million). This amount represents existing legal proceedings against the VUB Group that according to the opinion of the Legal Department of the Bank will most probably not result in any payments due by the VUB Group.

25. Net interest income

	2008	2007
Interest and similar income		
Loans and advances to banks	1,309	1,502
Loans and advances to customers	12,193	8,924
Bonds, treasury bills and other securities:		
Financial assets held for trading	543	383
Available-for-sale financial assets	112	128
Held-to-maturity investments	3,138	3,851
	<u>17,295</u>	<u>14,788</u>
Interest expense and similar charges		
Deposits from banks	(624)	(734)
Deposits from customers	(4,805)	(4,350)
Debt securities in issue	(1,725)	(1,195)
	<u>(7,154)</u>	<u>(6,279)</u>
	<u>10,141</u>	<u>8,509</u>

Interest income on individually impaired loans and advances to customers for 2008 amounted to Sk 103 million (2007: Sk 156 million).

26. Net fee and commission income

	2008	2007
Fee and commission income		
Received from banks	206	193
Received from customers	3,511	3,048
Received from other financial operations	246	277
	<u>3,963</u>	<u>3,518</u>
Fee and commission expense		
Paid to banks	(286)	(254)
Paid to agents	(476)	(430)
Paid due to other financial operations	(46)	(34)
	<u>(808)</u>	<u>(718)</u>
	<u>3,155</u>	<u>2,800</u>

27. Net trading income

	2008	2007
Foreign currency derivatives and transactions	1,295	1,051
Interest rate derivatives	(17)	13
Securities:		
Financial assets held for trading	(31)	5
Available-for-sale financial assets	-	195
Held-to-maturity investments	4	-
	<u>1,251</u>	<u>1,264</u>

28. Other operating income

	2008	2007
Rent	52	52
Sales of consumer goods	97	137
Income from leasing	118	-
Other services	63	56
Net profit from sale of fixed assets	48	3
Other	133	74
	<u>511</u>	<u>322</u>

29. Salaries and employee benefits

	2008	2007
Remuneration	(2,175)	(1,816)
Social security costs	(740)	(676)
Social fund	(24)	(21)
Provision for retention program (note 22)	(14)	5
Provision for severance (note 22)	7	25
	<u>(2,946)</u>	<u>(2,483)</u>

The total number of employees of the VUB Group at 31 December 2008 was 4,111 (2007: 3,940).

The remuneration and other benefits provided to members of the Supervisory Board and the Board of Directors in 2008 was Sk 132 million (2007: Sk 112 million).

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

30. Other operating expenses

	2008	2007
IT systems maintenance	(483)	(338)
Property related expenses	(394)	(394)
Advertising and marketing	(516)	(472)
Post and telecom	(415)	(404)
Equipment related expenses	(252)	(238)
VAT and other taxes	(247)	(228)
Contribution to the Deposit Protection Fund	(198)	(173)
Professional services	(147)	(214)
Security	(147)	(133)
Stationery	(177)	(148)
Training	(38)	(39)
Travel	(32)	(28)
Other damages	(36)	(30)
Insurance	(26)	(15)
Transport	(53)	(16)
Audit	(22) *	(19)
Litigations paid	(7)	(225)
Provision for litigations (note 21)	64	22
Other operating expenses	(56)	(114)
	<u>(3,182)</u>	<u>(3,206)</u>

* In 2008 Audit expense consists of the statutory audits of the Group companies in the amount of Sk 9 million, group reporting in the amount of Sk 9 million and other reporting in the amount of Sk 4 million.

31. Impairment losses and provisions

	2008	2007
Net (creation)/reversal of impairment losses (note 10)	(1,585)	424
Net creation of financial guarantees and commitments (note 22)	(39)	(40)
	<u>(1,624)</u>	<u>384</u>
Non-current assets sold	-	(12)
Nominal value of loans written-off	(103)	(692)
Nominal value of loans transferred	(566)	(1,455)
Proceeds from loans written-off	343	349
Proceeds from loans transferred	556	547
	<u>230</u>	<u>(1,251)</u>
	<u>(1,394)</u>	<u>(879)</u>

32. Income tax expense

	2008	2007
Current income tax	(1,872)	(1,071)
Deferred income tax	710	(77)
	<u>(1,162)</u>	<u>(1,148)</u>

The movement in the income statement in deferred taxes is as follows:

	2008	2007
Loans and advances to banks and Held-to-maturity investments	3	(1)
Loans and advances to customers	626	(1)
Intangible assets	1	29
Property and equipment	27	(60)
Other liabilities and provisions	60	(34)
Tax losses carried forward	(6)	(10)
Intangible assets identified on acquisition	11	-
Other	(12)	-
	<u>710</u>	<u>(77)</u>

The effective tax rate differs from the statutory tax rate in 2008 and in 2007.

Reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

	2008	2007
Profit before tax	6,238	5,215
Applicable tax rate	19.00%	19.00%
Theoretical tax charge	(1,185)	(991)
Permanent differences and previously unrecognized deferred tax assets	10	(146)
Adjustments for current tax of prior periods	13	(11)
Tax expense	<u>(1,162)</u>	<u>(1,148)</u>
Effective tax rate	<u>18.64%</u>	<u>22.01%</u>

33. Profit before changes in operating assets and liabilities

	2008	2007
Profit before tax	6,238	5,215
Adjustments for:		
Amortization	639	504
Depreciation	702	615
Securities held for trading and available-for-sale securities and FX difference	(772)	(66)
Share of loss of associates and jointly controlled entities	(10)	(7)
Interest income	(17,295)	(14,788)
Interest expense	7,154	6,279
Dividend income	(33)	-
Sale of property and equipment	(48)	9
Provisions and impairment losses	1,340	858
Interest received	17,667	14,245
Interest paid	(7,011)	(5,970)
Dividends received	33	-
Tax paid/received	(1,810)	274
	<u>6,794</u>	<u>7,168</u>

34. Estimated fair value of financial assets and liabilities

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

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

(a) Cash and balances with central banks

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

(b) Loans and advances to banks

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

(d) Held-to-maturity investments

The fair value of securities carried in the 'Held-to-maturity investments' portfolio is based on quoted market prices. Where no market prices are available, the fair value was calculated by discounting future cash flows using risk free interest rate curve adjusted to reflect credit risk.

(e) Investments in associates and jointly controlled entities

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

(f) Deposits from banks and customers

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

(g) Debt securities in issue

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

34. Estimated fair value of financial assets and liabilities (continued)

31 December 2008	Note	Trading	Held-to maturity	Loans and receivables	Available- for-sale	Other amortized cost	Total carrying amount	Fair value
Cash and balances with central banks	4	-	-	15,214	-	-	15,214	15,214
Loans and advances to banks	5	-	-	43,299	-	-	43,299	43,299
Financial assets held for trading	6	23,836	-	-	-	-	23,836	23,836
Derivative financial instruments	7	1,836	-	-	-	-	1,836	1,836
Available-for-sale financial assets	8	-	-	-	7,985	-	7,985	7,985
Loans and advances to customers	9	-	-	170,747	-	-	170,747	177,404
Held-to-maturity investments	11	-	66,266	-	-	-	66,266	65,995
Investments in associates and jointly controlled entities	12	-	-	-	-	156	156	156
		<u>25,672</u>	<u>66,266</u>	<u>229,260</u>	<u>7,985</u>	<u>156</u>	<u>329,339</u>	<u>335,725</u>
Deposits from central and other banks	17	-	-	-	-	27,588	27,588	27,588
Derivative financial instruments	7	1,581	-	-	-	-	1,581	1,581
Deposits from customers	18	-	-	-	-	244,916	244,916	242,691
Debt securities in issue	19	-	-	-	-	34,283	34,283	33,441
		<u>1,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>306,787</u>	<u>308,368</u>	<u>305,301</u>

34. Estimated fair value of financial assets and liabilities (continued)

31 December 2007	Note	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
Cash and balances with central banks	4	-	-	4,493	-	-	4,493	4,493
Loans and advances to banks	5	-	-	35,279	-	-	35,279	35,279
Financial assets held for trading	6	10,664	-	-	-	-	10,664	10,664
Derivative financial instruments	7	1,055	-	-	-	-	1,055	1,055
Available-for-sale financial assets	8	-	-	-	2,673	-	2,673	2,673
Loans and advances to customers	9	-	-	130,020	-	-	130,020	131,361
Held-to-maturity investments	11	-	90,721	-	-	-	90,721	90,086
Investments in associates and jointly controlled entities	12	-	-	-	-	146	146	146
		<u>11,719</u>	<u>90,721</u>	<u>169,792</u>	<u>2,673</u>	<u>146</u>	<u>275,051</u>	<u>275,757</u>
Deposits from central and other banks	17	-	-	-	-	21,663	21,663	21,663
Derivative financial instruments	7	1,034	-	-	-	-	1,034	1,034
Deposits from customers	18	-	-	-	-	205,278	205,278	205,050
Debt securities in issue	19	-	-	-	-	28,033	28,033	27,952
		<u>1,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,974</u>	<u>256,008</u>	<u>255,699</u>

35. Financial risk management

Introduction and overview

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

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

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

Risk management framework

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

- Asset/Liability Committee ('ALCO')
- Credit Risk Committee ('CRC')
- Corporate Credit Committee ('CCC')
- Retail Credit Committee ('RCC')
- Operational Risk Committee ('ORC').

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

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

(a) Credit risk

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

35. Financial risk management (continued)

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

Management of credit risk

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

- Development of credit risk strategy, policies, processes and procedures covering rules for credit assessment, collateral requirements, risk grading and reporting.
- Setting limits for the concentration of exposure to counterparties, related parties, countries and total assets and monitoring compliance with those limits.
- Establishment of the authorisation structure for the approval and renewal of credit facilities. Authorization limits are set in the Risk Management Credit Principles and Policies Charter.
- Credit risk assessment according to defined policy.
- Monitoring of quality portfolio performance and its compliance with set limits (regulatory, internal). Regular reports are provided to Management Board and CRC on the credit quality of Group 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 provisioning model (the Markov chains methodology is used).

Allowances for impairment

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

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

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

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

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

35. Financial risk management (continued)

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

Category	2008			2007		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Loans and advances to banks						
Performing	43,323	(24)	43,299	35,305	(26)	35,279
Loans and advances to customers						
Performing	171,204	(3,280)	167,924	131,656	(2,790)	128,866
Substandard	2,299	(396)	1,903	823	(247)	576
Bad and Doubtful	2,751	(1,831)	920	1,491	(913)	578
	<u>176,254</u>	<u>(5,507)</u>	<u>170,747</u>	<u>133,970</u>	<u>(3,950)</u>	<u>130,020</u>
Held-to-maturity investments						
Performing	66,224	-	66,224	90,678	-	90,678
Substandard	57	(15)	42	63	(20)	43
	<u>66,281</u>	<u>(15)</u>	<u>66,266</u>	<u>90,741</u>	<u>(20)</u>	<u>90,721</u>

35. Financial risk management (continued)

At 31 December 2008, the VUB Group had a potential credit exposure of Sk 2,511 million (31 December 2007: Sk 1,686 million) in the event of non-performance by counterparties to its financial derivative instruments. This represents the gross replacement cost at market rates at 31 December 2008 and 31 December 2007 of all outstanding agreements in the event of all counterparties defaulting and not allowing for netting arrangements.

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

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

	2008			2007		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Loans and advances to banks						
No delinquency	43,022	(10)	43,012	35,035	(12)	35,023
31 – 60 days	-	-	-	205	(10)	195
61 – 90 days	-	-	-	-	-	-
91 – 180 days	149	(7)	142	65	(4)	61
Over 181 days	152	(7)	145	-	-	-
	<u>43,323</u>	<u>(24)</u>	<u>43,299</u>	<u>35,305</u>	<u>(26)</u>	<u>35,279</u>
Loans and advances to customers						
No delinquency	162,850	(3,011)	159,839	124,507	(2,723)	121,784
1 – 30 days	7,097	(357)	6,740	6,479	(368)	6,111
31 – 60 days	2,128	(212)	1,916	1,168	(147)	1,021
61 – 90 days	960	(169)	791	546	(121)	425
91 – 180 days	1,170	(385)	785	654	(274)	380
Over 181 days *	2,049	(1,373)	676	616	(317)	299
	<u>176,254</u>	<u>(5,507)</u>	<u>170,747</u>	<u>133,970</u>	<u>(3,950)</u>	<u>130,020</u>
Held-to-maturity investments						
No delinquency	<u>66,281</u>	<u>(15)</u>	<u>66,266</u>	<u>90,741</u>	<u>(20)</u>	<u>90,721</u>

35. Financial risk management (continued)

* Write-off Policy

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

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

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

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2008		2007	
	Clients	Banks	Clients	Banks
Debt securities	2	22,290	2	28,668
Other	23,389	1,341	12,126	607
Property	134,969	-	97,768	-
	<u>158,360</u>	<u>23,631</u>	<u>109,896</u>	<u>29,275</u>

The debt securities collateral received from banks represents the fair value of the collateral received in the reverse REPO trades with banks. The Group is permitted to sell or repledge this collateral in the absence of default by the owner of the collateral. None of the collateral was sold or repledged at 31 December 2008 and 2007.

35. Financial risk management (continued)

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

	2008			2007		
	Amortized cost	Impairment losses	Carrying amount	Amortized cost	Impairment losses	Carrying amount
Europe						
Loans and advances to banks	42,381	(6)	42,375	34,598	(2)	34,596
Loans and advances to customers	176,190	(5,506)	170,684	133,913	(3,949)	129,964
Held-to-maturity securities	66,224	-	66,224	90,671	(20)	90,651
	<u>284,795</u>	<u>(5,512)</u>	<u>279,283</u>	<u>259,182</u>	<u>(3,971)</u>	<u>255,211</u>
America						
Loans and advances to banks	938	(18)	920	700	(24)	676
Loans and advances to customers	22	(1)	21	34	(1)	33
Held-to-maturity securities	57	(15)	42	70	-	70
	<u>1,017</u>	<u>(34)</u>	<u>983</u>	<u>804</u>	<u>(25)</u>	<u>779</u>
Asia						
Loans and advances to banks	4	-	4	7	-	7
Loans and advances to customers	24	-	24	7	-	7
	<u>28</u>	<u>-</u>	<u>28</u>	<u>14</u>	<u>-</u>	<u>14</u>
Rest of the World						
Loans and advances to customers	18	-	18	16	-	16

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

35. Financial risk management (continued)

(b) Market risk

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

Management of market risk

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

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

Exposure to market risk – trading portfolios

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

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

A summary of the VaR position of the Bank's trading portfolios at 31 December and during the period is as follows:

Sk million	2008				2007			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	2.76	2.42	7.56	0.67	1.61	1.74	6.01	0.24
Interest rate risk	12.42	8.98	13.09	4.58	4.58	4.72	9.46	1.95
Overall	11.56	9.40	13.26	4.26	4.15	5.18	9.95	1.94

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

35. Financial risk management (continued)

Exposure to interest rate risk – non-trading portfolios

The main risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. Financial instruments are mapped to re-pricing gaps either by their maturity, i.e. fixed rate instruments, or by next re-price date, i.e. floating rate instruments. The assets and liabilities that do not have contractual maturity date or are not interest bearing are mapped according to internal model.

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

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

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

Sk million	2008	2007
1 basis point increase	(4)	(8)

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

The interest rate risk comprises 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.

Model applied for calculation of interest rate gap

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

Contractual

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

Behavioural

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

Based on statistical methods a core portion of cash is calculated and this portion is amortized on a linear basis over 10 years and the remaining amount is classified as an overnight item. For current accounts the non-sensitive core portion of some clients' categories is calculated and is mapped to the gap as a linearly amortized item from 1 to 10 years. The remaining amount is classified in the overnight segment.

35. Financial risk management (continued)

The re-pricing structure of financial assets and liabilities based on contractual undiscounted cash-flows for the non-trading portfolios was as follows:

31 December 2008	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances						
with central banks	16,753	-	-	269	269	17,291
Loans and advances to banks	505	2,632	214	797	-	4,148
Derivative financial instruments	-	-	2,938	-	-	2,938
Available-for-sale financial assets	400	9	5,397	2,664	-	8,470
Loans and advances to customers	32,629	52,246	54,099	39,183	6,874	185,031
Held-to-maturity investments	1,652	1,739	29,631	18,822	24,542	76,386
Investments in associates and jointly controlled entities	-	-	16	62	78	156
	51,939	56,626	92,295	61,797	31,763	294,420
Liabilities						
Deposits from central and other banks	(5,679)	(6,973)	(2,695)	(2,032)	-	(17,379)
Derivative financial instruments	-	-	(2,004)	(862)	-	(2,866)
Deposits from customers	(121,158)	(20,791)	(41,645)	(24,840)	(21,649)	(230,083)
Debt securities in issue	(3,179)	(14,317)	(6,139)	(7,754)	(6,287)	(37,676)
	(130,016)	(42,081)	(52,483)	(35,488)	(27,936)	(288,004)
Net position of financial instruments	(78,077)	14,545	39,812	26,309	3,827	6,416
31 December 2007	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances						
with central banks	2,722	-	180	720	900	4,522
Loans and advances to banks	1,156	559	265	157	-	2,137
Derivative financial instruments	-	-	2,832	-	-	2,832
Available-for-sale financial assets	103	9	904	1,949	10	2,975
Loans and advances to customers	24,904	36,375	48,035	26,646	5,453	141,413
Held-to-maturity investments	19,413	7,339	23,925	25,363	26,170	102,210
Investments in associates and jointly controlled entities	-	-	15	58	73	146
	48,298	44,282	76,156	54,893	32,606	256,235
Liabilities						
Deposits from central and other banks	(10,148)	(2,295)	(2,200)	-	-	(14,643)
Derivative financial instruments	-	-	(2,276)	(592)	-	(2,868)
Deposits from customers	(119,958)	(16,187)	(20,317)	(16,840)	(19,023)	(192,325)
Debt securities in issue	(2,032)	(10,430)	(6,522)	(6,667)	(6,135)	(31,786)
	(132,138)	(28,912)	(31,315)	(24,099)	(25,158)	(241,622)
Net position of financial instruments	(83,840)	15,370	44,841	30,794	7,448	14,613

35. Financial risk management (continued)

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

	2008 %	2007 %
Assets		
Cash and balances with central banks	1.44	1.51
Loans and advances to banks	3.78	3.89
Financial assets held for trading	4.18	4.14
Available-for-sale financial assets	3.92	3.84
Loans and advances to customers	7.69	7.64
Held-to-maturity investments	4.28	4.37
Liabilities		
Deposits from other banks	3.32	3.96
Deposits from customers	2.34	2.36
Debt securities in issue	4.60	4.33

Currency denominations of assets and liabilities

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

35. Financial risk management (continued)

31 December 2008	SKK	EUR	USD	CZK	Other	Total
Assets						
Cash and balances with central banks	14,036	826	49	186	117	15,214
Loans and advances to banks	39,578	2,531	578	3	609	43,299
Financial assets held for trading	23,836	-	-	-	-	23,836
Derivative financial instruments	1,836	-	-	-	-	1,836
Available-for-sale financial assets	7,972	2	11	-	-	7,985
Loans and advances to customers	131,392	33,285	3,056	2,777	237	170,747
Held-to-maturity investments	64,840	1,426	-	-	-	66,266
Investments in associates and jointly controlled entities	156	-	-	-	-	156
	283,646	38,070	3,694	2,966	963	329,339
Liabilities						
Deposits from central and other banks	(19,212)	(7,897)	(2)	(286)	(191)	(27,588)
Derivative financial instruments	(1,581)	-	-	-	-	(1,581)
Deposits from customers	(202,527)	(35,434)	(4,159)	(1,826)	(970)	(244,916)
Debt securities in issue	(21,700)	(9,682)	(738)	(2,163)	-	(34,283)
	(245,020)	(53,013)	(4,899)	(4,275)	(1,161)	(308,368)
Net position	38,626	(14,943)	(1,205)	(1,309)	(198)	20,971
31 December 2007						
Assets						
Cash and balances with central banks	3,576	374	55	278	210	4,493
Loans and advances to banks	32,137	2,925	50	8	159	35,279
Financial assets held for trading	10,647	17	-	-	-	10,664
Derivative financial instruments	1,055	-	-	-	-	1,055
Available-for-sale financial assets	2,671	2	-	-	-	2,673
Loans and advances to customers	98,428	27,021	1,243	3,206	122	130,020
Held-to-maturity investments	89,213	1,460	-	-	48	90,721
Investments in associates and jointly controlled entities	146	-	-	-	-	146
	237,873	31,799	1,348	3,492	539	275,051
Liabilities						
Deposits from central and other banks	(10,946)	(8,568)	(1,303)	(579)	(267)	(21,663)
Derivative financial instruments	(1,034)	-	-	-	-	(1,034)
Deposits from customers	(171,556)	(25,497)	(4,226)	(2,911)	(1,088)	(205,278)
Debt securities in issue	(20,533)	(5,062)	-	(2,438)	-	(28,033)
	(204,069)	(39,127)	(5,529)	(5,928)	(1,355)	(256,008)
Net position	33,804	(7,328)	(4,181)	(2,436)	(816)	19,043

35. Financial risk management (continued)

(c) Liquidity risk

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

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

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

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

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

Rule 2: Medium term assets + 0,5 * Long Term Assets \leq Long term liabilities + 0,5 * Medium term liabilities + 0,25 * (short term customer liabilities + interbank liabilities) + excess in Rule 1

35. Financial risk management (continued)

The remaining maturities of assets and liabilities based on contractual undiscounted cash-flows were as follows:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
31 December 2008							
Assets							
Cash and balances with central banks	17,215	-	-	-	-	-	17,215
Loans and advances to banks	40,689	12	178	2,046	966	7	43,898
Financial assets held for trading	20,005	39	2,027	1,405	817	-	24,293
Available-for-sale financial assets	-	9	5,113	3,182	159	-	8,463
Loans and advances to customers	10,135	14,340	38,048	74,805	95,392	1,269	233,989
Held-to-maturity investments	1,310	1,908	11,253	38,421	24,518	-	77,410
Investments in associates and jointly controlled entities	-	-	-	-	-	156	156
	89,354	16,308	56,619	119,859	121,852	1,432	405,424
Liabilities							
Deposits from central and other banks	(20,252)	(1,164)	(2,120)	(3,560)	(905)	-	(28,001)
Deposits from customers	(180,376)	(15,671)	(37,071)	(11,815)	(830)	-	(245,763)
Debt securities in issue	(202)	(1,285)	(3,484)	(18,145)	(14,244)	-	(37,360)
	(200,830)	(18,120)	(42,675)	(33,520)	(15,979)	-	(311,124)
Net financial instruments position	(111,476)	(1,812)	13,944	86,339	105,873	1,432	94,300
Cash inflows from derivatives	19,436	8,089	7,464	3,708	1,195	-	39,892
Cash outflows from derivatives	(19,293)	(7,891)	(7,569)	(3,573)	(1,195)	-	(39,521)
Net position from derivatives	143	198	(105)	135	-	-	371
Total net position	(111,333)	(1,614)	13,839	86,474	105,873	1,432	94,671

35. Financial risk management (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
31 December 2007							
Assets							
Cash and balances with central banks	4,522	-	-	-	-	-	4,522
Loans and advances to banks	33,198	49	1,031	1,886	513	27	36,704
Financial assets held for trading	5,006	5,008	14	582	260	-	10,870
Available-for-sale financial assets	-	9	902	1,941	-	19	2,871
Loans and advances to customers	8,266	7,957	31,210	49,301	52,420	9,919	159,073
Held-to-maturity investments	12,098	7,512	2,329	57,451	26,170	-	105,560
Investments in associates and jointly controlled entities	-	-	-	-	-	146	146
	<u>63,090</u>	<u>20,535</u>	<u>35,486</u>	<u>111,161</u>	<u>79,363</u>	<u>10,111</u>	<u>319,746</u>
Liabilities							
Deposits from central and other banks	(14,225)	(3,642)	(2,701)	(902)	(665)	-	(22,135)
Deposits from customers	(169,612)	(13,842)	(20,186)	(2,344)	(15)	-	(205,999)
Debt securities in issue	(25)	(197)	(2,861)	(21,588)	(10,354)	(36)	(35,061)
	<u>(183,862)</u>	<u>(17,681)</u>	<u>(25,748)</u>	<u>(24,834)</u>	<u>(11,034)</u>	<u>(36)</u>	<u>(263,195)</u>
Net financial instruments position	<u>(120,772)</u>	<u>2,854</u>	<u>9,738</u>	<u>86,327</u>	<u>68,329</u>	<u>10,075</u>	<u>56,551</u>
Cash inflows from derivatives	26,509	6,310	9,200	4,429	1,742	-	48,190
Cash outflows from derivatives	(26,577)	(6,206)	(9,344)	(4,369)	(1,706)	-	(48,202)
Net position from derivatives	<u>(68)</u>	<u>104</u>	<u>(144)</u>	<u>60</u>	<u>36</u>	<u>-</u>	<u>(12)</u>
Total net position	<u>(120,840)</u>	<u>2,958</u>	<u>9,594</u>	<u>86,387</u>	<u>68,365</u>	<u>10,075</u>	<u>56,539</u>

35. Financial risk management (continued)

(d) Operational risk

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

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

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

The Bank has a centralized function within the Risk Management division for the management of the Group's operational risks. This function is responsible for the definition, implementation, and monitoring of the methodological and organizational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to senior management in accordance with the standards and principles defined by Intesa Sanpaolo Head Office.

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

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

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

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

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

36. Segment reporting

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

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

The Group comprises the following main operating segments:

- Retail Banking
- Corporate Banking
- Central Treasury

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

Corporate Banking comprises Small and medium enterprises (SME) and the Corporate Customer Desk (CCD). SME includes loans, deposits and other transactions and balances with small and medium enterprises (company revenue in the range of Sk 30 million to Sk 1,000 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 Sk 1,000 million).

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

36. Segment reporting (continued)

31 December 2008	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	7,635	4,464	5,138	58	17,295
Interest expense	(3,453)	(1,871)	(1,821)	(9)	(7,154)
Inter-segment revenue	2,292	(380)	(2,800)	888	-
Net interest income	6,474	2,213	517	937	10,141
Net fee and commission income	2,573	529	45	8	3,155
Net trading income	456	545	245	5	1,251
Other operating income	199	170	-	142	511
Dividend income	-	-	-	33	33
Total segment operating income	9,702	3,457	807	1,125	15,091
Depreciation and amortization	(830)	(164)	(7)	(340)	(1,341)
Operating expenses					(6,128)
Operating profit before impairment and provisions					7,622
Impairment losses and provisions	(946)	(373)	(6)	(69)	(1,394)
Income tax expense					(1,162)
Share of profit of associates and jointly controlled entities					10
Net profit for the year					5,076
Segment assets	91,608	81,640	145,507	19,631	338,386
Segment liabilities	171,656	68,754	70,660	27,316	338,386

36. Segment reporting (continued)

31 December 2007	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	6,135	2,779	5,795	79	14,788
Interest expense	(2,575)	(1,725)	(1,987)	8	(6,279)
Inter-segment revenue	2,263	471	(3,664)	930	-
Net interest income	5,823	1,525	144	1,017	8,509
Net fee and commission income	2,280	467	53	-	2,800
Net trading income	397	454	411	2	1,264
Other operating income	263	8	-	51	322
Dividend income	-	-	-	-	-
Total segment operating income	8,763	2,454	608	1,070	12,895
Depreciation and amortization	(769)	(40)	(6)	(304)	(1,119)
Operating expenses					(5,689)
Operating profit before impairment and provisions					6,087
Impairment losses and provisions	(812)	(76)	9	-	(879)
Income tax expense					(1,148)
Share of profit of associates and jointly controlled entities					7
Net profit for the year					4,067
Segment assets	75,054	59,873	141,063	8,577	284,567
Segment liabilities	127,081	69,279	63,090	25,117	284,567

37. Related parties

Related parties are those counterparties that represent:

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

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

At 31 December 2008 and 31 December 2007, significant outstanding balances with related parties comprised:

	2008	2007
Loans and advances		
Key management personnel	8	6
Shareholder and companies controlled by shareholder	2,003	1,746
	<u>2,011</u>	<u>1,752</u>
Derivative transactions (notional amount)		
Shareholder and companies controlled by shareholder	8,839	12,749
Securities		
Shareholder and companies controlled by shareholder	1,834	2,654

37. Related parties (continued)

	2008	2007
Customer accounts		
Key management personnel	65	38
Affiliated companies	-	21
Shareholder and companies controlled by shareholder	7,938	4,517
	<u>8,003</u>	<u>4,576</u>
Debt securities in issue		
Bonds - Key management personnel	12	-
Bonds - Affiliated companies	96	100
Mortgage bonds - Shareholder and companies controlled by shareholder	10,419	-
	<u>10,527</u>	<u>100</u>
Other liabilities (liabilities from the acquisition of subsidiaries)		
Key management personnel	-	501

38. Events after the balance sheet date

With the introduction of the Euro as the official currency of the Slovak Republic on 1 January 2009, the VUB Group's functional currency changed from Slovak Crowns to Euro as of that date. The change in the functional currency was implemented prospectively and the Group's assets, liabilities and equity were converted into Euro based on the official conversion rate of €1 = Sk 30.1260. The change did not affect the financial position of the VUB Group.

There were no events after 31 December 2008 that would have a material effect on a fair presentation of the matters disclosed in these financial statements.