Interim consolidated financial statements
for 6 months ended 30 June 2012

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

VÚB BANKA

Contents

VÚB BANKA

Consolidated statement of financial position at 30 June 2012

(In thousands of euro)

	Note	June 2012	Dec 2011
Assets			
Cash and balances with central banks	4	89,257	90,977
Due from banks	5	667,801	502,291
Financial assets at fair value through profit or loss	6	286,061	273,962
Derivative financial instruments	7	53,606	80,399
Available-for-sale financial assets	8	1,523,016	1,455,626
Non-current assets held for sale	15	72	3
Loans and advances to customers	9	7,377,430	7,266,546
Held-to-maturity investments	11	1,023,899	1,137,540
Associates and jointly controlled entities	12	7,027	7,077
Intangible assets	13	38,573	41,486
Goodwill	14	29,305	29,305
Property and equipment	15	141,878	146,732
Current income tax assets	20	8,346	2,791
Deferred income tax assets	20	55,478	77,463
Other assets	16	30,072	19,100
		11,331,821	11,131,298
Liabilities			
Due to central and other banks	17	444,880	688,469
Derivative financial instruments	7	53,564	57,382
Due to customers	18	7,805,963	7,487,408
Debt securities in issue	19	1,696,597	1,660,487
Provisions	21	30,920	27,328
Other liabilities	22	94,019	94,966
		10,125,943	10,016,040
Equity			
Share capital	23	430,819	430,819
Share premium	23	13,368	13,368
Reserves		108,412	17,887
Retained earnings		653,279	653,184
		1,205,878	1,115,258
		11,331,821	11,131,298
Financial commitments and contingencies	24	2,518,719	2,691,354

The accompanying notes on pages 7 to 69 form an integral part of these financial statements.

These financial statements were authorised for issue on 22 August 2012.

Ignacio Jaquotot
Chairman of the Management Board

Andrea De Michelis
Member of the Management Board

VÚB BANKA

Consolidated statement of comprehensive income for 6 months ended 30 June 2012

(In thousands of euro)

	Note	June 2012	June 2011
Interest and similar income		274,519	261,267
Interest and similar expense		(79,779)	(62,040)
Net interest income	25	194,740	199,227
Fee and commission income		68,176	70,732
Fee and commission expense		(14,734)	(15,183)
Net fee and commission income	26	53,442	55,549
Net trading result	27	(21,903)	1,258
Other operating income	28	3,234	4,115
Operating income		229,513	260,149
Salaries and employee benefits	29	(50,651)	(49,588)
Other operating expenses	30	(62,542)	(50,022)
Amortisation	13	(6,668)	(7,146)
Depreciation	15	(9,225)	(9,336)
Operating expenses		(129,086)	(116,092)
Operating profit before impairment		100,427	144,057
Impairment losses	31	(37,506)	(32,602)
Profit from operations		62,921	111,455
Share of profit of associates and jointly controlled entities	12	661	388
Profit before tax		63,582	111,843
Income tax expense	32	(13,861)	(22,778)
NET PROFIT FOR 6 MONTHS		49,721	89,065
Other comprehensive income for 6 months, after tax:			
Exchange difference on translating foreign operation		125	461
Available-for-sale financial assets		88,000	(33,148)
Cash flow hedges		(133)	1,747
Other comprehensive income for 6 months, net of tax	33, 34	87,992	(30,940)
TOTAL COMPREHENSIVE INCOME FOR 6 MONTHS		137,713	58,125
Basic and diluted earnings per € 33.2 share in €	23	3.83	6.86

All of the Net profit and Total comprehensive income is attributable to owners of the parent.

The accompanying notes on pages 7 to 69 form an integral part of these financial statements.

VÚB BANKA

Consolidated statement of changes in equity for 6 months ended 30 June 2012

(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 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
At 1 January 2012	430,819	13,368	95,261	653,184	(153)	(72,630)	(4,591)	1,115,258
Total comprehensive income for 6 months	-	-	-	49,721	125	88,000	(133)	137,713
Dividends to shareholders	-	-	-	(47,364)	-	-	-	(47,364)
Reversal of dividends distributed but not collected	-	-	-	272	-	-	-	272
Legal reserve fund	-	-	2,482	(2,482)	-	-	-	-
Other **	-	-	-	(2)	1	-	-	(1)
Effect of FX hedge **	-	-	-	(50)	-	-	50	-
At 30 June 2012	430,819	13,368	97,743	653,279	(27)	15,370	(4,674)	1,205,878

* On 19 January 2011, the subsidiary 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 in the loss of control of VUB Group over the subsidiary.

** The foreign currency difference disclosed under Translation of foreign operation was settled within the transfer of retained earnings and profit for 2010 and 2011 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 69 form an integral part of these financial statements.

Consolidated statement of cash flows for 6 months ended 30 June 2012

(In thousands of euro)

	Note	June 2012	June 2011
Cash flows from operating activities			
Profit before tax		63,582	111,843
Adjustments for:			
Amortisation		6,668	7,146
Depreciation		9,225	9,336
Securities at fair value through profit or loss, available-for-sale securities and FX differences		1,199	2,831
Share of profit of associates and jointly controlled entities		(700)	(399)
Interest income		(274,519)	(261,267)
Interest expense		79,779	62,040
Sale of property and equipment		134	(96)
Impairment losses and similar charges		41,522	32,749
Interest received		320,321	299,598
Interest paid		(71,952)	(57,333)
Tax received/(paid)		2,569	(30,412)
Due from banks		(54,854)	(551,554)
Financial assets at fair value through profit or loss		(11,482)	54,737
Derivative financial instruments (assets)		26,710	1,675
Available-for-sale financial assets		758	11,431
Loans and advances to customers		(146,387)	(495,853)
Other assets		(11,225)	(2,116)
Due to central and other banks		(242,741)	(7,910)
Derivative financial instruments (liabilities)		(3,818)	(13,047)
Due to customers		308,987	324,676
Other liabilities		(3,685)	1,550
Net cash from/(used in) operating activities		40,091	(500,375)
Cash flows from investing activities			
Purchase of held-to-maturity investments		(69,000)	-
Repayments of held-to-maturity investments		159,331	650,448
Purchase of intangible assets and property and equipment		(8,989)	(10,083)
Disposal of property and equipment		1,234	5,657
Net cash from investing activities		82,576	646,022
Cash flows from financing activities			
Proceeds from issue of debt securities		139,030	44,917
Repayments of debt securities		(103,078)	(116,636)
Dividends paid		(47,364)	(59,692)
Net cash used in financing activities		(11,412)	(131,411)
Net change in cash and cash equivalents		111,255	14,236
Cash and cash equivalents at the beginning of the year	3	98,248	195,128
Cash and cash equivalents at 30 June	3	209,503	209,364

The accompanying notes on pages 7 to 69 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 2012, the Bank had a network of 252 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2011: 250). The Bank also has one branch in the Czech Republic.

The members of the Management Board are: Ignacio Jaquotot (Chairman), Andrea De Michelis, Daniele Fanin, Jozef Kausich, Elena Kohútiková, Peter Magala, Silvia Púchovská, and Adrián Ševčík.

The members of the Supervisory Board are: György Surányi (Chairman), Massimo Malagoli (Vice Chairman), Adriano Arietti, Jana Finková, Antonio Furesi, and Ján Gallo.

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 2012	Share 2011	Principal business activity
Subsidiaries			
Consumer Finance Holding, a.s. ('CFH')	100%	100%	Consumer finance business
VÚB Leasing, a. s. ('VÚB Leasing')	100%	100%	Finance and operating leasing
VÚB poisťovací maklér s. r. o.	-	100%	Insurance mediation
VÚB Asset Management, správ. spol. a.s.	100%	100%	Asset management
VÚB Factoring, a.s.	100%	100%	Factoring of receivables
Recovery, a.s.	100%	100%	Finance leasing
Associates			
Slovak Banking Credit Bureau, s.r.o.	33.3%	33.3%	Credit database administration
Jointly controlled entities			
VÚB Generali DSS, a.s.	50%	50%	Pension fund administration

Effective from 1 January 2012, VÚB poisťovací maklér s.r.o., the subsidiary of VÚB Leasing, a.s., was dissolved without liquidation as a result of a merger. The successor company is VÚB Leasing, a.s.

All entities are incorporated in the Slovak Republic.

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 at fair value through profit or loss 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.

2.4 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.

2. Summary of significant accounting policies (continued)

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 the 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 at the date of the transaction is included in 'Net trading result', 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 the 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 the case of Slovak treasury bills or in a central bank of a foreign country in the 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, term 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.

2.10 Securities

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) Fair value through profit or loss

(b) Available-for-sale

(c) Held-to-maturity

2. Summary of significant accounting policies (continued)

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 at fair value through profit or loss, 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 fair value through profit or loss and the available-for-sale portfolios, are recognised in the Statement of comprehensive income and in equity respectively.

(a) Securities at fair value through profit or loss

This portfolio comprises following subcategories:

(i) 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.

(ii) Securities designated at fair value through profit or loss on initial recognition

Securities classified in this category are those that have been designated by the management on initial recognition. This designation may be used only when at least one of the following conditions is met:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis;
- the assets and financial liabilities are a part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Subsequent to their initial recognition these assets are accounted for and re-measured at fair value. The fair value of securities at fair value through profit or loss, 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.

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 result'. Interest earned on securities at fair value through profit or loss 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 result' 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 'at fair value through profit or loss' 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.

2. Summary of significant accounting policies (continued)

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.

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' 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' 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 Other comprehensive income.

(c) Held-to-maturity investments

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

'Held-to-maturity' investments are carried at 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.

2.12 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.

2. Summary of significant accounting policies (continued)

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 result'.

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.

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.

2. Summary of significant accounting policies (continued)

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 result'.

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 result'. 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 result'.

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.

2.14 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 held for sale 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 cost 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.

2. Summary of significant accounting policies (continued)

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.

2.18 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, 10, 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.

2. Summary of significant accounting policies (continued)

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;
- 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 and similar expense'.

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.

2.20 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.

2. Summary of significant accounting policies (continued)

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

	Jubilee benefits	**Retirement benefits**
Discount rate	0.9%	2.3%
Future growth of wages	n/a	2.5%
Fluctuation of employees (based on age)	8 – 55%	8 – 55%
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'.

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.

2.24 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. Summary of significant accounting policies (continued)

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 result

Net trading result 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.

2.31 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.

2. Summary of significant accounting policies (continued)

Financial assets designated at fair value through profit or loss on initial recognition

The VUB Group uses the category 'at fair value through profit or loss on initial recognition' to recognize equity shares acquired as a part of the incentive plan based on which the amount due to employees benefiting from the plan recognized under share remuneration scheme in 'Other liabilities' (see also note 22) is proportional to the fair value of these shares.

Since both variations in the amount of the liability and in the fair value of the shares are recognized in the Statement of comprehensive income, classification of equity shares into the category 'at fair value through profit or loss on initial recognition' allows the neutralisation of the effect derived from the changes in the value of the debt on the Statement of comprehensive income and results into the elimination of the accounting mismatch.

Estimates

The preparation of the financial statements requires 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 2012	Dec 2011
Cash and balances with central banks	4	89,257	90,977
Current accounts in other banks	5	21,107	7,271
Term deposits with other banks	5	99,139	-
		209,503	98,248

4. Cash and balances with central banks

	June 2012	Dec 2011
Balances with central banks:		
Compulsory minimum reserves	5,931	5,146
Current accounts	39	36
	5,970	5,182
Cash in hand	83,287	85,795
	89,257	90,977

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 1% for the reserves held in the NBS and 2% for the reserves held in the Czech National Bank. 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 local legislation.

5. Due from banks

	Note	June 2012	Dec 2011
Current accounts	3	21,107	7,271
Term deposits			
with contractual maturity less than 90 days	3	99,139	-
with contractual maturity over 90 days		56,349	3,141
Loans and advances			
with contractual maturity over 90 days		491,259	492,081
Impairment losses	10	(53)	(202)
		667,801	502,291

At 30 June 2012 the balance of 'Term deposits' comprises of short term deposits with the Intesa Sanpaolo Group banks in the total nominal amount of € 154,737 thousand.

At 31 December 2011 the balance of 'Loans and advances' comprised of a short term reverse repo trade in the nominal amount of € 399,587 thousand concluded with Intesa Sanpaolo S.p.A which matured in May 2012. At 30 June 2012 the balance comprises of a short term reverse repo trade with Intesa Sanpaolo S.p.A in the nominal amount of € 399,631 thousand. Repo trades are secured by state bonds and cash collateral.

6. Financial assets at fair value through profit or loss

	June 2012	Dec 2011
Financial assets held for trading		
Treasury bills and other eligible bills with contractual maturity over 90 days	222,922	192,233
State bonds with contractual maturity over 90 days	58,652	77,619
Mutual funds	4,233	4,110
	285,807	273,962
Financial assets designated at fair value through profit or loss on initial recognition		
Equity shares	254	-
	286,061	273,962

As a part of the incentive plan introduced by the parent company, in June 2012 the VUB Group acquired into the fair value through profit or loss portfolio (‘FVTPL’) shares of Intesa Sanpaolo S.p.A in the initial value of € 249 thousand.

At 30 June 2012 and 31 December 2011, no financial assets at fair value through profit or loss were pledged by the VUB Group to secure transactions with counterparties.

7. Derivative financial instruments

	June 2012 Assets	Dec 2011 Assets	June 2012 Liabilities	Dec 2011 Liabilities
Trading derivatives	51,686	80,255	37,751	42,424
Cash flow hedges of interest rate risk	-	-	5,770	5,668
Fair value hedges of interest rate risk	1,920	144	10,043	9,290
	53,606	80,399	53,564	57,382

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. At 30 June 2012, the total positive fair value of such derivatives was € 740 thousand (31 December 2011: € 4,346 thousand) and the negative fair value was nil (31 December 2011: nil).

7. Derivative financial instruments (continued)

Trading derivatives – Fair values	**June 2012 Assets**	**Dec 2011 Assets**	**June 2012 Liabilities**	**Dec 2011 Liabilities**
Interest rate instruments				
Swaps	18,216	18,035	19,505	19,489
Options	4,681	4,224	4,707	4,248
	22,897	22,259	24,212	23,737
Foreign currency instruments				
Forwards and swaps	20,236	45,773	5,958	10,794
Cross currency swaps	740	4,346	-	-
Options	4,452	6,152	4,208	6,168
	25,428	56,271	10,166	16,962
Equity and commodity instruments				
Equity options	3,311	1,725	3,311	1,725
Commodity swaps	50	-	62	-
	3,361	1,725	3,373	1,725
	51,686	80,255	37,751	42,424

Trading derivatives – Notional values	**June 2012 Assets**	**Dec 2011 Assets**	**June 2012 Liabilities**	**Dec 2011 Liabilities**
Interest rate instruments				
Swaps	1,035,678	1,045,710	1,035,678	1,045,710
Options	183,694	145,649	183,694	145,649
	1,219,372	1,191,359	1,219,372	1,191,359
Foreign currency instruments				
Forwards and swaps	903,729	824,781	889,563	790,494
Cross currency swaps	31,201	69,803	30,449	65,433
Options	46,717	45,481	45,947	45,395
	981,647	940,065	965,959	901,322
Equity and commodity instruments				
Equity options	20,433	23,297	20,433	23,297
Commodity options	234	234	165	234
Commodity swaps	375	-	363	-
	21,042	23,531	20,961	23,531
	2,222,061	2,154,955	2,206,292	2,116,212

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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

Furthermore, the VUB Group uses five interest rate swaps to hedge the interest rate risk arising from the issuance of five fixed rate mortgage bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage bonds, both in relation to changes of interest rates.

At 30 June 2012 the VUB Group also uses one interest rate swap to hedge a forecast future transaction represented by the issuance of a fixed rate mortgage bond. After the issuance of the mortgage bond the hedge will continue as a fair value hedge of the interest rate risk.

The foreign branch of VUB uses four interest rate swaps to hedge the interest rate risk of four fixed income loans originated in the Czech Republic. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the loans, both in relation to changes of interest rates.

8. Available-for-sale financial assets

	Share June 2012	Share Dec 2011	June 2012	Dec 2011
State bonds			1,506,146	1,439,321
Bank bonds			16,250	15,666
Equity shares at cost				
RVS, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.01%	0.06%	46	65
			1,523,016	1,455,626

At 30 June 2012 and 31 December 2011, no available-for-sale financial assets were pledged by the VUB Group to secure transactions with counterparties.

9. Loans and advances to customers

30 June 2012	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	166,736	(366)	166,370
Municipalities – Leasing	201	(3)	198
	166,937	(369)	166,568
Corporate			
Large Corporates	1,111,527	(10,196)	1,101,331
Specialized lending	769,090	(34,471)	734,619
Small and medium enterprises ('SME')	654,054	(28,673)	625,381
Other Financial Institutions	236,999	(862)	236,137
Public Sector Entities	3,964	(27)	3,937
Leasing	228,797	(19,759)	209,038
Factoring	116,391	(2,830)	113,561
	3,120,822	(96,818)	3,024,004
Retail			
Small business	210,718	(16,773)	193,945
Small business – Leasing	17,768	(1,505)	16,263
Consumer Loans	1,010,390	(111,452)	898,938
Mortgages	2,784,546	(32,725)	2,751,821
Credit Cards	253,654	(42,646)	211,008
Overdrafts	113,910	(17,009)	96,901
Leasing	4,452	(190)	4,262
Flat Owners Associations	3,773	(42)	3,731
Other	10,269	(280)	9,989
	4,409,480	(222,622)	4,186,858
	7,697,239	(319,809)	7,377,430

9. Loans and advances to customers (continued)

31 December 2011	**Amortised cost**	**Impairment losses (note 10)**	**Carrying amount**
Sovereigns			
Municipalities	150,654	(294)	150,360
Corporate			
Large Corporates	960,423	(8,943)	951,480
Specialized lending	738,004	(31,765)	706,239
Small and medium enterprises ('SME')	691,524	(36,853)	654,671
Other Financial Institutions	270,187	(588)	269,599
Public Sector Entities	102,304	(706)	101,598
Leasing	221,804	(20,592)	201,212
Factoring	191,559	(3,091)	188,468
	3,175,805	(102,538)	3,073,267
Retail			
Small business	200,154	(15,538)	184,616
Small business – Leasing	19,376	(1,643)	17,733
Consumer Loans	962,405	(116,013)	846,392
Mortgages	2,716,118	(34,102)	2,682,016
Credit Cards	252,728	(43,861)	208,867
Overdrafts	104,731	(17,788)	86,943
Leasing	4,928	(219)	4,709
Flat Owners Associations	3,811	(63)	3,748
Other	8,267	(372)	7,895
	4,272,518	(229,599)	4,042,919
	7,598,977	(332,431)	7,266,546

Maturities of gross finance lease receivables are as follows:

	June 2012	**Dec 2011**
Up to 1 year	63,610	77,554
1 to 5 years	168,678	155,255
Over 5 years	57,119	53,426
	289,407	286,235
Unearned future finance income on finance leases	(38,189)	(40,127)
Impairment losses	(21,457)	(22,454)
	229,761	223,654

9. Loans and advances to customers (continued)

Maturities of net finance lease receivables are as follows:

	June 2012	Dec 2011
Up to 1 year	51,751	65,481
1 to 5 years	147,593	133,002
Over 5 years	51,874	47,625
	251,218	246,108
Impairment losses	(21,457)	(22,454)
	229,761	223,654

10. Impairment losses on assets

	Note	1 Jan 2012	Creation/ (Reversal) (note 31)	Assets written-off/sold (note 31)	FX losses/ (gains)	Other *	30 June 2012
Due from banks	5	202	(149)	-	-	-	53
Non-current assets held for sale	15	-	79	-	-	-	79
Loans and advances to customers	9	332,431	27,473	(36,652)	11	(3,454)	319,809
Held-to-maturity investments	11	341	(97)	-	-	-	244
Property and equipment	15	756	(653)	-	-	-	103
Other assets	16	16,074	715	(462)	-	-	16,327
		349,804	27,368	(37,114)	11	(3,454)	336,615

* ‘Other’ represents the interest portion (unwinding of interest).

11. Held-to-maturity investments

	June 2012	Dec 2011
State bonds	1,012,316	1,125,948
Bank bonds and other bonds issued by financial sector	9,946	10,052
Corporate notes and bonds with contractual maturity over 90 days	1,881	1,881
	1,024,143	1,137,881
Impairment losses (note 10)	(244)	(341)
	1,023,899	1,137,540

At 30 June 2012, state bonds in the total nominal amount of € 73,279 thousand were pledged by the Group (31 December 2011: € 230,058 thousand) to secure transactions with counterparties.

12. Associates and jointly controlled entities

	Share %	Cost	Revaluation	Carrying amount
At 30 June 2012				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	38	41
VÚB Generali DSS, a.s.	50.0	16,597	(9,611)	6,986
		16,600	(9,573)	7,027
At 31 December 2011				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	39	42
VÚB Generali DSS, a.s.	50.0	16,597	(9,562)	7,035
		16,600	(9,523)	7,077

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

	June 2012	June 2011
Revaluation at 1 January	(9,523)	(10,381)
Share of profit	661	388
Share of revaluation reserves	39	11
Dividends received from VÚB Generali DSS, a.s.	(750)	-
Revaluation at 30 June	(9,573)	(9,982)

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

	June 2012	Dec 2011
Assets	7,336	7,266
Liabilities	350	231
Equity	6,986	7,035
Net profit for the period	662	842
Change of revaluation reserves for the period	8	(31)

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

	June 2012	Dec 2011
Assets	42	200
Liabilities	1	158
Equity	41	42
Net profit for the period	(1)	8

13. Intangible assets

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2012	153,028	53,064	12,436	218,528
Additions	533	1,169	3,762	5,464
Disposals	(28)	-	(1)	(29)
Transfers	5,131	472	(5,603)	-
FX differences	3	-	-	3
At 30 June 2012	158,667	54,705	10,594	223,966
Accumulated amortisation				
At 1 January 2012	(129,196)	(47,846)	-	(177,042)
Amortisation for the period	(4,228)	(2,440)	-	(6,668)
Additions	(533)	(1,169)	-	(1,702)
Disposals	22	-	-	22
FX differences	(3)	-	-	(3)
At 30 June 2012	(133,938)	(51,455)	-	(185,393)
Carrying amount				
At 1 January 2012	23,832	5,218	12,436	41,486
At 30 June 2012	24,729	3,250	10,594	38,573

14. Goodwill

	June 2012	Dec 2011
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. includes both goodwill related to the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million) and goodwill arising from the purchase of the remaining 30% 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, a. s. 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 rates applied to cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on the Intesa Sanpaolo Group level specifically for the Slovak market.

14. Goodwill (continued)

The following rates are used by the Group:

	VÚB Leasing		CFH	
	June 2012	**Dec 2011**	**June 2012**	**Dec 2011**
Discount rate	10.23%	11.99%	10.23%	14.44%
Projected growth rate	5.47%	3.00%	5.47%	0.50%

The calculation of value in use for both VÚB Leasing, a. s. and CFH considers 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 are the development of margins and volumes by product line.

Discount rates

Discount rates are determined based on the Capital Asset Pricing Model (‘CAPM’). The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

VÚB Leasing

VÚB Leasing will focus on strengthening its market position through the cross-selling potential of the Bank’s SME clients and cooperation with small business and retail banking clients. Moreover, the company will increase cooperation with intermediaries.

CFH

According to the product curve, maturing products, market development, credit cards and instalment sales through catalogue and leaflets are forecasted to have a slightly decreasing volume and decreasing margins assuming that the market share of CFH is kept constant.

More recent product lines, such as instalment sales at points of sale and personal loans with or without collateral, are forecasted to have an increasing volume and slightly decreasing margins assuming that the market share of CFH is increasing.

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 2012	201,178	82,769	42,748	3,772	330,467
Additions	-	-	-	4,708	4,708
Disposals	(1,761)	(4,054)	(1,139)	-	(6,954)
Transfers	848	3,457	3,065	(7,370)	-
FX differences	1	1	1	-	3
At 30 June 2012	200,266	82,173	44,675	1,110	328,224
Accumulated depreciation					
At 1 January 2012	(86,445)	(65,986)	(30,548)	-	(182,979)
Depreciation for the period	(3,358)	(4,030)	(1,837)	-	(9,225)
Disposals	1,055	4,049	860	-	5,964
FX differences	(1)	(1)	(1)	-	(3)
At 30 June 2012	(88,749)	(65,968)	(31,526)	-	(186,243)
Impairment losses (note 10)					
At 1 January 2012	(504)	-	(252)	-	(756)
Disposals	461	-	192	-	653
At 30 June 2012	(43)	-	(60)	-	(103)
Carrying amount					
At 1 January 2012	114,229	16,783	11,948	3,772	146,732
At 30 June 2012	111,474	16,205	13,089	1,110	141,878

At 30 June 2012 and 31 December 2011, the VUB Group held in its portfolio of non-current assets held for sale buildings as follows:

	June 2012	Dec 2011
Cost	215	6
Accumulated depreciation	(64)	(3)
Impairment losses (note 10)	(79)	-
	72	3

16. Other assets

	June 2012	Dec 2011
Operating receivables and advances	20,417	10,102
Receivables from termination of leasing	8,411	7,505
Inventories (incl. repossessed leased assets)	7,454	8,249
Prepayments and accrued income	5,558	4,857
Other tax receivables	2,720	2,626
Settlement of operations with financial instruments	1,546	1,517
Receivables from trading with securities	21	-
Other	272	318
	46,399	35,174
Impairment losses (note 10)	(16,327)	(16,074)
	30,072	19,100

17. Due to central and other banks

	June 2012	Dec 2011
Due to central banks		
Current accounts	89,849	68,111
Loans received	-	115,947
	89,849	184,058
Due to other banks		
Current accounts	6,888	9,600
Term deposits	34,861	110,561
Loans received	313,282	384,250
	355,031	504,411
	444,880	688,469

At 31 December 2011 due to central banks included a loan received from the NBS with maturity less than one month.

18. Due to customers

	June 2012	Dec 2011
Current accounts	2,900,067	2,909,565
Term deposits	4,018,404	3,750,924
Savings accounts	234,176	247,784
Government and municipal deposits	386,177	327,652
Loans received	154,233	159,642
Promissory notes	76,190	56,767
Other deposits	36,716	35,074
	7,805,963	7,487,408

19. Debt securities in issue

	June 2012	Dec 2011
Bonds	12,937	41,986
Mortgage bonds	1,354,468	1,410,797
Mortgage bonds subject to cash flow hedges	180,130	180,232
Mortgage bonds subject to fair value hedges	149,199	27,278
	1,683,797	1,618,307
Revaluation of fair value hedged mortgage bonds	461	194
Revaluation of fair value hedged forecast transaction *	(598)	-
	(137)	194
	1,696,597	1,660,487

* Revaluation of highly probable forecast transaction represented by the issue of the mortgage bond that will continue as a fair value hedge.

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 at 30 June 2012	Nominal value in CCY per piece	Issue date	Maturity date	June 2012	Dec 2011
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.	0.79	EUR	1,678	33,194	28.11.2005	28.11.2015	55,740	55,780
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. XXVIII.	1.95	CZK	1,000	1,000,000	20.6.2007	20.6.2012	-	38,905
Mortgage bonds VÚB, a.s. XXIX.	1.07	EUR	500	33,194	16.10.2007	16.10.2012	16,632	16,657
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	34,185	33,346
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,133	19,638
Mortgage bonds VÚB, a.s. 32.	3.01	CZK	800	1,000,000	17.12.2007	17.12.2017	33,397	33,412
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	20,842	21,257
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,429	18,846
Mortgage bonds VÚB, a.s. 39.	1.34	EUR	60	1,000,000	26.6.2008	26.6.2015	60,007	60,017
Mortgage bonds VÚB, a.s. 40.	1.42	EUR	70	1,000,000	28.8.2008	28.8.2015	70,094	70,146
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	28,150	26,651
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	-	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,956	15,484
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	-	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	19,930	1,000	11.5.2009	11.5.2013	20,041	20,472
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	8,391	1,000	2.11.2009	2.11.2013	8,581	8,438

(Table continues on the next page)

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 30 June 2012	Nominal value in CCY per piece	Issue date	Maturity date	June 2012	Dec 2011
Mortgage bonds VÚB, a.s. 51.	1.35	EUR	100	1,000,000	8.4.2010	8.4.2014	100,314	100,492
Mortgage bonds VÚB, a.s. 52.	1.79	EUR	161	50,000	15.3.2010	15.3.2014	8,092	8,101
Mortgage bonds VÚB, a.s. 53.	1.49	EUR	100	1,000,000	8.4.2010	8.4.2017	100,346	100,525
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.	2.41	EUR	70	1,000,000	30.9.2010	30.9.2017	70,426	70,543
Mortgage bonds VÚB, a.s. 57.	2.40	EUR	100	1,000,000	30.9.2010	30.9.2018	100,607	100,772
Mortgage bonds VÚB, a.s. 58.	2.74	EUR	80	1,000,000	10.12.2010	10.12.2019	80,130	80,164
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	25,000	1,000	1.3.2011	1.3.2015	25,250	25,625
Mortgage bonds VÚB, a.s. 60.	2.06	CZK	4,345	100,000	20.5.2011	20.5.2014	16,960	16,856
Mortgage bonds VÚB, a.s. 61.	3.10	EUR	467	10,000	7.6.2011	7.6.2015	4,668	4,666
Mortgage bonds VÚB, a.s. 62.	3.43	EUR	100	1,000,000	28.7.2011	28.7.2018	101,460	101,624
Mortgage bonds VÚB, a.s. 63.	3.75	EUR	35,000	1,000	16.9.2011	16.3.2016	36,039	35,383
Mortgage bonds VÚB, a.s. 64.	3.25	CZK	7,000	100,000	26.9.2011	26.9.2016	27,888	27,278
Mortgage bonds VÚB, a.s. 65.	1.42	EUR	60	1,000,000	26.10.2011	26.10.2012	59,804	59,362
Mortgage bonds VÚB, a.s. 66.	2.66	EUR	700	50,000	28.11.2011	28.11.2014	34,803	25,603
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,473	15,071
Mortgage bonds VÚB, a.s. 68.	4.00	EUR	35,000	1,000	16.1.2012	16.7.2015	35,642	-
Mortgage bonds VÚB, a.s. 69.	4.50	EUR	1,000	20,000	6.2.2012	6.2.2016	20,494	-
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	7.3.2012	7.3.2017	40,391	-
Mortgage bonds VÚB, a.s. 71.	3.90	EUR	494	20,000	2.5.2012	2.5.2017	10,143	-
Mortgage bonds VÚB, a.s. 72.	4.70	EUR	250	100,000	21.6.2012	21.6.2027	24,784	-
							1,683,797	1,618,307

20. Current and deferred income taxes

	June 2012	Dec 2011
Current income tax assets	8,346	2,791

	June 2012	Dec 2011
Deferred income tax assets	55,478	77,463

Deferred income taxes are calculated on all temporary differences using a tax rate of 19% (31 December 2011: 19%) as follows:

	June 2012	Profit/ (loss) (note 32)	Equity	Dec 2011
Due from banks	10	(28)	-	38
Derivative financial instruments designated as cash flow hedges	1,096	-	19	1,077
Available-for-sale financial assets	(3,603)	-	(20,632)	17,029
Loans and advances to customers	57,632	(2,586)	-	60,218
Held-to-maturity investments	46	(19)	-	65
Intangible assets identified on acquisition	(150)	351	-	(501)
Property and equipment	(3,532)	(229)	-	(3,303)
Other liabilities	5,502	1,135	-	4,367
Other	(1,523)	4	-	(1,527)
Deferred income tax assets	55,478	(1,372)	(20,613)	77,463

21. Provisions

	June 2012	Dec 2011
Litigations	30,920	27,328

The movement in provisions was as follows:

	1 Jan 2012	Creation/ (Reversal)	Other	30 June 2012
Litigations (note 24, note 30)	27,328	3,960	(368)	30,920

22. Other liabilities

	June 2012	Dec 2011
Various creditors	28,330	24,218
Settlement with employees	21,639	21,539
Factoring	18,774	24,796
Financial guarantees and commitments	13,488	10,800
Accruals and deferred income	4,846	6,253
Severance and Jubilee benefits	2,300	1,942
VAT payable and other tax payables	1,725	2,547
Settlement with shareholders	1,077	974
Retention program	602	904
Share remuneration scheme	254	-
Settlement with securities	27	99
Other	957	894
	94,019	94,966

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

	Note	1 Jan 2012	Creation/ (Reversal)	FX diff	30 June 2012
Financial guarantees and commitments	31	10,800	2,682	6	13,488
Severance and Jubilee benefits	29	1,942	358	-	2,300
Retention program	29	904	(302)	-	602
		13,646	2,738	6	16,390

23. Share capital

	June 2012	June 2011
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	49,721	89,065
Divided by 12,976,478 ordinary shares of € 33.2 each		
Basic and diluted earnings per € 33.2 share in €	3.83	6.86

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 2012	Dec 2011
Intesa Holding International S.A.	96.76%	96.76%
Domestic shareholders	2.89%	2.91%
Foreign shareholders	0.35%	0.33%
	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 2012 and 31 December 2011 was as follows:

	June 2012	Dec 2011
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,368	13,368
Retained earnings without net profit for the period	603,558	476,281
Legal reserve fund	97,743	95,261
Less goodwill and software (including software in Assets in progress)	(64,628)	(65,573)
Less negative revaluation of available-for-sale financial assets *	(16,254)	(85,726)
Less expected loss	(15,765)	(57,073)
	1,048,841	807,357
Tier 2 capital		
Positive revaluation of available-for-sale financial assets *	33,566	759
Regulatory adjustment		
Associates and jointly controlled entities	(6,986)	(7,035)
Expected loss (incl. equity instruments)	(9,934)	(4,286)
	(16,920)	(11,321)
Total regulatory capital	1,065,487	796,795

* 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, a new item is deducted from regulatory capital – the difference between the expected loss and impairment losses on exposures treated under the standardised approach. The 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 the expected loss and impairment losses if positive for the IRB portfolio (Corporate segment) and the expected loss for equities (Simple IRB approach). Furthermore, according to the 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. The positive revaluation differences decreased by the tax represent Tier 2 capital.

	June 2012	**Dec 2011**
Tier 1 capital	1,048,841	807,357
Tier 2 capital	33,566	759
Regulatory adjustment	(16,920)	(11,321)
Total regulatory capital	1,065,487	796,795
Total Risk Weighted Assets	7,501,588	7,508,276
Tier 1 capital ratio	13.98%	10.75%
Total capital ratio	14.20%	10.61%

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 related to capital instruments.

The VUB Group must maintain a capital adequacy ratio of at least 8% according to the Act on Banks. 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 Act on Banks requirement for the capital adequacy ratio as at 30 June 2012 and 31 December 2011.

In addition to the requirements of the Act on Banks, from December 2011 the Group is obliged to fulfil also the additional requirement due to the joint decision of the NBS and Banca d'Italia supervision authorities, issued on 21 December 2011. Based on this decision the Group is obliged to maintain the Total capital ratio of at least 10% for both the separate and consolidated level. The VUB Group complied with this requirement as at 30 June 2012 and 31 December 2011.

24. Financial commitments and contingencies

	June 2012	**Dec 2011**
Issued guarantees	515,721	549,239
Commitments and undrawn credit facilities	2,002,998	2,142,115
	2,518,719	2,691,354

24. Financial commitments and contingencies (continued)

(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 2012 and 31 December 2011 was as follows:

	June 2012	**Dec 2011**
Up to 1 year	387	577
1 to 5 years	230	282
Over 5 years	-	-
	617	859

(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 2012 and 31 December 2011 are as follows:

	June 2012	**Dec 2011**
Up to 1 year	1,167	598
1 to 5 years	1,744	1,683
Over 5 years	-	-
	2,911	2,281

(e) Legal proceedings

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 2012. Pursuant to this review, management has recorded total provisions of € 30,920 thousand (31 December 2011: € 27,328 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 € 8,825 thousand, as at 30 June 2012 (31 December 2011: € 21,078 thousand). This amount represents existing legal proceedings against the VUB Group that in 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 2012	June 2011
Interest and similar income		
Due from banks	8,895	6,352
Loans and advances to customers	215,050	198,577
Bonds, treasury bills and other securities:		
Financial assets at fair value through profit or loss	3,610	4,574
Available-for-sale financial assets	24,924	26,307
Held-to-maturity investments	22,040	25,457
	274,519	261,267
Interest and similar expense		
Due to banks	(4,889)	(3,751)
Due to customers	(45,608)	(33,852)
Debt securities in issue	(29,282)	(24,437)
	(79,779)	(62,040)
	194,740	199,227

26. Net fee and commission income

	June 2012	June 2011
Fee and commission income		
Received from banks	3,078	3,071
Received from customers:		
Current accounts	23,517	22,995
Mutual funds	2,727	3,817
Term deposits	508	387
Insurance mediation	5,784	4,876
Loans and guarantees	18,726	20,862
Overdrafts	704	1,027
Securities	442	965
Transactions and payments	11,737	11,616
Other	953	1,116
	68,176	70,732
Fee and commission expense		
Paid to banks	(6,657)	(6,671)
Paid to mediators:		
Credit cards	(4,019)	(4,634)
Securities	(252)	(290)
Services	(2,973)	(2,081)
Other	(833)	(1,507)
	(14,734)	(15,183)
	53,442	55,549

27. Net trading result

	June 2012	June 2011
Foreign currency derivatives and transactions	750	(2,461)
Customer FX margins	2,462	2,033
Cross currency swaps	658	2,321
Equity derivatives	237	24
Other derivatives	(11)	-
Interest rate derivatives *	(1,621)	3,517
Securities:		
Financial assets at fair value through profit or loss		
Held for trading	1,558	(953)
Designated at fair value through profit or loss on initial recognition	5	-
Available-for-sale financial assets *	(27,331)	(3,223)
Held-to-maturity investments	1,059	-
Debt securities in issue *	331	-
	(21,903)	1,258

* 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).

At 30 June 2012, the amount still to be recognised in income resulting from Day 1 profit amounted to € 43 thousand (31 December 2011: € 134 thousand), thereof € 36 thousand is to be recognized within one year (31 December 2011: € 124 thousand) and the remaining € 7 thousand in the period 1 to 5 years (31 December 2011: € 10 thousand).

28. Other operating income

	June 2012	June 2011
Income from leasing	1,217	1,156
Rent	477	597
Services	461	164
Financial revenues	251	15
Sales of consumer goods	72	99
Net (loss)/profit from sale of fixed assets	(134)	1,368
Other	890	716
	3,234	4,115

29. Salaries and employee benefits

	June 2012	June 2011
Remuneration	(36,674)	(35,653)
Social security costs	(13,448)	(12,691)
Social fund	(473)	(473)
Retention program (note 22)	302	(372)
Severance and Jubilee benefits (note 22)	(358)	(399)
	(50,651)	(49,588)

29. Salaries and employee benefits (continued)

At 30 June 2012, the total number of employees of the VUB Group was 4,033 (31 December 2011: 4,062).

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 2012	June 2011
Special levy of selected financial institutions *	(10,328)	-
Property related expenses	(8,127)	(7,313)
IT systems maintenance	(6,453)	(6,819)
Post and telecom	(6,244)	(6,155)
Advertising and marketing	(6,057)	(6,423)
Contribution to the Deposit Protection Fund	(4,556)	(4,256)
VAT and other taxes	(4,021)	(3,344)
Provisions for litigations (note 21)	(3,960)	(1,807)
Equipment related expenses	(3,024)	(3,334)
Stationery	(1,964)	(1,749)
Security	(1,800)	(1,855)
Professional services	(1,180)	(2,582)
Insurance	(742)	(406)
Travelling	(452)	(398)
Training	(426)	(381)
Transport	(387)	(458)
Third parties' services	(326)	-
Audit **	(313)	(422)
Other damages	(200)	(283)
Litigations paid	(109)	(521)
Other operating expenses	(1,873)	(1,516)
	(62,542)	(50,022)

* Commencing 1 January 2012, banks operating in the Slovak Republic are subject to special levy of 0.4% p.a. of selected liabilities presented at the end of each quarter. The levy is recognized in the statement of comprehensive income in 'Other operating expenses' on an accrual basis and is payable at the beginning of the quarter.

** As at 30 June 2012 the audit expense consists of fees for the statutory audit in the amount of € 196 thousand (30 June 2011: € 274 thousand), group reporting in the amount of € 78 thousand (30 June 2011: € 105 thousand) and other reporting in the amount of € 39 thousand (30 June 2011: € 43 thousand).

31. Impairment losses

	June 2012	June 2011
Net creation of impairment losses (note 10)	(27,368)	(35,181)
Net (creation)/reversal of liabilities – financial guarantees and commitments (note 22)	(2,682)	3,719
	(30,050)	(31,462)
Nominal value of assets written-off	(39,587)	(26,462)
Nominal value of assets sold	(11,173)	(5,685)
Proceeds from assets written-off	3,396	3,075
Proceeds from assets sold	2,794	2,276
	(44,570)	(26,796)
Release of impairment losses to assets written-off/sold (note 10)		
Assets written-off	27,460	21,022
Assets sold	9,654	4,634
	37,114	25,656
	(37,506)	(32,602)

32. Income tax expense

	June 2012	June 2011
Current income tax	(12,489)	(23,621)
Deferred income tax (note 20)	(1,372)	843
	(13,861)	(22,778)

33. Components of other comprehensive income

	June 2012	June 2011
Exchange differences on translating foreign operations	125	461
Available-for-sale financial assets: Revaluation gains/(losses) arising during the period	108,632	(40,927)
Cash flow hedges: Revaluation (losses)/gains arising during the period	(163)	2,157
Total other comprehensive income	108,594	(38,309)
Income tax relating to components of other comprehensive income	(20,602)	7,369
Other comprehensive income for 6 months	87,992	(30,940)

34. Income tax effects relating to comprehensive income

	June 2012			June 2011		
	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	125	-	125	461	-	461
Available-for-sale financial assets	108,632	(20,632)	88,000	(40,927)	7,779	(33,148)
Net movement on cash flow hedges	(163)	30	(133)	2,157	(410)	1,747
	108,594	(20,602)	87,992	(38,309)	7,369	(30,940)

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 fair value of due from banks balances with longer maturities and material amounts is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. By shorter maturities and not significant balances, the estimated fair value of amounts due from banks approximates their carrying amounts. Impairment losses are taken into consideration when calculating fair values. The estimated fair value of amounts due from banks approximates their carrying amounts.

(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) Due to banks and customers

The estimated fair value of due to banks approximates their carrying amounts. The fair value of due to customers with short term maturity (under one year, 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 and customers approximates their carrying amounts.

(f) 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.

There were no significant transfers of financial instruments among the levels during the period ended 30 June 2012 (31 December 2011: no transfers).

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 relevant Charters.

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.

Credit Risk Charter establishes the guidelines for measurement, control and management of credit risk by defining the legal framework, main responsibilities, policies and methodologies that support the credit risk management process of VUB Group.

More specifically, the Credit Risk Charter defines both the general and specific (retail, corporate) credit risk requirements for applied methodologies and procedures, and includes, as separate sections, the policies governing the key aspects of the Group's credit risk management process:

- Authorized Approval Authority,
- Collateral Management Policy,
- Loan, Non Credit Receivables And Off Balance Sheet Credit Products Loss Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

36. Financial risk management (continued)

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:

- 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 (IRB approach as well as 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. The 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

The Bank generally uses the standardised approach for the calculation of the capital requirement. 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 2012 Amortised cost	June 2012 Impairment losses	June 2012 Carrying amount	December 2011 Amortised cost	December 2011 Impairment losses	December 2011 Carrying amount
Banks							
	Performing	667,854	(53)	667,801	502,342	(51)	502,291
	Doubtful	-	-	-	151	(151)	-
		667,854	(53)	667,801	502,493	(202)	502,291
Sovereigns							
	Performing	162,350	(179)	162,171	149,881	(172)	149,709
	Past due	414	-	414	307	-	307
	Substandard	3,893	(78)	3,815	173	(5)	168
	Doubtful	280	(112)	168	293	(117)	176
		166,937	(369)	166,568	150,654	(294)	150,360
Corporate							
	Performing	2,932,352	(28,906)	2,903,446	2,968,757	(25,640)	2,943,117
	Past due	1,214	(451)	763	430	(186)	244
	Restructured	17,282	(4,261)	13,021	17,974	(5,997)	11,977
	Substandard	126,030	(34,433)	91,597	137,387	(35,791)	101,596
	Doubtful	43,944	(28,767)	15,177	51,257	(34,924)	16,333
		3,120,822	(96,818)	3,024,004	3,175,805	(102,538)	3,073,267
Retail							
	Performing	4,132,050	(59,480)	4,072,570	3,985,747	(59,699)	3,926,048
	Past due	39,190	(16,081)	23,109	41,710	(18,147)	23,563
	Substandard	34,379	(14,409)	19,970	33,411	(13,590)	19,821
	Doubtful	203,861	(132,652)	71,209	211,650	(138,163)	73,487
		4,409,480	(222,622)	4,186,858	4,272,518	(229,599)	4,042,919
Securities							
	Performing	2,831,339	(208)	2,831,131	2,865,588	(231)	2,865,357
	Substandard	1,881	(36)	1,845	1,881	(110)	1,771
		2,833,220	(244)	2,832,976	2,867,469	(341)	2,867,128

36. Financial risk management (continued)

The table below shows the maximum amount of credit risk of derivative financial instruments, issued guarantees, commitments and undrawn credit facilities. The credit risk of the remaining financial assets not reported in the table below approximates their carrying amounts.

	June 2012	**Dec 2011**
Financial assets		
Derivative financial instruments	80,641	106,471
Financial commitments and contingencies		
Issued guarantees	515,721	549,239
Commitments and undrawn credit facilities	2,002,998	2,142,115
	2,518,719	2,691,354
	2,599,360	2,797,825

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 2012			**December 2011**		
	Amortised cost	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks						
No delinquency	667,854	(53)	667,801	502,341	(51)	502,290
1 – 30 days	-	-	-	1	-	1
Over 181 days *	-	-	-	151	(151)	-
	667,854	(53)	667,801	502,493	(202)	502,291
Sovereigns						
No delinquency	161,851	(178)	161,673	149,991	(172)	149,819
1 – 30 days	823	(1)	822	124	-	124
31 – 60 days	-	-	-	73	-	73
91 – 180 days	3,980	(78)	3,902	464	(122)	342
Over 181 days *	283	(112)	171	2	-	2
	166,937	(369)	166,568	150,654	(294)	150,360
Corporate						
No delinquency	2,969,037	(53,821)	2,915,216	3,029,064	(60,815)	2,968,249
1 – 30 days	51,711	(2,514)	49,197	51,766	(1,422)	50,344
31 – 60 days	7,995	(484)	7,511	13,868	(450)	13,418
61 – 90 days	27,264	(7,223)	20,041	2,576	(193)	2,383
91 – 180 days	6,859	(3,136)	3,723	10,115	(1,425)	8,690
Over 181 days *	57,956	(29,640)	28,316	68,416	(38,233)	30,183
	3,120,822	(96,818)	3,024,004	3,175,805	(102,538)	3,073,267

36. Financial risk management (continued)

	June 2012			December 2011		
	Amortised cost	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Retail						
No delinquency	3,860,197	(35,058)	3,825,139	3,750,683	(37,949)	3,712,734
1 – 30 days	199,340	(13,595)	185,745	164,888	(10,769)	154,119
31 – 60 days	47,139	(6,228)	40,911	45,840	(6,136)	39,704
61 – 90 days	28,919	(5,487)	23,432	27,970	(5,565)	22,405
91 – 180 days	42,420	(16,788)	25,632	43,571	(18,628)	24,943
Over 181 days *	231,465	(145,466)	85,999	239,566	(150,552)	89,014
	4,409,480	(222,622)	4,186,858	4,272,518	(229,599)	4,042,919
Securities						
No delinquency	2,833,220	(244)	2,832,976	2,867,469	(341)	2,867,128
	2,833,220	(244)	2,832,976	2,867,469	(341)	2,867,128

*** 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 2012			December 2011		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Europe						
Banks	633,733	(33)	633,700	472,808	(185)	472,623
Sovereigns	166,937	(369)	166,568	150,654	(294)	150,360
Corporate	3,120,822	(96,818)	3,024,004	3,175,805	(102,538)	3,073,267
Retail	4,407,050	(222,574)	4,184,476	4,270,146	(229,543)	4,040,603
Securities	2,831,339	(208)	2,831,131	2,865,588	(231)	2,865,357
	11,159,881	(320,002)	10,839,879	10,935,001	(332,791)	10,602,210
America						
Banks	34,010	(20)	33,990	29,123	(17)	29,106
Retail	613	(18)	595	625	(22)	603
Securities	1,881	(36)	1,845	1,881	(110)	1,771
	36,504	(74)	36,430	31,629	(149)	31,480
Asia						
Banks	74	-	74	211	-	211
Retail	1,102	(24)	1,078	980	(28)	952
	1,176	(24)	1,152	1,191	(28)	1,163
Rest of the World						
Banks	37	-	37	351	-	351
Retail	715	(6)	709	767	(6)	761
	752	(6)	746	1,118	(6)	1,112

36. Financial risk management (continued)

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

30 June 2012	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	50,348	28,774	-
Construction	-	-	184,876	17,983	-
Consumers	-	-	65	3,970,140	-
Energy and water supply	-	-	212,644	1,627	-
Financial services	667,801	-	199,107	471	31,297
Government	-	155,468	-	-	2,799,834
Manufacturing	-	-	537,151	29,472	-
Professional services	-	-	68,992	9,914	-
Real estate	-	-	428,358	13,477	-
Retail & Wholesale	-	-	669,975	67,529	-
Services	-	-	227,931	16,745	-
Transportation	-	10,973	303,935	10,447	-
Other	-	127	140,622	20,279	1,845
	667,801	166,568	3,024,004	4,186,858	2,832,976

31 December 2011	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	47,324	22,520	-
Construction	-	-	144,013	17,488	-
Consumers	-	-	61	3,835,736	-
Energy and water supply	-	-	283,201	1,480	-
Financial services	502,291	-	232,546	705	29,886
Government	-	138,747	-	-	2,834,897
Manufacturing	-	-	517,369	29,371	-
Professional services	-	-	69,839	9,442	-
Real estate	-	-	441,444	11,444	-
Retail & Wholesale	-	-	706,428	67,538	-
Services	-	-	158,558	17,154	574
Transportation	-	11,613	362,981	10,060	-
Other	-	-	109,503	19,981	1,771
	502,291	150,360	3,073,267	4,042,919	2,867,128

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 2012	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	667,854	(53)	667,801	-	-	-	-	-	-
Sovereigns									
Municipalities	161,409	(175)	161,234	4,587	(190)	4,397	740	(1)	739
Municipalities – Leasing	201	(3)	198	-	-	-	-	-	-
	161,610	(178)	161,432	4,587	(190)	4,397	740	(1)	739
Corporate									
Large Corporates	1,094,558	(7,382)	1,087,176	10,975	(2,735)	8,240	5,994	(79)	5,915
Specialized lending	684,224	(10,100)	674,124	83,057	(24,334)	58,723	1,809	(37)	1,772
SME	577,668	(6,322)	571,346	66,927	(22,105)	44,822	9,459	(246)	9,213
Other Fin. Institutions	236,832	(829)	236,003	167	(33)	134	-	-	-
Public Sector Entities	3,928	(27)	3,901	8	-	8	28	-	28
Leasing	166,416	(1,539)	164,877	23,981	(16,237)	7,744	38,400	(1,983)	36,417
Factoring	105,913	(340)	105,573	3,355	(2,468)	887	7,123	(22)	7,101
	2,869,539	(26,539)	2,843,000	188,470	(67,912)	120,558	62,813	(2,367)	60,446
Retail									
Small business	184,600	(4,569)	180,031	19,498	(11,424)	8,074	6,620	(780)	5,840
Small business – Leasing	11,026	(104)	10,922	2,048	(1,264)	784	4,694	(137)	4,557
Consumer Loans	791,053	(16,454)	774,599	120,443	(81,930)	38,513	98,894	(13,068)	85,826
Mortgages	2,602,773	(8,271)	2,594,502	66,121	(19,407)	46,714	115,652	(5,047)	110,605
Credit Cards	178,970	(3,658)	175,312	52,171	(35,465)	16,706	22,513	(3,523)	18,990
Overdrafts	73,268	(1,635)	71,633	16,547	(13,240)	3,307	24,095	(2,134)	21,961
Leasing	3,528	(19)	3,509	172	(140)	32	752	(31)	721
Flat Owners Associations	3,659	(41)	3,618	-	-	-	114	(1)	113
Other	9,751	(8)	9,743	430	(272)	158	88	-	88
	3,858,628	(34,759)	3,823,869	277,430	(163,142)	114,288	273,422	(24,721)	248,701
Securities									
FVTPL	286,061	-	286,061	-	-	-	-	-	-
AFS	1,523,016	-	1,523,016	-	-	-	-	-	-
HTM	1,022,262	(208)	1,022,054	1,881	(36)	1,845	-	-	-
	2,831,339	(208)	2,831,131	1,881	(36)	1,845	-	-	-

36. Financial risk management (continued)

31 December 2011	Neither past due nor impaired Amortised cost	Impairment losses	Carrying amount	Impaired (non-performing) Amortised cost	Impairment losses	Carrying amount	Past due but not impaired Amortised cost	Impairment losses	Carrying amount
Banks	502,341	(51)	502,290	151	(151)	-	1	-	1
Sovereigns									
Municipalities	149,776	(172)	149,604	773	(122)	651	105	-	105
Corporate									
Large Corporates	942,886	(5,472)	937,414	9,757	(3,448)	6,309	7,780	(23)	7,757
Specialized lending	645,585	(6,608)	638,977	90,743	(25,066)	65,677	1,676	(91)	1,585
SME	617,813	(7,691)	610,122	71,152	(29,218)	41,934	2,685	(70)	2,615
Other Fin. Institutions	270,186	(588)	269,598	1	-	1	-	-	-
Public Sector Entities	102,291	(706)	101,585	8	-	8	5	-	5
Leasing	144,734	(2,154)	142,580	31,982	(16,705)	15,277	44,962	(1,607)	43,355
Factoring	179,023	(608)	178,415	3,405	(2,461)	944	9,131	(22)	9,109
	2,902,518	(23,827)	2,878,691	207,048	(76,898)	130,150	66,239	(1,813)	64,426
Retail									
Small business	175,705	(4,513)	171,192	19,555	(10,256)	9,299	4,895	(770)	4,125
Small business – Leasing	11,297	(168)	11,129	2,243	(1,315)	928	5,836	(160)	5,676
Consumer Loans	747,976	(16,092)	731,884	127,637	(88,170)	39,467	86,791	(11,750)	75,041
Mortgages	2,534,845	(8,954)	2,525,891	66,925	(19,709)	47,216	114,348	(5,439)	108,909
Credit Cards	177,153	(3,719)	173,434	52,603	(36,349)	16,254	22,972	(3,793)	19,179
Overdrafts	85,221	(3,707)	81,514	17,077	(13,587)	3,490	2,433	(494)	1,939
Leasing	3,851	(29)	3,822	180	(145)	35	897	(45)	852
Flat Owners Associations	3,796	(63)	3,733	-	-	-	15	-	15
Other	7,716	(3)	7,713	551	(369)	182	-	-	-
	3,747,560	(37,248)	3,710,312	286,771	(169,900)	116,871	238,187	(22,451)	215,736
Securities									
FVTPL	273,962	-	273,962	-	-	-	-	-	-
AFS	1,455,626	-	1,455,626	-	-	-	-	-	-
HTM	1,136,000	(231)	1,135,769	1,881	(110)	1,771	-	-	-
	2,865,588	(231)	2,865,357	1,881	(110)	1,771	-	-	-

36. Financial risk management (continued)

The overview of the internal rating scales applicable for corporate and retail exposures is shown below.

Large Corporates, Specialized Lending, SME	Retail Small business and Flat Owners Associations	Risk Profile	Description
I1 - I4	I1 - I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
I5 - I6	I5 - I6	Low	Satisfactory quality and chargeability of assets, market penetration and managerial quality on the average; well set solvency, capital structure and debt composition; above average debt coverage capacity.
M1 - M2	M1 - M2	Lower - Intermediate	Acceptable quality and chargeability of available assets, even if with a not negligible degree of risk; well-balanced solvency, capital structure and debt composition with slight liquidity surplus and weaker debt coverage capacity.
M3 - M4	M3 - M4	Intermediate	Acceptable quality and chargeability of available assets even if with a significant degree of risk; vulnerable margin at times, capital structure and debt composition that show worsening signals; low level of liquidity and short debt coverage margin
R1 - R3	R1 - R3	Upper - Intermediate	Still acceptable asset quality even if with possible liquidity stress; high level of gearing; managerial weakness, little market penetration and positioning; margins and competitiveness under pressure.
R4 - R5	R4 - R5	High	In addition to riskiness features for R1-R3 rating, there are evident difficulties as well as stressful and painting debt management.

For mortgages and unsecured retail, the retail segment incorporates many individually insignificant exposures with various characteristics, therefore the description of ratings correlates with the risk profiles.

Retail Mortgages	Unsecured retail	Risk Profile
L1 - L4	U1	Very Low
N1	U2 - U3	Low
N2 - N3	U4 - U5	Lower - Intermediate
W1	U6 - U7	Intermediate
W2	U8 - U10	Upper - Intermediate
W3	U11 - U12	High

36. Financial risk management (continued)

The following table shows the quality of Group's credit portfolio in terms of internal ratings used for IRB purposes:

30 June 2012	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	667,854	(53)	667,801
Sovereigns				
Municipalities, Municipalities – Leasing	Unrated - PPU approach *	166,937	(369)	166,568
		166,937	(369)	166,568
Corporate				
Large Corporates, Specialized lending, SME	I1 - I6	682,280	(581)	681,699
	M1 - M4	1,077,680	(7,000)	1,070,680
	R1 - R5	673,575	(32,129)	641,446
	D (default)	91,983	(33,400)	58,583
	Unrated	9,279	(356)	8,923
Financial Institutions, Public Sector Entities	Unrated - PPU approach *	240,963	(889)	240,074
Leasing, Factoring	Unrated	345,062	(22,463)	322,599
		3,120,822	(96,818)	3,024,004
Retail				
Small business, Flat Owners Associations	I1 - I6	26,508	(48)	26,460
	M1 - M4	86,629	(986)	85,643
	R1 - R5	77,472	(4,407)	73,065
	D (default)	18,122	(11,290)	6,832
	Unrated	5,760	(84)	5,676
Mortgages	L1 - L4	1,891,192	(378)	1,890,814
	N1 - N3	501,054	(959)	500,095
	W1 - W3	324,063	(11,341)	312,722
	D (default)	68,237	(20,047)	48,190
Unsecured retail	U1	75,960	(59)	75,901
	U2 - U3	114,106	(271)	113,835
	U4 - U5	152,748	(846)	151,902
	U6 - U7	143,575	(1,714)	141,861
	U8 - U10	125,733	(4,207)	121,526
	U11 - U12	71,425	(9,395)	62,030
	D (default)	70,581	(52,837)	17,744
	Unrated	623,826	(101,778)	522,048
Small business – Leasing, Leasing	Unrated	22,220	(1,695)	20,525
Other	Unrated	10,269	(280)	9,989
		4,409,480	(222,622)	4,186,858
Securities	Unrated	2,833,220	(244)	2,832,976

* Permanent Partial Use ('PPU') approach is applied to exposures for which the Foundation IRB approach in not expected to be used in respect of the capital requirement calculation in the future.

36. Financial risk management (continued)

31 December 2011	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	502,493	(202)	502,291
Sovereigns				
Municipalities	Unrated - PPU approach *	150,654	(294)	150,360
		150,654	(294)	150,360
Corporate				
Large Corporates,				
Specialized lending, SME	I1 - I6	657,685	(3,326)	654,359
	M1 - M4	944,909	(4,816)	940,093
	R1 - R5	686,237	(27,531)	658,706
	D (default)	99,696	(41,846)	57,850
	Unrated	1,550	(168)	1,382
Financial Institutions,				
Public Sector Entities	Unrated - PPU approach *	372,491	(1,294)	371,197
Leasing, Factoring	Unrated	413,237	(23,557)	389,680
		3,175,805	(102,538)	3,073,267
Retail				
Small business,				
Flat Owners Associations	I1 - I6	26,914	(49)	26,865
	M1 - M4	75,823	(856)	74,967
	R1 - R5	77,560	(4,014)	73,546
	D (default)	18,604	(10,594)	8,010
	Unrated	5,064	(88)	4,976
Mortgages	L1 - L4	1,820,399	(365)	1,820,034
	N1 - N3	491,611	(949)	490,662
	W1 - W3	333,712	(12,033)	321,679
	D (default)	70,396	(20,755)	49,641
Unsecured retail	U1	68,720	(54)	68,666
	U2 - U3	106,979	(257)	106,722
	U4 - U5	148,610	(860)	147,750
	U6 - U7	114,949	(1,420)	113,529
	U8 - U10	133,123	(4,367)	128,756
	U11 - U12	73,382	(9,901)	63,481
	D (default)	76,743	(57,512)	19,231
	Unrated	597,358	(103,291)	494,067
Small business – Leasing,				
Leasing	Unrated	24,304	(1,862)	22,442
Other	Unrated	8,267	(372)	7,895
		4,272,518	(229,599)	4,042,919
Securities	Unrated	2,867,469	(341)	2,867,128

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 Enterprise 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 exposures 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 2012**				**December 2011**			
	Balance	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	15	47	128	3	63	83	228	15
Interest rate risk	38	48	134	29	43	148	372	43
Overall	29	68	167	29	58	182	440	46

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 the next re-pricing date, i.e. floating rate instruments. Assets and liabilities that do not have a 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.

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 a detailed analysis of the Group's historical data and statistical models. The Group also includes items such as fixed assets, equity, provisions, etc., which have an indefinite maturity and also have to be modelled.

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

36. Financial risk management (continued)

At 30 June 2012, interest margin sensitivity in a one year time frame in the event of a 100 basis points rise in interest rates, was € 3,184 thousand (31 December 2011: € 5,754 thousand).

At 30 June 2012, interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 1 basis point, registered € 361 thousand (31 December 2011: € 142 thousand).

€ '000	June 2012	Dec 2011
EUR	357	135
CZK	3	5
Other	1	2
	361	142

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

	June 2012 %	Dec 2011 %
Assets		
Cash and balances with central banks	0.53	1.22
Due from banks	2.59	2.80
Financial assets at fair value through profit or loss	2.52	3.64
Available-for-sale financial assets	3.29	3.43
Loans and advances to customers	5.73	5.85
Held-to-maturity investments	4.19	4.02
Liabilities		
Due to central and other banks	1.68	1.51
Due to customers	1.20	1.04
Debt securities in issue	3.28	3.06

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.

36. Financial risk management (continued)

(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;
- 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 they are expected to be recovered or settled.

30 June 2012	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	89,257	-	89,257
Due from banks	585,351	82,450	667,801
Financial assets at fair value through profit or loss	269,527	16,534	286,061
Derivative financial instruments	53,606	-	53,606
Available-for-sale financial assets	153,859	1,369,157	1,523,016
Non-current assets held for sale	72	-	72
Loans and advances to customers	2,376,688	5,000,742	7,377,430
Held-to-maturity investments	24,557	999,342	1,023,899
Associates and jointly controlled entities	-	7,027	7,027
Intangible assets	452	38,121	38,573
Goodwill	-	29,305	29,305
Property and equipment	-	141,878	141,878
Current income tax assets	8,346	-	8,346
Deferred income tax assets	-	55,478	55,478
Other assets	30,072	-	30,072
	3,591,787	7,740,034	11,331,821
Liabilities			
Due to central and other banks	(284,669)	(160,211)	(444,880)
Derivative financial instruments	(53,564)	-	(53,564)
Due to customers	(6,649,786)	(1,156,177)	(7,805,963)
Debt securities in issue	(193,761)	(1,502,836)	(1,696,597)
Provisions	-	(30,920)	(30,920)
Other liabilities	(91,377)	(2,642)	(94,019)
	(7,273,157)	(2,852,786)	(10,125,943)
	(3,681,370)	4,887,248	1,205,878

36. Financial risk management (continued)

31 December 2011	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	90,977	-	90,977
Due from banks	431,489	70,802	502,291
Financial assets at fair value through profit or loss	269,743	4,219	273,962
Derivative financial instruments	80,399	-	80,399
Available-for-sale financial assets	65,397	1,390,229	1,455,626
Non-current assets held for sale	3	-	3
Loans and advances to customers	2,280,026	4,986,520	7,266,546
Held-to-maturity investments	192,576	944,964	1,137,540
Associates and jointly controlled entities	-	7,077	7,077
Intangible assets	501	40,985	41,486
Goodwill	-	29,305	29,305
Property and equipment	-	146,732	146,732
Current income tax assets	2,791	-	2,791
Deferred income tax assets	-	77,463	77,463
Other assets	19,100	-	19,100
	3,433,002	7,698,296	11,131,298
Liabilities			
Due to central and other banks	(591,254)	(97,215)	(688,469)
Derivative financial instruments	(57,382)	-	(57,382)
Due to customers	(6,410,500)	(1,076,908)	(7,487,408)
Debt securities in issue	(211,326)	(1,449,161)	(1,660,487)
Provisions	-	(27,328)	(27,328)
Other liabilities	(92,694)	(2,272)	(94,966)
	(7,363,156)	(2,652,884)	(10,016,040)
	(3,930,154)	5,045,412	1,115,258

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 the 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, the VUB Group uses a combination of the AMA (for the Bank), and the 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 2012.

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, entrepreneurs 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). The 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 2012	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue					
Interest income	157,618	48,674	60,516	7,711	274,519
Interest expense	(33,715)	(6,412)	(38,923)	(729)	(79,779)
Inter-segment revenue	(4,313)	(4,981)	(4,151)	13,445	-
Net interest income	119,590	37,281	17,442	20,427	194,740
Net fee and commission income	32,385	21,786	801	(1,530)	53,442
Net trading result	1,610	2,139	(25,676)	24	(21,903)
Other operating income	883	1,364	(12)	999	3,234
Total segment operating income	154,468	62,570	(7,445)	19,920	229,513
Operating expenses					(129,086)
Operating profit before impairment					100,427
Impairment losses					(37,506)
Share of profit of associates and jointly controlled entities					661
Income tax expense					(13,861)
Net profit for 6 months					49,721
Segment assets	4,171,529	3,272,201	3,375,150	512,941	11,331,821
Segment liabilities	4,878,140	2,067,170	3,133,578	1,252,933	11,331,821

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 result	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					(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

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, have a significant influence 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 2012, significant outstanding balances with related parties comprised:

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	613,115	613,115
Derivative financial instruments	-	-	-	8,101	8,101
Loans and advances to customers	1,005	-	-	-	1,005
Financial assets at fair value through profit or loss	-	-	-	254	254
Other assets	-	-	5	-	5
	1,005	-	5	621,470	622,480
Liabilities					
Due to central and other banks	-	-	-	291,063	291,063
Derivative financial instruments	-	-	-	6,116	6,116
Due to customers	1,076	-	117	-	1,193
Debt securities in issue					
Bonds	-	-	6,918	-	6,918
Mortgage bonds	-	-	-	1,026,120	1,026,120
Other liabilities	254	-	-	-	254
	1,330	-	7,035	1,323,299	1,331,664
Received guarantees	-	-	-	114,542	114,542
Issued guarantees	-	-	-	7,467	7,467
Derivative transactions (notional amount – receivable)	-	-	-	145,674	145,674
Derivative transactions (notional amount – payable)	-	-	-	501,810	501,810
Income and expense items					
Interest and similar income	25	-	-	7,473	7,498
Interest and similar expense	(22)	-	(70)	(18,647)	(18,739)
Fee and commission income	1	-	-	4	5
Fee and commission expense	-	-	-	(3,431)	(3,431)
Net trading result	-	-	-	(2,924)	(2,924)
Operating income	-	-	51	39	90
Operating expenses	-	-	37	(210)	(173)
	4	-	18	(17,696)	(17,674)

* Key management personnel

38. Related parties (continued)

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

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	458,321	458,321
Derivative financial instruments	-	-	-	9,596	9,596
Loans and advances to customers	1,229	584	-	-	1,813
Other assets	-	-	5	1,509	1,514
	1,229	584	5	469,426	471,244
Liabilities					
Due to central and other banks	-	-	-	356,281	356,281
Derivative financial instruments	-	-	-	4,176	4,176
Due to customers	2,365	-	113	-	2,478
Debt securities in issue					
Bonds	-	-	6,928	-	6,928
Mortgage bonds	-	-	-	1,027,101	1,027,101
	2,365	-	7,041	1,387,558	1,396,964
Received guarantees	-	-	-	77,075	77,075
Derivative transactions (notional amount – receivable)	-	-	-	376,035	376,035

For the period ended 30 June 2011, 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	23	-	-	4,437	4,460
Interest and similar expense	(20)	(2)	-	(16,785)	(16,807)
Fee and commission income	1	1	-	-	2
Fee and commission expense	-	-	-	(2,171)	(2,171)
Net trading result	-	-	-	(772)	(772)
Operating income	-	-	48	43	91
	4	(1)	48	(15,248)	(15,197)

39. Events after the end of reporting period

From 30 June 2012 up to the date of issue of these financial statements there were no further events identified that would require adjustments to or disclosure in these financial statements.