VÚB BANKA

Interim consolidated financial statements for 6 months ended 30 June 2011

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

VÚB BANKA

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Consolidated statement of financial position at 30 June 2011

(In thousands of euro)

	Note	June 2011	Dec 2010
Assets			
Cash and balances with central banks	4	187,708	179,093
Due from banks	5	670,061	108,843
Financial assets held for trading	6	194,310	253,025
Derivative financial instruments	7	45,297	45,205
Available-for-sale financial assets	8	1,550,941	1,615,823
Non-current assets held for sale	15	20	3,374
Loans and advances to customers	9	6,899,633	6,437,675
Held-to-maturity investments	11	1,115,071	1,788,263
Associates and jointly controlled entities	12	6,618	6,219
Intangible assets	13	38,087	41,342
Goodwill	14	29,305	29,305
Property and equipment	15	144,779	148,921
Current income tax assets	20	8,359	8,931
Deferred income tax assets	20	78,149	70,062
Other assets	16	30,336	26,776
		10,998,674	10,762,857
Liabilities			
Due to central and other banks	17	654,457	662,523
Derivative financial instruments	7	47,682	60,729
Due to customers	18	7,597,283	7,265,367
Debt securities in issue	19	1,550,856	1,624,253
Deferred income tax liabilities	20	3,789	3,908
Provisions	21	26,015	24,256
Other liabilities	22	76,402	78,063
		9,956,484	9,719,099
Equity			
Share capital	23	430,819	430,819
Share premium	23	13,368	13,368
Reserves		32,657	61,891
Retained earnings		565,346	537,680
		1,042,190	1,043,758
		10,998,674	10,762,857
Financial commitments and contingencies	24	2,468,497	2,588,428

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

These financial statements were authorised for issue on 22 August 2011.

Ignacio Jaquotot
Chairman of the Management Board

Elena Kohútiková
Member of the Management Board

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Consolidated statement of comprehensive income for 6 months ended 30 June 2011

(In thousands of euro)

	Note	June 2011	June 2010
Interest and similar income		261,267	234,391
Interest expense and similar charges		(62,040)	(55,828)
Net interest income	25	199,227	178,563
Fee and commission income		70,732	65,786
Fee and commission expense		(15,183)	(13,382)
Net fee and commission income	26	55,549	52,404
Net trading income	27	1,258	3,605
Other operating income	28	4,115	3,595
Operating income		260,149	238,167
Salaries and employee benefits	29	(49,588)	(48,426)
Other operating expenses	30	(50,022)	(46,112)
Amortisation	13	(7,146)	(7,940)
Depreciation	15	(9,336)	(10,720)
Operating expenses		(116,092)	(113,198)
Operating profit before impairment		144,057	124,969
Impairment losses on financial assets	31	(32,602)	(40,420)
Profit from operations		111,455	84,549
Share of profit of associates and jointly controlled entities		388	281
Profit before tax		111,843	84,830
Income tax expense	32	(22,778)	(17,742)
NET PROFIT FOR 6 MONTHS		89,065	67,088
Other comprehensive income for 6 months, after tax:			
Exchange difference on translating foreign operation		461	462
Available-for-sale financial assets		(33,148)	(11,059)
Cash flow hedges		1,747	(3,529)
Other comprehensive income for 6 months, net of tax	33, 34	(30,940)	(14,126)
TOTAL COMPREHENSIVE INCOME FOR 6 MONTHS		58,125	52,962
Basic and diluted earnings per € 33.2 share in €	23	6.86	5.17

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

Consolidated statement of changes in equity for 6 months ended 30 June 2011

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2010	430,819	13,368	91,541	447,959	(1,649)	5,995	(1,639)	986,394
Total comprehensive income for 6 months	-	-	-	67,088	462	(11,059)	(3,529)	52,962
Dividends to shareholders	-	-	-	(58,394)	-	-	-	(58,394)
Legal reserve fund	-	-	1,549	(1,549)	-	-	-	-
Other *	-	-	-	(1,188)	1,188	(24)	-	(24)
Effect of FX hedge *	-	-	-	529	-	-	(529)	-
At 30 June 2010	430,819	13,368	93,090	454,445	1	(5,088)	(5,697)	980,938
At 1 January 2011	430,819	13,368	93,090	537,680	24	(27,618)	(3,605)	1,043,758
Total comprehensive income for 6 months	-	-	-	89,065	461	(33,148)	1,747	58,125
Dividends to shareholders	-	-	-	(59,692)	-	-	-	(59,692)
Legal reserve fund	-	-	2,203	(2,203)	-	-	-	-
Liquidation of VUB Leasingová, a.s. v likvidácii (in liquidation)	-	-	(32)	31	-	-	-	(1)
Other *	-	-	-	485	(485)	-	-	-
Effect of FX hedge *	-	-	-	(20)	-	-	20	-
At 30 June 2011	430,819	13,368	95,261	565,346	-	(60,766)	(1,838)	1,042,190

* The foreign currency difference disclosed under Translation of foreign operation was settled within the transfer of retained earnings and profit for 2009 and 2010 from the foreign branch. Retained earnings were originally generated in Czech Crowns ('CZK') and the foreign exchange effect of this translation was hedged.

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

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Consolidated statement of cash flows for 6 months ended 30 June 2011

(In thousands of euro)

	Note	June 2011	June 2010
Cash flows from operating activities			
Profit before tax		111,843	84,830
Adjustments for:			
Amortisation		7,146	7,940
Depreciation		9,336	10,720
Securities held for trading, available-for-sale securities and FX differences		2,831	5,025
Share of profit of associates and jointly controlled entities		(399)	(257)
Interest income		(261,267)	(234,391)
Interest expense		62,040	55,828
Sale of property and equipment		(96)	177
Impairment losses on financial assets and similar charges		32,749	41,302
Interest received		299,598	255,402
Interest paid		(57,333)	(48,593)
Tax paid		(30,412)	(32,914)
Due from banks		(551,554)	(176,235)
Financial assets held for trading		54,737	(82,730)
Derivative financial instruments (assets)		1,675	(16,949)
Available-for-sale financial assets		11,431	(742,675)
Loans and advances to customers		(495,853)	(205,577)
Other assets		(2,116)	2,232
Due to central and other banks		(7,910)	(177,527)
Derivative financial instruments (liabilities)		(13,047)	9,160
Due to customers		324,676	1,098,526
Other liabilities		1,550	(22,922)
Net cash used in operating activities		(500,375)	(169,628)
Cash flows from investing activities			
Purchase of held-to-maturity investments		-	(19,083)
Repayments of held-to-maturity investments		650,448	191,027
Purchase of intangible assets and property and equipment		(10,083)	(5,263)
Disposal of property and equipment		5,657	364
Net cash from investing activities		646,022	167,045
Cash flows from financing activities			
Proceeds from issue of debt securities		44,917	202,150
Repayments of debt securities		(116,636)	(93,547)
Dividends paid		(59,692)	(58,394)
Net cash from/(used in) financing activities		(131,411)	50,209
Net change in cash and cash equivalents		14,236	47,626
Cash and cash equivalents at the beginning of the year	3	195,128	333,340
Cash and cash equivalents at 30 June	3	209,364	380,966

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

1. General information

1.1 The Bank

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

At 30 June 2011, the Bank had a network of 250 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2010: 250). The Bank also has one branch in the Czech Republic.

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

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

1.2 The VUB Group

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

	Share 2011	Share 2010	Principal business activity
Subsidiaries			
Consumer Finance Holding, a.s. ('CFH')	100%	100%	Consumer finance business
VÚB Leasing, a. s. ('VÚB Leasing')	100%	100%	Finance leases
VÚB poisťovací maklér s. r. o.	100%	100%	Insurance mediation
VÚB Asset Management, správ. spol. a.s.	100%	100%	Asset management
VÚB Factoring, a.s.	100%	100%	Factoring of receivables
VÚB Leasingová, a.s. v likvidácii (in liquidation) *	-	100%	Finance leases
Recovery, a.s.	100%	100%	Finance leases
Associates			
Slovak Banking Credit Bureau, s.r.o.	33.3%	33.3%	Credit databases administration
Jointly controlled entities			
VÚB Generali D.S.S., a.s.	50%	50%	Pension fund administration

* On 19 January 2011, VÚB Leasingová, a.s. v likvidácii (in liquidation) was removed from the Business Register of the Slovak Republic. This act concluded the process of liquidation and resulted into loss of control of VUB Group over the subsidiary. The subsidiary was properly deconsolidated within the VUB Group as at the date when control was lost. No profit or loss on disposal of the subsidiary has been recognized in the consolidated financial statements.

All entities are incorporated in the Slovak Republic.

At 30 June 2011, the VUB Group had a total network of 255 points of sale (31 December 2010: 255).

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The interim consolidated financial statements of the VUB Group ('the financial statements') have been prepared in accordance with International Accounting Standard *IAS 34 Interim Financial Reporting*.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets held for trading and all derivative financial instruments to fair value.

The financial statements are presented in thousands of euro ('€'), unless indicated otherwise.

Negative balances are presented in brackets.

2.2 Changes in accounting policies

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

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

2.3 Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Jointly controlled entities

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

2. Summary of significant accounting policies (continued)

2.4 Segment reporting

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

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

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

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

2.5 Foreign currency transactions

Monetary assets and liabilities in foreign currencies are translated to euro at the official European Central Bank ('ECB') or National Bank of Slovakia ('NBS') exchange rates prevailing at the end of reporting period. Income and expenses denominated in foreign currencies are reported at the ECB or NBS exchange rates prevailing at the date of the transaction.

The difference between the contractual exchange rate of a transaction and the ECB or NBS exchange rate prevailing on the date of the transaction is included in 'Net trading income', as well as gains and losses arising from movements in exchange rates after the date of the transaction.

2.6 Foreign operations

The financial statements include foreign operations in the Czech Republic. The assets and liabilities of foreign operations are translated to euro at the foreign exchange rate prevailing at the end of reporting period. The revenues and expenses of foreign operations are translated to euro at rates approximating the foreign exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on these translations are recognised directly in equity.

2.7 Cash and balances with central banks

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

2.8 Treasury bills and other eligible bills

Treasury bills and other eligible bills represent highly liquid securities that could be used for rediscounting in the NBS in case of Slovak treasury bills or in a central bank of a foreign country in case of foreign treasury bills without any time or other constraints.

2.9 Due from banks

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

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

2. Summary of significant accounting policies (continued)

2.10 Debt securities

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

(a) Held for trading

(b) Available-for-sale

(c) Held-to-maturity

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

(a) Securities held for trading

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

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

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

Day 1 profit or loss

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

(b) Available-for-sale securities

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

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

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

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

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

2. Summary of significant accounting policies (continued)

In the case of debt instruments classified as 'available-for-sale', impairment is assessed based on the same criteria as financial assets carried at amortised cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in 'Impairment losses on financial assets' in the Statement of comprehensive income, the impairment loss is reversed through the Statement of comprehensive income.

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

(c) Held-to-maturity investments

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

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

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

2.11 Repurchase and reverse repurchase agreements

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

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

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

2. Summary of significant accounting policies (continued)

2.12 Derivative financial instruments

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

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

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

In the normal course of business, the VUB Group enters into derivative financial instrument transactions to hedge its liquidity, foreign exchange and interest rate risks. The Group also enters into proprietary derivative financial transactions for the purpose of generating profits from short-term fluctuations in market prices. The VUB Group operates a system of market risk and counterparty limits, which are designed to restrict exposure to movements in market prices and counterparty concentrations. The VUB Group also monitors adherence to these limits on a daily 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 the nominal value, which indicates the potential change in market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity. The VUB Group assesses the credit risk of all financial instruments on a daily basis.

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

Embedded derivatives

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

2. Summary of significant accounting policies (continued)

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

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%.

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised in other comprehensive income as ‘Cash flow hedges’. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately as gain or loss in the Statement of comprehensive income in ‘Net trading income’.

When the hedged cash flow affects profit or loss, the gain or loss on the hedging instrument is reclassified from other comprehensive income to profit or loss as a reclassification adjustment. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income remains separately in equity and is reclassified from other comprehensive income to profit or loss as a reclassification adjustment when the hedged expected transaction is ultimately recognised. When an expected transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the Statement of comprehensive income in ‘Net trading income’. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Statement of comprehensive income in ‘Net trading income’.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate (‘EIR’). If the hedged item is derecognised, the unamortised fair value adjustment is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

2.13 Offsetting financial instruments

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

2. Summary of significant accounting policies (continued)

2.14 Non-current assets held for sale

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

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

2.15 Loans and advances to customers and impairment losses

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are recorded at amortised cost less any impairment losses. All loans and advances to customers are recognised in the Statement of financial position when cash is advanced to borrowers.

Loans and advances to customers are subject to periodic impairment testing. An impairment loss for a loan, or a group of similar loans, is established if their carrying amount is greater than their estimated recoverable amount. The recoverable amount is the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the loan's original effective interest rate. The amount of the impairment loss is included in the Statement of comprehensive income.

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

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

2.16 Intangible assets

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

	Years
Software	5 – 10
Other intangible assets	5 – 10

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

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

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

2.17 Goodwill

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

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

2. Summary of significant accounting policies (continued)

2.18 Property and equipment

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

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

	Years
Buildings	20 – 40
Equipment	4, 6, 12
Other tangibles	4, 6, 12

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

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

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

2.19 Leasing

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

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

VUB Group as a lessee

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

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

Operating lease payments are not recognised in the Statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and included in 'Other operating expenses'.

VUB Group as a lessor

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

2. Summary of significant accounting policies (continued)

2.20 Provisions

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

2.21 Provisions for employee benefits

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

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

	Jubilee benefits	Retirement benefits
Discount rate	2.6%	4%
Future growth of wages	n/a	3%
Fluctuation of employees (based on age)	9 – 54%	9 – 54%
Retirement age	based on valid legislation	
Mortality	based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

All gains or losses in relation to the employee benefits are recognised in 'Salaries and employee benefits'. Employee benefit reserves are disclosed in the Statement of financial position in 'Other liabilities'.

2.22 Financial guarantees

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

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

2.23 Legal reserve fund

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

2. Summary of significant accounting policies (continued)

2.24 Equity reserves

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

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

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

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

2.25 Interest income

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

2.26 Fee and commission income

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

2.27 Net trading income

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

2.28 Dividend income

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

2.29 Income tax

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

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

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

2.30 Fiduciary assets

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

2. Summary of significant accounting policies (continued)

2.31 Significant accounting judgements and estimates

Judgements

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

Held-to-maturity investments

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

Financial assets held for trading

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

Estimates

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

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

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

3. Cash and cash equivalents

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

	Note	June 2011	Dec 2010
Cash and balances with central banks	4	187,708	179,093
Current accounts in other banks	5	14,840	8,493
Term deposits with other banks	5	6,816	7,542
		209,364	195,128

4. Cash and balances with central banks

	June 2011	Dec 2010
Balances with central banks:		
Compulsory minimum reserves	98,663	87,693
Current accounts	43	33
	98,706	87,726
Cash in hand	89,002	91,367
	187,708	179,093

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

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

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

5. Due from banks

	Note	June 2011	Dec 2010
Current accounts	3	14,840	8,493
Term deposits			
with contractual maturity less than 90 days	3	6,816	7,542
with contractual maturity over 90 days		162,756	5,081
Loans and advances		485,868	87,878
Impairment losses	10	(219)	(151)
		670,061	108,843

6. Financial assets held for trading

	June 2011	Dec 2010
Treasury bills and other eligible bills with contractual maturity over 90 days	127,034	174,201
State bonds with contractual maturity over 90 days	63,301	75,772
Mutual funds	3,975	3,052
	194,310	253,025

At 30 June 2011 and 31 December 2010, no such securities were pledged by the VUB Group to secure transactions with counterparties.

7. Derivative financial instruments

	June 2011 Assets	Dec 2010 Assets	June 2011 Liabilities	Dec 2010 Liabilities
Trading derivatives	45,297	45,179	41,994	46,834
Cash flow hedges of interest rate risk	-	-	2,270	4,451
Fair value hedges of interest rate risk	-	26	3,418	9,444
	45,297	45,205	47,682	60,729

Trading derivatives also include hedge instruments that are non-qualifying according to IAS 39, which are held for risk management purposes rather than for trading. The instruments used include cross-currency interest rate swaps. In June 2011, the total positive fair value of such derivatives was € 8,539 thousand (31 December 2010: € 6,386 thousand) and the negative fair value was nil (31 December 2010: nil).

7. Derivative financial instruments (continued)

Trading derivatives – Fair values	June 2011 Assets	Dec 2010 Assets	June 2011 Liabilities	Dec 2010 Liabilities
Interest rate instruments				
Swaps	14,964	21,632	17,663	23,780
Forward rate agreements	45	-	-	-
Options	3,003	1,806	1,809	1,813
	18,012	23,438	19,472	25,593
Foreign currency instruments				
Forwards and swaps	3,337	2,059	6,937	7,894
Cross currency swaps	8,539	6,386	-	-
Options	11,228	8,842	11,404	8,893
	23,104	17,287	18,341	16,787
Equity and commodity instruments				
Equity options	4,055	4,047	4,055	4,047
Commodity options	126	407	126	407
	4,181	4,454	4,181	4,454
	45,297	45,179	41,994	46,834

Trading derivatives – Notional values	June 2011 Assets	Dec 2010 Assets	June 2011 Liabilities	Dec 2010 Liabilities
Interest rate instruments				
Swaps	1,008,902	954,181	1,008,902	954,181
Forward rate agreements	50,122	-	50,122	-
Options	94,830	78,991	93,255	78,991
	1,153,854	1,033,172	1,152,279	1,033,172
Foreign currency instruments				
Forwards and swaps	408,093	280,758	413,879	288,177
Cross currency swaps	73,937	71,825	65,433	65,433
Options	114,252	50,266	112,419	49,754
	596,282	402,849	591,731	403,364
Equity and commodity instruments				
Equity options	22,977	22,630	22,977	22,630
Commodity options	622	3,280	622	3,280
	23,599	25,910	23,599	25,910
	1,773,735	1,461,931	1,767,609	1,462,446

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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

Fair value hedges of interest rate risk

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

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

8. Available-for-sale financial assets

	Share June 2011	**Share Dec 2010**	**June 2011**	**Dec 2010**
State bonds			1,530,665	1,595,839
Bank bonds			19,637	19,345
Equity shares at cost				
RVS Studené, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.06%	0.06%	65	65
			639	639
			1,550,941	1,615,823

At 30 June 2011, no State bonds were pledged by the VUB Group (31 December 2010: nil) to secure transactions with counterparties.

9. Loans and advances to customers

30 June 2011	**Amortised cost**	**Impairment losses (note 10)**	**Carrying amount**
Sovereigns			
Municipalities	100,292	(346)	99,946
Corporate			
Large Corporates	960,161	(9,668)	950,493
Project Financing	680,877	(32,841)	648,036
Small and medium enterprises (‘SME’)	738,630	(39,963)	698,667
Other Financial Institutions	282,951	(303)	282,648
Private Sector Entities	14,455	(153)	14,302
Leasing	198,865	(21,930)	176,935
Factoring	102,773	(3,113)	99,660
	2,978,712	(107,971)	2,870,741
Retail			
Small business	204,410	(14,827)	189,583
Small business – Leasing	11,993	(1,354)	10,639
Consumer Loans	925,590	(115,477)	810,113
Mortgages	2,620,530	(28,135)	2,592,395
Credit Cards	259,216	(41,591)	217,625
Overdrafts	108,283	(15,271)	93,012
Leasing	3,833	(196)	3,637
Other	12,087	(145)	11,942
	4,145,942	(216,996)	3,928,946
	7,224,946	(325,313)	6,899,633

9. Loans and advances to customers (continued)

31 December 2010	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	101,730	(205)	101,525
Municipalities – Leasing	65	-	65
	101,795	(205)	101,590
Corporate			
Large Corporates	847,014	(17,011)	830,003
Project Financing	651,086	(16,443)	634,643
Small and medium enterprises ('SME')	636,480	(39,651)	596,829
Other Financial Institutions	295,550	(203)	295,347
Private Sector Entities	6,787	(81)	6,706
Leasing	177,715	(22,324)	155,391
Factoring	85,581	(3,032)	82,549
	2,700,213	(98,745)	2,601,468
Retail			
Small business	188,861	(14,053)	174,808
Small business – Leasing	20,342	(2,035)	18,307
Consumer Loans	882,232	(121,528)	760,704
Mortgages	2,476,074	(26,690)	2,449,384
Credit Cards	260,141	(39,763)	220,378
Overdrafts	112,084	(13,736)	98,348
Leasing	5,168	(282)	4,886
Other	7,963	(161)	7,802
	3,952,865	(218,248)	3,734,617
	6,754,873	(317,198)	6,437,675

Maturities of gross finance lease receivables are as follows:

	June 2011	Dec 2010
Up to 1 year	69,798	72,136
1 to 5 years	134,675	125,221
Over 5 years	47,056	39,175
	251,529	236,532
Unearned future finance income on finance leases	(36,838)	(33,241)
Impairment losses	(23,480)	(24,642)
	191,211	178,649

9. Loans and advances to customers (continued)

Maturities of net finance lease receivables are as follows:

	June 2011	Dec 2010
Up to 1 year	58,413	60,944
1 to 5 years	114,336	106,932
Over 5 years	41,942	35,415
	214,691	203,291
Impairment losses	(23,480)	(24,642)
	191,211	178,649

10. Impairment losses

	Note	1 Jan 2011	Creation/ (Reversal) (note 31)	FX losses/ (gains)	Other *	30 June 2011
Due from banks	5	151	68	-	-	219
Non-current assets held for sale	15	1,272	-	-	(1,272)	-
Loans and advances to customers	9	317,198	9,628	217	(1,730)	325,313
Held-to-maturity investments	11	249	51	-	-	300
Property and equipment	15	770	63	-	-	833
Other assets	16	16,625	(285)	29	(1,159)	15,210
		336,265	9,525	246	(4,161)	341,875

* Other represents following movements:
- Release of impairment loss to sold buildings in amount of € 1,272 thousand (see also note 15)
- Interest portion (unwinding of interest) in amount of € 1,828 thousand
- Release of impairment loss to written off other receivable in amount of € 1,061 thousand
- Reclassification of impairment loss to leasing receivables in amount of € 98 thousand from Other assets to Loans and advances to customers

11. Held-to-maturity investments

	June 2011	Dec 2010
State restructuring bonds	-	617,613
State bonds	1,103,563	1,123,031
Bank bonds and other bonds issued by financial sector	9,927	9,974
Corporate notes and bonds with contractual maturity over 90 days	1,881	37,894
	1,115,371	1,788,512
Impairment losses (note 10)	(300)	(249)
	1,115,071	1,788,263

At 30 June 2011, bonds in the total nominal amount of € 94,812 thousand were pledged by the Group (31 December 2010: € 106,460 thousand) to secure transactions with counterparties.

11. Held-to-maturity investments (continued)

State restructuring bonds

As part of the pre-privatisation restructuring process of the Bank, the Slovak government decided to transfer the receivables of the Bank arising from non-performing loans to state agencies. These special purpose agencies were created and are under the full control of the State. In December 1999 and June 2000, the Slovak government recapitalised the Bank by transferring the non-performing loans, including principal and interest, to Konsolidačná banka Bratislava ('KBB') with a gross value of Sk 58.6 billion (€ 1,945 million), and Slovenská konsolidačná ('SKO') with a gross value of Sk 7.6 billion (€ 252 million), which gave rise to the Bank's receivables from KBB and SKO in the total amount of Sk 66.2 billion (€ 2,197 million). In January and March 2001, these receivables were swapped at par for state restructuring bonds with a total nominal value of Sk 66.2 billion (€ 2,197 million).

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

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

12. Associates and jointly controlled entities

	Share %	Cost	Revaluation	Carrying amount
At 30 June 2011				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	35	38
VÚB Generali DSS, a.s.	50.0	16,597	(10,017)	6,580
		16,600	(9,982)	6,618
At 31 December 2010				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	31	34
VÚB Generali DSS, a.s.	50.0	16,597	(10,412)	6,185
		16,600	(10,381)	6,219

The share of profit and revaluation reserves of associates and jointly controlled entities reported in the Statement of comprehensive income is as follows:

	June 2011	June 2010
Revaluation at 1 January	(10,381)	(10,980)
Share of profit	388	281
Share of revaluation reserves	11	(24)
Revaluation at 30 June	(9,982)	(10,723)

12. Associates and jointly controlled entities (continued)

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

	June 2011	**Dec 2010**
Assets	6,718	6,374
Liabilities	138	189
Equity	6,580	6,185
Net profit for the period	384	591
Change of revaluation reserves for the period	(28)	(39)

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

	June 2011	**Dec 2010**
Assets	162	163
Liabilities	124	129
Equity	38	34
Net profit for the period	4	5

13. Intangible assets

	Software	**Other intangible assets**	**Assets in progress**	**Total**
Cost				
At 1 January 2011	150,167	52,439	5,187	207,793
Additions	-	-	3,897	3,897
Disposals	-	(22)	(6)	(28)
Transfers	2,581	271	(2,852)	-
FX differences	11	-	-	11
At 30 June 2011	152,759	52,688	6,226	211,673
Accumulated amortisation				
At 1 January 2011	(123,971)	(42,480)	-	(166,451)
Amortisation for the period	(4,450)	(2,696)	-	(7,146)
Disposals	-	22	-	22
FX differences	(11)	-	-	(11)
At 30 June 2011	(128,432)	(45,154)	-	(173,586)
Carrying amount				
At 1 January 2011	26,196	9,959	5,187	41,342
At 30 June 2011	24,327	7,534	6,226	38,087

14. Goodwill

	June 2011	Dec 2010
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a.s.	18,871	18,871
	29,305	29,305

Goodwill related to VÚB Leasing, a. s. arose on the acquisition of the majority shareholding in VÚB Leasing, a. s. and reflects the call and put options structure stipulated in the Shareholders' agreement relating to VÚB Leasing, a. s. The goodwill amount includes both goodwill related to the majority shareholding in the amount of € 7,304 thousand (Sk 219 million) and goodwill arising from the future purchase of the non-controlling shareholding in the amount of € 3,130 thousand (Sk 96 million). Goodwill related to Consumer Finance Holding, a.s. ('CFH') arose in 2005 on the acquisition of CFH, the VUB Group's sales finance subsidiary.

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

The basis on which the recoverable amount of VÚB Leasing and CFH has been determined is the value in use calculation, using cash flow projections based on the most recent financial budgets approved by senior management covering a 5-year period. The discount rate applied to cash flow projections beyond the five year period are extrapolated using a projected growth rate.

The following rates are used by the Group:

	VÚB Leasing		CFH	
	June 2011	Dec 2010	June 2011	Dec 2010
Discount rate	13.04%	12.93%	16.49%	16.38%
Projected growth rate	5.00%	5.00%	0.50%	2.00%

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

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

Interest margins

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

Discount rates

Discount rates were determined based on the Capital Asset Pricing Model ('CAPM'). The parameters used reflect market interest rates, industry and size of the subsidiary. The 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 2011	198,847	94,275	41,006	3,866	337,994
Additions	-	-	-	5,868	5,868
Disposals	(503)	(1,488)	(3,727)	(270)	(5,988)
Transfers	1,142	2,829	3,551	(7,522)	-
FX differences	4	9	2	-	15
At 30 June 2011	199,490	95,625	40,832	1,942	337,889
Accumulated depreciation					
At 1 January 2011	(80,431)	(76,723)	(31,149)	-	(188,303)
Depreciation for the period	(3,431)	(4,064)	(1,841)	-	(9,336)
Disposals	378	1,441	3,557	-	5,376
Transfers	-	(51)	51	-	-
FX differences	(2)	(10)	(2)	-	(14)
At 30 June 2011	(83,486)	(79,407)	(29,384)	-	(192,277)
Impairment losses (note 10)					
At 1 January 2011	(504)	-	(266)	-	(770)
Additions	-	-	(63)		(63)
At 30 June 2011	(504)	-	(329)	-	(833)
Carrying amount					
At 1 January 2011	117,912	17,552	9,591	3,866	148,921
At 30 June 2011	115,500	16,218	11,119	1,942	144,779

At 30 June 2011 and 31 December 2010, the VUB Group held in its portfolio of non-current assets held for sale buildings as follows:

	June 2011	Dec 2010
Cost	29	7,768
Accumulated depreciation	(9)	(3,122)
Impairment (note 10)	-	(1,272)
	20	3,374

16. Other assets

	June 2011	Dec 2010
Operating receivables and advances	18,121	15,296
Inventories	11,551	10,873
Receivables from termination of leasing	7,273	7,233
Prepayments and accrued income	5,005	4,803
Other tax receivables	2,414	4,490
Settlement of operations with financial instruments	746	185
Other	436	521
	45,546	43,401
Impairment losses (note 10)	(15,210)	(16,625)
	30,336	26,776

17. Due to central and other banks

	June 2011	Dec 2010
Due to central banks		
Current accounts	114,505	53,019
Due to other banks		
Current accounts	11,387	8,374
Term deposits	263,601	330,642
Loans received	264,964	270,488
	539,952	609,504
	654,457	662,523

18. Due to customers

	June 2011	Dec 2010
Current accounts	2,871,751	3,057,737
Term deposits	3,490,462	3,328,893
Savings accounts	269,402	285,567
Government and municipal deposits	763,078	434,586
Loans received	75,225	75,180
Promissory notes	81,934	58,136
Other deposits	45,431	25,268
	7,597,283	7,265,367

19. Debt securities in issue

	June 2011	Dec 2010
Bonds	59,670	59,663
Mortgage bonds	1,491,186	1,564,590
	1,550,856	1,624,253

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

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	June 2011	Dec 2010
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	33,551	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	33,344	34,191
Mortgage bonds VÚB, a.s. XVII.	1.54	EUR	2,500	22,280	28.11.2005	28.11.2015	55,777	55,757
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,819	17,176
Mortgage bonds VÚB, a.s. XXI.	1.10	EUR	500	33,194	10.3.2006	10.3.2011	-	16,608
Mortgage bonds VÚB, a.s. XXII.	1.37	EUR	1,200	50,000	29.6.2006	29.6.2011	-	60,004
Mortgage bonds VÚB, a.s. XXIII.	1.50	EUR	60	1,000,000	26.10.2006	26.10.2011	60,162	60,128
Mortgage bonds VÚB, a.s. XXIV.	1.80	EUR	1,500	33,194	24.11.2006	24.11.2011	49,883	49,860
Mortgage bonds VÚB, a.s. XXV.	1.60	EUR	30	1,000,000	5.12.2006	5.12.2011	30,034	30,026
Mortgage bonds VÚB, a.s. XXVIII.	2.04	CZK	1,000	1,000,000	20.6.2007	20.6.2012	41,315	40,240
Mortgage bonds VÚB, a.s. XXIX.	1.65	EUR	500	33,194	16.10.2007	16.10.2012	16,652	16,637
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	34,166	33,327
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,119	19,624

(Table continues on the next page)

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued	Nominal value in CCY	Issue date	Maturity date	June 2011	Dec 2010
Mortgage bonds VÚB, a.s. 32.	3.04	CZK	800	1,000,000	17.12.2007	17.12.2017	35,603	34,791
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	20,752	21,167
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,380	18,796
Mortgage bonds VÚB, a.s. 37.	1.49	EUR	40	1,000,000	30.4.2008	30.4.2011	-	40,103
Mortgage bonds VÚB, a.s. 39.	2.22	EUR	60	1,000,000	26.6.2008	26.6.2015	60,014	60,012
Mortgage bonds VÚB, a.s. 40.	2.17	EUR	70	1,000,000	28.8.2008	28.8.2015	70,142	70,117
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	24,522	25,807
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	20,140	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,859	15,387
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	15,277	15,633
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	150	1,000,000	19.5.2009	19.5.2016	150,807	154,264
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	20,000	1,000	11.5.2009	11.5.2013	20,072	20,511
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	103,626	101,666
Mortgage bonds VÚB, a.s. 50.	3.40	EUR	8,407	1,000	2.11.2009	2.11.2013	8,597	8,454
Mortgage bonds VÚB, a.s. 51.	1.85	EUR	100	1,000,000	8.4.2010	8.4.2014	100,426	100,355
Mortgage bonds VÚB, a.s. 52.	2.16	EUR	161	50,000	15.3.2010	15.3.2014	8,101	8,102
Mortgage bonds VÚB, a.s. 53.	1.99	EUR	100	1,000,000	8.4.2010	8.4.2017	100,457	100,387
Mortgage bonds VÚB, a.s. 54.	3.00	EUR	15,000	1,000	1.7.2010	1.7.2014	15,450	15,225
Mortgage bonds VÚB, a.s. 55.	2.85	EUR	14,000	1,000	1.10.2010	1.10.2015	14,299	14,100
Mortgage bonds VÚB, a.s. 56.	2.84	EUR	70	1,000,000	30.9.2010	30.9.2017	70,503	70,434
Mortgage bonds VÚB, a.s. 57.	2.83	EUR	100	1,000,000	30.9.2010	30.9.2018	100,716	100,620
Mortgage bonds VÚB, a.s. 58.	3.53	EUR	80	1,000,000	10.12.2010	10.12.2019	80,165	80,143
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	25,000	1,000	1.3.2011	1.3.2015	25,250	-
Mortgage bonds VÚB, a.s. 60.	2.12	CZK	4,345	100,000	20.5.2011	20.5.2014	17,891	-
Mortgage bonds VÚB, a.s. 61.	3.10	EUR	221	10,000	7.6.2011	7.6.2015	2,315	-
							1,491,186	1,564,590

20. Current and deferred income taxes

	June 2011	Dec 2010
Current income tax assets	8,359	8,931

	June 2011	Dec 2010
Deferred income tax assets	78,149	70,062

	June 2011	Dec 2010
Deferred income tax liabilities	3,789	3,908

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

	June 2011	Profit/ (loss) (note 32)	Equity	Dec 2010
Due from banks	42	13	-	29
Derivative financial instruments designated as cash flow hedges	430	-	(416)	846
Available-for-sale financial assets	14,248	-	7,779	6,469
Loans and advances to customers	59,589	1,407	-	58,182
Held-to-maturity investments	57	10	-	47
Intangible assets identified on acquisition	(905)	405		(1,310)
Property and equipment	(2,837)	(263)	-	(2,574)
Other liabilities	3,764	(725)	-	4,489
Other deferred tax assets	19	19	-	-
Other deferred tax liabilities	(47)	(23)	-	(24)
Deferred income tax (net)	74,360	843	7,363	66,154

21. Provisions

	June 2011	Dec 2010
Litigations	26,015	24,256

The movement in provisions was as follows:

	1 Jan 2011	Creation/ (Reversal)	FX diff	Other	30 June 2011
Litigations (note 24, note 30)	24,256	1,807	(14)	(34)	26,015

22. Other liabilities

	June 2011	Dec 2010
Various creditors	23,134	22,970
Settlement with employees	17,939	20,741
Factoring	15,384	9,115
Financial guarantees and commitments	9,955	13,674
Accruals and deferred income	2,799	4,006
Severance and Jubilee benefits	1,791	1,392
VAT payables and other tax payables	1,583	2,704
Retention program	1,388	1,016
Settlement with shareholders	1,266	1,178
Settlement with securities	103	1
Other	1,060	1,266
	76,402	78,063

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

	Note	1 Jan 2011	Creation/ (Reversal)	30 June 2011
Financial guarantees and commitments	31	13,674	(3,719)	9,955
Severance and Jubilee benefits	29	1,392	399	1,791
Retention program	29	1,016	372	1,388
		16,082	(2,948)	13,134

23. Share capital

	June 2011	June 2010
Authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Net profit for 6 months attributable to shareholders	89,065	67,088
Divided by 12,976,478 ordinary shares of € 33.2 each		
Basic and diluted earnings per € 33.2 share in €	6.86	5.17

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

23. Share capital (continued)

The structure of shareholders is as follows:

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

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

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

The VUB Group's regulatory capital position at 30 June 2011 and 31 December 2010 was as follows:

	June 2011	Dec 2010
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,368	13,368
Retained earnings without net profit for the period	476,281	387,357
Legal reserve fund	95,261	93,090
Less goodwill and software (including software in Assets in progress)	(59,858)	(60,688)
Less revaluation of available-for-sale financial assets *	(59,013)	-
Less expected loss	(41,195)	-
	855,663	863,946
Tier 2 capital	-	-
Regulatory adjustment		
Associates and jointly controlled entities	(6,580)	(6,185)
Expected loss (equity instruments)	(15)	-
Total regulatory capital	849,068	857,761

*Calculated based on NBS regulatory requirement.

23. Share capital (continued)

Regulatory capital includes items forming the value of basic own funds (ordinary share capital, share premium, retained earnings, legal reserve fund) and items decreasing the value of basic own funds (intangible assets, goodwill and investments with significant influence). Since 1 January 2011, new item is deducted from regulatory capital – difference between expected loss and impairment losses on exposures treated under standard approach. Methodology is prescribed by NBS decree 11/2010 stipulating methods of valuing banking book positions and details of the valuation of banking book positions, including the frequency of such valuations. Since February 2011, the VUB Group is also obliged to deduct difference between expected loss and impairment losses if positive for IRB portfolio (Corporate segment) and expected loss for equities (Simple IRB approach). Furthermore, according to amendment to NBS decree 4/2007 (amendment number 3/2011), since 30 May 2011 the VUB Group is obliged to decrease the value of regulatory capital by the negative revaluation differences arising from the revaluation of available-for-sale financial assets.

	June 2011 Actual	June 2011 Required	Dec 2010 Actual	Dec 2010 Required
Tier 1 capital	855,663	596,128	863,946	554,800
Tier 2 capital	-	-	-	-
Regulatory adjustment	(6,595)	(6,595)	(6,185)	(6,185)
Total regulatory capital	849,068	589,533	857,761	548,615
Total Risk Weighted Assets	7,369,158	7,369,158	6,854,299	6,854,299
Tier 1 capital ratio	11.61%	8.09%	12.60%	8.09%
Total capital ratio	11.52%	8.00%	12.51%	8.00%

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

The VUB Group must maintain a capital adequacy ratio of at least 8% according to NBS regulations. The capital adequacy ratio is the ratio between the Group's capital and the risk-weighted assets. Risk-weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The VUB Group complied with the NBS requirement for the capital adequacy ratio as at 30 June 2011 and 31 December 2010.

24. Financial commitments and contingencies

	June 2011	Dec 2010
Issued guarantees	508,724	594,173
Commitments and undrawn credit facilities	1,959,773	1,994,255
	2,468,497	2,588,428

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

In the normal course of business, the VUB Group enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 30 June 2011 and 31 December 2010 was as follows:

	June 2011	Dec 2010
Up to 1 year	1,224	1,615
1 to 5 years	1,123	1,313
Over 5 years	-	-
	2,347	2,928

(d) Operating lease – the Group as a lessor

The VUB Group has entered into a number of non-cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 30 June 2011 and 31 December 2010 are as follows:

	June 2011	Dec 2010
Up to 1 year	1,413	2,443
1 to 5 years	3,343	3,025
Over 5 years	-	-
	4,756	5,468

(e) Legal

In the normal course of business the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 30 June 2011. Pursuant to this review, management has recorded total provisions of € 26,015 thousand (31 December 2010: € 24,256 thousand) in respect of such legal proceedings (see also note 21). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 19,434 thousand, as at 30 June 2011 (31 December 2010: € 19,039 thousand). This amount represents existing legal proceedings against the VUB Group that according to the opinion of the Legal Department of the VUB will most probably not result in any payments due by the VUB Group.

25. Net interest income

	June 2011	June 2010
Interest and similar income		
Due from banks	6,352	3,935
Loans and advances to customers	198,577	175,904
Bonds, treasury bills and other securities:		
Financial assets held for trading	4,574	4,523
Available-for-sale financial assets	26,307	19,460
Held-to-maturity investments	25,457	30,569
	261,267	234,391
Interest expense and similar charges		
Due to banks	(3,751)	(4,768)
Due to customers	(33,852)	(30,244)
Debt securities in issue	(24,437)	(20,816)
	(62,040)	(55,828)
	199,227	178,563

26. Net fee and commission income

	June 2011	June 2010
Fee and commission income		
Received from banks	3,071	2,267
Received from customers:		
Current accounts	22,995	21,481
Mutual funds	3,817	3,369
Term deposits	387	338
Insurance mediation	4,876	4,244
Loans and guarantees	20,862	20,332
Overdrafts	1,027	1,404
Securities	965	462
Transactions and payments	11,616	10,930
Other	1,116	959
	70,732	65,786
Fee and commission expense		
Paid to banks	(6,671)	(5,442)
Paid to mediators:		
Credit cards	(4,634)	(4,805)
Securities	(290)	(323)
Services	(2,081)	(1,558)
Other	(1,507)	(1,254)
	(15,183)	(13,382)
	55,549	52,404

27. Net trading income

	June 2011	June 2010
Foreign currency derivatives and transactions	(2,461)	(1,660)
Customer FX margins	2,033	2,514
Cross currency swaps	2,321	2,395
Equity derivatives	24	-
Interest rate derivatives *	3,517	(6,843)
Securities:		
Financial assets held for trading	(953)	1,244
Available-for-sale financial assets *	(3,223)	5,955
	1,258	3,605

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

The Day 1 profit of all deals that were realised during 2011 is disclosed within the Net trading income, therefore there is no amount still to be recognised in income at 30 June 2011 (31 December 2010: € 257 thousand).

28. Other operating income

	June 2011	June 2010
Net profit/(loss) from sale of fixed assets	1,368	(177)
Income from leasing	799	1,909
Rent	597	738
Sales of repossessed leased assets	357	-
Other services	164	182
Sales of consumer goods	99	29
Other	731	914
	4,115	3,595

29. Salaries and employee benefits

	June 2011	June 2010
Remuneration	(35,653)	(37,017)
Social security costs	(12,691)	(11,256)
Social fund	(473)	(439)
Retention program (note 22)	(372)	286
Severance and Jubilee benefits (note 22)	(399)	-
	(49,588)	(48,426)

The total number of employees of the VUB Group at 30 June 2011 was 3,999 (31 December 2010: 3,970).

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

30. Other operating expenses

	June 2011	June 2010
Property related expenses	(7,313)	(6,309)
IT systems maintenance	(6,819)	(5,754)
Advertising and marketing	(6,423)	(4,994)
Post and telecom	(6,155)	(6,572)
Contribution to the Deposit Protection Fund	(4,256)	(4,182)
VAT and other taxes	(3,344)	(3,319)
Equipment related expenses	(3,334)	(3,679)
Professional services	(2,582)	(1,234)
Security	(1,855)	(1,863)
Provisions for litigations (note 21)	(1,807)	(1,168)
Stationery	(1,749)	(1,723)
Litigations paid	(521)	(145)
Transport	(458)	(365)
Audit *	(422)	(424)
Insurance	(406)	(398)
Travelling	(398)	(460)
Trainings	(381)	(297)
Other damages	(283)	(581)
Sales of consumer goods	-	(982)
Other operating expenses	(1,516)	(1,663)
	(50,022)	(46,112)

* As at 30 June 2011 the audit expense consists of the statutory audit in the amount of € 274 thousand (30 June 2010: € 276 thousand), group reporting in the amount of € 105 thousand (30 June 2010: € 105 thousand) and other reporting in the amount of € 43 thousand (30 June 2010: € 43 thousand).

31. Impairment losses on financial assets

	June 2011	June 2010
Net creation of impairment losses (note 10)	(9,525)	(35,194)
Net reversal of liabilities – financial guarantees and commitments (note 22)	3,719	1,621
	(5,806)	(33,573)
Nominal value of loans written-off	(26,462)	(6,754)
Nominal value of loans sold	(5,685)	(3,107)
Proceeds from loans written-off	3,075	2,182
Proceeds from loans sold	2,276	832
	(26,796)	(6,847)
	(32,602)	(40,420)

32. Income tax expense

	June 2011	June 2010
Current income tax	(23,621)	(23,579)
Deferred income tax (note 20)	843	5,837
	(22,778)	(17,742)

33. Components of other comprehensive income

	June 2011	June 2010
Exchange differences on translating foreign operations	461	462
Available-for-sale financial assets:		
Revaluation losses arising during the period	(40,927)	(13,653)
Cash flow hedges:		
Revaluation gains/(losses) arising during the period	2,157	(4,357)
Total other comprehensive income	(38,309)	(17,548)
Income tax relating to components of other comprehensive income	7,369	3,422
Other comprehensive income for 6 months	(30,940)	(14,126)

34. Income tax effects relating to comprehensive income

	June 2011			June 2010		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Exchange differences on translating foreign operations	461	-	461	462	-	462
Available-for-sale financial assets	(40,927)	7,779	(33,148)	(13,653)	2,594	(11,059)
Net movement on cash flow hedges	2,157	(410)	1,747	(4,357)	828	(3,529)
	(38,309)	7,369	(30,940)	(17,548)	3,422	(14,126)

35. Estimated fair value of financial assets and liabilities

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

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

(a) Cash and balances with central banks

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

(b) Due from banks

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

(c) Loans and advances to customers

The fair value of loans and advances to customers is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. Impairment losses and liquidity premiums are taken into consideration when calculating fair values. The estimated fair value of loans and advances to customers approximates their carrying amounts.

(d) Held-to-maturity investments

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

(e) Associates and jointly controlled entities

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

(f) Due to banks and customers

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

(g) Debt securities in issue

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

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

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

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

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

36. Financial risk management

Introduction and overview

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

(a) credit risk,

(b) market risk,

(c) liquidity risk,

(d) operational risk.

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

Risk management framework

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

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

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

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

(a) Credit risk

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

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

Management of credit risk

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

36. Financial risk management (continued)

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

Allowances for impairment

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

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

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

Rules for identifying significant clients and methodology for calculation are set in Credit Risk Charter or can be found in the internal Provisioning Policy procedure.

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

Credit risk measurement

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

36. Financial risk management (continued)

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

	Category	June 2011 Amortised cost	June 2011 Impairment losses	June 2011 Carrying amount	December 2010 Amortised cost	December 2010 Impairment losses	December 2010 Carrying amount
Banks							
	Performing	669,963	(68)	669,895	108,666	-	108,666
	Doubtful	317	(151)	166	328	(151)	177
		670,280	(219)	670,061	108,994	(151)	108,843
Sovereigns							
	Performing	96,200	(163)	96,037	100,865	(163)	100,702
	Past due	2,647	(2)	2,645	95	-	95
	Substandard	1,150	(79)	1,071	835	(42)	793
	Doubtful	295	(102)	193	-	-	-
		100,292	(346)	99,946	101,795	(205)	101,590
Corporate							
	Performing	2,791,395	(34,708)	2,756,687	2,519,826	(32,285)	2,487,541
	Past due	5,431	(1,165)	4,266	287	(61)	226
	Restructured	18,638	(4,202)	14,436	19,719	(4,352)	15,367
	Substandard	119,346	(41,772)	77,574	102,025	(24,592)	77,433
	Doubtful	43,902	(26,124)	17,778	58,356	(37,455)	20,901
		2,978,712	(107,971)	2,870,741	2,700,213	(98,745)	2,601,468
Retail							
	Performing	3,908,870	(78,740)	3,830,130	3,724,276	(82,396)	3,641,880
	Past due	36,203	(14,322)	21,881	35,450	(15,318)	20,132
	Substandard	28,670	(13,680)	14,990	30,638	(14,521)	16,117
	Doubtful	172,199	(110,254)	61,945	162,501	(106,013)	56,488
		4,145,942	(216,996)	3,928,946	3,952,865	(218,248)	3,734,617
Securities							
	Performing	2,860,622	(300)	2,860,322	3,655,479	-	3,655,479
	Substandard	-	-	-	1,881	(249)	1,632
		2,860,622	(300)	2,860,322	3,657,360	(249)	3,657,111

36. Financial risk management (continued)

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

	June 2011	Dec 2010
Cash and balances with central banks	187,708	179,093
Due from banks	670,061	108,843
Financial assets held for trading	194,310	253,025
Derivative financial instruments	62,015	65,554
Available-for-sale financial assets	1,550,941	1,615,823
Non-current assets held for sale	20	3,374
Loans and advances to customers	6,899,633	6,437,675
Held-to-maturity investments	1,115,071	1,788,263
Associates and jointly controlled entities	6,618	6,219
Intangible assets	38,087	41,342
Goodwill	29,305	29,305
Property and equipment	144,779	148,921
Current income tax assets	8,359	8,931
Deferred income tax assets	78,149	70,062
Other assets	30,336	26,776
	11,015,392	10,783,206

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

	June 2011			December 2010		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	669,963	(68)	669,895	96,254	-	96,254
1 – 30 days	-	-	-	12,412	-	12,412
Over 181 days *	317	(151)	166	328	(151)	177
	670,280	(219)	670,061	108,994	(151)	108,843
Sovereigns						
No delinquency	94,444	(263)	94,181	98,632	(163)	98,469
1 – 30 days	4,527	(4)	4,523	2,042	-	2,042
31 – 60 days	140	-	140	191	-	191
61 – 90 days	51	-	51	95	-	95
91 – 180 days	375	(41)	334	834	(42)	792
Over 181 days *	755	(38)	717	1	-	1
	100,292	(346)	99,946	101,795	(205)	101,590

36. Financial risk management (continued)

	June 2011			December 2010		
	Amortised cost	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Corporate						
No delinquency	2,844,709	(64,755)	2,779,954	2,558,410	(49,215)	2,509,195
1 – 30 days	37,357	(2,788)	34,569	33,683	(1,106)	32,577
31 – 60 days	14,771	(1,101)	13,670	13,928	(2,439)	11,489
61 – 90 days	4,964	(1,157)	3,807	6,642	(1,284)	5,358
91 – 180 days	9,812	(1,584)	8,228	6,449	(1,822)	4,627
Over 181 days *	67,099	(36,586)	30,513	81,101	(42,879)	38,222
	2,978,712	(107,971)	2,870,741	2,700,213	(98,745)	2,601,468
Retail						
No delinquency	3,687,050	(59,652)	3,627,398	3,514,217	(64,100)	3,450,117
1 – 30 days	157,200	(9,829)	147,371	148,283	(9,316)	138,967
31 – 60 days	40,646	(5,067)	35,579	40,796	(5,127)	35,669
61 – 90 days	26,200	(4,552)	21,648	22,595	(4,135)	18,460
91 – 180 days	38,178	(15,135)	23,043	38,456	(16,175)	22,281
Over 181 days *	196,668	(122,761)	73,907	188,518	(119,395)	69,123
	4,145,942	(216,996)	3,928,946	3,952,865	(218,248)	3,734,617
Securities						
No delinquency	2,860,622	(300)	2,860,322	3,657,360	(249)	3,657,111
	2,860,622	(300)	2,860,322	3,657,360	(249)	3,657,111

*** Write-off Policy**

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

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

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

36. Financial risk management (continued)

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

	June 2011			December 2010		
	Amortised cost	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Europe						
Banks	641,462	(196)	641,266	76,947	(151)	76,796
Sovereigns	100,292	(346)	99,946	101,795	(205)	101,590
Corporate	2,978,712	(107,971)	2,870,741	2,700,200	(98,745)	2,601,455
Retail	4,143,657	(216,951)	3,926,706	3,950,639	(218,216)	3,732,423
Securities	2,855,253	(118)	2,855,135	3,652,023	-	3,652,023
	10,719,376	(325,582)	10,393,794	10,481,604	(317,317)	10,164,287
North America						
Banks	28,664	(23)	28,641	31,856	-	31,856
Retail	658	(14)	644	739	(16)	723
Securities	5,369	(182)	5,187	5,337	(249)	5,088
	34,691	(219)	34,472	37,932	(265)	37,667
Asia						
Banks	69	-	69	99	-	99
Corporate	-	-	-	13	-	13
Retail	832	(30)	802	686	(15)	671
	901	(30)	871	798	(15)	783
Rest of the World						
Banks	85	-	85	92	-	92
Retail	795	(1)	794	801	(1)	800
	880	(1)	879	893	(1)	892

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

36. Financial risk management (continued)

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

30 June 2011	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	50,483	28,725	-
Construction	-	-	139,980	17,611	-
Consumers	-	-	1,382	3,727,359	-
Energy and water supply	-	-	271,195	1,298	-
Financial services	670,060	-	242,343	645	34,169
Government	-	87,865	48	-	2,824,453
Manufacturing	-	-	438,611	29,380	-
Professional services	-	-	84,777	9,051	-
Real estate	-	-	424,249	8,764	-
Retail & Wholesale	-	-	686,331	65,702	-
Services	-	-	144,189	15,056	-
Transportation	-	12,020	283,299	9,755	-
Other	1	61	103,854	15,600	1,700
	670,061	99,946	2,870,741	3,928,946	2,860,322

31 December 2010	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	44,040	21,589	-
Construction	-	-	128,963	15,391	-
Consumers	-	-	-	3,539,468	-
Energy and water supply	-	-	202,985	1,416	-
Financial services	108,843	-	256,658	698	68,383
Government	-	88,333	-	-	3,587,096
Manufacturing	-	-	428,086	30,580	-
Professional services	-	-	84,371	8,476	-
Real estate	-	-	391,328	7,755	-
Retail & Wholesale	-	-	587,930	63,510	-
Services	-	-	95,820	16,592	-
Transportation	-	12,501	293,040	10,581	-
Other	-	756	88,247	18,561	1,632
	108,843	101,590	2,601,468	3,734,617	3,657,111

36. Financial risk management (continued)

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

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
30 June 2011	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	669,963	(68)	669,895	317	(151)	166	-	-	-
Sovereigns									
Municipalities	91,583	(159)	91,424	4,092	(183)	3,909	4,617	(4)	4,613
Corporate									
Large Corporates	960,473	(7,336)	953,137	11,764	(2,465)	9,299	139	(2)	137
Project Financing	607,150	(10,661)	596,489	72,785	(22,131)	50,654	944	(49)	895
SME	670,335	(12,221)	658,114	65,213	(27,650)	37,563	3,206	(218)	2,988
Other Fin. Organisations	282,951	(303)	282,648	1	-	1	-	-	-
Private Sector Entities	2,231	(19)	2,212	8	-	8	1	-	1
Leasing	129,170	(1,602)	127,568	33,345	(18,653)	14,692	36,224	(1,549)	34,675
Factoring	92,837	(726)	92,111	4,201	(2,364)	1,837	5,734	(22)	5,712
	2,745,147	(32,868)	2,712,279	187,317	(73,263)	114,054	46,248	(1,840)	44,408
Retail									
Small business	179,962	(1,797)	178,165	18,933	(11,668)	7,265	5,515	(1,361)	4,154
Small business – Leasing	7,539	(163)	7,376	1,605	(970)	635	2,849	(221)	2,628
Consumer Loans	709,602	(15,547)	694,055	126,807	(87,687)	39,120	89,181	(12,243)	76,938
Mortgages	2,441,976	(7,305)	2,434,671	62,150	(16,032)	46,118	116,404	(4,799)	111,605
Credit Cards	243,160	(33,547)	209,613	10,449	(7,903)	2,546	5,607	(142)	5,465
Overdrafts	88,974	(1,071)	87,903	16,480	(13,703)	2,777	2,829	(496)	2,333
Leasing	2,802	(11)	2,791	171	(151)	20	860	(34)	826
Other	11,610	(3)	11,607	477	(142)	335	-	-	-
	3,685,625	(59,444)	3,626,181	237,072	(138,256)	98,816	223,245	(19,296)	203,949
Securities									
Trading	194,310	-	194,310	-	-	-	-	-	-
AFS	1,550,941	-	1,550,941	-	-	-	-	-	-
HTM	1,115,371	(300)	1,115,071	-	-	-	-	-	-
	2,860,622	(300)	2,860,322	-	-	-	-	-	-

36. Financial risk management (continued)

31 December 2010	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	96,254	-	96,254	328	(151)	177	12,412	-	12,412
Sovereigns									
Municipalities	98,586	(163)	98,423	930	(42)	888	2,214	-	2,214
Municipalities – Leasing	65	-	65	-	-	-	-	-	-
	98,651	(163)	98,488	930	(42)	888	2,214	-	2,214
Corporate									
Large Corporates	808,778	(5,682)	803,096	38,236	(11,329)	26,907	-	-	-
Project Financing	619,057	(11,272)	607,785	31,436	(5,123)	26,313	593	(48)	545
SME	561,233	(11,542)	549,691	70,242	(27,932)	42,310	5,131	(303)	4,828
Other Fin. Organisations	295,549	(203)	295,346	1	-	1	-	-	-
Private Sector Entities	6,758	(81)	6,677	7	-	7	22	-	22
Leasing	102,945	(1,351)	101,594	36,290	(19,724)	16,566	38,354	(1,123)	37,231
Factoring	78,594	(673)	77,921	4,175	(2,352)	1,823	2,812	(7)	2,805
	2,472,914	(30,804)	2,442,110	180,387	(66,460)	113,927	46,912	(1,481)	45,431
Retail									
Small business	164,804	(1,484)	163,320	18,158	(11,473)	6,685	5,899	(1,096)	4,803
Small business – Leasing	13,040	(195)	12,845	2,351	(1,597)	754	4,951	(243)	4,708
Consumer Loans	674,552	(21,707)	652,845	125,113	(87,535)	37,578	82,567	(12,286)	70,281
Mortgages	2,312,865	(7,604)	2,305,261	56,756	(14,633)	42,123	106,453	(4,453)	102,000
Credit Cards	244,072	(31,754)	212,318	10,581	(7,828)	2,753	5,488	(181)	5,307
Overdrafts	94,201	(959)	93,242	15,179	(12,410)	2,769	2,704	(367)	2,337
Leasing	4,211	(24)	4,187	290	(232)	58	667	(26)	641
Other	7,796	(17)	7,779	161	(144)	17	6	-	6
	3,515,541	(63,744)	3,451,797	228,589	(135,852)	92,737	208,735	(18,652)	190,083
Securities									
Trading	253,025	-	253,025	-	-	-	-	-	-
AFS	1,615,824	-	1,615,824	-	-	-	-	-	-
HTM	1,786,630	-	1,786,630	1,881	(249)	1,632	-	-	-
	3,655,479	-	3,655,479	1,881	(249)	1,632	-	-	-

36. Financial risk management (continued)

(b) Market risk

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

Management of market risk

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

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

Exposure to market risk – trading portfolios

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

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

A summary of the VaR position of the Bank's trading portfolios:

€ '000	June 2011				December 2010			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	83	93	208	18	58	99	307	8
Interest rate risk	293	189	314	55	96	105	161	75
Overall	371	227	440	57	113	163	367	80

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

36. Financial risk management (continued)

Exposure to interest rate risk

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

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

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

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

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

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

Models applied for the calculation of interest rate gap

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

Contractual

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

Behavioural

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

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

36. Financial risk management (continued)

Interest margin sensitivity in a one year time frame – in the event of a 100 basis points rise in interest rates – was € 2,886 thousand at 30 June 2011, compared to € 6,032 thousand at 31 December 2010.

Interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 1 basis point, registered € 31 thousand at 30 June 2011, compared to the € 111 thousand at 31 December 2010.

€ '000	**June 2011**	**Dec 2010**
EUR	22	102
CZK	8	8
Other	1	1
	31	111

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

	June 2011 %	**Dec 2010 %**
Assets		
Cash and balances with central banks	0.99	1.04
Due from banks	2.61	2.10
Financial assets held for trading	3.88	3.96
Available-for-sale financial assets	3.28	2.94
Loans and advances to customers	5.86	5.73
Held-to-maturity investments	3.83	3.21
Liabilities		
Due to central and other banks	1.39	1.16
Due to customers	0.95	0.88
Debt securities in issue	2.88	2.87

36. Financial risk management (continued)

Currency denominations of assets and liabilities

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

(c) Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

36. Financial risk management (continued)

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

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

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

30 June 2011	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	187,708	-	187,708
Due from banks	597,495	72,566	670,061
Financial assets held for trading	141,790	52,520	194,310
Derivative financial instruments	45,297	-	45,297
Available-for-sale financial assets	145,445	1,405,496	1,550,941
Non-current assets held for sale	20	-	20
Loans and advances to customers	2,240,856	4,658,777	6,899,633
Held-to-maturity investments	166,784	948,287	1,115,071
Associates and jointly controlled entities	-	6,618	6,618
Intangible assets	413	37,674	38,087
Goodwill	-	29,305	29,305
Property and equipment	-	144,779	144,779
Current income tax assets	8,359	-	8,359
Deferred income tax assets	-	78,149	78,149
Other assets	30,336	-	30,336
	3,564,503	7,434,171	10,998,674
Liabilities			
Due to central and other banks	(553,782)	(100,675)	(654,457)
Derivative financial instruments	(47,682)	-	(47,682)
Due to customers	(6,354,312)	(1,242,971)	(7,597,283)
Debt securities in issue	(247,676)	(1,303,180)	(1,550,856)
Deferred income tax liabilities	-	(3,789)	(3,789)
Provisions	-	(26,015)	(26,015)
Other liabilities	(74,227)	(2,175)	(76,402)
	(7,277,679)	(2,678,805)	(9,956,484)
	(3,713,176)	4,755,366	1,042,190

36. Financial risk management (continued)

31 December 2010	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	179,093	-	179,093
Due from banks	71,199	37,644	108,843
Financial assets held for trading	176,187	76,838	253,025
Derivative financial instruments	45,205	-	45,205
Available-for-sale financial assets	244,614	1,371,209	1,615,823
Non-current assets held for sale	3,374	-	3,374
Loans and advances to customers	1,993,131	4,444,544	6,437,675
Held-to-maturity investments	687,236	1,101,027	1,788,263
Associates and jointly controlled entities	-	6,219	6,219
Intangible assets	490	40,852	41,342
Goodwill	-	29,305	29,305
Property and equipment	-	148,921	148,921
Current income tax assets	8,931	-	8,931
Deferred income tax assets	-	70,062	70,062
Other assets	26,776	-	26,776
	3,436,236	7,326,621	10,762,857
Liabilities			
Due to central and other banks	(602,085)	(60,438)	(662,523)
Derivative financial instruments	(60,729)	-	(60,729)
Due to customers	(5,994,063)	(1,271,304)	(7,265,367)
Debt securities in issue	(290,108)	(1,334,145)	(1,624,253)
Deferred income tax liabilities	-	(3,908)	(3,908)
Provisions	-	(24,256)	(24,256)
Other liabilities	(76,302)	(1,761)	(78,063)
	(7,023,287)	(2,695,812)	(9,719,099)
	(3,587,051)	4,630,809	1,043,758

36. Financial risk management (continued)

(d) Operational risk

Operational risk management strategies and processes

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

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

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

Organisational structure of the associated risk management function

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

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

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

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

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

Under the AMA approach, the capital requirement is calculated by internal model, which combines all elements stipulated in Supervisory regulation, allowing to measure the exposure in a more risk sensitive way. Monitoring of operational risks is performed by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.

Policies for hedging and mitigating risk

The VUB Group, in coordination with its parent company, has set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does not currently include the benefit from this transfer of operational risk through insurance policies, however, it is due to be included in the future, after its validation by the Supervisory authority, so that it can contribute to reducing the risk capital calculated through the internal models. The process required to obtain this approval is planned to start in 2011.

37. Segment reporting

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

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

The Group comprises the following main operating segments:

- Retail Banking
- Corporate Banking
- Central Treasury

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

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

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

37. Segment reporting (continued)

30 June 2011	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue					
Interest income	147,252	46,651	61,911	5,453	261,267
Interest expense	(22,689)	(6,761)	(32,110)	(480)	(62,040)
Inter-segment revenue	918	(4,219)	(9,433)	12,734	-
Net interest income	125,481	35,671	20,368	17,707	199,227
Net fee and commission income	33,014	21,907	1,087	(459)	55,549
Net trading income	1,427	2,446	(2,652)	37	1,258
Other operating income	1,915	1,068	-	1,132	4,115
Total segment operating income	161,837	61,092	18,803	18,417	260,149
Operating expenses					(116,092)
Operating profit before impairment					144,057
Impairment losses on financial assets					(32,602)
Share of profit of associates and jointly controlled entities					388
Income tax expense					(22,778)
Net profit for 6 months					89,065
Segment assets	3,930,841	3,117,551	3,461,700	488,582	10,998,674
Segment liabilities	4,473,379	2,020,867	3,447,916	1,056,512	10,998,674

37. Segment reporting (continued)

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

38. Related parties

Related parties are those counterparties that represent:

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

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

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

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

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

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

38. Related parties (continued)

At 30 June 2011, significant outstanding balances with related parties comprised:

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	626,766	626,766
Derivative financial instruments	-	-	-	7,391	7,391
Loans and advances to customers	850	626	-	-	1,476
Other assets	-	-	5	739	744
	850	626	5	634,896	636,377
Liabilities					
Due to central and other banks	-	-	-	317,120	317,120
Derivative financial instruments	-	-	-	370	370
Due to customers	2,448	-	110	-	2,558
Debt securities in issue					
Bonds	-	-	6,794	-	6,794
Mortgage bonds	-	-	-	951,575	951,575
	2,447	1	6,904	1,269,065	1,278,417
Derivative transactions (notional amount – receivable)	-	-	-	155,895	155,895
Derivative transactions (notional amount – payable)	-	-	-	15,000	15,000
Income and expense items					
Interest and similar income	23	-	-	4,437	4,460
Interest expense and similar charges	(20)	(2)	-	(16,785)	(16,807)
Fee and commission income	1	1	-	-	2
Fee and commission expense	-	-	-	(2,171)	(2,171)
Net trading income	-	-	-	(772)	(772)
Operating income	-	-	48	43	91
	4	(1)	48	(15,248)	(15,197)

* Key management personnel

38. Related parties (continued)

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

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	65,319	65,319
Derivative financial instruments	-	-	-	6,260	6,260
Loans and advances to customers	931	878	-	-	1,809
Other assets	-	-	10	-	10
	931	878	10	71,579	73,398
Liabilities					
Due to central and other banks	-	-	-	349,167	349,167
Derivative financial instruments	-	-	-	1,537	1,537
Due to customers	1,567	-	114	-	1,681
Debt securities in issue					
Bonds	97	-	6,726	-	6,823
Mortgage bonds	-	-	-	1,054,067	1,054,067
	1,664	-	6,840	1,404,771	1,413,275
Derivative transactions (notional amount – receivable)	-	-	-	136,382	136,382

For the period ended 30 June 2010, significant outstanding balances with related parties comprised:

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Income and expense items					
Interest and similar income	19	25	-	2,723	2,767
Interest expense and similar charges	(20)	-	(68)	(11,387)	(11,475)
Fee and commission income	2	-	6	-	8
Fee and commission expense	-	-	-	(141)	(141)
Net trading income	-	-	-	5,664	5,664
Operating income	-	-	48	88	136
	1	25	(14)	(3,053)	(3,041)

39. Events after the end of reporting period

There were no events after 30 June 2011 that would have a material effect on a fair presentation of the matters disclosed in these financial statements.