



**Interim consolidated financial statements
for 6 months ended 30 June 2014**

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

Contents

| | |
|-------------------------------------------------------------------------|---|
| Consolidated statement of financial position | 3 |
| Consolidated statement of profit or loss and other comprehensive income | 4 |
| Consolidated statement of changes in equity | 5 |
| Consolidated statement of cash flows | 6 |
| Notes to the interim consolidated financial statements | 7 |

Consolidated statement of financial position at 30 June 2014

(In thousands of euro)

| | Note | June 2014 | Dec 2013 |
|-------------------------------------------------------|------|-------------------|-------------------|
| Assets | | | |
| Cash and balances with central banks | 7 | 209,524 | 96,820 |
| Due from banks | 8 | 717,615 | 771,638 |
| Financial assets at fair value through profit or loss | 9 | 260,080 | 207,674 |
| Derivative financial instruments | 10 | 26,598 | 29,221 |
| Available-for-sale financial assets | 11 | 1,654,920 | 1,588,324 |
| Loans and advances to customers | 12 | 7,858,290 | 7,574,317 |
| Held-to-maturity investments | 14 | 521,633 | 995,831 |
| Associates and joint ventures | 15 | 16,454 | 14,362 |
| Intangible assets | 16 | 50,015 | 54,807 |
| Goodwill | 17 | 29,305 | 29,305 |
| Property and equipment | 18 | 115,525 | 122,108 |
| Deferred income tax assets | 19 | 41,918 | 41,895 |
| Other assets | 20 | 23,737 | 30,121 |
| | | <u>11,525,614</u> | <u>11,556,423</u> |
| Liabilities | | | |
| Due to central and other banks | 21 | 711,670 | 781,504 |
| Derivative financial instruments | 10 | 28,054 | 42,884 |
| Due to customers | 22 | 7,874,310 | 7,838,211 |
| Debt securities in issue | 23 | 1,428,492 | 1,404,607 |
| Current income tax liabilities | 19 | 10,159 | 1,166 |
| Provisions | 24 | 22,303 | 22,033 |
| Other liabilities | 25 | 77,136 | 86,629 |
| | | <u>10,152,124</u> | <u>10,177,034</u> |
| Equity | | | |
| Equity (excluding net profit for the period) | 26 | 1,297,298 | 1,244,293 |
| Net profit for the period | | 76,192 | 135,096 |
| | | <u>1,373,490</u> | <u>1,379,389</u> |
| | | <u>11,525,614</u> | <u>11,556,423</u> |
| Financial commitments and contingencies | 27 | <u>2,958,033</u> | <u>2,833,496</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 15 August 2014.



Elena Kohútiková
Member of the Management Board



Peter Magala
Member of the Management Board

Consolidated statement of profit or loss and other comprehensive income
for 6 months ended 30 June 2014
(In thousands of euro)

| | Note | June 2014 | June 2013 |
|------------------------------------------------------------------------|--------|--------------|--------------|
| Interest and similar income | | 261,510 | 262,520 |
| Interest and similar expense | | (50,088) | (59,934) |
| Net interest income | 28 | 211,422 | 202,586 |
| Fee and commission income | | 66,899 | 68,291 |
| Fee and commission expense | | (17,911) | (16,694) |
| Net fee and commission income | 29 | 48,988 | 51,597 |
| Net trading result | 30 | 6,121 | 5,542 |
| Other operating income | 31 | 3,463 | 3,971 |
| Operating income | | 269,994 | 263,696 |
| Salaries and employee benefits | 32 | (54,321) | (51,139) |
| Other operating expenses | 33 | (49,638) | (45,248) |
| Special levy of selected financial institutions | 33 | (19,583) | (19,195) |
| Amortisation | 16 | (6,319) | (5,157) |
| Depreciation | 18 | (8,074) | (8,750) |
| Operating expenses | | (137,935) | (129,489) |
| Operating profit before impairment | | 132,059 | 134,207 |
| Impairment losses | 34 | (38,723) | (40,879) |
| Profit from operations | | 93,336 | 93,328 |
| Share of profit of associates and joint ventures | 15 | 3,476 | 1,039 |
| Profit before tax | | 96,812 | 94,367 |
| Income tax expense | 35 | (20,620) | (23,919) |
| NET PROFIT FOR 6 MONTHS | | 76,192 | 70,448 |
| Other comprehensive income for 6 months, after tax: | | | |
| <i>Items that may be reclassified to profit or loss in the future:</i> | | | |
| Exchange difference on translating foreign operation | | (1) | (3) |
| Available-for-sale financial assets | | 2,073 | (14,313) |
| Cash flow hedges | | 491 | 473 |
| Other comprehensive income for 6 months, net of tax | 36, 37 | 2,563 | (13,843) |
| TOTAL COMPREHENSIVE INCOME FOR 6 MONTHS | | 78,755 | 56,605 |

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 2014
(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 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> |
| At 1 January 2014 | 430,819 | 13,501 | - | 99,507 | 792,121 | 8 | 43,161 | 272 | 1,379,389 |
| Total comprehensive income for 6 months, net of tax | - | - | - | - | 76,192 | (1) | 2,073 | 491 | 78,755 |
| Dividends to shareholders | - | - | - | - | (84,347) | - | - | - | (84,347) |
| Sale of Recovery, a.s. | - | - | - | (87) | 87 | - | - | - | - |
| Other | - | - | - | - | 7 | (7) | - | - | - |
| Purchase of treasury shares | - | - | (307) | - | - | - | - | - | (307) |
| At 30 June 2014 | <u>430,819</u> | <u>13,501</u> | <u>(307)</u> | <u>99,420</u> | <u>784,060</u> | <u>-</u> | <u>45,234</u> | <u>763</u> | <u>1,373,490</u> |

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 2014

(In thousands of euro)

| | Note | June 2014 | June 2013 |
|-------------------------------------------------------------------------------------------------|------|------------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 96,812 | 94,367 |
| Adjustments for: | | | |
| Amortisation | | 6,319 | 5,157 |
| Depreciation | | 8,074 | 8,750 |
| Securities at fair value through profit or loss, debt securities in issue and FX differences | | 11,778 | (7,562) |
| Items related to share of profit of associates and joint ventures | | (2,092) | (1,011) |
| Interest income | | (261,510) | (262,520) |
| Interest expense | | 50,088 | 59,934 |
| Sale of property and equipment | | (107) | (367) |
| Impairment losses and similar charges | | 48,570 | 40,370 |
| Interest received | | 295,944 | 309,827 |
| Interest paid | | (48,055) | (53,506) |
| Tax paid | | (11,650) | (28,932) |
| Due from banks | | (24,921) | (49,002) |
| Financial assets at fair value through profit or loss | | (52,801) | (128,608) |
| Derivative financial instruments (assets) | | 3,114 | 11,628 |
| Available-for-sale financial assets | | (78,968) | 87,614 |
| Loans and advances to customers | | (321,259) | 43,477 |
| Other assets | | 6,316 | (2,170) |
| Due to central and other banks | | (70,200) | (56,096) |
| Derivative financial instruments (liabilities) | | (14,830) | (19,073) |
| Due to customers | | 34,583 | 219,863 |
| Other liabilities | | (10,584) | (9,507) |
| <i>Net cash (used in)/from operating activities</i> | | <u>(335,379)</u> | <u>262,633</u> |
| Cash flows from investing activities | | | |
| Repayments of held-to-maturity investments | | 445,222 | 9,958 |
| Purchase of intangible assets and property and equipment | | (3,613) | (4,589) |
| Disposal of property and equipment | | 690 | 720 |
| <i>Net cash from investing activities</i> | | <u>442,299</u> | <u>6,089</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of debt securities | | 58,627 | 122,359 |
| Repayments of debt securities | | (44,862) | (86,318) |
| Purchase of treasury shares | | (307) | (701) |
| Dividends paid | | (84,347) | (64,623) |
| <i>Net cash used in financing activities</i> | | <u>(70,889)</u> | <u>(29,283)</u> |
| Net change in cash and cash equivalents | | 36,031 | 239,439 |
| Cash and cash equivalents at the beginning of the year | 6 | 276,274 | 165,969 |
| Cash and cash equivalents at 30 June | 6 | <u>312,305</u> | <u>405,408</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 2014, the Bank had a network of 240 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2013: 244). The Bank also has one branch in the Czech Republic.

At 30 June 2014, the members of the Management Board are: Alexander Resch (Chairman), Andrea De Michelis, Jiří Huml, Jozef Kausich, Elena Kohútiková and Peter Magala.

At 30 June 2014, the members of the Supervisory Board are: Ezio Salvai (Chairman), Ignacio Jaquotot (Vice Chairman), Ján Gallo, Massimo Malagoli, Paolo Sarcinelli, Christian Schaack and Andrej Straka.

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 joint ventures. All entities are incorporated in the Slovak Republic.

| | Share June 2014 | Share Dec 2013 | Principal business activity |
|------------------------------------------|--------------------|-------------------|--------------------------------|
| Subsidiaries | | | |
| Consumer Finance Holding, a.s. ('CFH') | 100% | 100% | Consumer finance business |
| VÚB Leasing, a. s. ('VÚB Leasing') | 100% | 100% | Finance and operating leasing |
| VÚB Factoring, a.s. | 100% | 100% | Factoring of receivables |
| Recovery, a.s. | - | 100% | Finance leasing |
| Associates | | | |
| VÚB Asset Management, správ. spol., a.s. | 40.55% | 40.55% | Asset management |
| Slovak Banking Credit Bureau, s.r.o. | 33.33% | 33.33% | Credit database administration |
| Joint ventures | | | |
| VÚB Generali DSS, a.s. | 50% | 50% | Pension fund administration |

At 31 December 2013, the Bank sold its subsidiary Recovery, a.s. to VÚB Factoring, a.s. The control was transferred together with registering the change in the Central Securities Depository on 2 January 2014. Recovery, a.s. merged into VÚB Factoring, a.s. on 31 January 2014. Since this was an intra-group transaction, it had no impact on the Group's financial position or its cash flows.

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 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 and presentation

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

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

2.3 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power over the investee and has the exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of these returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date at which effective control commences until the date at which control ceases.

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

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

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

(b) Associates

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

(c) Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

2. Summary of significant accounting policies (continued)

2.4 Segment reporting

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

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

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

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

2.5 Foreign currency transactions

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

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

2.6 Foreign operations

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

2.7 Cash and 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.

2. Summary of significant accounting policies (continued)

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.

- (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'.

2. Summary of significant accounting policies (continued)

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.

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'.

2. Summary of significant accounting policies (continued)

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

2.12 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.

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.

With regard to IFRS 13 adoption which contained a clarification in reference to non-performance risk in determining the fair value of the over-the-counter derivatives, a new calculation model was developed in 2013 – the Bilateral Credit Value Adjustment ('bCVA'). It takes fully into account the effects of changes in counterparty credit rating as well as the changes in own credit rating. The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment ('CVA') and Debit Value Adjustment ('DVA'):

2. Summary of significant accounting policies (continued)

- (i) The CVA (negative) takes into account scenarios whereby the counterparty fails before the Group that has a positive exposure to the counterparty. In these scenarios the Group suffers a loss equal to the cost of replacing the derivative,
- (ii) The DVA (positive) takes into account scenarios whereby the Group fails before the counterparty and has a negative exposure to the counterparty. In these scenarios the Group achieves a gain equal to the cost of replacing the derivative.

The bCVA depends on the exposure, probability of default and the loss given default of the counterparties. The VUB Group is selective in its choice of counterparties and sets limits for transactions with customers. The Group takes its own and its counterparties' credit risk into consideration to the extent it believes the market participants would do so.

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, inflation 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'.

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.

2. Summary of significant accounting policies (continued)

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. They are represented by assets, 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.

2.17 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:

2. Summary of significant accounting policies (continued)

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 current rates of return on Slovak government bonds with the 15 years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the projected unit credit method. 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 | 3.41% | 3.41% |
| Growth of wages in 2014 | n/a | 2.00% |
| Future growth of wages after 2014 | n/a | 3.00% |
| Fluctuation of employees (based on age) | 6 – 18% | 6 – 18% |
| 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 25) 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. 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,
- 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.

3. 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.

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 or is managed on the Watchlist, 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. For the purpose of provisioning for loans collectively assessed for impairment the VUB Group follows the Intesa Sanpaolo Group methodology as well as the methodology based on the Markov chains theory developed internally by VUB Bank. This methodology is used for those segments for which IRB approach is not used and sufficient data for the calculation exist.

Rules for identification of significant clients and methodology for calculation are set in the Credit Risk Charter or stated in the Provisioning Policy procedure.

3. Financial risk management (continued)

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

| €'000 | June 2014 | | | December 2013 | | |
|------------------------------|------------------|-------------------|------------------|------------------|-------------------|------------------|
| | Amortised cost | Impairment losses | Carrying amount | Amortised cost | Impairment losses | Carrying amount |
| Portfolio assessed | | | | | | |
| Banks | 717,640 | (25) | 717,615 | 771,662 | (24) | 771,638 |
| Customers | | | | | | |
| Sovereigns | 142,861 | (304) | 142,557 | 144,603 | (313) | 144,290 |
| Corporate | 2,867,208 | (34,578) | 2,832,630 | 2,798,941 | (29,598) | 2,769,343 |
| Retail | 4,922,169 | (210,204) | 4,711,965 | 4,674,900 | (202,415) | 4,472,485 |
| | <u>7,932,238</u> | <u>(245,086)</u> | <u>7,687,152</u> | <u>7,618,444</u> | <u>(232,326)</u> | <u>7,386,118</u> |
| Securities | | | | | | |
| FVTPL | 260,080 | - | 260,080 | 207,674 | - | 207,674 |
| AFS | 1,654,920 | - | 1,654,920 | 1,588,324 | - | 1,588,324 |
| HTM | 521,945 | (312) | 521,633 | 996,428 | (597) | 995,831 |
| | <u>2,436,945</u> | <u>(312)</u> | <u>2,436,633</u> | <u>2,792,426</u> | <u>(597)</u> | <u>2,791,829</u> |
| Individually assessed | | | | | | |
| Customers | | | | | | |
| Sovereigns | 53 | (5) | 48 | 305 | (75) | 230 |
| Corporate | 253,145 | (99,781) | 153,364 | 271,511 | (98,493) | 173,018 |
| Retail | 26,384 | (8,658) | 17,726 | 23,192 | (8,241) | 14,951 |
| | <u>279,582</u> | <u>(108,444)</u> | <u>171,138</u> | <u>295,008</u> | <u>(106,809)</u> | <u>188,199</u> |
| Securities | | | | | | |
| AFS | 574 | (574) | - | 574 | (574) | - |
| | <u>574</u> | <u>(574)</u> | <u>-</u> | <u>574</u> | <u>(574)</u> | <u>-</u> |

3. Financial risk management (continued)

The VUB Group uses 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 and 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 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 Advanced IRB approach for portfolio of residential mortgages from July 2012 and for the Corporate segment and for Retail Small Business from June 2014. Foundation IRB approach is used for corporate exposures where LGD is not available. 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.

3. Financial risk management (continued)

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

| €'000 | Category | June 2014 | | | December 2013 | | |
|-------------------|--------------|------------------|-------------------|------------------|------------------|-------------------|------------------|
| | | Amortised cost | Impairment losses | Carrying amount | Amortised cost | Impairment losses | Carrying amount |
| Banks | Performing | 717,640 | (25) | 717,615 | 771,662 | (24) | 771,638 |
| | | <u>717,640</u> | <u>(25)</u> | <u>717,615</u> | <u>771,662</u> | <u>(24)</u> | <u>771,638</u> |
| Sovereigns | Performing | 142,858 | (304) | 142,554 | 144,584 | (313) | 144,271 |
| | Substandard | 56 | (5) | 51 | 324 | (75) | 249 |
| | | <u>142,914</u> | <u>(309)</u> | <u>142,605</u> | <u>144,908</u> | <u>(388)</u> | <u>144,520</u> |
| Corporate | Performing | 2,933,466 | (36,273) | 2,897,193 | 2,874,275 | (34,785) | 2,839,490 |
| | Past due | 288 | (96) | 192 | 189 | (67) | 122 |
| | Restructured | 3,881 | (3,785) | 96 | 3,881 | (3,785) | 96 |
| | Substandard | 62,569 | (12,502) | 50,067 | 74,098 | (13,390) | 60,708 |
| | Doubtful | 120,149 | (81,703) | 38,446 | 118,009 | (76,064) | 41,945 |
| | | <u>3,120,353</u> | <u>(134,359)</u> | <u>2,985,994</u> | <u>3,070,452</u> | <u>(128,091)</u> | <u>2,942,361</u> |
| Retail | Performing | 4,671,040 | (61,056) | 4,609,984 | 4,431,784 | (59,663) | 4,372,121 |
| | Past due | 31,161 | (14,912) | 16,249 | 28,566 | (13,409) | 15,157 |
| | Substandard | 28,457 | (12,181) | 16,276 | 24,510 | (10,460) | 14,050 |
| | Doubtful | 217,895 | (130,713) | 87,182 | 213,232 | (127,124) | 86,108 |
| | | <u>4,948,553</u> | <u>(218,862)</u> | <u>4,729,691</u> | <u>4,698,092</u> | <u>(210,656)</u> | <u>4,487,436</u> |
| Securities | Performing | 2,436,945 | (312) | 2,436,633 | 2,792,426 | (597) | 2,791,829 |
| | Doubtful | 574 | (574) | - | 574 | (574) | - |
| | | <u>2,437,519</u> | <u>(886)</u> | <u>2,436,633</u> | <u>2,793,000</u> | <u>(1,171)</u> | <u>2,791,829</u> |

3. 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. The credit risk of the remaining financial assets not reported in the table below approximates their carrying amounts.

| €'000 | June 2014 | Dec 2013 |
|-------------------------------------------|------------------|------------------|
| Financial assets | | |
| Derivative financial instruments | 41,261 | 52,866 |
| Financial commitments and contingencies | | |
| Issued guarantees | 601,042 | 637,591 |
| Commitments and undrawn credit facilities | 2,356,991 | 2,195,905 |
| | <u>2,958,033</u> | <u>2,833,496</u> |
| | <u>2,999,294</u> | <u>2,886,362</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 2014 | | | December 2013 | | |
|-------------------|-------------------|----------------------|--------------------|-------------------|----------------------|--------------------|
| | Amortised cost | Impairment losses | Carrying amount | Amortised cost | Impairment losses | Carrying amount |
| Banks | | | | | | |
| No delinquency | 717,640 | (25) | 717,615 | 766,704 | (22) | 766,682 |
| 1 – 30 days | - | - | - | 4,958 | (2) | 4,956 |
| | <u>717,640</u> | <u>(25)</u> | <u>717,615</u> | <u>771,662</u> | <u>(24)</u> | <u>771,638</u> |
| Sovereigns | | | | | | |
| No delinquency | 142,671 | (303) | 142,368 | 144,298 | (384) | 143,914 |
| 1 – 30 days | 187 | (1) | 186 | 525 | (1) | 524 |
| 91 – 180 days | - | - | - | 66 | (3) | 63 |
| Over 181 days | 56 | (5) | 51 | 19 | - | 19 |
| | <u>142,914</u> | <u>(309)</u> | <u>142,605</u> | <u>144,908</u> | <u>(388)</u> | <u>144,520</u> |
| Corporate | | | | | | |
| No delinquency | 2,929,015 | (55,891) | 2,873,124 | 2,881,650 | (55,174) | 2,826,476 |
| 1 – 30 days | 61,908 | (4,781) | 57,127 | 74,912 | (17,705) | 57,207 |
| 31 – 60 days | 12,660 | (553) | 12,107 | 19,811 | (4,642) | 15,169 |
| 61 – 90 days | 11,697 | (2,178) | 9,519 | 10,708 | (3,198) | 7,510 |
| 91 – 180 days | 12,818 | (5,410) | 7,408 | 13,674 | (1,801) | 11,873 |
| Over 181 days | 92,255 | (65,546) | 26,709 | 69,697 | (45,571) | 24,126 |
| | <u>3,120,353</u> | <u>(134,359)</u> | <u>2,985,994</u> | <u>3,070,452</u> | <u>(128,091)</u> | <u>2,942,361</u> |

3. Financial risk management (continued)

| €'000 | June 2014 | | | December 2013 | | |
|-------------------|------------------|-------------------|------------------|------------------|-------------------|------------------|
| | Amortised cost | Impairment losses | Carrying amount | Amortised cost | Impairment losses | Carrying amount |
| Retail | | | | | | |
| No delinquency | 4,399,578 | (33,035) | 4,366,543 | 4,167,741 | (33,869) | 4,133,872 |
| 1 – 30 days | 197,415 | (13,861) | 183,554 | 195,873 | (13,165) | 182,708 |
| 31 – 60 days | 55,308 | (7,805) | 47,503 | 52,038 | (7,005) | 45,033 |
| 61 – 90 days | 34,691 | (7,134) | 27,557 | 30,485 | (5,621) | 24,864 |
| 91 – 180 days | 42,449 | (19,654) | 22,795 | 42,438 | (17,840) | 24,598 |
| Over 181 days | 219,112 | (137,373) | 81,739 | 209,517 | (133,156) | 76,361 |
| | <u>4,948,553</u> | <u>(218,862)</u> | <u>4,729,691</u> | <u>4,698,092</u> | <u>(210,656)</u> | <u>4,487,436</u> |
| Securities | | | | | | |
| No delinquency | 2,437,519 | (886) | 2,436,633 | 2,793,000 | (1,171) | 2,791,829 |
| | <u>2,437,519</u> | <u>(886)</u> | <u>2,436,633</u> | <u>2,793,000</u> | <u>(1,171)</u> | <u>2,791,829</u> |

Write-off Policy

The Group writes off a loan or security balance 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. Receivables are being collected by external collection agencies until they qualify for write-off.

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.

3. 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 and other credit enhancements against certain of its credit exposures. The collateral against loans and advances to customers is held 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 mitigates the credit risk of derivatives, reverse sale and repurchase agreements by entering into master netting agreements and holding collateral in the form of cash and marketable securities. Derivative transactions are either transacted on an exchange or entered into under International Swaps and Derivatives Association ('ISDA') master netting agreements. In general, under ISDA master netting agreements in certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

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 2014 | | | December 2013 | | |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Amortised cost | Impairment losses | Carrying amount | Amortised cost | Impairment losses | Carrying amount |
| Europe | | | | | | |
| Banks | 710,779 | (23) | 710,756 | 763,811 | (21) | 763,790 |
| Sovereigns | 142,914 | (309) | 142,605 | 144,908 | (388) | 144,520 |
| Corporate | 3,120,353 | (134,359) | 2,985,994 | 3,070,279 | (128,066) | 2,942,213 |
| Retail | 4,946,840 | (218,816) | 4,728,024 | 4,696,288 | (210,625) | 4,485,663 |
| Securities | 2,437,519 | (886) | 2,436,633 | 2,793,000 | (1,171) | 2,791,829 |
| | <u>11,358,405</u> | <u>(354,393)</u> | <u>11,004,012</u> | <u>11,468,286</u> | <u>(340,271)</u> | <u>11,128,015</u> |
| America | | | | | | |
| Banks | 6,217 | (2) | 6,215 | 7,742 | (3) | 7,739 |
| Retail | 204 | (4) | 200 | 249 | (4) | 245 |
| | <u>6,421</u> | <u>(6)</u> | <u>6,415</u> | <u>7,991</u> | <u>(7)</u> | <u>7,984</u> |
| Asia | | | | | | |
| Banks | 617 | - | 617 | 95 | - | 95 |
| Corporate | - | - | - | 173 | (25) | 148 |
| Retail | 993 | (25) | 968 | 994 | (20) | 974 |
| | <u>1,610</u> | <u>(25)</u> | <u>1,585</u> | <u>1,262</u> | <u>(45)</u> | <u>1,217</u> |
| Rest of the World | | | | | | |
| Banks | 27 | - | 27 | 14 | - | 14 |
| Retail | 516 | (17) | 499 | 561 | (7) | 554 |
| | <u>543</u> | <u>(17)</u> | <u>526</u> | <u>575</u> | <u>(7)</u> | <u>568</u> |

3. Financial risk management (continued)

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

30 June 2014
€'000

| | Banks | Sovereigns | Corporate | Retail | Securities |
|-------------------------|----------------|-------------------|------------------|------------------|-------------------|
| Agriculture | - | - | 79,625 | 28,680 | - |
| Construction | - | - | 117,871 | 17,467 | - |
| Consumers | - | - | - | 4,505,250 | - |
| Energy and water supply | - | - | 368,066 | 1,728 | - |
| Financial services | 717,615 | - | 120,656 | 309 | 162,767 |
| Government | - | 133,887 | - | - | 2,273,866 |
| Manufacturing | - | - | 566,135 | 27,409 | - |
| Professional services | - | - | 119,865 | 12,437 | - |
| Real estate | - | - | 442,932 | 29,318 | - |
| Retail & Wholesale | - | - | 600,501 | 65,114 | - |
| Services | - | - | 195,783 | 15,477 | - |
| Transportation | - | 8,718 | 323,246 | 11,817 | - |
| Other | - | - | 51,314 | 14,685 | - |
| | <u>717,615</u> | <u>142,605</u> | <u>2,985,994</u> | <u>4,729,691</u> | <u>2,436,633</u> |

31 December 2013
€'000

| | Banks | Sovereigns | Corporate | Retail | Securities |
|-------------------------|----------------|-------------------|------------------|------------------|-------------------|
| Agriculture | - | - | 59,449 | 16,263 | - |
| Construction | - | - | 161,803 | 16,120 | - |
| Consumers | - | - | - | 4,280,501 | - |
| Energy and water supply | - | - | 421,284 | 1,603 | - |
| Financial services | 771,638 | - | 102,333 | 512 | 161,032 |
| Government | - | 135,218 | - | - | 2,630,797 |
| Manufacturing | - | - | 523,480 | 25,081 | - |
| Professional services | - | - | 84,761 | 11,550 | - |
| Real estate | - | - | 396,624 | 25,410 | - |
| Retail & Wholesale | - | - | 617,115 | 64,912 | - |
| Services | - | - | 189,216 | 17,099 | - |
| Transportation | - | 9,302 | 312,184 | 11,190 | - |
| Other | - | - | 74,112 | 17,195 | - |
| | <u>771,638</u> | <u>144,520</u> | <u>2,942,361</u> | <u>4,487,436</u> | <u>2,791,829</u> |

3. 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 2014 €'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 | 717,640 | (25) | 717,615 | - | - | - | - | - | - |
| Sovereigns | | | | | | | | | |
| Municipalities | 142,481 | (301) | 142,180 | 56 | (5) | 51 | 150 | - | 150 |
| Municipalities – Leasing | 190 | (2) | 188 | - | - | - | 37 | (1) | 36 |
| | 142,671 | (303) | 142,368 | 56 | (5) | 51 | 187 | (1) | 186 |
| Corporate | | | | | | | | | |
| Large Corporates | 974,411 | (4,686) | 969,725 | 20,191 | (13,156) | 7,035 | 2,001 | (15) | 1,986 |
| Specialized Lending | 715,922 | (17,208) | 698,714 | 57,995 | (20,342) | 37,653 | 4,424 | (117) | 4,307 |
| SME | 726,261 | (10,049) | 716,212 | 75,288 | (45,179) | 30,109 | 16,377 | (701) | 15,676 |
| Other Fin. Institutions | 97,339 | (190) | 97,149 | 6 | (1) | 5 | - | - | - |
| Public Sector Entities | 10,726 | (103) | 10,623 | 10 | - | 10 | 71 | (1) | 70 |
| Leasing | 196,490 | (1,748) | 194,742 | 30,057 | (16,657) | 13,400 | 28,435 | (785) | 27,650 |
| Factoring | 144,821 | (651) | 144,170 | 3,340 | (2,751) | 589 | 16,188 | (19) | 16,169 |
| | 2,865,970 | (34,635) | 2,831,335 | 186,887 | (98,086) | 88,801 | 67,496 | (1,638) | 65,858 |
| Retail | | | | | | | | | |
| Small Business | 185,346 | (3,537) | 181,809 | 13,995 | (10,788) | 3,207 | 6,279 | (617) | 5,662 |
| Small Business – Leasing | 5,819 | (50) | 5,769 | 3,550 | (1,176) | 2,374 | 1,609 | (110) | 1,499 |
| Consumer Loans | 1,008,522 | (14,790) | 993,732 | 138,975 | (85,559) | 53,416 | 126,833 | (15,537) | 111,296 |
| Mortgages | 2,900,407 | (8,043) | 2,892,364 | 65,049 | (20,608) | 44,441 | 103,741 | (7,274) | 96,467 |
| Credit Cards | 181,868 | (3,211) | 178,657 | 38,861 | (26,738) | 12,123 | 24,136 | (5,415) | 18,721 |
| Overdrafts | 73,550 | (1,004) | 72,546 | 16,085 | (12,359) | 3,726 | 19,844 | (1,145) | 18,699 |
| Leasing | 2,299 | (21) | 2,278 | 284 | (215) | 69 | 318 | (20) | 298 |
| Flat Owners Associations | 21,525 | (281) | 21,244 | - | - | - | - | - | - |
| Other | 8,936 | (1) | 8,935 | 714 | (363) | 351 | 8 | - | 8 |
| | 4,388,272 | (30,938) | 4,357,334 | 277,513 | (157,806) | 119,707 | 282,768 | (30,118) | 252,650 |
| Securities | | | | | | | | | |
| FVTPL | 260,080 | - | 260,080 | - | - | - | - | - | - |
| AFS | 1,654,920 | - | 1,654,920 | 574 | (574) | - | - | - | - |
| HTM | 521,945 | (312) | 521,633 | - | - | - | - | - | - |
| | 2,436,945 | (312) | 2,436,633 | 574 | (574) | - | - | - | - |

3. Financial risk management (continued)

| 31 December 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 | 766,704 | (22) | 766,682 | - | - | - | 4,958 | (2) | 4,956 |
| Sovereigns | | | | | | | | | |
| Municipalities | 143,782 | (309) | 143,473 | 324 | (75) | 249 | 525 | (1) | 524 |
| Municipalities – Leasing | 277 | (3) | 274 | - | - | - | - | - | - |
| | <u>144,059</u> | <u>(312)</u> | <u>143,747</u> | <u>324</u> | <u>(75)</u> | <u>249</u> | <u>525</u> | <u>(1)</u> | <u>524</u> |
| Corporate | | | | | | | | | |
| Large Corporates | 925,787 | (4,093) | 921,694 | 20,061 | (11,577) | 8,484 | 7,616 | (17) | 7,599 |
| Specialized Lending | 718,142 | (16,593) | 701,549 | 71,101 | (27,444) | 43,657 | 883 | (26) | 857 |
| SME | 664,456 | (10,126) | 654,330 | 78,066 | (39,226) | 38,840 | 10,436 | (550) | 9,886 |
| Other Fin. Institutions | 133,601 | (350) | 133,251 | 5 | (1) | 4 | - | - | - |
| Public Sector Entities | 1,592 | (15) | 1,577 | 9 | - | 9 | 3 | - | 3 |
| Leasing | 204,798 | (1,732) | 203,066 | 23,366 | (12,297) | 11,069 | 22,680 | (697) | 21,983 |
| Factoring | 166,523 | (572) | 165,951 | 3,569 | (2,761) | 808 | 17,758 | (14) | 17,744 |
| | <u>2,814,899</u> | <u>(33,481)</u> | <u>2,781,418</u> | <u>196,177</u> | <u>(93,306)</u> | <u>102,871</u> | <u>59,376</u> | <u>(1,304)</u> | <u>58,072</u> |
| Retail | | | | | | | | | |
| Small Business | 171,254 | (3,338) | 167,916 | 13,511 | (11,124) | 2,387 | 4,702 | (557) | 4,145 |
| Small Business – Leasing | 7,188 | (62) | 7,126 | 2,900 | (937) | 1,963 | 1,789 | (70) | 1,719 |
| Consumer Loans | 965,309 | (15,157) | 950,152 | 124,850 | (77,271) | 47,579 | 119,856 | (13,750) | 106,106 |
| Mortgages | 2,727,938 | (8,284) | 2,719,654 | 68,315 | (21,925) | 46,390 | 102,841 | (7,118) | 95,723 |
| Credit Cards | 175,293 | (3,281) | 172,012 | 39,419 | (26,700) | 12,719 | 23,200 | (5,049) | 18,151 |
| Overdrafts | 83,133 | (1,450) | 81,683 | 16,467 | (12,635) | 3,832 | 21,274 | (1,209) | 20,065 |
| Leasing | 2,655 | (25) | 2,630 | 80 | (66) | 14 | 432 | (32) | 400 |
| Flat Owners Associations | 21,516 | (281) | 21,235 | - | - | - | - | - | - |
| Other | 3,376 | - | 3,376 | 766 | (335) | 431 | 28 | - | 28 |
| | <u>4,157,662</u> | <u>(31,878)</u> | <u>4,125,784</u> | <u>266,308</u> | <u>(150,993)</u> | <u>115,315</u> | <u>274,122</u> | <u>(27,785)</u> | <u>246,337</u> |
| Securities | | | | | | | | | |
| FVTPL | 207,674 | - | 207,674 | - | - | - | - | - | - |
| AFS | 1,588,324 | - | 1,588,324 | 574 | (574) | - | - | - | - |
| HTM | 996,428 | (597) | 995,831 | - | - | - | - | - | - |
| | <u>2,792,426</u> | <u>(597)</u> | <u>2,791,829</u> | <u>574</u> | <u>(574)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

3. Financial risk management (continued)

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

| €'000 | June 2014 | | | December 2013 | | |
|-------------------|----------------|-------------------|-----------------|----------------|-------------------|-----------------|
| | Amortised cost | Impairment losses | Carrying amount | Amortised cost | Impairment losses | Carrying amount |
| Banks | | | | | | |
| 1 – 30 days | - | - | - | 4,958 | (2) | 4,956 |
| | - | - | - | 4,958 | (2) | 4,956 |
| Sovereigns | | | | | | |
| 1 – 30 days | 187 | (1) | 186 | 525 | (1) | 524 |
| | 187 | (1) | 186 | 525 | (1) | 524 |
| Corporate | | | | | | |
| 1 – 30 days | 53,995 | (1,027) | 52,968 | 47,313 | (756) | 46,557 |
| 31 – 60 days | 11,806 | (449) | 11,357 | 10,382 | (372) | 10,010 |
| 61 – 90 days | 1,668 | (146) | 1,522 | 1,681 | (176) | 1,505 |
| Over 181 days | 27 | (16) | 11 | - | - | - |
| | 67,496 | (1,638) | 65,858 | 59,376 | (1,304) | 58,072 |
| Retail | | | | | | |
| 1 – 30 days | 189,675 | (11,990) | 177,685 | 188,964 | (11,884) | 177,080 |
| 31 – 60 days | 49,724 | (6,878) | 42,846 | 46,277 | (6,021) | 40,256 |
| 61 – 90 days | 29,374 | (5,911) | 23,463 | 25,424 | (4,584) | 20,840 |
| 91 – 180 days | 11,329 | (4,033) | 7,296 | 10,939 | (3,870) | 7,069 |
| Over 181 days | 2,666 | (1,306) | 1,360 | 2,518 | (1,426) | 1,092 |
| | 282,768 | (30,118) | 252,650 | 274,122 | (27,785) | 246,337 |

3. Financial risk management (continued)

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

| Large Corporates, 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 Specialized Lending which comprises of rating segments Special Purpose Vehicles ('SPV'), Projected Finance ('PF') and Real Estate Development ('RED') the Slotting approach is used by the Group. Clients 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 predefined by the NBS decree no. 4/2007 and internally, the categories used are as follows:

Specialized Lending – SPV, PF and RED

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

3. 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 2014 €'000 | Internal rating | Amortised cost | Impairment losses | Carrying amount |
|------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------|---------------------------------------------------|---------------------------------------------------|
| Banks | Unrated | 717,640 | (25) | 717,615 |
| Sovereigns Municipalities, Municipalities – Leasing | Unrated | 142,914 | (309) | 142,605 |
| | | 142,914 | (309) | 142,605 |
| Corporate Large Corporates, SME | I1 - I6 M1 - M4 R1 - R5 D (default) Unrated | 741,252 673,270 280,050 80,896 39,061 | (812) (5,541) (11,206) (55,361) (866) | 740,440 667,729 268,844 25,535 38,195 |
| Specialized Lending - SPV, PF and RED | Strong Good Satisfactory Weak | 94,651 197,710 391,810 94,170 | (134) (1,252) (23,520) (12,761) | 94,517 196,458 368,290 81,409 |
| Other Financial Institutions, Public Sector Entities | Unrated - PPU approach * | 108,152 | (295) | 107,857 |
| Leasing, Factoring | Unrated | 419,331 | (22,611) | 396,720 |
| | | <u>3,120,353</u> | <u>(134,359)</u> | <u>2,985,994</u> |

* 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.

3. Financial risk management (continued)

| 30 June 2014 €'000 | Internal rating | Amortised cost | Impairment losses | Carrying amount |
|---------------------------------------------|--------------------|-------------------|----------------------|--------------------|
| Retail | | | | |
| Small Business, Flat Owners Associations | I1 - I6 | 21,055 | (39) | 21,016 |
| | M1 - M4 | 105,564 | (1,344) | 104,220 |
| | R1 - R5 | 60,366 | (2,649) | 57,717 |
| | D (default) | 12,688 | (10,741) | 1,947 |
| | Unrated | 27,472 | (450) | 27,022 |
| Mortgages | L1 - L4 | 2,203,274 | (408) | 2,202,866 |
| | N1 - N3 | 517,215 | (1,021) | 516,194 |
| | W1 - W3 | 283,515 | (11,115) | 272,400 |
| | D (default) | 65,193 | (23,381) | 41,812 |
| Unsecured Retail | U1 | 190,274 | (107) | 190,167 |
| | U2 - U3 | 155,161 | (268) | 154,893 |
| | U4 - U5 | 177,107 | (705) | 176,402 |
| | U6 - U7 | 111,078 | (1,006) | 110,072 |
| | U8 - U10 | 95,489 | (2,416) | 93,073 |
| | U11 - U12 | 73,679 | (7,567) | 66,112 |
| | D (default) | 65,431 | (48,492) | 16,939 |
| | Unrated | 760,455 | (105,197) | 655,258 |
| Small Business – Leasing, Leasing | Unrated | 13,879 | (1,592) | 12,287 |
| Other | Unrated | 9,658 | (364) | 9,294 |
| | | <u>4,948,553</u> | <u>(218,862)</u> | <u>4,729,691</u> |
| Securities | Unrated | <u>2,437,519</u> | <u>(886)</u> | <u>2,436,633</u> |

3. Financial risk management (continued)

| 31 December 2013 €'000 | Internal rating | Amortised cost | Impairment losses | Carrying amount |
|---------------------------------------------------------|------------------------|-------------------|----------------------|--------------------|
| Banks | Unrated | <u>771,662</u> | <u>(24)</u> | <u>771,638</u> |
| Sovereigns | | | | |
| Municipalities, Municipalities – Leasing | Unrated | <u>144,908</u> | <u>(388)</u> | <u>144,520</u> |
| | | <u>144,908</u> | <u>(388)</u> | <u>144,520</u> |
| Corporate | | | | |
| Large Corporates, SME | I1 - I6 | 710,594 | (813) | 709,781 |
| | M1 - M4 | 668,002 | (6,684) | 661,318 |
| | R1 - R5 | 248,172 | (26,090) | 222,082 |
| | D (default) | 47,248 | (31,486) | 15,762 |
| | Unrated | 32,405 | (517) | 31,888 |
| Specialized Lending - SPV, PF | Strong | 95,750 | - | 95,750 |
| | Good | 296,335 | (1,179) | 295,156 |
| | Satisfactory | 275,937 | (20,970) | 254,967 |
| | Weak | 122,105 | (21,913) | 100,192 |
| Other Financial Institutions, Public Sector Entities | Unrated - PPU approach | 135,210 | (366) | 134,844 |
| Leasing, Factoring | Unrated | <u>438,694</u> | <u>(18,073)</u> | <u>420,621</u> |
| | | <u>3,070,452</u> | <u>(128,091)</u> | <u>2,942,361</u> |
| Retail | | | | |
| Small Business, Flat Owners Associations | I1 - I6 | 23,117 | (41) | 23,076 |
| | M1 - M4 | 90,798 | (938) | 89,860 |
| | R1 - R5 | 57,688 | (2,767) | 54,921 |
| | D (default) | 12,941 | (11,195) | 1,746 |
| | Unrated | 26,439 | (359) | 26,080 |
| Mortgages | L1 - L4 | 2,067,309 | (391) | 2,066,918 |
| | N1 - N3 | 475,183 | (933) | 474,250 |
| | W1 - W3 | 289,071 | (11,625) | 277,446 |
| | D (default) | 67,531 | (24,378) | 43,153 |
| Unsecured Retail | U1 | 175,223 | (99) | 175,124 |
| | U2 - U3 | 151,426 | (263) | 151,163 |
| | U4 - U5 | 162,199 | (675) | 161,524 |
| | U6 - U7 | 108,716 | (990) | 107,726 |
| | U8 - U10 | 106,577 | (2,794) | 103,783 |
| | U11 - U12 | 73,294 | (7,558) | 65,736 |
| | D (default) | 64,714 | (47,943) | 16,771 |
| | Unrated | 726,652 | (96,180) | 630,472 |
| Small Business – Leasing, Leasing | Unrated | 15,044 | (1,192) | 13,852 |
| Other | Unrated | <u>4,170</u> | <u>(335)</u> | <u>3,835</u> |
| | | <u>4,698,092</u> | <u>(210,656)</u> | <u>4,487,436</u> |
| Securities | Unrated | <u>2,793,000</u> | <u>(1,171)</u> | <u>2,791,829</u> |

3. 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 sub-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 sub-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 into account 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 department. 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 2014 | | | | December 2013 | | | |
|-----------------------|-----------|-----|-----|-----|---------------|-----|-----|-----|
| | Balance | Avg | Max | Min | Balance | Avg | Max | Min |
| Foreign currency risk | 100 | 108 | 233 | 35 | 108 | 69 | 148 | 17 |
| Interest rate risk | 58 | 119 | 265 | 15 | 16 | 97 | 205 | 15 |
| Overall | 121 | 183 | 393 | 94 | 109 | 133 | 223 | 53 |
| sVaR | 339 | 369 | 937 | 178 | 281 | 251 | 439 | 142 |

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.

3. 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 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 monthly monitoring of these gaps. The management of interest rate risk is measured by shift sensitivity analysis (change in present value). To align to the Intesa Sanpaolo Group methodology, since July 2013 the shift sensitivity analysis is defined as a parallel and uniform shift of + 100 basis points of the rate curve (previously + 1 basis point) and +/- 200 basis points of the rate curve. Further adjustments of the shift sensitivity calculation such as incorporation of models for sight loans (e.g. overdrafts and credit cards), sight deposits and prepayment rates for mortgages and consumer loans were made as well due to alignment. 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 tool for predicting 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). There are also some items where maturity or re-pricing period is known but it can be assumed that they will behave differently (e.g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the most probable 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.

3. Financial risk management (continued)

At 30 June 2014, interest margin sensitivity on profit or loss in a one year time frame in the event of a 100 basis points rise in interest rates, was € 5,906 thousand (31 December 2013: € 5,874 thousand).

At 30 June 2014, interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 100 basis points, registered € - 31,540 thousand (31 December 2013: € - 42,224 thousand).

| €'000 | June 2014 | Dec 2013 |
|-------|-----------------|-----------------|
| EUR | (33,144) | (42,216) |
| Other | 1,604 | (8) |
| | <u>(31,540)</u> | <u>(42,224)</u> |

At 30 June 2014, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € 1,543 thousand (31 December 2013: € - 3,238 thousand).

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

| | June 2014 % | Dec 2013 % |
|-------------------------------------------------------|-------------------|------------------|
| Assets | | |
| Cash and balances with central banks | 0.24 | 0.29 |
| Due from banks | 0.80 | 1.44 |
| Financial assets at fair value through profit or loss | 2.40 | 1.62 |
| Available-for-sale financial assets | 2.41 | 2.57 |
| Loans and advances to customers | 5.58 | 5.58 |
| Held-to-maturity investments | 4.32 | 4.17 |
| Liabilities | | |
| Due to central and other banks | 1.40 | 1.09 |
| Due to customers | 0.68 | 0.86 |
| Debt securities in issue | 2.61 | 2.67 |

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.

3. Financial risk management (continued)

(c) Liquidity risk

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

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

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

- The existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- A prudential approach to the estimate of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity;
- An assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time;
- The maintenance of an adequate level of unencumbered highly liquid assets, capable of enabling ordinary operations, also on an intraday basis, and overcoming the initial stages of a shock involving the Group's liquidity or system liquidity.

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

The departments of the Bank that are responsible for ensuring the correct application of the Guidelines are the Treasury Department responsible for short term liquidity management, the ALM department responsible for medium and long term liquidity management and the 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.

3. Financial risk management (continued)

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

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

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

| 30 June 2014 €'000 | Less than 12 months | Over 12 months | Total |
|-------------------------------------------------------|--------------------------------|---------------------------|---------------------|
| Assets | | | |
| Cash and balances with central banks | 209,524 | - | 209,524 |
| Due from banks | 645,597 | 72,018 | 717,615 |
| Financial assets at fair value through profit or loss | 207,301 | 52,779 | 260,080 |
| Derivative financial instruments | 26,598 | - | 26,598 |
| Available-for-sale financial assets | 405,064 | 1,249,856 | 1,654,920 |
| Loans and advances to customers | 2,194,942 | 5,663,348 | 7,858,290 |
| Held-to-maturity investments | 4,024 | 517,609 | 521,633 |
| Associates and joint ventures | - | 16,454 | 16,454 |
| Intangible assets | - | 50,015 | 50,015 |
| Goodwill | - | 29,305 | 29,305 |
| Property and equipment | - | 115,525 | 115,525 |
| Deferred income tax assets | - | 41,918 | 41,918 |
| Other assets | 23,737 | - | 23,737 |
| | <u>3,716,787</u> | <u>7,808,827</u> | <u>11,525,614</u> |
| Liabilities | | | |
| Due to central and other banks | (423,484) | (288,186) | (711,670) |
| Derivative financial instruments | (28,054) | - | (28,054) |
| Due to customers | (7,199,557) | (674,753) | (7,874,310) |
| Debt securities in issue | (266,221) | (1,162,271) | (1,428,492) |
| Current income tax liabilities | (10,159) | - | (10,159) |
| Provisions | - | (22,303) | (22,303) |
| Other liabilities | (73,980) | (3,156) | (77,136) |
| | <u>(8,001,455)</u> | <u>(2,150,669)</u> | <u>(10,152,124)</u> |
| | <u>(4,284,668)</u> | <u>5,658,158</u> | <u>1,373,490</u> |

3. Financial risk management (continued)

| 31 December 2013 €'000 | Less than 12 months | Over 12 months | Total |
|-------------------------------------------------------|--------------------------------------|---------------------------------|---------------------|
| Assets | | | |
| Cash and balances with central banks | 96,820 | - | 96,820 |
| Due from banks | 705,991 | 65,647 | 771,638 |
| Financial assets at fair value through profit or loss | 194,439 | 13,235 | 207,674 |
| Derivative financial instruments | 29,221 | - | 29,221 |
| Available-for-sale financial assets | 27,342 | 1,560,982 | 1,588,324 |
| Loans and advances to customers | 2,225,924 | 5,348,393 | 7,574,317 |
| Held-to-maturity investments | 477,691 | 518,140 | 995,831 |
| Associates and joint ventures | - | 14,362 | 14,362 |
| Intangible assets | - | 54,807 | 54,807 |
| Goodwill | - | 29,305 | 29,305 |
| Property and equipment | - | 122,108 | 122,108 |
| Deferred income tax assets | - | 41,895 | 41,895 |
| Other assets | 30,121 | - | 30,121 |
| | <u>3,787,549</u> | <u>7,768,874</u> | <u>11,556,423</u> |
| Liabilities | | | |
| Due to central and other banks | (512,129) | (269,375) | (781,504) |
| Derivative financial instruments | (42,884) | - | (42,884) |
| Due to customers | (7,056,739) | (781,472) | (7,838,211) |
| Debt securities in issue | (211,876) | (1,192,731) | (1,404,607) |
| Current income tax liabilities | (1,166) | - | (1,166) |
| Provisions | - | (22,033) | (22,033) |
| Other liabilities | (83,473) | (3,156) | (86,629) |
| | <u>(7,908,267)</u> | <u>(2,268,767)</u> | <u>(10,177,034)</u> |
| | <u>(4,120,718)</u> | <u>5,500,107</u> | <u>1,379,389</u> |

3. 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 VUB 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 participate in the process and each of them is responsible 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 VUB 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. In June 2013, the Bank as part of the VUB Group request has received approval for usage and thus adopted the AMA for subsidiaries Consumer Finance Holding and VUB Leasing. The part of this decision has been an approval of the insurance effect inclusion, as well as approval of a new allocation mechanism, which led to fulfilment of a regulatory condition for the approval of diversification usage.

As such, the VUB Group uses a combination of the AMA for the Bank, Consumer Finance Holding and VUB Leasing, and the Standardized and Basic Indicator Approach ('TSA') for other 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 process 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 include the benefit from this transfer of operational risk through insurance policies, which contributes to reducing the risk capital calculated through the internal models.

4. 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. Fair value is a market measurement criterion that is not entity-specific. An entity has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market operators to determine the price of an asset or liability, presuming that the market operators act with a view to satisfying their own economic interest in the best way possible.

The VUB Group uses the following fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

- Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the Group as at the measurement date;
- Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and
- Level 3: inputs unobservable for the asset or liability.

The highest priority is attributed to effective market quotes (Level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (Level 2) and the lowest priority to unobservable inputs (Level 3). Following this hierarchy, where available, fair value estimates made by the Group are 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.

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. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. The VUB Group also considers its own and counterparty's credit risk.

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument. The Group monitors the occurrence of these changes and accordingly reassesses the classification into the fair value levels hierarchy. For determining the timing of the transfers between the levels, the Group uses the end of the reporting period as a day when the transfer is deemed to have occurred.

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.

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

(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.

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

| 30 June 2014 €'000 | Note | Carrying amount | | | Fair value | | | Total fair value |
|-------------------------------------------------------|------|---------------------|------------------|-----------------------|----------------|--------------------|----------|--------------------|
| | | At amortised cost | At fair value | Total carrying amount | Level 1 | Level 2 | Level 3 | |
| Financial assets | | | | | | | | |
| Cash and balances with central banks | 7 | 209,524 | - | 209,524 | - | 209,524 | - | 209,524 |
| Due from banks | 8 | 717,615 | - | 717,615 | - | 718,155 | - | 718,155 |
| Financial assets at fair value through profit or loss | 9 | - | 260,080 | 260,080 | 256,465 | 3,615 | - | 260,080 |
| Derivative financial instruments | 10 | - | 26,598 | 26,598 | - | 26,598 | - | 26,598 |
| Available-for-sale financial assets | 11 | - | 1,654,920 | 1,654,920 | 345,212 | 1,309,708 | - | 1,654,920 |
| Loans and advances to customers | 12 | 7,858,290 | - | 7,858,290 | - | 9,357,044 | - | 9,357,044 |
| Held-to-maturity investments | 14 | 521,633 | - | 521,633 | - | 605,209 | - | 605,209 |
| | | <u>9,307,062</u> | <u>1,941,598</u> | <u>11,248,660</u> | <u>601,677</u> | <u>12,229,853</u> | <u>-</u> | <u>12,831,530</u> |
| Financial liabilities | | | | | | | | |
| Due to central and other banks | 21 | (711,670) | - | (711,670) | - | (711,670) | - | (711,670) |
| Derivative financial instruments | 10 | - | (28,054) | (28,054) | - | (28,054) | - | (28,054) |
| Due to customers | 22 | (7,874,310) | - | (7,874,310) | - | (7,751,902) | - | (7,751,902) |
| Debt securities in issue | 23 | (1,428,492) | - | (1,428,492) | - | (1,471,227) | - | (1,471,227) |
| | | <u>(10,014,472)</u> | <u>(28,054)</u> | <u>(10,042,526)</u> | <u>-</u> | <u>(9,962,853)</u> | <u>-</u> | <u>(9,962,853)</u> |

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

| 31 December 2013 €'000 | Note | Carrying amount | | | Fair value | | | Total fair value |
|-------------------------------------------------------|------|---------------------|------------------|-----------------------|----------------|--------------------|----------|--------------------|
| | | At amortised cost | At fair value | Total carrying amount | Level 1 | Level 2 | Level 3 | |
| Financial assets | | | | | | | | |
| Cash and balances with central banks | 7 | 96,820 | - | 96,820 | - | 96,820 | - | 96,820 |
| Due from banks | 8 | 771,638 | - | 771,638 | - | 772,413 | - | 772,413 |
| Financial assets at fair value through profit or loss | 9 | - | 207,674 | 207,674 | 166,312 | 41,362 | - | 207,674 |
| Derivative financial instruments | 10 | - | 29,221 | 29,221 | - | 29,221 | - | 29,221 |
| Available-for-sale financial assets | 11 | - | 1,588,324 | 1,588,324 | 343,070 | 1,245,254 | - | 1,588,324 |
| Loans and advances to customers | 12 | 7,574,317 | - | 7,574,317 | - | 8,765,362 | - | 8,765,362 |
| Held-to-maturity investments | 14 | 995,831 | - | 995,831 | - | 1,065,202 | - | 1,065,202 |
| | | <u>9,438,606</u> | <u>1,825,219</u> | <u>11,263,825</u> | <u>509,382</u> | <u>12,015,634</u> | <u>-</u> | <u>12,525,016</u> |
| Financial liabilities | | | | | | | | |
| Due to central and other banks | 21 | (781,504) | - | (781,504) | - | (781,504) | - | (781,504) |
| Derivative financial instruments | 10 | - | (42,884) | (42,884) | - | (42,884) | - | (42,884) |
| Due to customers | 22 | (7,838,211) | - | (7,838,211) | - | (7,676,237) | - | (7,676,237) |
| Debt securities in issue | 23 | (1,404,607) | - | (1,404,607) | - | (1,435,400) | - | (1,435,400) |
| | | <u>(10,024,322)</u> | <u>(42,884)</u> | <u>(10,067,206)</u> | <u>-</u> | <u>(9,936,025)</u> | <u>-</u> | <u>(9,936,025)</u> |

There were no significant transfers of financial instruments among the levels during the period ended 30 June 2014 (31 December 2013: no transfers).

5. 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, 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.

5. Segment reporting (continued)
30 June 2014
€'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 joint ventures

Income tax expense

Net profit for 6 months

Segment assets

Segment liabilities and equity

| | Retail Banking | Corporate Banking | Central Treasury | Other | Total |
|--------------------------------------------------|---------------------------|------------------------------|-----------------------------|--------------|---------------|
| Interest income | 170,135 | 45,733 | 6,747 | 38,895 | 261,510 |
| Interest expense | (21,544) | (4,105) | (4,252) | (20,187) | (50,088) |
| Inter-segment revenue | (11,427) | (8,402) | (2,353) | 22,182 | - |
| Net interest income | 137,164 | 33,226 | 142 | 40,890 | 211,422 |
| Net fee and commission income | 22,345 | 27,401 | 1,432 | (2,190) | 48,988 |
| Net trading result | 1,288 | 1,779 | 1,073 | 1,981 | 6,121 |
| Other operating income | 4,861 | 2,356 | (9) | (3,745) | 3,463 |
| Total segment operating income | 165,658 | 64,762 | 2,638 | 36,936 | 269,994 |
| Operating expenses | | | | | (137,935) |
| Operating profit before impairment | | | | | 132,059 |
| Impairment losses | | | | | (38,723) |
| Share of profit of associates and joint ventures | | | | | 3,476 |
| Income tax expense | | | | | (20,620) |
| Net profit for 6 months | | | | | 76,192 |
| Segment assets | 4,706,478 | 3,262,525 | 744,955 | 2,811,656 | 11,525,614 |
| Segment liabilities and equity | 5,026,648 | 2,247,272 | 1,325,028 | 2,926,666 | 11,525,614 |

5. Segment reporting (continued)
30 June 2013
€'000

| | 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 joint ventures | | | | | 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 |

6. Cash and cash equivalents

| €'000 | Note | June 2014 | Dec 2013 |
|--------------------------------------|------|----------------|----------------|
| Cash and balances with central banks | 7 | 209,524 | 96,820 |
| Current accounts in other banks | 8 | 53,780 | 16,316 |
| Term deposits with other banks | 8 | 49,001 | 163,138 |
| | | <u>312,305</u> | <u>276,274</u> |

7. Cash and balances with central banks

| €'000 | June 2014 | Dec 2013 |
|------------------------------|----------------|---------------|
| Balances with central banks: | | |
| Compulsory minimum reserves | 692 | 1,128 |
| Current accounts | - | 112 |
| Term deposits | 119,854 | - |
| | <u>120,546</u> | <u>1,240</u> |
| Cash in hand | 88,978 | 95,580 |
| | <u>209,524</u> | <u>96,820</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 at the NBS and 2% for the reserves held at 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.

8. Due from banks

| €'000 | Note | June 2014 | Dec 2013 |
|---------------------------------------------|------|----------------|----------------|
| Current accounts | 6 | 53,780 | 16,316 |
| Term deposits | | | |
| with contractual maturity less than 90 days | 6 | 49,001 | 163,138 |
| with contractual maturity over 90 days | | 20,074 | 20,071 |
| Loans and advances | | | |
| with contractual maturity over 90 days | | 552,346 | 562,058 |
| Cash collateral | | 42,439 | 10,079 |
| Impairment losses | 13 | (25) | (24) |
| | | <u>717,615</u> | <u>771,638</u> |

At 30 June 2014 the balance of 'Term deposits' comprises of several deposits with commercial banks located in the Czech Republic and in Italy in the total nominal amount of € 69,000 thousand (31 December 2013: € 183,131 thousand).

8. Due from banks (continued)

At 30 June 2014 the balance of 'Loans and advances' comprises of two short term reverse repo trades concluded with Intesa Sanpaolo S.p.A. in the total nominal amount of € 499,719 thousand (31 December 2013: one repo trade in the nominal amount of € 499,494 thousand). The repo trades are secured by state bonds and cash collateral.

9. Financial assets at fair value through profit or loss

| €'000 | June 2014 | Dec 2013 |
|-----------------------------------------------------------------------------------------|----------------|----------------|
| Financial assets held for trading | | |
| State bonds | | |
| with contractual maturity over 90 days | 259,050 | 206,639 |
| Bank bonds | | |
| with contractual maturity over 90 days | 443 | 362 |
| | <u>259,493</u> | <u>207,001</u> |
| Financial assets designated at fair value through profit or loss on initial recognition | | |
| Equity shares | 587 | 673 |
| | <u>260,080</u> | <u>207,674</u> |

Equity shares in the fair value through profit or loss portfolio ('FVTPL') are represented by shares of Intesa Sanpaolo S.p.A and they form the part of the incentive plan introduced by the parent company.

At 30 June 2014 and 31 December 2013, no financial assets at fair value through profit or loss were pledged by the VUB Group to secure transactions with counterparties.

10. Derivative financial instruments

| €'000 | June 2014 Assets | Dec 2013 Assets | June 2014 Liabilities | Dec 2013 Liabilities |
|-------------------------------------------------------|------------------------|-----------------------|-----------------------------|----------------------------|
| Trading derivatives | 16,871 | 24,341 | 17,116 | 33,754 |
| Cash flow hedges of interest rate risk | 978 | 1,608 | - | 1,259 |
| Fair value hedges of interest rate and inflation risk | 8,749 | 3,272 | 10,938 | 7,871 |
| | <u>26,598</u> | <u>29,221</u> | <u>28,054</u> | <u>42,884</u> |

Trading derivatives also include hedging instruments that are non-qualifying according to IAS 39, which are held for risk management purposes rather than for trading. These instruments currently consist of one cross-currency interest rate swap. At 30 June 2014, the total positive fair value of this derivative was nil (31 December 2013: nil) and the negative fair value was € 1,338 thousand (31 December 2013: € 1,307 thousand).

10. Derivative financial instruments (continued)

| €'000 | June 2014 Assets | Dec 2013 Assets | June 2014 Liabilities | Dec 2013 Liabilities |
|----------------------------------------------|---------------------------------|--------------------------------|--------------------------------------|-------------------------------------|
| Trading derivatives – Fair values | | | | |
| Interest rate instruments | | | | |
| Swaps | 7,361 | 8,390 | 5,212 | 7,688 |
| Options | 2,829 | 2,534 | 2,850 | 2,551 |
| | <u>10,190</u> | <u>10,924</u> | <u>8,062</u> | <u>10,239</u> |
| Foreign currency instruments | | | | |
| Forwards and swaps | 2,172 | 8,201 | 3,036 | 16,429 |
| Cross currency swaps | - | - | 1,338 | 1,307 |
| Options | 1,567 | 1,822 | 1,738 | 2,385 |
| | <u>3,739</u> | <u>10,023</u> | <u>6,112</u> | <u>20,121</u> |
| Equity and commodity instruments | | | | |
| Equity options | 2,942 | 3,394 | 2,942 | 3,394 |
| | <u>16,871</u> | <u>24,341</u> | <u>17,116</u> | <u>33,754</u> |
| €'000 | | | | |
| Trading derivatives – Notional values | | | | |
| Interest rate instruments | | | | |
| Swaps | 440,446 | 458,950 | 440,446 | 458,950 |
| Options | 168,428 | 163,897 | 168,428 | 163,897 |
| Futures | 616,363 | - | 616,363 | - |
| | <u>1,225,237</u> | <u>622,847</u> | <u>1,225,237</u> | <u>622,847</u> |
| Foreign currency instruments | | | | |
| Forwards and swaps | 411,172 | 843,205 | 411,886 | 851,532 |
| Cross currency swaps | 29,141 | 29,168 | 30,449 | 30,449 |
| Options | 48,372 | 74,264 | 48,326 | 74,123 |
| | <u>488,685</u> | <u>946,637</u> | <u>490,661</u> | <u>956,104</u> |
| Equity and commodity instruments | | | | |
| Equity options | 8,478 | 14,304 | 8,478 | 14,304 |
| | <u>1,722,400</u> | <u>1,583,788</u> | <u>1,724,376</u> | <u>1,593,255</u> |

10. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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 and inflation risk

The VUB Group uses ten interest rate swaps to hedge the interest rate risk of nine 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.

The VUB Group also uses three asset swaps to hedge the inflation risk and the interest rate risk of one inflation bond held in the AFS portfolio (the bond and swaps were purchased together as a package transaction). The changes in fair value of these asset swaps substantially offset the changes in fair value of AFS portfolio bond, both in relation to changes of interest rates and inflation reference index.

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 three interest rate swaps to hedge the interest rate risk of three 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.

11. Available-for-sale financial assets

| €'000 | Note | Share June 2014 | Share Dec 2013 | June 2014 | Dec 2013 |
|--------------------------------------------|------|-----------------------|----------------------|------------------|------------------|
| State bonds | | | | 1,493,183 | 1,428,327 |
| Bank bonds | | | | 161,689 | 159,957 |
| Equity shares at cost | | | | | |
| RVS, a.s. | | 8.38% | 8.38% | 574 | 574 |
| S.W.I.F.T. | | 0.01% | 0.01% | 48 | 40 |
| Impairment losses to equity shares at cost | 13 | | | (574) | (574) |
| | | | | <u>1,654,920</u> | <u>1,588,324</u> |

At 30 June 2014, state bonds in the total nominal amount of € 556,261 thousand from available-for-sale portfolio were pledged by the VUB Group to secure collateralized transactions (31 December 2013: € 556,261 thousand). These bonds were pledged in favour of the NBS within the pool of assets used as collateral for received funds needed for the liquidity management purposes. The whole pool of assets can be used for any ECB operation in the future.

12. Loans and advances to customers

| 30 June 2014 €'000 | Amortised cost | Impairment losses (note 13) | Carrying amount |
|--------------------------------------|-------------------|-----------------------------------|--------------------|
| Sovereigns | | | |
| Municipalities | 142,687 | (306) | 142,381 |
| Municipalities – Leasing | 227 | (3) | 224 |
| | <u>142,914</u> | <u>(309)</u> | <u>142,605</u> |
| Corporate | | | |
| Large Corporates | 996,603 | (17,857) | 978,746 |
| Specialized Lending | 778,341 | (37,667) | 740,674 |
| Small and Medium Enterprises ('SME') | 817,926 | (55,929) | 761,997 |
| Other Financial Institutions | 97,345 | (191) | 97,154 |
| Public Sector Entities | 10,807 | (104) | 10,703 |
| Leasing | 254,982 | (19,190) | 235,792 |
| Factoring | 164,349 | (3,421) | 160,928 |
| | <u>3,120,353</u> | <u>(134,359)</u> | <u>2,985,994</u> |
| Retail | | | |
| Small Business | 205,620 | (14,942) | 190,678 |
| Small Business – Leasing | 10,978 | (1,336) | 9,642 |
| Consumer Loans | 1,274,330 | (115,886) | 1,158,444 |
| Mortgages | 3,069,197 | (35,925) | 3,033,272 |
| Credit Cards | 244,865 | (35,364) | 209,501 |
| Overdrafts | 109,479 | (14,508) | 94,971 |
| Leasing | 2,901 | (256) | 2,645 |
| Flat Owners Associations | 21,525 | (281) | 21,244 |
| Other | 9,658 | (364) | 9,294 |
| | <u>4,948,553</u> | <u>(218,862)</u> | <u>4,729,691</u> |
| | <u>8,211,820</u> | <u>(353,530)</u> | <u>7,858,290</u> |

12. Loans and advances to customers (continued)

| 31 December 2013 €'000 | Amortised cost | Impairment losses (note 13) | Carrying amount |
|--------------------------------------|-------------------|-----------------------------------|--------------------|
| Sovereigns | | | |
| Municipalities | 144,631 | (385) | 144,246 |
| Municipalities – Leasing | 277 | (3) | 274 |
| | <u>144,908</u> | <u>(388)</u> | <u>144,520</u> |
| Corporate | | | |
| Large Corporates | 953,464 | (15,687) | 937,777 |
| Specialized Lending | 790,126 | (44,063) | 746,063 |
| Small and Medium Enterprises ('SME') | 752,958 | (49,902) | 703,056 |
| Other Financial Institutions | 133,606 | (351) | 133,255 |
| Public Sector Entities | 1,604 | (15) | 1,589 |
| Leasing | 250,844 | (14,726) | 236,118 |
| Factoring | 187,850 | (3,347) | 184,503 |
| | <u>3,070,452</u> | <u>(128,091)</u> | <u>2,942,361</u> |
| Retail | | | |
| Small Business | 189,467 | (15,019) | 174,448 |
| Small Business – Leasing | 11,877 | (1,069) | 10,808 |
| Consumer Loans | 1,210,015 | (106,178) | 1,103,837 |
| Mortgages | 2,899,094 | (37,327) | 2,861,767 |
| Credit Cards | 237,912 | (35,030) | 202,882 |
| Overdrafts | 120,874 | (15,294) | 105,580 |
| Leasing | 3,167 | (123) | 3,044 |
| Flat Owners Associations | 21,516 | (281) | 21,235 |
| Other | 4,170 | (335) | 3,835 |
| | <u>4,698,092</u> | <u>(210,656)</u> | <u>4,487,436</u> |
| | <u>7,913,452</u> | <u>(339,135)</u> | <u>7,574,317</u> |

Maturities of gross finance lease receivables are as follows:

| €'000 | June 2014 | Dec 2013 |
|--------------------------------------------------|----------------|----------------|
| Up to 1 year | 93,184 | 85,528 |
| 1 to 5 years | 156,590 | 157,887 |
| Over 5 years | 49,879 | 56,023 |
| | <u>299,653</u> | <u>299,438</u> |
| Unearned future finance income on finance leases | (30,565) | (33,273) |
| Impairment losses | (20,785) | (15,921) |
| | <u>248,303</u> | <u>250,244</u> |

12. Loans and advances to customers (continued)

Maturities of net finance lease receivables are as follows:

| €'000 | June 2014 | Dec 2013 |
|-------------------|----------------|----------------|
| Up to 1 year | 83,598 | 75,510 |
| 1 to 5 years | 139,839 | 139,708 |
| Over 5 years | 45,651 | 50,947 |
| | 269,088 | 266,165 |
| Impairment losses | (20,785) | (15,921) |
| | <u>248,303</u> | <u>250,244</u> |

13. Impairment losses on assets

| €'000 | Note | 1 Jan 2014 | Creation (note 34) | Reversal (note 34) | Assets written- off/sold (note 34) | Other * | 30 June 2014 |
|----------------------------------------|------|----------------|-----------------------|-----------------------|---------------------------------------------|----------------|-----------------|
| Due from banks | 8 | 24 | 2 | (1) | - | - | 25 |
| Available-for-sale financial assets | 11 | 574 | - | - | - | - | 574 |
| Loans and advances to customers | 12 | 339,135 | 106,979 | (64,132) | (28,536) | 84 | 353,530 |
| Held-to-maturity investments | 14 | 597 | - | (285) | - | - | 312 |
| Property and equipment | 18 | 7,226 | 26 | (14) | - | - | 7,238 |
| Other assets | 20 | 14,191 | 1,329 | (1,261) | - | (5,383) | 8,876 |
| | | <u>361,747</u> | <u>108,336</u> | <u>(65,693)</u> | <u>(28,536)</u> | <u>(5,299)</u> | <u>370,555</u> |

* 'Other' represents the following movements:

- Interest portion (unwinding of interest) of € 5,299 thousand,
- Reclassification of impairment losses to receivables from termination of leasing of € 5,383 thousand from 'Other assets' to 'Loans and advances to customers' (see also Note 20).

14. Held-to-maturity investments

| €'000 | Note | June 2014 | Dec 2013 |
|-------------------|------|----------------|----------------|
| State bonds | | 521,945 | 996,428 |
| Impairment losses | 13 | (312) | (597) |
| | | <u>521,633</u> | <u>995,831</u> |

At 30 June 2014, state bonds in the total nominal amount of € 49,054 thousand (31 December 2013: € 49,057 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.

15. Associates and joint ventures

€'000

At 30 June 2014

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

| | Share % | Cost | Revaluation | Carrying amount |
|------------------------------------------|------------|---------------|----------------|--------------------|
| Slovak Banking Credit Bureau, s.r.o. | 33.33 | 3 | 47 | 50 |
| VÚB Asset Management, správ. spol., a.s. | 40.55 | 2,821 | 5,522 | 8,343 |
| VÚB Generali DSS, a.s. | 50.00 | 16,597 | (8,536) | 8,061 |
| | | <u>19,421</u> | <u>(2,967)</u> | <u>16,454</u> |

At 31 December 2013

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

| | | | | |
|------------------------------------------|-------|---------------|----------------|---------------|
| Slovak Banking Credit Bureau, s.r.o. | 33.33 | 3 | 43 | 46 |
| VÚB Asset Management, správ. spol., a.s. | 40.55 | 2,821 | 3,650 | 6,471 |
| VÚB Generali DSS, a.s. | 50.00 | 16,597 | (8,752) | 7,845 |
| | | <u>19,421</u> | <u>(5,059)</u> | <u>14,362</u> |

16. Intangible assets

€'000

Cost

 At 1 January 2014
 Additions
 Transfers
 FX differences

| | Software | Other intangible assets | Assets in progress | Total |
|---------------------------------|------------------|-------------------------------|-----------------------|------------------|
| At 1 January 2014 | 192,565 | 54,194 | 9,337 | 256,096 |
| Additions | - | - | 1,528 | 1,528 |
| Transfers | 8,311 | 115 | (8,426) | - |
| FX differences | (1) | - | - | (1) |
| At 30 June 2014 | <u>200,875</u> | <u>54,309</u> | <u>2,439</u> | <u>257,623</u> |
| Accumulated amortisation | | | | |
| At 1 January 2014 | (148,283) | (53,006) | - | (201,289) |
| Amortisation for the period | (6,158) | (161) | - | (6,319) |
| At 30 June 2014 | <u>(154,441)</u> | <u>(53,167)</u> | <u>-</u> | <u>(207,608)</u> |
| Carrying amount | | | | |
| At 1 January 2014 | <u>44,282</u> | <u>1,188</u> | <u>9,337</u> | <u>54,807</u> |
| At 30 June 2014 | <u>46,434</u> | <u>1,142</u> | <u>2,439</u> | <u>50,015</u> |

17. Goodwill

| €'000 | June 2014 | Dec 2013 |
|--------------------------------|--------------|-------------|
| VÚB Leasing, a. s. | 10,434 | 10,434 |
| Consumer Finance Holding, a.s. | 18,871 | 18,871 |
| | 29,305 | 29,305 |

Goodwill related to VÚB Leasing, a. s. includes both goodwill related to the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million 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 2014 | Dec 2013 | June 2014 | Dec 2013 |
| Discount rate | 10.71% | 10.71% | 10.71% | 10.71% |
| Projected growth rate | 4.79% | 4.79% | 4.79% | 4.79% |

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.

18. Property and equipment

| €'000 | Note | Buildings and land | Equipment | Other tangibles | Assets in progress | Total |
|---------------------------------|------|-----------------------|-----------|--------------------|-----------------------|-----------|
| Cost | | | | | | |
| At 1 January 2014 | | 200,109 | 71,221 | 45,736 | 2,593 | 319,659 |
| Additions | | - | - | - | 2,092 | 2,092 |
| Disposals | | (33) | (977) | (1,496) | (135) | (2,641) |
| Transfers | | 400 | 2,068 | 1,651 | (4,119) | - |
| FX differences | | - | (1) | - | - | (1) |
| At 30 June 2014 | | 200,476 | 72,311 | 45,891 | 431 | 319,109 |
| Accumulated depreciation | | | | | | |
| At 1 January 2014 | | (96,589) | (59,582) | (34,154) | - | (190,325) |
| Depreciation for the period | | (3,090) | (3,220) | (1,764) | - | (8,074) |
| Disposals | | 27 | 936 | 1,090 | - | 2,053 |
| At 30 June 2014 | | (99,652) | (61,866) | (34,828) | - | (196,346) |
| Impairment losses | | | | | | |
| At 1 January 2014 | 13 | (7,043) | - | (183) | - | (7,226) |
| Net creation | | - | - | (12) | - | (12) |
| At 30 June 2014 | | (7,043) | - | (195) | - | (7,238) |
| Carrying amount | | | | | | |
| At 1 January 2014 | | 96,477 | 11,639 | 11,399 | 2,593 | 122,108 |
| At 30 June 2014 | | 93,781 | 10,445 | 10,868 | 431 | 115,525 |

19. Current and deferred income taxes

| €'000 | June 2014 | Dec 2013 |
|--------------------------------|--------------|-------------|
| Deferred income tax assets | 41,918 | 41,895 |
| €'000 | June 2014 | Dec 2013 |
| Current income tax liabilities | 10,159 | 1,166 |

Deferred income taxes are calculated on all temporary differences using a tax rate of 22% (31 December 2013: 22%) as follows:

| €'000 | June 2014 | Profit/ (loss) (note 35) | Equity | Dec 2013 |
|--------------------------------------------------------------------|--------------|--------------------------------|--------|-------------|
| Due from banks | 6 | 1 | - | 5 |
| Derivative financial instruments designated as cash flow hedges | (215) | - | (138) | (77) |
| Available-for-sale financial assets | (12,613) | - | (568) | (12,045) |
| Loans and advances to customers | 57,732 | 1,587 | - | 56,145 |
| Held-to-maturity investments | 69 | (63) | - | 132 |
| Property and equipment | (4,868) | (415) | - | (4,453) |
| Provisions | 111 | (6) | - | 117 |
| Other liabilities | 2,977 | (378) | - | 3,355 |
| Other | (1,281) | 3 | - | (1,284) |
| Deferred income tax assets | 41,918 | 729 | (706) | 41,895 |

20. Other assets

| €'000 | Note | June 2014 | Dec 2013 |
|-----------------------------------------------------|------|-------------------|--------------------|
| Inventories (incl. repossessed leased assets) | | 14,766 | 16,582 |
| Operating receivables and advances | | 11,343 | 10,697 |
| Prepayments and accrued income | | 4,515 | 6,304 |
| Other tax receivables | | 1,916 | 3,335 |
| Settlement of operations with financial instruments | | 7 | 7 |
| Receivables from trading with securities | | 2 | - |
| Receivables from termination of leasing * | | - | 7,343 |
| Other | | 64 | 44 |
| Impairment losses * | 13 | 32,613 (8,876) | 44,312 (14,191) |
| | | 23,737 | 30,121 |

* Receivables from termination of leasing together with respective impairment losses were reclassified to 'Loans and advances to customers' (see also Note 13).

21. Due to central and other banks

| €'000 | June 2014 | Dec 2013 |
|--------------------------|----------------|----------------|
| Due to central banks | | |
| Current accounts | 1,230 | 58,973 |
| | <u>1,230</u> | <u>58,973</u> |
| Due to other banks | | |
| Current accounts | 7,350 | 16,557 |
| Term deposits | 229,589 | 200,605 |
| Loans received | 473,501 | 472,769 |
| Cash collateral received | - | 32,600 |
| | <u>710,440</u> | <u>722,531</u> |
| | <u>711,670</u> | <u>781,504</u> |

22. Due to customers

| €'000 | June 2014 | Dec 2013 |
|-----------------------------------|------------------|------------------|
| Current accounts | 3,625,925 | 3,692,408 |
| Term deposits | 3,514,112 | 3,681,295 |
| Savings accounts | 209,800 | 214,170 |
| Government and municipal deposits | 285,937 | 211,995 |
| Promissory notes | 90,118 | - |
| Other deposits | 148,418 | 38,343 |
| | <u>7,874,310</u> | <u>7,838,211</u> |

23. Debt securities in issue

| €'000 | June 2014 | Dec 2013 |
|---------------------------------------------------------------------|------------------|------------------|
| Bonds | 58 | 58 |
| Mortgage bonds | 1,201,704 | 1,025,505 |
| Mortgage bonds subject to cash flow hedges | - | 160,725 |
| Mortgage bonds subject to fair value hedges | 217,720 | 219,043 |
| | <u>1,419,424</u> | <u>1,405,273</u> |
| Revaluation of fair value hedged mortgage bonds | 7,507 | (2,561) |
| Amortisation of revaluation related to terminated fair value hedges | 1,503 | 1,837 |
| | <u>1,428,492</u> | <u>1,404,607</u> |

The repayment of mortgage bonds is funded by the mortgage loans provided to customers of the Group (see also note 12).

23. Debt securities in issue (continued)

| Name | Interest rate (%) | CCY | Number of mortgage bonds issued at 30 June 2014 | Nominal value in CCY per piece | Issue date | Maturity date | June 2014 €'000 | Dec 2013 €'000 |
|--------------------------------|-------------------|-----|-------------------------------------------------|--------------------------------|------------|---------------|--------------------|-------------------|
| Mortgage bonds VÚB, a.s. XVII. | 0.43 | EUR | 1,678 | 33,194 | 28.11.2005 | 28.11.2015 | 55,721 | 55,717 |
| 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 | 34,222 | 33,383 |
| Mortgage bonds VÚB, a.s. XXXI. | 4.90 | EUR | 600 | 33,194 | 29.11.2007 | 29.11.2037 | 20,161 | 19,666 |
| Mortgage bonds VÚB, a.s. 32. | 1.92 | CZK | 800 | 1,000,000 | 17.12.2007 | 17.12.2017 | 30,439 | 30,656 |
| Mortgage bonds VÚB, a.s. 35. | 4.40 | EUR | 630 | 33,194 | 19.3.2008 | 19.3.2016 | 21,023 | 21,438 |
| Mortgage bonds VÚB, a.s. 36. | 4.75 | EUR | 560 | 33,194 | 31.3.2008 | 31.3.2020 | 18,527 | 18,944 |
| Mortgage bonds VÚB, a.s. 39. | 0.90 | EUR | 60 | 1,000,000 | 26.6.2008 | 26.6.2015 | 60,003 | 60,005 |
| Mortgage bonds VÚB, a.s. 40. | 1.06 | EUR | 70 | 1,000,000 | 28.8.2008 | 28.8.2015 | 70,070 | 70,064 |
| Mortgage bonds VÚB, a.s. 43. | 5.10 | EUR | 500 | 33,194 | 26.9.2008 | 26.9.2025 | 16,151 | 15,679 |
| 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. 49. | 3.92 | EUR | 100 | 1,000,000 | 28.7.2009 | 28.7.2014 | 103,623 | 101,664 |
| Mortgage bonds VÚB, a.s. 51. | 0.86 | EUR | - | 1,000,000 | 8.4.2010 | 8.4.2014 | - | 21,051 |
| Mortgage bonds VÚB, a.s. 52. | 0.95 | EUR | - | 50,000 | 15.3.2010 | 15.3.2014 | - | 8,073 |
| Mortgage bonds VÚB, a.s. 53. | 1.05 | EUR | 100 | 1,000,000 | 8.4.2010 | 8.4.2017 | 100,241 | 100,218 |
| 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. | 1.73 | EUR | 100 | 1,000,000 | 30.9.2010 | 30.9.2018 | 100,436 | 100,416 |
| Mortgage bonds VÚB, a.s. 58. | 2.16 | EUR | 80 | 1,000,000 | 10.12.2010 | 10.12.2019 | 80,101 | 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. | 1.05 | CZK | - | 100,000 | 20.5.2011 | 20.5.2014 | - | 15,856 |
| Mortgage bonds VÚB, a.s. 61. | 1.28 | EUR | 467 | 10,000 | 7.6.2011 | 7.6.2015 | 4,670 | 4,668 |
| Mortgage bonds VÚB, a.s. 62. | 2.39 | EUR | 100 | 1,000,000 | 28.7.2011 | 28.7.2018 | 101,016 | 100,992 |
| 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 | 26,086 | 25,686 |
| Mortgage bonds VÚB, a.s. 66. | 2.10 | EUR | 700 | 50,000 | 28.11.2011 | 28.11.2014 | 35,019 | 34,958 |
| 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 | 20,422 | 20,440 |
| Mortgage bonds VÚB, a.s. 70. | 3.75 | EUR | 400 | 100,000 | 7.3.2012 | 7.3.2017 | 40,427 | 41,168 |

(Table continues on the next page)

23. Debt securities in issue (continued)

| Name | Interest rate (%) | CCY | Number of mortgage bonds issued at 30 June 2014 | Nominal value in CCY per piece | Issue date | Maturity date | June 2014 €'000 | Dec 2013 €'000 |
|------------------------------|-------------------|-----|-------------------------------------------------|--------------------------------|------------|---------------|------------------|------------------|
| Mortgage bonds VÚB, a.s. 71. | 3.90 | EUR | 750 | 20,000 | 2.5.2012 | 2.5.2017 | 15,313 | 15,350 |
| Mortgage bonds VÚB, a.s. 72. | 4.70 | EUR | 250 | 100,000 | 21.6.2012 | 21.6.2027 | 24,817 | 25,396 |
| Mortgage bonds VÚB, a.s. 73. | 4.20 | EUR | 500 | 100,000 | 11.7.2012 | 11.7.2022 | 51,694 | 50,623 |
| Mortgage bonds VÚB, a.s. 74. | 3.35 | EUR | 700 | 100,000 | 16.1.2013 | 15.12.2023 | 70,631 | 71,780 |
| Mortgage bonds VÚB, a.s. 75. | 2.00 | EUR | 300 | 100,000 | 5.4.2013 | 5.4.2019 | 30,191 | 30,496 |
| Mortgage bonds VÚB, a.s. 76. | 2.40 | EUR | 309 | 10,000 | 22.4.2013 | 22.4.2018 | 3,106 | 3,143 |
| Mortgage bonds VÚB, a.s. 77. | 1.80 | CZK | 5,000 | 100,000 | 20.6.2013 | 20.6.2018 | 18,155 | 18,328 |
| Mortgage bonds VÚB, a.s. 78. | 2.16 | EUR | 905 | 10,000 | 3.3.2014 | 3.3.2020 | 9,154 | - |
| Mortgage bonds VÚB, a.s. 79. | 2.00 | EUR | 10,000 | 1,000 | 24.3.2014 | 24.9.2020 | 10,054 | - |
| Mortgage bonds VÚB, a.s. 80. | 1.85 | EUR | 21 | 1,000,000 | 27.3.2014 | 27.3.2021 | 21,058 | - |
| Mortgage bonds VÚB, a.s. 81. | 2.55 | EUR | 18 | 1,000,000 | 27.3.2014 | 27.3.2024 | 18,080 | - |
| Mortgage bonds VÚB, a.s. 82. | 1.65 | EUR | 577 | 1,000 | 16.6.2014 | 16.12.2020 | 577 | - |
| | | | | | | | <u>1,419,424</u> | <u>1,405,273</u> |

24. Provisions

| €'000 | June 2014 | Dec 2013 |
|-------------------------|---------------|---------------|
| Litigation | 21,798 | 21,501 |
| Restructuring provision | 505 | 532 |
| | <u>22,303</u> | <u>22,033</u> |

The movements in provisions were as follows:

| €'000 | Note | 1 Jan 2014 | Creation | Reversal | Use | 30 June 2014 |
|-------------------------|--------|---------------|------------|--------------|--------------|-----------------|
| Litigation | 27, 33 | 21,501 | 463 | (164) | (2) | 21,798 |
| Restructuring provision | 32 | 532 | 130 | - | (157) | 505 |
| | | <u>22,033</u> | <u>593</u> | <u>(164)</u> | <u>(159)</u> | <u>22,303</u> |

25. Other liabilities

| €'000 | June 2014 | Dec 2013 |
|--------------------------------------|---------------|---------------|
| Various creditors | 27,208 | 36,328 |
| Settlement with employees | 16,695 | 18,647 |
| Financial guarantees and commitments | 13,716 | 12,186 |
| Accruals and deferred income | 5,446 | 3,044 |
| Factoring | 5,299 | 6,191 |
| Severance and Jubilee benefits | 3,211 | 3,203 |
| Settlement with shareholders | 1,566 | 910 |
| VAT payable and other tax payables | 1,335 | 3,673 |
| Settlement with securities | 1,251 | 19 |
| Share remuneration scheme | 587 | 673 |
| Investment certificates | 153 | 153 |
| Retention program | - | 433 |
| Other | 669 | 1,169 |
| | <u>77,136</u> | <u>86,629</u> |

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

| €'000 | Note | 1 Jan 2014 | Creation/ (Reversal) | FX diff | Other | 30 June 2014 |
|--------------------------------------|------|---------------|-------------------------|------------|----------|-----------------|
| Financial guarantees and commitments | 34 | 12,186 | 1,524 | 6 | - | 13,716 |
| Severance and Jubilee benefits | | 3,203 | - | - | 8 | 3,211 |
| Retention program | 32 | 433 | (433) | - | - | - |
| | | <u>15,822</u> | <u>1,091</u> | <u>6</u> | <u>8</u> | <u>16,927</u> |

26. Equity

| €'000 | June 2014 | Dec 2013 |
|-----------------------------------------------------------|----------------------|----------------------|
| 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 | 13,501 | 13,501 |
| Treasury shares | (307) | - |
| Reserves | 145,417 | 142,948 |
| Retained earnings (excluding net profit for the period) | 707,868 | 657,025 |
| | <u>1,297,298</u> | <u>1,244,293</u> |
| | | |
| €'000 | June 2014 | June 2013 |
| Net profit for 6 months attributable to shareholders | <u>76,192</u> | <u>70,448</u> |

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

The structure of shareholders is as follows:

| | June 2014 | Dec 2013 |
|--------------------------------------------|----------------------|---------------------|
| Intesa Sanpaolo Holding International S.A. | 96.97% | 96.97% |
| Domestic shareholders | 2.25% | 2.23% |
| Foreign shareholders | 0.78% | 0.80% |
| | <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.

26. Equity (continued)

The VUB Group's regulatory capital position at 30 June 2014 was determined based on the rules for capital adequacy calculation set by the Regulation (EU) no. 575/2013 of the European Parliament and of the Council ('CRR regulation'):

| €'000 | June 2014 |
|--------------------------------------------------------------------------------------------------------|----------------------|
| Tier 1 capital | |
| Share capital | 430,819 |
| Share premium | 13,501 |
| Retained earnings without net profit for the period | 707,868 |
| Other reserves | 99,420 |
| Treasury shares | (307) |
| Revaluation of available-for-sale financial assets | 52,171 |
| Fair value gains and losses arising from the Group's own credit risk related to derivative liabilities | (6,301) |
| Less goodwill and intangible assets | (79,320) |
| Less IRB shortfall of credit risk adjustments to expected losses | (658) |
| Less expected loss | (28,042) |
| | <u>1,189,151</u> |
| Tier 2 capital | |
| IRB excess of provisions over expected losses eligible | 1,587 |
| | <u>1,190,738</u> |
| Total regulatory capital | <u>1,190,738</u> |
| €'000 | June 2014 |
| Tier 1 capital | 1,189,151 |
| Tier 2 capital | 1,587 |
| | <u>1,190,738</u> |
| Total regulatory capital | <u>1,190,738</u> |
| Total Risk Weighted Assets | <u>6,784,965</u> |
| Tier 1 capital ratio | 17.53% |
| Total capital ratio | 17.55% |

26. Equity (continued)

The capital position at 31 December 2013 was calculated based on NBS regulatory requirement as follows:

| €'000 | Dec 2013 |
|-----------------------------------------------------------------------|---------------------|
| Tier 1 capital | |
| Share capital | 430,819 |
| Share premium | 13,501 |
| Retained earnings without net profit for the period | 657,025 |
| Legal reserve fund | 99,507 |
| Less goodwill and software (including software in Assets in progress) | (82,924) |
| Less negative revaluation of available-for-sale financial assets | (1,210) |
| Less expected loss | <u>(30,593)</u> |
| | <u>1,086,125</u> |
| Tier 2 capital | |
| Positive revaluation of available-for-sale financial assets | 44,084 |
| IRB shortfall | <u>26,764</u> |
| | <u>70,848</u> |
| Regulatory adjustment | |
| Associates and joint ventures | (14,316) |
| Expected loss (incl. equity instruments) | <u>(15)</u> |
| | <u>(14,331)</u> |
| Total regulatory capital | <u>1,142,642</u> |
| €'000 | Dec 2013 |
| Tier 1 capital | 1,086,125 |
| Tier 2 capital | 70,848 |
| Regulatory adjustment | <u>(14,331)</u> |
| Total regulatory capital | <u>1,142,642</u> |
| Total Risk Weighted Assets | <u>6,817,865</u> |
| Tier 1 capital ratio | 15.93% |
| Total capital ratio | 16.76% |

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 CRR regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and IRB excess of provisions over expected losses.

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.

In addition to the requirements of the Act on Banks, the Group is obliged to fulfil also the additional requirement due to the joint decision of the NBS and Banca d'Italia supervision authorities. Based on the last decision of these authorities from November 2013, the VUB Group is obliged to maintain the Total capital ratio of at least 10.37% for both the separate and consolidated level. The VUB Group complied with this requirement as at 30 June 2014 and 31 December 2013.

27. Financial commitments and contingencies

| €'000 | June 2014 | Dec 2013 |
|-------------------------------------------|------------------|------------------|
| Issued guarantees | 601,042 | 637,591 |
| Commitments and undrawn credit facilities | <u>2,356,991</u> | <u>2,195,905</u> |
| | <u>2,958,033</u> | <u>2,833,496</u> |

(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

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 2014 and 31 December 2013 was as follows:

| €'000 | June 2014 | Dec 2013 |
|--------------|--------------|-------------|
| Up to 1 year | 214 | 241 |
| 1 to 5 years | 148 | 190 |
| Over 5 years | - | - |
| | <u>362</u> | <u>431</u> |

(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 2014 and 31 December 2013 are as follows:

| €'000 | June 2014 | Dec 2013 |
|--------------|--------------|--------------|
| Up to 1 year | 2,361 | 2,186 |
| 1 to 5 years | 2,609 | 2,556 |
| Over 5 years | 5 | 11 |
| | <u>4,975</u> | <u>4,753</u> |

(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 2014. Pursuant to this review, management has recorded total provisions of € 21,798 thousand (31 December 2013: € 21,501 thousand) in respect of such legal proceedings (see also note 24). 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 € 14,598 thousand, as at 30 June 2014 (31 December 2013: € 9,417 thousand). This amount represents existing legal proceedings against the VUB Group that will most probably not result in any payments due by the VUB Group.

28. Net interest income

| €'000 | June 2014 | June 2013 |
|-------------------------------------------------------|-----------------|-----------------|
| Interest and similar income | | |
| Due from banks | 3,195 | 7,938 |
| Loans and advances to customers | 222,050 | 215,072 |
| Bonds, treasury bills and other securities: | | |
| Financial assets at fair value through profit or loss | 2,794 | 997 |
| Available-for-sale financial assets | 19,732 | 17,237 |
| Held-to-maturity investments | 13,739 | 21,276 |
| | <u>261,510</u> | <u>262,520</u> |
| Interest and similar expense | | |
| Due to banks | (4,061) | (3,856) |
| Due to customers | (27,250) | (35,798) |
| Debt securities in issue | (18,777) | (20,280) |
| | <u>(50,088)</u> | <u>(59,934)</u> |
| | <u>211,422</u> | <u>202,586</u> |

29. Net fee and commission income

| €'000 | June 2014 | June 2013 |
|-----------------------------------|-----------------|-----------------|
| Fee and commission income | | |
| Received from banks | 3,912 | 3,313 |
| Received from customers: | | |
| Current accounts | 24,359 | 23,792 |
| Loans and guarantees | 15,082 | 17,711 |
| Transactions and payments | 11,518 | 11,371 |
| Insurance mediation | 4,894 | 6,057 |
| Securities | 2,998 | 2,502 |
| Overdrafts | 2,177 | 1,348 |
| Securities - Custody fee | 567 | 441 |
| Term deposits | 355 | 457 |
| Other | 1,037 | 1,299 |
| | <u>66,899</u> | <u>68,291</u> |
| Fee and commission expense | | |
| Paid to banks | (7,654) | (7,055) |
| Paid to mediators: | | |
| Credit cards | (4,282) | (4,186) |
| Securities | (248) | (243) |
| Services | (5,018) | (4,435) |
| Other | (709) | (775) |
| | <u>(17,911)</u> | <u>(16,694)</u> |
| | <u>48,988</u> | <u>51,597</u> |

30. Net trading result

| €'000 | June 2014 | June 2013 |
|---------------------------------------------------------------------------|--------------|--------------|
| Foreign currency derivatives and transactions | 1,983 | 1,877 |
| Customer FX margins | 2,241 | 2,343 |
| Cross currency swaps | (21) | (922) |
| Equity derivatives | 1 | - |
| Other derivatives | - | 11 |
| Interest rate derivatives * | 1,975 | (636) |
| Dividends from equity shares held in FVTPL portfolio | 16 | 13 |
| Securities: | | |
| Financial assets at fair value through profit or loss | | |
| Held for trading | (898) | (208) |
| Designated at fair value through profit or loss on initial recognition | 192 | (14) |
| Available-for-sale financial assets * | 10,700 | (2,433) |
| Debt securities in issue * | (10,068) | 5,511 |
| | <u>6,121</u> | <u>5,542</u> |

* Includes the revaluation of financial instruments that are part of the hedging relationship, i.e. fair value hedges of interest rate and inflation risk (see also note 10).

At 30 June 2014, the amount still to be recognised in income resulting from Day 1 profit amounted to € 2 thousand (31 December 2013: € 4 thousand). The total amount of € 2 thousand is to be recognized within one year (31 December 2013: € 4 thousand).

31. Other operating income

| €'000 | June 2014 | June 2013 |
|--------------------------------------|--------------|--------------|
| Income from leasing | 1,925 | 1,856 |
| Rent | 415 | 545 |
| Services | 177 | 295 |
| Financial revenues | 111 | 62 |
| Net profit from sale of fixed assets | 107 | 367 |
| Sales of consumer goods | 44 | 4 |
| Other | 684 | 842 |
| | <u>3,463</u> | <u>3,971</u> |

32. Salaries and employee benefits

| €'000 | Note | June 2014 | June 2013 |
|-------------------------|------|-----------------|-----------------|
| Remuneration | | (39,319) | (37,157) |
| Social security costs | | (14,705) | (14,277) |
| Social fund | | (757) | (480) |
| Retention program | 25 | 433 | 334 |
| Restructuring provision | 24 | 27 | 441 |
| | | <u>(54,321)</u> | <u>(51,139)</u> |

32. Salaries and employee benefits (continued)

At 30 June 2014, the total number of employees of the VUB Group was 3,954 (31 December 2013: 3,959). The average number of employees of the Group during 6 months period ended 30 June 2014 was 3,954 (30 June 2013: 3,963).

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.

33. Other operating expenses and Special levy of selected financial institutions

| €'000 | Note | June 2014 | June 2013 |
|---------------------------------------------|------|-----------------|-----------------|
| IT systems maintenance | | (10,292) | (9,121) |
| Property related expenses | | (9,380) | (10,312) |
| Post and telecom | | (6,297) | (6,708) |
| Advertising and marketing | | (5,618) | (5,059) |
| Contribution to the Deposit Protection Fund | | (4,587) | - |
| Equipment related expenses | | (2,281) | (2,920) |
| Stationery | | (2,073) | (2,115) |
| Security | | (1,732) | (1,823) |
| Insurance | | (1,076) | (839) |
| Third parties' services | | (767) | (317) |
| Professional services | | (559) | (587) |
| VAT and other taxes | | (483) | (1,282) |
| Travelling | | (473) | (355) |
| Training | | (442) | (484) |
| Transport | | (379) | (424) |
| Other damages | | (336) | (223) |
| Audit * | | (331) | (389) |
| Provisions for litigation | 24 | (297) | (266) |
| Litigations paid | | (225) | (312) |
| Other operating expenses | | (2,010) | (1,712) |
| | | <u>(49,638)</u> | <u>(45,248)</u> |

* As at 30 June 2014 the audit expense consists of fees for the statutory audit in the amount of € 158 thousand (30 June 2013: € 175 thousand), group reporting in the amount of € 158 thousand (30 June 2013: € 175 thousand) and other reporting in the amount of € 15 thousand (30 June 2013: € 39 thousand).

At 30 June 2014 and 30 June 2013, the special levy recognized by the Bank was as follows:

| €'000 | June 2014 | June 2013 |
|-------------------------------------------------|-----------------|-----------------|
| Special levy of selected financial institutions | <u>(19,583)</u> | <u>(19,195)</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.

34. Impairment losses

| €'000 | Note | June 2014 | Restated June 2013 |
|-------------------------------------------------------------------------------|------|-----------------|-----------------------|
| Creation of impairment losses | 13 | (108,336) | (93,243) |
| Reversal of impairment losses | 13 | 65,693 | 48,609 |
| Net creation of impairment losses | | <u>(42,643)</u> | <u>(44,634)</u> |
| Creation of liabilities – financial guarantees and commitments | | (7,268) | (4,955) |
| Reversal of liabilities – financial guarantees and commitments | | 5,744 | 6,948 |
| Net (creation)/reversal of liabilities – financial guarantees and commitments | 25 | <u>(1,524)</u> | <u>1,993</u> |
| Nominal value of assets written-off/sold | | (33,102) | (40,640) |
| Release of impairment losses to assets written-off/sold | 13 | 28,536 | 33,331 |
| | | <u>(4,566)</u> | <u>(7,309)</u> |
| Proceeds from assets written-off | | 4,886 | 5,045 |
| Proceeds from assets sold | | 5,124 | 4,026 |
| | | <u>(38,723)</u> | <u>(40,879)</u> |

35. Income tax expense

| €'000 | Note | June 2014 | June 2013 |
|---------------------|------|-----------------|-----------------|
| Current income tax | | (21,349) | (25,556) |
| Deferred income tax | 19 | 729 | 1,637 |
| | | <u>(20,620)</u> | <u>(23,919)</u> |

36. Other comprehensive income

| €'000 | June 2014 | June 2013 |
|--------------------------------------------------------------------------------------------|--------------|-----------------|
| Exchange differences on translating foreign operation | (1) | (3) |
| Available-for-sale financial assets: | | |
| Revaluation gains/(losses) arising during the period | 4,996 | (16,585) |
| Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss | (2,355) | (1,996) |
| | <u>2,641</u> | <u>(18,581)</u> |
| Cash flow hedges: | | |
| Revaluation gains arising during the period | 629 | 615 |
| Total other comprehensive income | 3,269 | (17,969) |
| Income tax relating to components of other comprehensive income * | (706) | 4,126 |
| Other comprehensive income for 6 months | <u>2,563</u> | <u>(13,843)</u> |

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

37. Income tax effects relating to other comprehensive income

| €'000 | June 2014 | | | June 2013 | | |
|--------------------------------------------------------|-------------------------|----------------|-------------------------|-------------------------|------------------------------|-------------------------|
| | Before tax amount | Tax expense | Net of tax amount | Before tax amount | Tax benefit/ (expense) | Net of tax amount |
| Exchange differences on translating foreign operations | (1) | - | (1) | (3) | - | (3) |
| Available-for-sale financial assets | 2,641 | (568) | 2,073 | (18,581) | 4,268 | (14,313) |
| Net movement on cash flow hedges | 629 | (138) | 491 | 615 | (142) | 473 |
| | <u>3,269</u> | <u>(706)</u> | <u>2,563</u> | <u>(17,969)</u> | <u>4,126</u> | <u>(13,843)</u> |

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 stated transactions have been made under arms-length commercial and banking conditions.

38. Related parties (continued)

At 30 June 2014, the 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 | - | - | - | - | 552,179 | 40,737 | 592,916 |
| Derivative financial instruments | - | - | - | - | 2 | 6,576 | 6,578 |
| Loans and advances to customers | 333 | - | - | - | - | - | 333 |
| Financial assets at fair value through profit or loss | - | - | - | - | 587 | - | 587 |
| Other assets | - | - | 1,145 | 552 | - | - | 1,697 |
| | <u>333</u> | <u>-</u> | <u>1,145</u> | <u>552</u> | <u>552,768</u> | <u>47,313</u> | <u>602,111</u> |
| Liabilities | | | | | | | |
| Due to central and other banks | - | - | - | - | 406,369 | 24,742 | 431,111 |
| Derivative financial instruments | - | - | - | - | - | 5,363 | 5,363 |
| Due to customers | 2,552 | - | - | 1,022 | - | 108 | 3,682 |
| Debt securities in issue | | | | | | | |
| Mortgage bonds | - | - | 638 | - | - | 664,756 | 665,394 |
| Other liabilities | 587 | - | - | 2 | - | 18 | 607 |
| | <u>3,139</u> | <u>-</u> | <u>638</u> | <u>1,024</u> | <u>406,369</u> | <u>694,987</u> | <u>1,106,157</u> |
| Issued guarantees | - | - | - | - | - | 33,990 | 33,990 |
| Received guarantees | - | - | - | - | - | 194,048 | 194,048 |
| Derivative transactions (notional amount – receivable) | - | - | - | - | 7,163 | 369,846 | 377,009 |
| Derivative transactions (notional amount – payable) | - | - | - | - | - | 161,463 | 161,463 |

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 | 10 | - | - | - | 2,039 | 820 | 2,869 |
| Interest and similar expense | (24) | - | (7) | (2) | (2,038) | (7,315) | (9,386) |
| Fee and commission income | 1 | - | - | 2,892 | - | 60 | 2,953 |
| Fee and commission expense | - | - | - | (11) | (1) | (3,705) | (3,717) |
| Net trading result | - | - | - | - | 247 | (3,274) | (3,027) |
| Other operating income | - | - | 56 | 57 | 137 | 16 | 266 |
| Other operating expenses | - | - | - | - | (30) | (310) | (340) |
| | <u>(13)</u> | <u>-</u> | <u>49</u> | <u>2,936</u> | <u>354</u> | <u>(13,708)</u> | <u>(10,382)</u> |

* Key management personnel

38. Related parties (continued)

At 31 December 2013, the 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 | - | - | - | - | 542,306 | 71,457 | 613,763 |
| Derivative financial instruments | - | - | - | - | - | 8,283 | 8,283 |
| Loans and advances to customers | 528 | - | - | - | - | - | 528 |
| Financial assets at fair value through profit or loss | - | - | - | - | 673 | - | 673 |
| Other assets | - | - | 7 | 556 | - | - | 563 |
| | <u>528</u> | <u>-</u> | <u>7</u> | <u>556</u> | <u>542,979</u> | <u>79,740</u> | <u>623,810</u> |
| Liabilities | | | | | | | |
| Due to central and other banks | - | - | - | - | 367,301 | 3,510 | 370,811 |
| Derivative financial instruments | - | - | - | - | 39 | 4,490 | 4,529 |
| Due to customers | 2,126 | - | - | 1,722 | - | 107 | 3,955 |
| Debt securities in issue | | | | | | | |
| Mortgage bonds | - | - | 629 | - | - | 684,905 | 685,534 |
| Other liabilities | 673 | - | - | 4 | - | 24 | 701 |
| | <u>2,799</u> | <u>-</u> | <u>629</u> | <u>1,726</u> | <u>367,340</u> | <u>693,036</u> | <u>1,065,530</u> |
| Issued guarantees | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>44,779</u> | <u>44,779</u> |
| Received guarantees | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>219,999</u> | <u>219,999</u> |
| Derivative transactions (notional amount – receivable) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>446,778</u> | <u>446,778</u> |
| Derivative transactions (notional amount – payable) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>57,757</u> | <u>157,705</u> | <u>215,462</u> |

38. Related parties (continued)

For the period ended 30 June 2013, the 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 | 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) |

39. Events after the end of the reporting period

From 30 June 2014, up to the date when these financial statements were authorized for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.