



**Interim consolidated financial statements
for 6 months ended 30 June 2013**

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

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Consolidated statement of financial position at 30 June 2013
(In thousands of euro)

	Note	June 2013	Restated Dec 2012
Assets			
Cash and balances with central banks	4	241,059	150,837
Due from banks	5	774,317	580,780
Financial assets at fair value through profit or loss	6	197,038	73,770
Derivative financial instruments	7	31,464	42,619
Available-for-sale financial assets	8	1,361,020	1,482,727
Loans and advances to customers	9	7,440,520	7,526,581
Held-to-maturity investments	11	1,009,903	1,041,721
Associates and jointly controlled entities	12	13,356	7,596
Intangible assets	13	45,315	47,841
Goodwill	14	29,305	29,305
Property and equipment and Non-current assets held for sale	15	131,572	138,776
Current income tax assets	20	15,700	16,475
Deferred income tax assets	20	49,425	43,637
Other assets	16	34,639	33,292
		<u>11,374,633</u>	<u>11,215,957</u>
Liabilities			
Due to central and other banks	17	611,617	667,350
Derivative financial instruments	7	34,121	53,194
Due to customers	18	7,858,262	7,632,684
Debt securities in issue	19	1,446,391	1,417,762
Provisions	21	25,432	25,607
Other liabilities	22	85,770	97,766
		<u>10,061,593</u>	<u>9,894,363</u>
Equity			
Equity (excluding net profit for the period)	23	1,242,592	1,201,890
Net profit for the period		70,448	119,704
		<u>1,313,040</u>	<u>1,321,594</u>
		<u>11,374,633</u>	<u>11,215,957</u>
Financial commitments and contingencies	24	<u>2,664,744</u>	<u>2,682,700</u>

The accompanying notes on pages 7 to 79 form an integral part of these financial statements.

These financial statements were authorised for issue on 23 August 2013.



Ignacio Jaquotot
Chairman of the Management Board



Andrea De Michelis
Member of the Management Board

Consolidated statement of profit or loss and other comprehensive income
for 6 months ended 30 June 2013
(In thousands of euro)

	Note	June 2013	June 2012
Interest and similar income		262,520	274,519
Interest and similar expense		(59,934)	(79,779)
Net interest income	25	202,586	194,740
Fee and commission income		68,291	68,176
Fee and commission expense		(16,694)	(14,734)
Net fee and commission income	26	51,597	53,442
Net trading result	27	5,542	(21,903)
Other operating income	28	3,971	3,234
Operating income		263,696	229,513
Salaries and employee benefits	29	(51,139)	(50,651)
Other operating expenses	30	(45,248)	(52,214)
Special levy of selected financial institutions	30	(19,195)	(10,328)
Amortisation	13	(5,157)	(6,668)
Depreciation	15	(8,750)	(9,225)
Operating expenses		(129,489)	(129,086)
Operating profit before impairment		134,207	100,427
Impairment losses	31	(40,879)	(37,506)
Profit from operations		93,328	62,921
Share of profit of associates and jointly controlled entities	12	1,039	661
Profit before tax		94,367	63,582
Income tax expense	32	(23,919)	(13,861)
NET PROFIT FOR 6 MONTHS		70,448	49,721
Other comprehensive income for 6 months, after tax:			
Exchange difference on translating foreign operation		(3)	125
Available-for-sale financial assets		(14,313)	88,000
Cash flow hedges		473	(133)
Other comprehensive income for 6 months, net of tax	33, 34	(13,843)	87,992
TOTAL COMPREHENSIVE INCOME FOR 6 MONTHS		56,605	137,713

All components of other comprehensive income may be reclassified to profit or loss in the future. The Net profit and Total comprehensive income are fully attributable to owners of the parent.

The accompanying notes on pages 7 to 79 form an integral part of these financial statements.

Consolidated statement of changes in equity for 6 months ended 30 June 2013
(In thousands of euro)

	Share capital	Share premium	Treasury shares	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
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, net of tax	-	-	-	-	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	<u>430,819</u>	<u>13,368</u>	<u>-</u>	<u>97,743</u>	<u>653,279</u>	<u>(27)</u>	<u>15,370</u>	<u>(4,674)</u>	<u>1,205,878</u>
At 1 January 2013	430,819	13,368	-	97,743	723,261	-	57,828	(1,425)	1,321,594
Total comprehensive income for 6 months, net of tax	-	-	-	-	70,448	(3)	(14,313)	473	56,605
Dividends to shareholders	-	-	-	-	(64,623)	-	-	-	(64,623)
Reversal of dividends distributed but not collected	-	-	-	-	166	-	-	-	166
Legal reserve fund	-	-	-	1,764	(1,764)	-	-	-	-
Other *	-	-	-	-	(15)	14	-	-	(1)
Purchase of treasury shares	-	-	(701)	-	-	-	-	-	(701)
At 30 June 2013	<u>430,819</u>	<u>13,368</u>	<u>(701)</u>	<u>99,507</u>	<u>727,473</u>	<u>11</u>	<u>43,515</u>	<u>(952)</u>	<u>1,313,040</u>

* The foreign currency difference disclosed under Translation of foreign operation was settled within the transfer of profit for 2011 and 2012 from the foreign branch. Profit was originally generated in Czech Crowns ('CZK') and in 2012 the foreign exchange effect of this translation was hedged.

The accompanying notes on pages 7 to 79 form an integral part of these financial statements.

Consolidated statement of cash flows for 6 months ended 30 June 2013

(In thousands of euro)

	Note	June 2013	Restated June 2012
Cash flows from operating activities			
Profit before tax		94,367	63,582
Adjustments for:			
Amortisation		5,157	6,668
Depreciation		8,750	9,225
Securities at fair value through profit or loss, debt securities in issue and FX differences		(7,562)	1,199
Share of profit of associates and jointly controlled entities		(1,011)	(700)
Interest income		(262,520)	(274,519)
Interest expense		59,934	79,779
Sale of property and equipment		(367)	134
Impairment losses and similar charges		40,370	41,522
Interest received		309,827	320,321
Interest paid		(53,506)	(71,952)
Tax (paid)/received		(28,932)	2,569
Due from banks		(49,002)	(54,854)
Financial assets at fair value through profit or loss		(128,608)	(11,482)
Derivative financial instruments (assets)		11,628	26,710
Available-for-sale financial assets		87,614	758
Loans and advances to customers		43,477	(146,387)
Other assets		(2,170)	(11,225)
Due to central and other banks		(56,096)	(248,150)
Derivative financial instruments (liabilities)		(19,073)	(3,818)
Due to customers		219,863	314,396
Other liabilities		(9,507)	(3,685)
<i>Net cash from operating activities</i>		<u>262,633</u>	<u>40,091</u>
Cash flows from investing activities			
Purchase of held-to-maturity investments		-	(69,000)
Repayments of held-to-maturity investments		9,958	159,331
Purchase of intangible assets and property and equipment		(4,589)	(8,989)
Disposal of property and equipment		720	1,234
<i>Net cash from investing activities</i>		<u>6,089</u>	<u>82,576</u>
Cash flows from financing activities			
Proceeds from issue of debt securities		122,359	139,030
Repayments of debt securities		(86,318)	(103,078)
Purchase of treasury shares		(701)	-
Dividends paid		(64,623)	(47,364)
<i>Net cash used in financing activities</i>		<u>(29,283)</u>	<u>(11,412)</u>
Net change in cash and cash equivalents		239,439	111,255
Cash and cash equivalents at the beginning of the year	3	165,969	98,248
Cash and cash equivalents at 30 June	3	<u>405,408</u>	<u>209,503</u>

The accompanying notes on pages 7 to 79 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 2013, the Bank had a network of 244 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2012: 247). The Bank also has one branch in the Czech Republic.

The members of the Management Board are: Ignacio Jaquotot (Chairman), Andrea De Michelis, Stanislav Hodek, Jiří Huml, Jozef Kausich, Elena Kohútiková, Peter Magala and Silvia Púchovská.

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

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 June 2013	Share Dec 2012	Principal business activity
Subsidiaries			
Consumer Finance Holding, a.s. ('CFH')	100%	100%	Consumer finance business
VUB Leasing, a. s. ('VUB Leasing')	100%	100%	Finance and operating leasing
VUB Asset Management, správ. spol., a.s. *	n/a	100%	Asset management
VUB Factoring, a.s.	100%	100%	Factoring of receivables
Recovery, a.s.	100%	100%	Finance leasing
Associates			
VUB Asset Management, správ. spol., a.s. *	40.55%	n/a	Asset management
Slovak Banking Credit Bureau, s.r.o.	33.33%	33.33%	Credit database administration
Jointly controlled entities			
VUB Generali DSS, a.s.	50%	50%	Pension fund administration

All entities are incorporated in the Slovak Republic.

* Following an increase in the registered capital and entrance of new shareholders from ISP Group into VUB Asset Management, správ. spol., a.s. in April 2013, the Bank's stake in the Company decreased from 100% to 40.55% what resulted into the loss of the control over the Company. The subsidiary was deconsolidated within the VUB Group's financial statements and started to be classified as the investment in associate for which equity method of consolidation is used. The effect of the deconsolidation on the financial position and statement of cash flows of the Group after inter-company eliminations was as follows:

€ '000	April 2013
Financial assets at fair value through profit or loss	(4,743)
Intangible assets	(25)
Property and equipment	(25)
Other assets including tax assets	(2)
Due to customers	(1,447)
Other liabilities	162
	<u>(6,080)</u>
Cash consideration received	-
Cash and cash equivalents disposed of	-
Net cash inflow	<u>-</u>

1. General information (continued)

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 last consolidated financial statements of the company are available at the address of its registered office at 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 and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

The financial statements were prepared using the going concern assumption that the VUB Group will continue in operation for the foreseeable future.

The financial statements are presented in thousands of euro ('€'), unless indicated otherwise. Euro is the functional currency of the VUB Group.

Negative balances are presented in brackets.

2.2 Changes in accounting policies

In 2013 the Group reassessed the presentation of selected financial liabilities in the Statement of financial position. As a result, the Group changed the classification of the loans received from international financial institutions from 'Due to customers' to 'Due to central and other banks' in order to provide more relevant and reliable information on the Group's financial position. The change of the presentation policy was applied retrospectively in these interim consolidated financial statements.

The following table shows the effect of the change in the presentation on the related items of the Consolidated statement of financial position at 31 December 2012 and 31 December 2011:

€ '000	Previously reported		Change in presentation		Restated	
	Dec 2012	Dec 2011	Dec 2012	Dec 2011	Dec 2012	Dec 2011
Due to central and other banks	533,565	688,469	133,785	159,642	667,350	848,111
Due to customers	7,766,469	7,487,408	(133,785)	(159,642)	7,632,684	7,327,766

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

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

2.3 Basis of consolidation

(a) Subsidiaries

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

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

2. Summary of significant accounting policies (continued)

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

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. Summary of significant accounting policies (continued)

2.7 Cash and cash equivalents

For the purpose of the Statement of cash flow, cash and cash equivalents comprise cash and balances with central banks, treasury bills and other eligible bills with contractual maturity of less than 90 days and due from banks balances with contractual maturity of less than 90 days.

2.8 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. Cash and other valuables are carried at amortised cost in the Statement of financial position.

2.9 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.

2.10 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.

2.11 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.

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 profit or loss and other 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.

2. Summary of significant accounting policies (continued)

(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 profit or loss and other 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 profit or loss and other 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 profit or loss and other 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.

Interest earned whilst holding 'available-for-sale' securities is accrued on a daily basis and reported in the Statement of profit or loss and other 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.

Examples of events representing objective evidence of impairment include significant financial difficulty of the issuer, issuer's default or delinquency in interest or principal payments, becoming probable that the issuer will enter into bankruptcy or other reorganisation procedures, the disappearance of an active market for the security due to the issuer's financial difficulties or other elements indicating an objective reduction in the issuer's ability to generate future cash flows sufficient to meet its contractual obligation.

2. Summary of significant accounting policies (continued)

In the case of debt instruments classified as 'available-for-sale', impairment is assessed based on the same criteria as financial assets carried at amortised cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in 'Impairment losses' in the Statement of profit or loss and other comprehensive income, the impairment loss is reversed through the Statement of profit or loss and other 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 profit or loss and other comprehensive income. Impairment losses on equity investments are not reversed through Statement of profit or loss and other 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 profit or loss and other 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.

2.12 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.

2.13 Derivative financial instruments

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

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

2. Summary of significant accounting policies (continued)

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 profit or loss and other 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 profit or loss and other comprehensive income.

Cash flow hedges

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

2. Summary of significant accounting policies (continued)

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 profit or loss and other 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 profit or loss and other 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.

2.14 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.

2.15 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.

2.16 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 profit or loss and other comprehensive income.

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

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

2. Summary of significant accounting policies (continued)

2.17 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 and Other intangible assets	7

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.

2.18 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.

2.19 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 profit or loss and other 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.

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. Summary of significant accounting policies (continued)

2.20 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.

2.21 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.

2.22 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 the Statement of profit or loss and other comprehensive income 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	3.54%	3.54%
Growth of wages in 2013	n/a	2.5%
Future growth of wages after 2013	n/a	4.0%
Fluctuation of employees (based on age)	6 – 17%	6 – 17%
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'.

2.23 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 profit or loss and other 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 profit or loss and other comprehensive income in 'Impairment losses'.

2.24 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.

2.25 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.

2.26 Interest income

Interest income and expense is recognised in the Statement of profit or loss and other 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)

2.27 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.

2.28 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.

2.29 Dividend income

Dividend income is recognised in the Statement of profit or loss and other comprehensive income on the date that the dividend is declared.

2.30 Current and deferred 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 the carrying amounts of assets and liabilities and their tax bases. 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'.

2.31 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.

2.32 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 profit or loss and other 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 profit or loss and other 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 profit or loss and other 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.

Impairment losses are sensitive to input parameters such as the rating of the client, the probability of default and loss given default of the client. Change of any of these parameters results in a different amount of impairment losses.

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

€ '000	Note	June 2013	Dec 2012
Cash and balances with central banks	4	241,059	150,837
Current accounts in other banks	5	19,055	15,132
Term deposits with other banks	5	145,227	-
Loans and advances to other banks	5	67	-
		<u>405,408</u>	<u>165,969</u>

4. Cash and balances with central banks

€ '000	June 2013	Dec 2012
Balances with central banks:		
Compulsory minimum reserves	133,735	47,616
Current accounts	78	66
Term deposits	21,195	7,955
	<u>155,008</u>	<u>55,637</u>
Cash in hand	86,051	95,200
	<u>241,059</u>	<u>150,837</u>

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

€ '000	Note	June 2013	Dec 2012
Current accounts	3	19,055	15,132
Term deposits			
with contractual maturity less than 90 days	3	145,227	-
with contractual maturity over 90 days		20,090	20,091
Loans and advances			
with contractual maturity less than 90 days	3	67	-
with contractual maturity over 90 days		582,953	488,902
Cash collateral		6,958	56,689
Impairment losses	10	(33)	(34)
		<u>774,317</u>	<u>580,780</u>

At 30 June 2013 the balance of 'Term deposits' comprises of several short term deposits with commercial banks located in the Slovak republic and in other European countries in the total nominal amount of € 165,218 thousand. At 31 December 2012 the balance included a short term deposit with Intesa Sanpaolo S.p.A. in the nominal amount of € 20,000 thousand.

5. Due from banks (continued)

At 30 June 2013 the balance of 'Loans and advances' comprises of a short term reverse repo trade concluded with Intesa Sanpaolo S.p.A. in the nominal amount of € 499,494 thousand (31 December 2012: € 399,631 thousand). The repo trade is secured by state bonds and cash collateral.

6. Financial assets at fair value through profit or loss

€ '000	June 2013	Dec 2012
Financial assets held for trading		
Treasury bills and other eligible bills		
with contractual maturity over 90 days	25,000	24,970
State bonds		
with contractual maturity over 90 days	169,502	43,273
Bank bonds		
with contractual maturity over 90 days	2,217	314
Mutual funds	-	4,883
	<u>196,719</u>	<u>73,440</u>
Financial assets designated at fair value through profit or loss on initial recognition		
Equity shares	319	330
	<u>197,038</u>	<u>73,770</u>

Equity shares represented by shares of Intesa Sanpaolo S.p.A were acquired into the fair value through profit or loss portfolio ('FVTPL') within the incentive plan introduced by the parent company in 2012.

At 30 June 2013 and 31 December 2012, 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

€ '000	June 2013 Assets	Dec 2012 Assets	June 2013 Liabilities	Dec 2012 Liabilities
Trading derivatives	25,294	32,396	24,268	38,388
Cash flow hedges of interest rate risk	1,832	3,220	3,068	5,070
Fair value hedges of interest rate risk	4,338	7,003	6,785	9,736
	<u>31,464</u>	<u>42,619</u>	<u>34,121</u>	<u>53,194</u>

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 swap. At 30 June 2013, the total positive fair value of such derivative was € 352 thousand (31 December 2012: € 1,329 thousand) and the negative fair value was nil (31 December 2012: nil).

7. Derivative financial instruments (continued)

€ '000	June 2013 Assets	Dec 2012 Assets	June 2013 Liabilities	Dec 2012 Liabilities
Trading derivatives – Fair values				
Interest rate instruments				
Swaps	10,048	17,045	10,635	17,734
Forward rate agreements	-	-	-	53
Options	4,400	4,508	4,460	4,947
	<u>14,448</u>	<u>21,553</u>	<u>15,095</u>	<u>22,734</u>
Foreign currency instruments				
Forwards and swaps	4,731	3,360	3,380	9,497
Cross currency swaps	352	1,329	-	-
Options	2,172	2,426	2,202	2,424
	<u>7,255</u>	<u>7,115</u>	<u>5,582</u>	<u>11,921</u>
Equity and commodity instruments				
Equity options	3,591	3,716	3,591	3,716
Commodity swaps	-	12	-	17
	<u>3,591</u>	<u>3,728</u>	<u>3,591</u>	<u>3,733</u>
	<u>25,294</u>	<u>32,396</u>	<u>24,268</u>	<u>38,388</u>
€ '000				
Trading derivatives – Notional values				
Interest rate instruments				
Swaps	621,430	983,183	621,430	983,183
Forward rate agreements	-	24,546	-	24,546
Options	186,406	203,123	186,406	203,123
	<u>807,836</u>	<u>1,210,852</u>	<u>807,836</u>	<u>1,210,852</u>
Foreign currency instruments				
Forwards and swaps	777,568	727,954	778,355	733,929
Cross currency swaps	30,830	31,808	30,449	30,449
Options	70,809	85,723	70,557	85,666
	<u>879,207</u>	<u>845,485</u>	<u>879,361</u>	<u>850,044</u>
Equity and commodity instruments				
Equity options	18,404	20,433	18,404	20,433
Commodity options	165	165	165	165
Commodity swaps	-	143	-	138
	<u>18,569</u>	<u>20,741</u>	<u>18,569</u>	<u>20,736</u>
	<u>1,705,612</u>	<u>2,077,078</u>	<u>1,705,766</u>	<u>2,081,632</u>

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

The VUB Group uses three interest rate swaps to hedge the interest rate risk arising from the issuance of three 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.

Furthermore, the VUB Group uses one interest rate swap to hedge the interest rate risk of one variable rate bond from the available-for-sale ('AFS') portfolio. The cash flows on the floating leg of this interest rate swap substantially match the cash flow profile of the variable rate bond.

Fair value hedges of interest rate risk

The VUB Group uses four interest rate swaps to hedge the interest rate risk of three fixed rate bonds from the 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 seven interest rate swaps to hedge the interest rate risk arising from the issuance of six 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.

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

€ '000	Share June 2013	Share Dec 2012	June 2013	Dec 2012
State bonds			1,355,593	1,470,678
Bank bonds			4,813	11,429
Equity shares at cost				
RVS, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.01%	0.01%	40	46
			<u>1,361,020</u>	<u>1,482,727</u>

At 30 June 2013 and 31 December 2012, 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 2013
€ '000
Sovereigns

Municipalities

Municipalities – Leasing

Corporate

Large Corporates

Specialized Lending

Small and Medium Enterprises ('SME')

Other Financial Institutions

Public Sector Entities

Leasing

Factoring

Retail

Small Business

Small Business – Leasing

Consumer Loans

Mortgages

Credit Cards

Overdrafts

Leasing

Flat Owners Associations

Other

	Amortised cost	Impairment losses (note 10)	Carrying amount
	153,022	(437)	152,585
	154	(2)	152
	<u>153,176</u>	<u>(439)</u>	<u>152,737</u>
	897,561	(13,896)	883,665
	851,150	(48,887)	802,263
	745,959	(38,778)	707,181
	138,537	(389)	138,148
	1,849	(18)	1,831
	239,556	(19,351)	220,205
	160,711	(3,050)	157,661
	<u>3,035,323</u>	<u>(124,369)</u>	<u>2,910,954</u>
	199,527	(15,345)	184,182
	14,084	(1,487)	12,597
	1,118,114	(98,300)	1,019,814
	2,846,079	(38,834)	2,807,245
	247,314	(36,023)	211,291
	118,354	(15,010)	103,344
	3,648	(163)	3,485
	20,911	(273)	20,638
	14,512	(279)	14,233
	<u>4,582,543</u>	<u>(205,714)</u>	<u>4,376,829</u>
	<u>7,771,042</u>	<u>(330,522)</u>	<u>7,440,520</u>

9. Loans and advances to customers (continued)

31 December 2012 € '000	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	160,578	(449)	160,129
Municipalities – Leasing	178	(3)	175
	<u>160,756</u>	<u>(452)</u>	<u>160,304</u>
Corporate			
Large Corporates	999,534	(9,960)	989,574
Specialized Lending	850,229	(40,584)	809,645
Small and Medium Enterprises ('SME')	718,931	(39,114)	679,817
Other Financial Institutions	180,365	(359)	180,006
Public Sector Entities	4,197	(105)	4,092
Leasing	235,854	(19,170)	216,684
Factoring	207,850	(3,009)	204,841
	<u>3,196,960</u>	<u>(112,301)</u>	<u>3,084,659</u>
Retail			
Small Business	187,830	(17,244)	170,586
Small Business – Leasing	17,194	(1,589)	15,605
Consumer Loans	1,079,798	(101,650)	978,148
Mortgages	2,830,474	(37,124)	2,793,350
Credit Cards	244,810	(38,486)	206,324
Overdrafts	115,870	(14,883)	100,987
Leasing	4,338	(185)	4,153
Flat Owners Associations	4,211	(55)	4,156
Other	8,647	(338)	8,309
	<u>4,493,172</u>	<u>(211,554)</u>	<u>4,281,618</u>
	<u>7,850,888</u>	<u>(324,307)</u>	<u>7,526,581</u>

Maturities of gross finance lease receivables are as follows:

€ '000	June 2013	Dec 2012
Up to 1 year	94,672	70,498
1 to 5 years	143,362	164,856
Over 5 years	49,007	58,309
	<u>287,041</u>	<u>293,663</u>
Unearned future finance income on finance leases	(29,599)	(36,099)
Impairment losses	(21,003)	(20,947)
	<u>236,439</u>	<u>236,617</u>

9. Loans and advances to customers (continued)

Maturities of net finance lease receivables are as follows:

€ '000	June 2013	Dec 2012
Up to 1 year	85,295	59,128
1 to 5 years	127,300	145,435
Over 5 years	44,847	53,001
	257,442	257,564
Impairment losses	(21,003)	(20,947)
	<u>236,439</u>	<u>236,617</u>

10. Impairment losses on assets

€ '000	Note	1 Jan 2013	Creation/ (Reversal) (note 31)	Assets written-off/sold (note 31)	FX diff	Other *	30 June 2013
Due from banks	5	34	(1)	-	-	-	33
Loans and advances to customers	9	324,307	44,600	(34,120)	(77)	(4,188)	330,522
Held-to-maturity investments	11	623	(17)	-	-	-	606
Property and equipment	15	85	9	-	-	-	94
Other assets	16	19,495	832	-	-	-	20,327
		<u>344,544</u>	<u>45,423</u>	<u>(34,120)</u>	<u>(77)</u>	<u>(4,188)</u>	<u>351,582</u>

* 'Other' represents the interest portion (unwinding of interest).

11. Held-to-maturity investments

€ '000	June 2013	Dec 2012
State bonds	1,010,509	1,032,318
Bank bonds and other bonds issued by financial sector	-	10,026
	1,010,509	1,042,344
Impairment losses (note 10)	(606)	(623)
	<u>1,009,903</u>	<u>1,041,721</u>

At 30 June 2013, state bonds in the total nominal amount of € 52,749 thousand (31 December 2012: € 71,556 thousand) were pledged by the Group to secure collateralized transactions. All of these state bonds pledged represented the substitute cover to mortgage bonds issued and were pledged in accordance with the requirements of the Act No. 530/1990 Collection on Bonds.

12. Associates and jointly controlled entities

€ '000

At 30 June 2013

 Slovak Banking Credit Bureau, s.r.o.
 VÚB Asset Management, správ. spol., a.s.
 VÚB Generali DSS, a.s.

Share %	Cost	Revaluation	Carrying amount
33.33	3	40	43
40.55	2,821	3,327	6,148
50.00	<u>16,597</u>	<u>(9,432)</u>	<u>7,165</u>
	<u>19,421</u>	<u>(6,065)</u>	<u>13,356</u>

At 31 December 2012

 Slovak Banking Credit Bureau, s.r.o.
 VÚB Generali DSS, a.s.

33.33	3	40	43
50.00	<u>16,597</u>	<u>(9,044)</u>	<u>7,553</u>
	<u>16,600</u>	<u>(9,004)</u>	<u>7,596</u>

13. Intangible assets

€ '000

Cost

 At 1 January 2013
 Additions
 Transfers
 Deconsolidation of VÚB Asset Management,
 správ. spol., a.s.
 FX differences

Software	Other intangible assets	Assets in progress	Total
163,396	55,214	20,133	238,743
5	-	2,652	2,657
4,649	968	(5,617)	-
(591)	(3)	-	(594)
(16)	-	-	(16)
<u>167,443</u>	<u>56,179</u>	<u>17,168</u>	<u>240,790</u>
Accumulated amortisation			
(138,432)	(52,470)	-	(190,902)
(4,387)	(770)	-	(5,157)
566	3	-	569
15	-	-	15
<u>(142,238)</u>	<u>(53,237)</u>	<u>-</u>	<u>(195,475)</u>
<u>24,964</u>	<u>2,744</u>	<u>20,133</u>	<u>47,841</u>
<u>25,205</u>	<u>2,942</u>	<u>17,168</u>	<u>45,315</u>

At 30 June 2013

Accumulated amortisation

 At 1 January 2013
 Amortisation for the period
 Deconsolidation of VÚB Asset Management,
 správ. spol., a.s.
 FX differences

At 30 June 2013

Carrying amount
At 1 January 2013
At 30 June 2013

14. Goodwill

€ '000	June 2013	Dec 2012
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a.s.	18,871	18,871
	<u>29,305</u>	<u>29,305</u>

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 from 2007) and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million from 2010). 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 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.

The following rates are used by the Group:

	VÚB Leasing		CFH	
	June 2013	Dec 2012	June 2013	Dec 2012
Discount rate	10.40%	10.40%	10.40%	10.40%
Projected growth rate	5.21%	5.21%	5.21%	5.21%

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.

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

€ '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2013	200,386	72,631	45,291	2,371	320,679
Additions	-	-	-	1,709	1,709
Disposals	(536)	(1,330)	(832)	-	(2,698)
Transfers	425	1,872	946	(3,243)	-
Deconsolidation of VÚB Asset Management, správ. spol., a.s.	-	(113)	-	(5)	(118)
FX differences	(3)	(13)	(2)	-	(18)
At 30 June 2013	200,272	73,047	45,403	832	319,554
Accumulated depreciation					
At 1 January 2013	(91,280)	(58,504)	(32,036)	-	(181,820)
Depreciation for the period	(3,269)	(3,693)	(1,788)	-	(8,750)
Disposals	547	1,317	710	-	2,574
Deconsolidation of VÚB Asset Management, správ. spol., a.s.	-	93	-	-	93
FX differences	3	10	2	-	15
At 30 June 2013	(93,999)	(60,777)	(33,112)	-	(187,888)
Impairment losses (note 10)					
At 1 January 2013	(43)	-	(42)	-	(85)
Additions	-	-	(9)	-	(9)
At 30 June 2013	(43)	-	(51)	-	(94)
Carrying amount					
At 1 January 2013	109,063	14,127	13,213	2,371	138,774
At 30 June 2013	106,230	12,270	12,240	832	131,572

At 30 June 2013, the VUB Group did not hold any assets in its portfolio of non-current assets held for sale. At 31 December 2012, the Group held in the portfolio land as follows:

€ '000	June 2013	Dec 2012
Cost	-	2
	-	2

16. Other assets

€ '000	June 2013	Dec 2012
Operating receivables and advances	18,633	18,764
Inventories (incl. repossessed leased assets)	16,465	12,861
Receivables from termination of leasing	12,246	10,035
Prepayments and accrued income	5,903	5,622
Other tax receivables	1,711	5,450
Settlement of operations with financial instruments	8	7
Other	-	48
	<u>54,966</u>	<u>52,787</u>
Impairment losses (note 10)	(20,327)	(19,495)
	<u>34,639</u>	<u>33,292</u>

17. Due to central and other banks

€ '000	June 2013	Restated Dec 2012
Due to central banks		
Current accounts	61,304	69,378
	<u>61,304</u>	<u>69,378</u>
Due to other banks		
Current accounts	6,171	7,569
Term deposits	1,961	140,751
Loans received	485,181	442,452
Cash collateral received	57,000	7,200
	<u>550,313</u>	<u>597,972</u>
	<u>611,617</u>	<u>667,350</u>

18. Due to customers

€ '000	June 2013	Restated Dec 2012
Current accounts	3,197,521	3,099,753
Term deposits	3,904,079	3,805,321
Savings accounts	214,111	223,894
Government and municipal deposits	255,079	400,918
Promissory notes	241,711	61,707
Other deposits	45,761	41,091
	<u>7,858,262</u>	<u>7,632,684</u>

19. Debt securities in issue

€ '000	June 2013	Dec 2012
Bonds	58	58
Mortgage bonds	1,063,448	1,019,919
Mortgage bonds subject to cash flow hedges	162,666	163,897
Mortgage bonds subject to fair value hedges	220,148	228,195
	1,446,262	1,412,011
Revaluation of fair value hedged mortgage bonds	(2,105)	5,693
Amortisation of revaluation related to terminated fair value hedges	2,176	-
	<u>1,446,391</u>	<u>1,417,762</u>

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 2013	Nominal value in CCY per piece	Issue date	Maturity date	June 2013 € '000	Dec 2012 € '000
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	-	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	-	34,191
Mortgage bonds VÚB, a.s. XVII.	0.31	EUR	1,678	33,194	28.11.2005	28.11.2015	55,715	55,715
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. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	34,203	33,364
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,147	19,650
Mortgage bonds VÚB, a.s. 32.	2.10	CZK	800	1,000,000	17.12.2007	17.12.2017	32,601	33,832
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	20,932	21,347
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,478	18,895
Mortgage bonds VÚB, a.s. 39.	0.91	EUR	60	1,000,000	26.6.2008	26.6.2015	60,003	60,004
Mortgage bonds VÚB, a.s. 40.	0.94	EUR	70	1,000,000	28.8.2008	28.8.2015	70,062	70,061
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	27,096	26,136
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	16,053	15,582
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	49	1,000,000	19.5.2009	19.5.2016	49,264	50,393
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	19,930	1,000	11.5.2009	11.5.2013	-	20,440
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
Mortgage bonds VÚB, a.s. 51.	0.79	EUR	21	1,000,000	8.4.2010	8.4.2014	21,050	21,196
Mortgage bonds VÚB, a.s. 52.	0.94	EUR	161	50,000	15.3.2010	15.3.2014	8,072	8,076
Mortgage bonds VÚB, a.s. 53.	0.93	EUR	100	1,000,000	8.4.2010	8.4.2017	100,214	100,216
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. 57.	1.65	EUR	100	1,000,000	30.9.2010	30.9.2018	100,416	100,445
Mortgage bonds VÚB, a.s. 58.	2.10	EUR	80	1,000,000	10.12.2010	10.12.2019	80,098	80,100
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.	1.15	CZK	4,345	100,000	20.5.2011	20.5.2014	16,754	17,281

(Table continues on the next page)

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 30 June 2013	Nominal value in CCY per piece	Issue date	Maturity date	June 2013 € '000	Dec 2012 € '000
Mortgage bonds VÚB, a.s. 61.	1.20	EUR	467	10,000	7.6.2011	7.6.2015	4,666	4,670
Mortgage bonds VÚB, a.s. 62.	2.34	EUR	100	1,000,000	28.7.2011	28.7.2018	100,996	101,151
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	27,577	27,989
Mortgage bonds VÚB, a.s. 66.	1.99	EUR	700	50,000	28.11.2011	28.11.2014	34,899	34,842
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	36,342
Mortgage bonds VÚB, a.s. 69.	4.50	EUR	1,000	20,000	6.2.2012	6.2.2016	20,458	20,476
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	7.3.2012	7.3.2017	40,409	41,150
Mortgage bonds VÚB, a.s. 71.	3.90	EUR	750	20,000	2.5.2012	2.5.2017	15,387	15,425
Mortgage bonds VÚB, a.s. 72.	4.70	EUR	250	100,000	21.6.2012	21.6.2027	24,801	25,380
Mortgage bonds VÚB, a.s. 73.	4.20	EUR	500	100,000	11.7.2012	11.7.2022	51,651	50,580
Mortgage bonds VÚB, a.s. 74.	3.35	EUR	700	100,000	16.1.2013	15.12.2023	70,585	-
Mortgage bonds VÚB, a.s. 75.	2.00	EUR	300	100,000	5.4.2013	5.4.2019	30,201	-
Mortgage bonds VÚB, a.s. 76.	2.40	EUR	309	10,000	22.4.2013	22.4.2018	3,106	-
Mortgage bonds VÚB, a.s. 77.	1.80	CZK	5,000	100,000	20.6.2013	20.6.2018	19,189	-
							1,446,262	1,412,011

20. Current and deferred income taxes

€ '000	June 2013	Dec 2012
Current income tax assets	15,700	16,475
€ '000	June 2013	Dec 2012
Deferred income tax assets	49,425	43,637

Deferred income taxes are calculated on all temporary differences using a tax rate of 23% (31 December 2012: 23%) as follows:

€ '000	June 2013	Profit/ (loss) (note 32)	Equity	Other *	Dec 2012
Due from banks	8	-	-	-	8
Derivative financial instruments designated as cash flow hedges	284	-	(142)	-	426
Available-for-sale financial assets	(12,998)	-	4,268	-	(17,266)
Loans and advances to customers	64,896	2,001	-	-	62,895
Held-to-maturity investments	139	(4)	-	-	143
Intangible assets identified on acquisition	-	82	-	-	(82)
Property and equipment	(3,764)	(455)	-	-	(3,309)
Provisions	129	(101)	-	-	230
Other liabilities	2,557	114	-	25	2,418
Other	(1,826)	-	-	-	(1,826)
Deferred income tax assets	49,425	1,637	4,126	25	43,637

* 'Other' represents the deconsolidation of the deferred tax liability of VUB Asset Management, správ. spol., a.s.

Based on the Amendment to the Act on income taxes, the tax rate of 23% represents the income tax rate valid from 1 January 2013.

21. Provisions

€ '000	June 2013	Dec 2012
Litigation	24,873	24,607
Restructuring provision	559	1,000
	25,432	25,607

The restructuring provision was created in 2012 for the purpose of organisational structure changes planned to take place during the year 2013.

The movements in provisions were as follows:

€ '000	1 Jan 2013	Creation	Reversal	Use	30 June 2013
Litigation (note 24, note 30)	24,607	1,405	(869)	(270)	24,873
Restructuring provision (note 29)	1,000	-	-	(441)	559
	25,607	1,405	(869)	(711)	25,432

22. Other liabilities

€ '000	June 2013	Dec 2012
Various creditors	23,716	33,662
Factoring	18,086	17,957
Settlement with employees	16,252	12,963
Financial guarantees and commitments	11,953	13,951
Accruals and deferred income	5,324	8,751
Severance and Jubilee benefits	3,145	3,145
VAT payable and other tax payables	3,078	4,554
Settlement with shareholders	1,440	850
Retention program	364	698
Share remuneration scheme	319	330
Settlement with securities	29	8
Other	2,064	897
	<u>85,770</u>	<u>97,766</u>

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

€ '000	Note	1 Jan 2013	Creation/ (Reversal)	FX diff	30 June 2013
Financial guarantees and commitments	31	13,951	(1,993)	(5)	11,953
Severance and Jubilee benefits		3,145	-	-	3,145
Retention program	29	698	(334)	-	364
		<u>17,794</u>	<u>(2,327)</u>	<u>(5)</u>	<u>15,462</u>

23. Equity

€ '000	June 2013	Dec 2012
Share capital - 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
	<u>430,819</u>	<u>430,819</u>
Share premium	13,368	13,368
Treasury shares	(701)	-
Reserves	142,081	154,146
Retained earnings (excluding net profit for the period)	657,025	603,557
	<u>1,242,592</u>	<u>1,201,890</u>
	June 2013	June 2012
Net profit for 6 months attributable to shareholders	<u>70,448</u>	<u>49,721</u>

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

23. Equity (continued)

The structure of shareholders is as follows:

	June 2013	Dec 2012
Intesa Sanpaolo Holding International S.A.	96.84%	96.84%
Domestic shareholders	2.36%	2.72%
Foreign shareholders	0.80%	0.44%
	<u>100.00%</u>	<u>100.00%</u>

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 2013 and 31 December 2012 was as follows:

€ '000	June 2013	Dec 2012
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,368	13,368
Retained earnings without net profit for the period	657,025	603,557
Legal reserve fund	99,507	97,743
Treasury shares	(701)	-
Less goodwill and software (including software in Assets in progress)	(71,668)	(74,402)
Less negative revaluation of available-for-sale financial assets *	(501)	-
Less expected loss	(15,629)	(14,828)
	<u>1,112,220</u>	<u>1,056,257</u>
Tier 2 capital		
Positive revaluation of available-for-sale financial assets *	44,260	64,799
IRB shortfall	18,389	5,110
	<u>62,649</u>	<u>69,909</u>
Regulatory adjustment		
Associates and jointly controlled entities	(13,313)	(7,553)
Expected loss (incl. equity instruments)	(15)	(15)
	<u>(13,328)</u>	<u>(7,568)</u>
Total regulatory capital	<u>1,161,541</u>	<u>1,118,598</u>

* Calculated based on NBS regulatory requirement.

23. Equity (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). The amount by which the impairment losses exceed the value of expected loss on assets treated under the IRB approach represents a component of Tier 2 capital. 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 net of tax represent Tier 2 capital.

€ '000	June 2013	Dec 2012
Tier 1 capital	1,112,220	1,056,257
Tier 2 capital	62,649	69,909
Regulatory adjustment	(13,328)	(7,568)
Total regulatory capital	1,161,541	1,118,598
Total Risk Weighted Assets	6,825,350	7,014,769
Tier 1 capital ratio	16.30%	15.06%
Total capital ratio	17.02%	15.95%

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, IRB shortfall 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 2013 and 31 December 2012.

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 was obliged to maintain the Total capital ratio of at least 10% for both the separate and consolidated level during the year 2012. In December 2012 the Group has received a new decision that requires to maintain the Total capital ratio of at least 10.05% for both the separate and consolidated level. The VUB Group complied with this requirement as at 30 June 2013 and 31 December 2012.

24. Financial commitments and contingencies

€ '000	June 2013	Dec 2012
Issued guarantees	507,909	624,260
Commitments and undrawn credit facilities	2,156,835	2,058,440
	2,664,744	2,682,700

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 2013 and 31 December 2012 was as follows:

€ '000	June 2013	Dec 2012
Up to 1 year	228	240
1 to 5 years	162	186
Over 5 years	-	-
	390	426

(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 2013 and 31 December 2012 are as follows:

€ '000	June 2013	Dec 2012
Up to 1 year	2,066	1,672
1 to 5 years	2,662	2,342
Over 5 years	-	-
	4,728	4,014

(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 2013. Pursuant to this review, management has recorded total provisions of € 24,873 thousand (31 December 2012: € 24,607 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 € 9,263 thousand, as at 30 June 2013 (31 December 2012: € 5,219 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

€ '000	June 2013	Restated June 2012
Interest and similar income		
Due from banks	7,938	8,895
Loans and advances to customers	215,072	215,050
Bonds, treasury bills and other securities:		
Financial assets at fair value through profit or loss	997	3,610
Available-for-sale financial assets	17,237	24,924
Held-to-maturity investments	21,276	22,040
	<u>262,520</u>	<u>274,519</u>
Interest and similar expense		
Due to banks	(3,856)	(6,403)
Due to customers	(35,798)	(45,094)
Debt securities in issue	(20,280)	(28,282)
	<u>(59,934)</u>	<u>(79,779)</u>
	<u>202,586</u>	<u>194,740</u>

26. Net fee and commission income

€ '000	June 2013	June 2012
Fee and commission income		
Received from banks	3,313	3,078
Received from customers:		
Current accounts	23,792	23,517
Loans and guarantees	17,711	18,726
Transactions and payments	11,371	11,737
Insurance mediation	6,057	5,784
Securities	2,502	26
Overdrafts	1,348	704
Term deposits	457	508
Securities - Custody fee	441	416
Mutual funds	-	2,727
Other	1,299	953
	<u>68,291</u>	<u>68,176</u>
Fee and commission expense		
Paid to banks	(7,055)	(6,657)
Paid to mediators:		
Credit cards	(4,186)	(4,019)
Securities	(243)	(252)
Services	(4,435)	(2,973)
Other	(775)	(833)
	<u>(16,694)</u>	<u>(14,734)</u>
	<u>51,597</u>	<u>53,442</u>

27. Net trading result

€ '000	June 2013	June 2012
Foreign currency derivatives and transactions	1,877	750
Customer FX margins	2,343	2,462
Cross currency swaps	(922)	658
Equity derivatives	-	237
Other derivatives	11	(11)
Interest rate derivatives *	(636)	(1,621)
Dividends from equity shares held in FVTPL portfolio	13	-
Securities:		
Financial assets at fair value through profit or loss		
Held for trading	(208)	1,558
Designated at fair value through profit or loss on initial recognition	(14)	5
Available-for-sale financial assets *	(2,433)	(27,331)
Held-to-maturity investments	-	1,059
Debt securities in issue *	5,511	331
	<u>5,542</u>	<u>(21,903)</u>

* 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 2013, the amount still to be recognised in income resulting from Day 1 profit amounted to € 7 thousand (31 December 2012: € 10 thousand), thereof € 5 thousand is to be recognized within one year (31 December 2012: € 5 thousand) and the remaining € 2 thousand in the period 1 to 5 years (31 December 2012: € 5 thousand).

28. Other operating income

€ '000	June 2013	June 2012
Income from leasing	1,856	1,217
Rent	545	477
Net profit/(loss) from sale of fixed assets	367	(134)
Services	295	461
Financial revenues	62	251
Sales of consumer goods	4	72
Other	842	890
	<u>3,971</u>	<u>3,234</u>

29. Salaries and employee benefits

€ '000	June 2013	June 2012
Remuneration	(37,157)	(36,674)
Social security costs	(14,277)	(13,448)
Social fund	(480)	(473)
Retention program (note 22)	334	302
Severance and Jubilee benefits	-	(358)
Restructuring provision (note 21)	441	-
	<u>(51,139)</u>	<u>(50,651)</u>

At 30 June 2013, the total number of employees of the VUB Group was 3,963 (31 December 2012: 4,003).

The VUB Group does not have any pension arrangements separate from the pension system established by 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 and Special levy of selected financial institutions

€ '000	June 2013	June 2012
Property related expenses	(10,312)	(8,127)
IT systems maintenance	(9,121)	(6,453)
Post and telecom	(6,708)	(6,244)
Advertising and marketing	(5,059)	(6,057)
Equipment related expenses	(2,920)	(3,024)
Stationery	(2,115)	(1,964)
Security	(1,823)	(1,800)
VAT and other taxes	(1,282)	(4,021)
Insurance	(839)	(742)
Professional services	(587)	(1,180)
Training	(484)	(426)
Transport	(424)	(387)
Audit *	(389)	(313)
Travelling	(355)	(452)
Third parties' services	(317)	(326)
Litigations paid	(312)	(109)
Provisions for litigation (note 21)	(266)	(3,960)
Other damages	(223)	(200)
Contribution to the Deposit Protection Fund	-	(4,556)
Other operating expenses	(1,712)	(1,873)
	<u>(45,248)</u>	<u>(52,214)</u>

* As at 30 June 2013 the audit expense consists of fees for the statutory audit in the amount of € 175 thousand (30 June 2012: € 196 thousand), group reporting in the amount of € 175 thousand (30 June 2012: € 78 thousand) and other reporting in the amount of € 39 thousand (30 June 2012: € 39 thousand).

30. Other operating expenses and Special levy of selected financial institutions (continued)

At 30 June 2013 and 30 June 2012, the special levy recognized by the Bank was as follows:

€ '000	June 2013	June 2012
Special levy of selected financial institutions	<u>(19,195)</u>	<u>(10,328)</u>

Commencing 1 January 2012, banks operating in the Slovak Republic are subject to a special levy of 0.4% p.a. of selected liabilities. Based on the amendment to the Act on Special levy of selected financial institutions, effective from 1 September 2012 the basis for calculation of the levy was extended by the amount of deposits subject to protection based on the special regulation. The levy is recognized in the Statement of profit or loss and other comprehensive income on an accrual basis and is payable at the beginning of each quarter.

31. Impairment losses

€ '000	June 2013	June 2012
Net creation of impairment losses (note 10)	(45,423)	(27,368)
Net reversal/(creation) of liabilities – financial guarantees and commitments (note 22)	<u>1,993</u>	<u>(2,682)</u>
	<u>(43,430)</u>	<u>(30,050)</u>
Nominal value of assets written-off/sold	(40,640)	(50,760)
Proceeds from assets written-off/sold	<u>9,071</u>	<u>6,190</u>
	<u>(31,569)</u>	<u>(44,570)</u>
Release of impairment losses to assets written-off/sold (note 10)	<u>34,120</u>	<u>37,114</u>
	<u>(40,879)</u>	<u>(37,506)</u>

32. Income tax expense

€ '000	June 2013	June 2012
Current income tax	(25,556)	(12,489)
Deferred income tax (note 20)	<u>1,637</u>	<u>(1,372)</u>
	<u>(23,919)</u>	<u>(13,861)</u>

33. Other comprehensive income

€'000	June 2013	June 2012
Exchange differences on translating foreign operation	(3)	125
Available-for-sale financial assets:		
Revaluation (losses)/gains arising during the period	(16,585)	79,959
Reclassification adjustment for (profit)/loss on sale of AFS bonds included in the profit or loss	(1,996)	28,673
	<u>(18,581)</u>	<u>108,632</u>
Cash flow hedges:		
Revaluation gains/(losses) arising during the period	615	(163)
Total other comprehensive income	(17,969)	108,594
Income tax relating to components of other comprehensive income *	4,126	(20,602)
Other comprehensive income for 6 months	<u>(13,843)</u>	<u>87,992</u>

* Income tax relates only to the components of other comprehensive income that might be reclassified subsequently to the profit or loss.

34. Income tax effects relating to other comprehensive income

€'000	June 2013			June 2012		
	Before tax amount	Tax benefit/ (expense)	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Exchange differences on translating foreign operations	(3)	-	(3)	125	-	125
Available-for-sale financial assets	(18,581)	4,268	(14,313)	108,632	(20,632)	88,000
Net movement on cash flow hedges	615	(142)	473	(163)	30	(133)
	<u>(17,969)</u>	<u>4,126</u>	<u>(13,843)</u>	<u>108,594</u>	<u>(20,602)</u>	<u>87,992</u>

35. Estimated fair value of financial assets and liabilities

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

(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.

(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.

(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.

(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 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.

Under Level 2, the principal valuation technique used by the Group for the debt instruments involves the method of discounting forecast cash flows. The calculation takes into account the time value of money (risk-free rate of interest) and the credit risk expressed in the form of the credit spreads which are applied to the bonds' yield and represent the risk premium the investor claims against the risk free investment. In the case of derivative financial instruments the Group uses the standard fair value calculation models based on the principal net present value using the yield curve to discount all future cash flows from derivatives for all relevant currencies. The principal input parameters used by the models comprise interest rate curves, volatility curves, spot and forward prices and the correlation between underlying assets.

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

30 June 2013 € '000	Note	FVTPL/ Trading	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances with central banks	4	-	-	241,059	-	-	241,059	241,059
Due from banks	5	-	-	774,317	-	-	774,317	775,463
Financial assets at fair value through profit or loss	6	197,038	-	-	-	-	197,038	197,038
Derivative financial instruments	7	31,464	-	-	-	-	31,464	31,464
Available-for-sale financial assets	8	-	-	-	1,361,020	-	1,361,020	1,361,020
Loans and advances to customers	9	-	-	7,440,520	-	-	7,440,520	8,552,372
Held-to-maturity investments	11	-	1,009,903	-	-	-	1,009,903	1,085,566
		<u>228,502</u>	<u>1,009,903</u>	<u>8,455,896</u>	<u>1,361,020</u>	<u>-</u>	<u>11,055,321</u>	<u>12,243,982</u>
Due to central and other banks	17	-	-	-	-	(611,617)	(611,617)	(611,617)
Derivative financial instruments	7	(34,121)	-	-	-	-	(34,121)	(34,121)
Due to customers	18	-	-	-	-	(7,858,262)	(7,858,262)	(7,694,318)
Debt securities in issue	19	-	-	-	-	(1,446,391)	(1,446,391)	(1,397,680)
		<u>(34,121)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,916,270)</u>	<u>(9,950,391)</u>	<u>(9,737,736)</u>

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

Restated 31 December 2012 € '000	Note	FVTPL/ Trading	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances with central banks	4	-	-	150,837	-	-	150,837	150,837
Due from banks	5	-	-	580,780	-	-	580,780	583,944
Financial assets at fair value through profit or loss	6	73,770	-	-	-	-	73,770	73,770
Derivative financial instruments	7	42,619	-	-	-	-	42,619	42,619
Available-for-sale financial assets	8	-	-	-	1,482,727	-	1,482,727	1,482,727
Loans and advances to customers	9	-	-	7,526,581	-	-	7,526,581	8,521,824
Held-to-maturity investments	11	-	1,041,721	-	-	-	1,041,721	1,130,340
		<u>116,389</u>	<u>1,041,721</u>	<u>8,258,198</u>	<u>1,482,727</u>	<u>-</u>	<u>10,899,035</u>	<u>11,986,061</u>
Due to central and other banks	17	-	-	-	-	(667,350)	(667,350)	(667,350)
Derivative financial instruments	7	(53,194)	-	-	-	-	(53,194)	(53,194)
Due to customers	18	-	-	-	-	(7,632,684)	(7,632,684)	(7,548,266)
Debt securities in issue	19	-	-	-	-	(1,417,762)	(1,417,762)	(1,414,365)
		<u>(53,194)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,717,796)</u>	<u>(9,770,990)</u>	<u>(9,683,175)</u>

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

€ '000	Note	June 2013				December 2012			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Financial assets at fair value through profit or loss	6	-	25,000	-	25,000	-	24,970	-	24,970
Treasury bills and other eligible bills		-	25,000	-	25,000	-	24,970	-	24,970
State bonds		119,320	50,182	-	169,502	-	43,273	-	43,273
Bank bonds		-	2,217	-	2,217	-	314	-	314
Equity shares		319	-	-	319	330	-	-	330
Mutual funds		-	-	-	-	4,883	-	-	4,883
		<u>119,639</u>	<u>77,399</u>	<u>-</u>	<u>197,038</u>	<u>5,213</u>	<u>68,557</u>	<u>-</u>	<u>73,770</u>
Derivative financial instruments	7	-	20,618	-	20,618	-	31,776	-	31,776
Interest rate instruments		-	20,618	-	20,618	-	31,776	-	31,776
Foreign currency instruments		-	7,255	-	7,255	-	7,115	-	7,115
Equity and commodity instruments		-	3,591	-	3,591	-	3,728	-	3,728
		<u>-</u>	<u>31,464</u>	<u>-</u>	<u>31,464</u>	<u>-</u>	<u>42,619</u>	<u>-</u>	<u>42,619</u>
Available-for-sale financial assets	8	90,946	1,264,647	-	1,355,593	117,609	1,353,069	-	1,470,678
State bonds		90,946	1,264,647	-	1,355,593	117,609	1,353,069	-	1,470,678
Bank bonds		-	4,813	-	4,813	-	11,429	-	11,429
Equity shares		-	614	-	614	-	620	-	620
		<u>90,946</u>	<u>1,270,074</u>	<u>-</u>	<u>1,361,020</u>	<u>117,609</u>	<u>1,365,118</u>	<u>-</u>	<u>1,482,727</u>
Financial liabilities									
Derivative financial instruments	7	-	24,948	-	24,948	-	37,540	-	37,540
Interest rate instruments		-	24,948	-	24,948	-	37,540	-	37,540
Foreign currency instruments		-	5,582	-	5,582	-	11,921	-	11,921
Equity and commodity instruments		-	3,591	-	3,591	-	3,733	-	3,733
		<u>-</u>	<u>34,121</u>	<u>-</u>	<u>34,121</u>	<u>-</u>	<u>53,194</u>	<u>-</u>	<u>53,194</u>

There were no significant transfers of financial instruments among the levels during the period ended 30 June 2013 (31 December 2012: 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).

Impairment losses

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.

36. Financial risk management (continued)

The split of the credit portfolio to portfolio assessed and individually assessed is shown below:

€ '000	June 2013			December 2012		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Portfolio assessed						
Banks	774,350	(33)	774,317	580,814	(34)	580,780
Customers						
Sovereigns	152,679	(326)	152,353	160,475	(339)	160,136
Corporate	2,770,342	(28,564)	2,741,778	2,979,450	(32,819)	2,946,631
Retail	4,556,922	(197,292)	4,359,630	4,470,486	(202,667)	4,267,819
	<u>7,479,943</u>	<u>(226,182)</u>	<u>7,253,761</u>	<u>7,610,411</u>	<u>(235,825)</u>	<u>7,374,586</u>
Securities						
FVTPL	197,038	-	197,038	73,770	-	73,770
AFS	1,361,020	-	1,361,020	1,482,727	-	1,482,727
HTM	1,010,509	(606)	1,009,903	1,042,344	(623)	1,041,721
	<u>2,568,567</u>	<u>(606)</u>	<u>2,567,961</u>	<u>2,598,841</u>	<u>(623)</u>	<u>2,598,218</u>
Individually assessed						
Customers						
Sovereigns	497	(113)	384	281	(113)	168
Corporate	264,981	(95,805)	169,176	217,510	(79,482)	138,028
Retail	25,621	(8,422)	17,199	22,686	(8,887)	13,799
	<u>291,099</u>	<u>(104,340)</u>	<u>186,759</u>	<u>240,477</u>	<u>(88,482)</u>	<u>151,995</u>

36. Financial risk management (continued)

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.

The description of classification categories of loans based on the definition of Banca d'Italia is as follows:

Classification category	Description
Doubtful	Exposures to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the Group.
Substandard	Exposures to borrowers experiencing temporary objective financial or economic difficulties that are likely to be overcome in a fair period of time.
Restructured	Exposures where the Group renegotiates the original terms of a debt due to deterioration of the creditworthiness of the debtor (for example by granting a moratorium in the payment or by decreasing the debt or the interests). If such renegotiation results in a loss, the exposure is classified as restructured.
Past due	Exposures other than those classified as doubtful, substandard or restructured that, as at reporting date, are past due at least 90 days on a continuous basis.
Performing	All exposures that are not classified as doubtful, substandard, restructured and past due.

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 and Advanced IRB approach for portfolio of residential mortgages from July 2012. 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:

€ '000	Category	June 2013			December 2012		
		Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	Performing	774,350	(33)	774,317	580,814	(34)	580,780
		<u>774,350</u>	<u>(33)</u>	<u>774,317</u>	<u>580,814</u>	<u>(34)</u>	<u>580,780</u>
Sovereigns	Performing	152,661	(326)	152,335	160,457	(339)	160,118
	Past due	237	(5)	232	-	-	-
	Substandard	18	-	18	18	-	18
	Doubtful	260	(108)	152	281	(113)	168
		<u>153,176</u>	<u>(439)</u>	<u>152,737</u>	<u>160,756</u>	<u>(452)</u>	<u>160,304</u>
Corporate	Performing	2,821,289	(32,483)	2,788,806	2,999,536	(33,698)	2,965,838
	Past due	282	(85)	197	877	(115)	762
	Restructured	9,199	(3,792)	5,407	14,708	(2,943)	11,765
	Substandard	86,738	(24,449)	62,289	72,654	(18,449)	54,205
	Doubtful	117,815	(63,560)	54,255	109,185	(57,096)	52,089
		<u>3,035,323</u>	<u>(124,369)</u>	<u>2,910,954</u>	<u>3,196,960</u>	<u>(112,301)</u>	<u>3,084,659</u>
Retail	Performing	4,325,770	(56,133)	4,269,637	4,228,133	(54,011)	4,174,122
	Past due	41,609	(18,759)	22,850	39,659	(17,504)	22,155
	Substandard	34,486	(14,256)	20,230	32,510	(13,002)	19,508
	Doubtful	180,678	(116,566)	64,112	192,870	(127,037)	65,833
		<u>4,582,543</u>	<u>(205,714)</u>	<u>4,376,829</u>	<u>4,493,172</u>	<u>(211,554)</u>	<u>4,281,618</u>
Securities	Performing	2,568,567	(606)	2,567,961	2,598,841	(623)	2,598,218
		<u>2,568,567</u>	<u>(606)</u>	<u>2,567,961</u>	<u>2,598,841</u>	<u>(623)</u>	<u>2,598,218</u>

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. To express the maximum amount of credit risk, the fair value of derivative financial assets is increased by the value of the potential credit exposure ('add on') calculated as the nominal value of the derivative financial instrument multiplied by the respective coefficient depending on the type of the instrument, as defined by the NBS regulation no. 4/2007. The credit risk of the remaining financial assets not reported in the table below approximates their carrying amounts.

€ '000	June 2013	Dec 2012
Financial assets		
Derivative financial instruments	55,404	65,213
Financial commitments and contingencies		
Issued guarantees	507,909	624,260
Commitments and undrawn credit facilities	2,156,835	2,058,440
	<u>2,664,744</u>	<u>2,682,700</u>
	<u>2,720,148</u>	<u>2,747,913</u>

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.

€ '000	June 2013			December 2012		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	774,350	(33)	774,317	573,357	(31)	573,326
1 – 30 days	-	-	-	7,457	(3)	7,454
	<u>774,350</u>	<u>(33)</u>	<u>774,317</u>	<u>580,814</u>	<u>(34)</u>	<u>580,780</u>
Sovereigns						
No delinquency	152,264	(433)	151,831	157,377	(443)	156,934
1 – 30 days	243	-	243	3,314	(9)	3,305
31 – 60 days	2	-	2	47	-	47
61 – 90 days	411	(1)	410	-	-	-
91 – 180 days	238	(5)	233	15	-	15
Over 181 days *	18	-	18	3	-	3
	<u>153,176</u>	<u>(439)</u>	<u>152,737</u>	<u>160,756</u>	<u>(452)</u>	<u>160,304</u>
Corporate						
No delinquency	2,832,289	(66,653)	2,765,636	2,991,154	(62,271)	2,928,883
1 – 30 days	68,974	(4,538)	64,436	87,122	(7,645)	79,477
31 – 60 days	36,574	(3,756)	32,818	38,946	(1,691)	37,255
61 – 90 days	23,559	(1,366)	22,193	11,972	(1,182)	10,790
91 – 180 days	10,398	(4,859)	5,539	7,631	(4,066)	3,565
Over 181 days *	63,529	(43,197)	20,332	60,135	(35,446)	24,689
	<u>3,035,323</u>	<u>(124,369)</u>	<u>2,910,954</u>	<u>3,196,960</u>	<u>(112,301)</u>	<u>3,084,659</u>

36. Financial risk management (continued)

€ '000	June 2013			December 2012		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Retail						
No delinquency	4,050,125	(30,529)	4,019,596	3,949,887	(29,652)	3,920,235
1 – 30 days	195,141	(13,040)	182,101	197,840	(12,279)	185,561
31 – 60 days	51,542	(7,029)	44,513	53,833	(7,059)	46,774
61 – 90 days	32,521	(6,178)	26,343	29,876	(5,616)	24,260
91 – 180 days	45,707	(19,382)	26,325	46,453	(19,185)	27,268
Over 181 days *	207,507	(129,556)	77,951	215,283	(137,763)	77,520
	<u>4,582,543</u>	<u>(205,714)</u>	<u>4,376,829</u>	<u>4,493,172</u>	<u>(211,554)</u>	<u>4,281,618</u>
Securities						
No delinquency	2,568,567	(606)	2,567,961	2,598,841	(623)	2,598,218
	<u>2,568,567</u>	<u>(606)</u>	<u>2,567,961</u>	<u>2,598,841</u>	<u>(623)</u>	<u>2,598,218</u>

*** 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 (1,080 days past due). Since 1 January 2013, an additional condition has been introduced based on which credit balances may be written off only if the collateral has already been realized. Thus receivables 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.

Collateral Policy

The Group's collateral policy is an integral and indispensable part of the credit risk management and credit risk mitigation for VUB Group. Collateral is used primarily to provide the Group with the means for repayment of an exposure in the event of the default of the borrower. The policy represents the part of the Credit Risk Charter. The principal objective of the policy document is to clearly set up rules for a common and standard set of collateral types used by the Group in its lending activities. The rules, as the minimum, describe and state:

- Conditions for legal enforceability;
- Conditions for the process of valuation and the maximum values accepted by the Group at the origination for the certain types of collaterals; and
- Conditions for the process of revaluation.

However, collateral management has a wider meaning than the simple taking of collateral in order to secure the repayment of the Group's exposures. This includes the following:

- The establishment and maintenance of collateral policy comprising types of collateral taken by the Group, the legal documentation used by the Group to secure its right to this collateral in the event of a default and the valuation of this collateral at origination. These aspects of collateral management are addressed in the internal policy document;
- The relevant and proper perfection and registration of collateral to secure the Group's right to collateral in the event of default by the borrower;
- The regular monitoring and re-valuation of collateral held by the Group during the life of the exposure;
- The analysis, monitoring and review of realization rates achieved by Recovery Department activities in order to assess the effectiveness of the collateral policy as a risk mitigant.

36. Financial risk management (continued)

The VUB Group's decisions on the enforcement of collateral is individual and depends on factors such as the actual amount of the receivable, the current condition and value of the collateral, the length of the collateral realization period or collection related costs. The relevant competent body of the Group decides which collateral instrument will be used in the specific case.

The VUB Group mainly uses the following means of enforcement of collateral:

- Voluntary auction,
- Foreclosure procedure,
- Realization of the collateral for the receivable in a bankruptcy procedure,
- Sale of receivables.

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.

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

€ '000	June 2013			December 2012		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Europe						
Banks	743,088	(22)	743,066	550,893	(22)	550,871
Sovereigns	153,176	(439)	152,737	160,756	(452)	160,304
Corporate	3,035,323	(124,369)	2,910,954	3,196,960	(112,301)	3,084,659
Retail	4,580,535	(205,692)	4,374,843	4,491,041	(211,515)	4,279,526
Securities	2,568,567	(606)	2,567,961	2,598,841	(623)	2,598,218
	<u>11,080,689</u>	<u>(331,128)</u>	<u>10,749,561</u>	<u>10,998,491</u>	<u>(324,913)</u>	<u>10,673,578</u>
America						
Banks	31,173	(11)	31,162	29,818	(12)	29,806
Retail	325	(4)	321	360	(15)	345
	<u>31,498</u>	<u>(15)</u>	<u>31,483</u>	<u>30,178</u>	<u>(27)</u>	<u>30,151</u>
Asia						
Banks	60	-	60	69	-	69
Retail	1,031	(13)	1,018	1,065	(20)	1,045
	<u>1,091</u>	<u>(13)</u>	<u>1,078</u>	<u>1,134</u>	<u>(20)</u>	<u>1,114</u>
Rest of the World						
Banks	29	-	29	34	-	34
Retail	652	(5)	647	706	(4)	702
	<u>681</u>	<u>(5)</u>	<u>676</u>	<u>740</u>	<u>(4)</u>	<u>736</u>

36. Financial risk management (continued)

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

30 June 2013 € '000	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	59,517	22,664	-
Construction	-	-	181,319	16,617	-
Consumers	-	-	-	4,158,959	-
Energy and water supply	-	-	268,624	1,570	-
Financial services	774,317	-	111,521	507	7,963
Government	-	142,822	-	-	2,559,998
Manufacturing	-	-	541,715	25,682	-
Professional services	-	-	78,522	10,828	-
Real estate	-	-	430,278	24,924	-
Retail & Wholesale	-	-	620,146	65,157	-
Services	-	11	252,212	21,900	-
Transportation	-	9,836	289,439	10,965	-
Other	-	68	77,661	17,056	-
	774,317	152,737	2,910,954	4,376,829	2,567,961
31 December 2012 € '000	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	41,782	15,460	-
Construction	-	-	164,229	15,662	-
Consumers	-	-	75	4,088,767	-
Energy and water supply	-	-	366,006	1,617	-
Financial services	580,780	-	142,086	514	27,598
Government	-	149,823	-	-	2,570,620
Manufacturing	-	-	549,865	24,922	-
Professional services	-	-	81,892	10,238	-
Real estate	-	-	430,386	11,342	-
Retail & Wholesale	-	-	677,320	64,183	-
Services	-	-	189,314	16,723	-
Transportation	-	10,397	297,795	10,757	-
Other	-	84	143,909	21,433	-
	580,780	160,304	3,084,659	4,281,618	2,598,218

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.

30 June 2013 € '000	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	774,350	(33)	774,317	-	-	-	-	-	-
Sovereigns									
Municipalities	151,855	(323)	151,532	515	(113)	402	652	(1)	651
Municipalities – Leasing	151	(2)	149	-	-	-	3	-	3
	<u>152,006</u>	<u>(325)</u>	<u>151,681</u>	<u>515</u>	<u>(113)</u>	<u>402</u>	<u>655</u>	<u>(1)</u>	<u>654</u>
Corporate									
Large Corporates	874,052	(3,280)	870,772	23,509	(10,616)	12,893	-	-	-
Specialized Lending	731,957	(15,924)	716,033	86,891	(31,465)	55,426	32,302	(1,498)	30,804
SME	660,460	(7,779)	652,681	71,541	(30,544)	40,997	13,958	(455)	13,503
Other Fin. Institutions	138,464	(375)	138,089	73	(14)	59	-	-	-
Public Sector Entities	1,837	(18)	1,819	10	-	10	2	-	2
Leasing	183,651	(1,548)	182,103	28,399	(16,618)	11,781	27,506	(1,185)	26,321
Factoring	119,502	(388)	119,114	3,611	(2,629)	982	37,598	(33)	37,565
	<u>2,709,923</u>	<u>(29,312)</u>	<u>2,680,611</u>	<u>214,034</u>	<u>(91,886)</u>	<u>122,148</u>	<u>111,366</u>	<u>(3,171)</u>	<u>108,195</u>
Retail									
Small Business	177,431	(3,872)	173,559	15,083	(10,841)	4,242	7,013	(632)	6,381
Small Business – Leasing	8,807	(50)	8,757	3,904	(1,374)	2,530	1,373	(63)	1,310
Consumer Loans	889,697	(13,774)	875,923	109,032	(69,654)	39,378	119,385	(14,872)	104,513
Mortgages	2,672,899	(8,737)	2,664,162	69,296	(24,725)	44,571	103,884	(5,372)	98,512
Credit Cards	181,710	(2,385)	179,325	43,642	(30,365)	13,277	21,962	(3,273)	18,689
Overdrafts	81,433	(1,205)	80,228	15,131	(12,223)	2,908	21,790	(1,582)	20,208
Leasing	2,859	(13)	2,846	146	(120)	26	643	(30)	613
Flat Owners Associations	20,911	(273)	20,638	-	-	-	-	-	-
Other	13,973	-	13,973	539	(279)	260	-	-	-
	<u>4,049,720</u>	<u>(30,309)</u>	<u>4,019,411</u>	<u>256,773</u>	<u>(149,581)</u>	<u>107,192</u>	<u>276,050</u>	<u>(25,824)</u>	<u>250,226</u>
Securities									
FVTPL	197,038	-	197,038	-	-	-	-	-	-
AFS	1,361,020	-	1,361,020	-	-	-	-	-	-
HTM	1,010,509	(606)	1,009,903	-	-	-	-	-	-
	<u>2,568,567</u>	<u>(606)</u>	<u>2,567,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

36. Financial risk management (continued)

31 December 2012 € '000	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	573,357	(31)	573,326	-	-	-	7,457	(3)	7,454
Sovereigns									
Municipalities	157,094	(330)	156,764	299	(113)	186	3,185	(6)	3,179
Municipalities – Leasing	177	(3)	174	-	-	-	1	-	1
	<u>157,271</u>	<u>(333)</u>	<u>156,938</u>	<u>299</u>	<u>(113)</u>	<u>186</u>	<u>3,186</u>	<u>(6)</u>	<u>3,180</u>
Corporate									
Large Corporates	973,912	(5,037)	968,875	16,388	(4,923)	11,465	9,234	-	9,234
Specialized Lending	763,853	(15,358)	748,495	79,890	(25,007)	54,883	6,486	(219)	6,267
SME	635,942	(8,460)	627,482	69,228	(29,685)	39,543	13,761	(969)	12,792
Other Fin. Institutions	180,245	(336)	179,909	119	(23)	96	1	-	1
Public Sector Entities	4,186	(105)	4,081	9	-	9	2	-	2
Leasing	171,583	(1,566)	170,017	27,890	(16,344)	11,546	36,381	(1,260)	35,121
Factoring	155,971	(337)	155,634	3,900	(2,621)	1,279	47,979	(51)	47,928
	<u>2,885,692</u>	<u>(31,199)</u>	<u>2,854,493</u>	<u>197,424</u>	<u>(78,603)</u>	<u>118,821</u>	<u>113,844</u>	<u>(2,499)</u>	<u>111,345</u>
Retail									
Small Business	163,113	(3,523)	159,590	17,141	(13,131)	4,010	7,576	(590)	6,986
Small Business – Leasing	10,317	(92)	10,225	3,683	(1,381)	2,302	3,194	(116)	3,078
Consumer Loans	856,283	(13,125)	843,158	113,470	(75,021)	38,449	110,045	(13,504)	96,541
Mortgages	2,649,515	(8,340)	2,641,175	68,581	(23,164)	45,417	112,378	(5,620)	106,758
Credit Cards	176,677	(3,272)	173,405	45,734	(31,837)	13,897	22,399	(3,377)	19,022
Overdrafts	77,863	(954)	76,909	15,683	(12,546)	3,137	22,324	(1,383)	20,941
Leasing	3,455	(17)	3,438	161	(133)	28	722	(35)	687
Flat Owners Associations	4,113	(54)	4,059	-	-	-	98	(1)	97
Other	8,003	(8)	7,995	586	(330)	256	58	-	58
	<u>3,949,339</u>	<u>(29,385)</u>	<u>3,919,954</u>	<u>265,039</u>	<u>(157,543)</u>	<u>107,496</u>	<u>278,794</u>	<u>(24,626)</u>	<u>254,168</u>
Securities									
FVTPL	73,770	-	73,770	-	-	-	-	-	-
AFS	1,482,727	-	1,482,727	-	-	-	-	-	-
HTM	1,042,344	(623)	1,041,721	-	-	-	-	-	-
	<u>2,598,841</u>	<u>(623)</u>	<u>2,598,218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

36. Financial risk management (continued)

An analysis of past but not impaired credit exposures in terms of the delinquency is presented in the table below:

€ '000	June 2013			December 2012		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
1 – 30 days	-	-	-	7,457	(3)	7,454
	-	-	-	7,457	(3)	7,454
Sovereigns						
1 – 30 days	243	-	243	3,140	(6)	3,134
31 – 60 days	2	-	2	46	-	46
61 – 90 days	410	(1)	409	-	-	-
	655	(1)	654	3,186	(6)	3,180
Corporate						
1 – 30 days	62,799	(1,781)	61,018	66,943	(1,040)	65,903
31 – 60 days	26,524	(624)	25,900	37,701	(1,225)	36,476
61 – 90 days	22,025	(751)	21,274	9,104	(208)	8,896
91 – 180 days	1	-	1	57	(10)	47
Over 181 days	17	(15)	2	39	(16)	23
	111,366	(3,171)	108,195	113,844	(2,499)	111,345
Retail						
1 – 30 days	194,167	(12,776)	181,391	194,968	(11,859)	183,109
31 – 60 days	49,456	(6,784)	42,672	53,785	(7,039)	46,746
61 – 90 days	31,988	(6,079)	25,909	29,642	(5,559)	24,083
91 – 180 days	340	(144)	196	267	(125)	142
Over 181 days	99	(41)	58	132	(44)	88
	276,050	(25,824)	250,226	278,794	(24,626)	254,168

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 problematic debt management.

* For part of Specialized Lending, the usage of the Slotting approach was approved by the NBS in 2012. Clients from rating segments Special Purpose Vehicles ('SPV') and Projected Finance ('PF'), both disclosed within Specialized lending, are assigned into five slotting categories based on the qualitative valuation and information about the default. Risk weights and expected loss used for the capital requirement calculation is also defined for each category. Categories are prescribed by the NBS decree no. 4/2007 and internally, categories used are as follows:

Specialized Lending – SPV and PF

- 1 – Strong
- 2 – Good
- 3 – Satisfactory
- 4 – Weak
- 5 – Default

36. Financial risk management (continued)

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

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

30 June 2013 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	774,350	(33)	774,317
Sovereigns				
Municipalities, Municipalities – Leasing	Unrated	153,176	(439)	152,737
		153,176	(439)	152,737
Corporate				
Large Corporates, Specialized Lending excl. SPV and PF, SME	I1 - I6	616,248	(481)	615,767
	M1 - M4	740,364	(4,772)	735,592
	R1 - R5	286,956	(29,172)	257,784
	D (default)	68,259	(34,783)	33,476
	Unrated	25,918	(525)	25,393
Specialized Lending - SPV and PF	Strong	143,795	(576)	143,219
	Good	241,984	(1,708)	240,276
	Satisfactory	270,651	(15,277)	255,374
	Weak	100,495	(14,267)	86,228
Other Financial Institutions, Public Sector Entities	Unrated - PPU approach *	140,386	(407)	139,979
Leasing, Factoring	Unrated	400,267	(22,401)	377,866
		3,035,323	(124,369)	2,910,954

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

36. Financial risk management (continued)

30 June 2013 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Retail				
Small Business, Flat Owners Associations				
	I1 - I6	22,125	(37)	22,088
	M1 - M4	86,679	(889)	85,790
	R1 - R5	72,298	(3,227)	69,071
	D (default)	15,116	(11,147)	3,969
	Unrated	24,220	(318)	23,902
Mortgages				
	L1 - L4	2,007,646	(390)	2,007,256
	N1 - N3	460,776	(906)	459,870
	W1 - W3	305,708	(11,896)	293,812
	D (default)	71,949	(25,642)	46,307
Unsecured retail				
	U1	165,449	(95)	165,354
	U2 - U3	142,469	(246)	142,223
	U4 - U5	169,462	(691)	168,771
	U6 - U7	112,309	(1,064)	111,245
	U8 - U10	89,316	(2,210)	87,106
	U11 - U12	71,963	(7,449)	64,514
	D (default)	65,296	(48,421)	16,875
	Unrated	667,518	(89,157)	578,361
Small Business – Leasing, Leasing				
	Unrated	17,732	(1,650)	16,082
Other				
	Unrated	14,512	(279)	14,233
		<u>4,582,543</u>	<u>(205,714)</u>	<u>4,376,829</u>
Securities				
	Unrated	<u>2,568,567</u>	<u>(606)</u>	<u>2,567,961</u>

36. Financial risk management (continued)

31 December 2012 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	580,814	(34)	580,780
Sovereigns				
Municipalities, Municipalities – Leasing	Unrated	160,756	(452)	160,304
		<u>160,756</u>	<u>(452)</u>	<u>160,304</u>
Corporate				
Large Corporates, Specialized Lending excl. SPV and PF, SME	I1 - I6	715,589	(492)	715,097
	M1 - M4	717,711	(4,514)	713,197
	R1 - R5	287,092	(22,726)	264,366
	D (default)	79,950	(35,951)	43,999
	Unrated	19,281	(450)	18,831
Specialized Lending - SPV and PF	Strong	146,521	(587)	145,934
	Good	241,818	(1,641)	240,177
	Satisfactory	267,581	(11,291)	256,290
	Weak	93,151	(12,006)	81,145
Other Financial Institutions, Public Sector Entities	Unrated - PPU approach	184,562	(464)	184,098
Leasing, Factoring	Unrated	443,704	(22,179)	421,525
		<u>3,196,960</u>	<u>(112,301)</u>	<u>3,084,659</u>
Retail				
Small Business, Flat Owners Associations	I1 - I6	21,772	(35)	21,737
	M1 - M4	78,203	(788)	77,415
	R1 - R5	67,235	(3,006)	64,229
	D (default)	17,377	(13,351)	4,026
	Unrated	7,454	(119)	7,335
Mortgages	L1 - L4	1,978,952	(406)	1,978,546
	N1 - N3	471,864	(943)	470,921
	W1 - W3	308,266	(11,586)	296,680
	D (default)	71,392	(24,189)	47,203
Unsecured retail	U1	160,605	(93)	160,512
	U2 - U3	136,296	(238)	136,058
	U4 - U5	172,934	(726)	172,208
	U6 - U7	102,645	(941)	101,704
	U8 - U10	92,713	(2,275)	90,438
	U11 - U12	63,068	(6,370)	56,698
	D (default)	65,605	(49,285)	16,320
	Unrated	646,612	(95,091)	551,521
Small Business – Leasing, Leasing	Unrated	21,532	(1,774)	19,758
Other	Unrated	8,647	(338)	8,309
		<u>4,493,172</u>	<u>(211,554)</u>	<u>4,281,618</u>
Securities	Unrated	2,598,841	(623)	2,598,218

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 Department 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). Derivation of VaR is a stress VaR (sVaR), which represents maximal VaR of selected one year period generating the highest value of VaR during the last 5 years. 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 and sVaR models used are based on historical simulation. Taking account of market data from the previous year and in case of sVaR one year scenario from 5 years history, and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements. The VaR 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 and sVaR 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 and sVaR 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 and sVaR position of the Bank's trading portfolios:

€ '000	June 2013				December 2012			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	61	57	148	17	53	43	128	3
Interest rate risk	97	148	205	85	80	40	134	11
Overall	112	166	223	84	90	58	167	15
sVaR	227	261	395	162	173	203	619	54

Although VaR is a popular and widely used risk management tool, there are known limitations, among which following are the most important ones:

- VaR does not measure the worst case loss, since 99% confidence interval means that in 1% of cases the loss is expected to be greater than the VaR amount,
- VaR calculated using 1 day holding period assumes hedge or disposal of a position within 1 day, which might not be realistic in the case of longer illiquid situation on the market,
- For calculating of VaR of a portfolio, the return, the volatility but also the correlation between various assets needs to be recognized what might represent a difficult task when taking into account the growing number and diversity of positions in given portfolio.

36. Financial risk management (continued)

These limitations are recognized, 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. Furthermore, integrating the sVaR measure into the VaR concept adds to mitigation of the limitation of using historical series and thus possibly omitting scenarios of an extraordinary nature.

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 interest rate risk calculation

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.

Fixed assets, such as tangible and intangible assets and fixed liabilities like equity and also cash are treated as overnight items.

For the calculation of Earnings at Risk (EAR), the models used slightly differ from those applied for the shift sensitivity analysis.

36. Financial risk management (continued)

At 30 June 2013, interest margin sensitivity in a one year time frame in the event of a 100 basis points rise in interest rates, was € 2,985 thousand (31 December 2012: € 1500 thousand).

At 30 June 2013, interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 1 basis point, registered € - 30 thousand (31 December 2012: € - 126 thousand).

€ '000	June 2013	Dec 2012
EUR	(31)	(127)
CZK	-	2
Other	1	(1)
	<u>(30)</u>	<u>(126)</u>

The sensitivity of the equity on the movement of interest rates is measured at Intesa Sanpaolo Group level.

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

	June 2013 %	Restated Dec 2012 %
Assets		
Cash and balances with central banks	0.37	0.57
Due from banks	2.09	2.45
Financial assets at fair value through profit or loss	1.75	2.21
Available-for-sale financial assets	2.54	3.02
Loans and advances to customers	5.58	5.63
Held-to-maturity investments	4.17	4.19
Liabilities		
Due to central and other banks	1.20	1.55
Due to customers	0.94	1.13
Debt securities in issue	2.60	3.16

Currency denominations of assets and liabilities

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

(c) Liquidity risk

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

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

36. Financial risk management (continued)

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 Enterprise Risk Management 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 \leq Regulatory Capital

Rule 2: Medium term assets + 0.5 x Long Term Assets \leq 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.

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 Enterprise Risk Management Department and discussed during the ALCO meetings.

36. Financial risk management (continued)

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

30 June 2013 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	241,059	-	241,059
Due from banks	708,518	65,799	774,317
Financial assets at fair value through profit or loss	196,559	479	197,038
Derivative financial instruments	31,464	-	31,464
Available-for-sale financial assets	109,522	1,251,498	1,361,020
Loans and advances to customers	2,125,449	5,315,071	7,440,520
Held-to-maturity investments	490,979	518,924	1,009,903
Associates and jointly controlled entities	-	13,356	13,356
Intangible assets	652	44,663	45,315
Goodwill	-	29,305	29,305
Property and equipment and Non-current assets held for sale	-	131,572	131,572
Current income tax assets	15,700	-	15,700
Deferred income tax assets	-	49,425	49,425
Other assets	34,639	-	34,639
	<u>3,954,541</u>	<u>7,420,092</u>	<u>11,374,633</u>
Liabilities			
Due to central and other banks	(313,710)	(297,907)	(611,617)
Derivative financial instruments	(34,121)	-	(34,121)
Due to customers	(6,887,764)	(970,498)	(7,858,262)
Debt securities in issue	(98,832)	(1,347,559)	(1,446,391)
Provisions	-	(25,432)	(25,432)
Other liabilities	(82,674)	(3,096)	(85,770)
	<u>(7,417,101)</u>	<u>(2,644,492)</u>	<u>(10,061,593)</u>
	<u>(3,462,560)</u>	<u>4,775,600</u>	<u>1,313,040</u>

36. Financial risk management (continued)

Restated 31 December 2012 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	150,837	-	150,837
Due from banks	463,932	116,848	580,780
Financial assets at fair value through profit or loss	25,696	48,074	73,770
Derivative financial instruments	42,619	-	42,619
Available-for-sale financial assets	161,048	1,321,679	1,482,727
Loans and advances to customers	2,404,194	5,122,387	7,526,581
Held-to-maturity investments	76,691	965,030	1,041,721
Associates and jointly controlled entities	-	7,596	7,596
Intangible assets	668	47,173	47,841
Goodwill	-	29,305	29,305
Property and equipment and Non-current assets held for sale	2	138,774	138,776
Current income tax assets	16,475	-	16,475
Deferred income tax assets	-	43,637	43,637
Other assets	33,292	-	33,292
	<u>3,375,454</u>	<u>7,840,503</u>	<u>11,215,957</u>
Liabilities			
Due to central and other banks	(356,869)	(310,481)	(667,350)
Derivative financial instruments	(53,194)	-	(53,194)
Due to customers	(6,610,548)	(1,022,136)	(7,632,684)
Debt securities in issue	(143,834)	(1,273,928)	(1,417,762)
Provisions	-	(25,607)	(25,607)
Other liabilities	(94,395)	(3,371)	(97,766)
	<u>(7,258,840)</u>	<u>(2,635,523)</u>	<u>(9,894,363)</u>
	<u>(3,883,386)</u>	<u>5,204,980</u>	<u>1,321,594</u>

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 has started 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 2013
€ '000

 External revenue
 Interest income
 Interest expense
 Inter-segment revenue

 Net interest income
 Net fee and commission income
 Net trading result
 Other operating income

Total segment operating income
 Operating expenses

 Operating profit before impairment
 Impairment losses
 Share of profit of associates and jointly controlled entities
 Income tax expense

Net profit for 6 months

Segment assets

Segment liabilities and equity

	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	167,619	42,682	9,620	42,599	262,520
Interest expense	(28,728)	(4,130)	(5,271)	(21,805)	(59,934)
Inter-segment revenue	(6,094)	(42)	(3,478)	9,614	-
Net interest income	132,797	38,510	871	30,408	202,586
Net fee and commission income	28,431	24,811	1,264	(2,909)	51,597
Net trading result	1,469	1,757	(1,194)	3,510	5,542
Other operating income	1,636	2,402	35	(102)	3,971
Total segment operating income	164,333	67,480	976	30,907	263,696
Operating expenses					(129,489)
Operating profit before impairment					134,207
Impairment losses					(40,879)
Share of profit of associates and jointly controlled entities					1,039
Income tax expense					(23,919)
Net profit for 6 months					70,448
Segment assets	4,352,069	3,126,016	1,011,686	2,884,862	11,374,633
Segment liabilities and equity	4,886,376	2,311,218	1,272,741	2,904,298	11,374,633

37. Segment reporting (continued)

30 June 2012 € '000	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					<u>49,721</u>
Segment assets	4,171,529	3,272,201	3,375,150	512,941	11,331,821
Segment liabilities and equity	4,878,140	2,067,170	3,133,578	1,252,933	11,331,821

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 2013, significant outstanding balances with related parties comprised:

€ '000	KMP *	Close members of KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets							
Due from banks	-	-	-	-	536,568	51,231	587,799
Derivative financial instruments	-	-	-	-	-	9,599	9,599
Loans and advances to customers	443	-	-	-	-	-	443
Financial assets at fair value through profit or loss	-	-	-	-	319	-	319
Other assets	-	-	1,005	813	-	-	1,818
	<u>443</u>	<u>-</u>	<u>1,005</u>	<u>813</u>	<u>536,887</u>	<u>60,830</u>	<u>599,978</u>
Liabilities							
Due to central and other banks	-	-	-	-	304,317	3,518	307,835
Derivative financial instruments	-	-	-	-	5	4,892	4,897
Due to customers	1,295	-	-	1,815	-	105	3,215
Debt securities in issue							
Mortgage bonds	-	-	620	-	-	712,826	713,446
Other liabilities	319	-	-	4	-	-	323
	<u>1,614</u>	<u>-</u>	<u>620</u>	<u>1,819</u>	<u>304,322</u>	<u>721,341</u>	<u>1,029,716</u>
Issued guarantees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,871</u>	<u>1,000</u>	<u>9,871</u>
Received guarantees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,871</u>	<u>168,075</u>	<u>176,946</u>
Derivative transactions (notional amount – receivable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>435,285</u>	<u>435,285</u>
Derivative transactions (notional amount – payable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,859</u>	<u>154,069</u>	<u>214,928</u>

38. Related parties (continued)

€ '000	KMP *	Close members of KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Income and expense items							
Interest and similar income	14	-	-	-	4,335	1,408	5,757
Interest and similar expense	(15)	-	(3)	(1)	(2,271)	(7,868)	(10,158)
Fee and commission income	1	-	-	2,024	-	-	2,025
Fee and commission expense	-	-	-	(11)	-	(3,711)	(3,722)
Net trading result	-	-	-	-	(518)	838	320
Other operating income	-	-	52	104	66	12	234
Other operating expenses	-	-	-	-	-	(599)	(599)
	-	-	49	2,116	1,612	(9,920)	(6,143)

* Key management personnel

38. Related parties (continued)

At 31 December 2012, significant outstanding balances with related parties comprised:

€ '000	KMP	Close members of KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets							
Due from banks	-	-	-	-	464,937	50,801	515,738
Derivative financial instruments	-	-	-	-	75	12,479	12,554
Loans and advances to customers	631	-	-	-	-	-	631
Financial assets at fair value through profit or loss	-	-	-	-	330	-	330
Other assets	-	-	6	-	6	1	13
	<u>631</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>465,348</u>	<u>63,281</u>	<u>529,266</u>
Liabilities							
Due to central and other banks	-	-	-	-	253,527	6,817	260,344
Derivative financial instruments	-	-	-	-	4	7,003	7,007
Due to customers	1,363	-	-	126	-	9	1,498
Debt securities in issue							
Mortgage bonds	-	-	612	-	-	711,369	711,981
Other liabilities	330	-	-	-	-	7	337
	<u>1,693</u>	<u>-</u>	<u>612</u>	<u>126</u>	<u>253,531</u>	<u>725,205</u>	<u>981,167</u>
Issued guarantees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,155</u>	<u>-</u>	<u>17,155</u>
Received guarantees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,155</u>	<u>132,075</u>	<u>149,230</u>
Derivative transactions (notional amount – receivable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>470,200</u>	<u>470,200</u>
Derivative transactions (notional amount – payable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,135</u>	<u>148,866</u>	<u>150,001</u>

38. Related parties (continued)

For the period ended 30 June 2012, significant outstanding balances with related parties comprised:

€ '000	KMP	Close members of KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Income and expense items							
Interest and similar income	25	-	-	-	4,386	3,087	7,498
Interest and similar expense	(22)	-	(70)	-	(3,600)	(15,047)	(18,739)
Fee and commission income	1	-	-	-	-	4	5
Fee and commission expense	-	-	-	-	(12)	(3,419)	(3,431)
Net trading result	-	-	-	-	(2,911)	(13)	(2,924)
Other operating income	-	-	51	-	39	-	90
Other operating expenses	-	-	-	-	-	(173)	(173)
	<u>4</u>	<u>-</u>	<u>(19)</u>	<u>-</u>	<u>(2,098)</u>	<u>(15,561)</u>	<u>(17,674)</u>

39. Events after the end of reporting period

From 30 June 2013 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.