VÚB BANKA

Interim separate financial statements for 9 months ended 30 September 2012

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

VÚB BANKA

Contents

VÚB BANKA

Statement of financial position at 30 September 2012

(In thousands of euro)

	Note	Sep 2012	Dec 2011
Assets			
Cash and balances with central banks	4	107,409	90,918
Due from banks	5	699,938	501,444
Financial assets at fair value through profit or loss	6	259,287	269,852
Derivative financial instruments	7	45,735	80,399
Available-for-sale financial assets	8	1,462,035	1,455,626
Non-current assets held for sale	14	-	3
Loans and advances to customers	9	7,111,482	6,917,544
Held-to-maturity investments	11	1,031,246	1,137,540
Subsidiaries, associates and jointly controlled entities	12	96,014	96,014
Intangible assets	13	36,140	34,988
Property and equipment	14	128,591	137,126
Current income tax assets	19	12,279	550
Deferred income tax assets	19	29,050	64,601
Other assets	15	19,427	15,077
		11,038,633	10,801,682
Liabilities			
Due to central and other banks	16	276,246	429,725
Derivative financial instruments	7	54,938	57,382
Due to customers	17	7,671,533	7,498,151
Debt securities in issue	18	1,744,069	1,660,487
Provisions	20	25,128	24,285
Other liabilities	21	54,130	59,193
		9,826,044	9,729,223
Equity			
Equity (excluding net profit for the period)	22	1,151,773	914,795
Net profit for the period		60,816	157,664
		1,212,589	1,072,459
		11,038,633	10,801,682
Financial commitments and contingencies	23	2,652,308	2,721,596

The accompanying notes on pages 8 to 66 form an integral part of these financial statements.

These financial statements were authorised for issue on 26 October 2012.

Ignacio Jaquotot	Andrea De Michelis
Chairman of the Management Board	Member of the Management Board

VÚB BANKA

Statement of comprehensive income for 9 months ended 30 September 2012

(In thousands of euro)

	Note	Sep 2012	Sep 2011
Interest and similar income		363,711	359,360
Interest and similar expense		(111,654)	(93,916)
Net interest income	24	252,057	265,444
Fee and commission income		99,802	101,804
Fee and commission expense		(40,106)	(42,706)
Net fee and commission income	25	59,696	59,098
Net trading result	26	(26,680)	656
Other operating income	27	2,505	7,475
Dividend income		1,281	20,151
Operating income		288,859	352,824
Salaries and employee benefits	28	(68,556)	(68,353)
Other operating expenses	29	(73,855)	(60,115)
Amortisation	13	(6,384)	(6,349)
Depreciation	14	(12,155)	(12,235)
Operating expenses		(160,950)	(147,052)
Operating profit before impairment		127,909	205,772
Impairment losses	30	(45,854)	(40,728)
Profit before tax		82,055	165,044
Income tax expense	31	(21,239)	(30,784)
NET PROFIT FOR 9 MONTHS		60,816	134,260
Other comprehensive income for 9 months, after tax:			
Exchange difference on translating foreign operation		175	420
Available-for-sale financial assets		124,561	(2,829)
Cash flow hedges		1,845	(871)
Other comprehensive income for 9 months, net of tax	32, 33	126,581	(3,280)
TOTAL COMPREHENSIVE INCOME FOR 9 MONTHS		187,397	130,980
Basic and diluted earnings per € 33.2 share in €	22	4.69	10.35

The accompanying notes on pages 8 to 66 form an integral part of these financial statements.

Statement of comprehensive income for 3 months ended 30 September 2012

(In thousands of euro)

	Note	Sep 2012	Sep 2011
Interest and similar income		118,641	124,614
Interest and similar expense		(35,999)	(34,624)
Net interest income	24	82,642	89,990
Fee and commission income		34,410	33,822
Fee and commission expense		(14,345)	(15,250)
Net fee and commission income	25	20,065	18,572
Net trading result	26	(4,713)	(576)
Other operating income	27	597	4,658
Operating income		98,591	112,644
Salaries and employee benefits	28	(22,985)	(23,717)
Other operating expenses	29	(18,397)	(18,402)
Amortisation		(2,223)	(2,124)
Depreciation		(4,179)	(4,037)
Operating expenses		(47,784)	(48,280)
Operating profit before impairment		50,807	64,364
Impairment losses	30	(16,103)	(15,168)
Profit before tax		34,704	49,196
Income tax expense	31	(10,802)	(10,977)
NET PROFIT FOR 3 MONTHS		23,902	38,219
Other comprehensive income for 3 months, after tax:			
Exchange difference on translating foreign operation		50	(41)
Available-for-sale financial assets		36,600	30,330
Cash flow hedges		1,978	(2,618)
Other comprehensive income for 3 months, net of tax		38,628	27,671
TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS		62,530	65,890
Basic and diluted earnings per € 33.2 share in €		1.85	2.95

The accompanying notes on pages 8 to 66 form an integral part of these financial statements.

VÚB BANKA

Statement of changes in equity for 9 months ended 30 September 2012

(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 2011	430,819	13,368	-	87,493	519,685	24	(27,579)	(3,605)	1,020,205
Total comprehensive income for 9 months	-	-	-	-	134,260	420	(2,829)	(871)	130,980
Dividends to shareholders	-	-	-	-	(59,692)	-	-	-	(59,692)
Other *	-	-	-	-	485	(485)	-	-	-
Effect of FX hedge *	-	-	-	-	(20)	-	-	20	-
At 30 September 2011	430,819	13,368	-	87,493	594,718	(41)	(30,408)	(4,456)	1,091,493
At 1 January 2012	430,819	13,368	-	87,493	618,122	(153)	(72,599)	(4,591)	1,072,459
Total comprehensive income for 9 months	-	-	-	-	60,816	175	124,561	1,845	187,397
Dividends to shareholders	-	-	-	-	(47,364)	-	-	-	(47,364)
Reversal of dividends distributed but not collected	-	-	-	-	272	-	-	-	272
Other *	-	-	-	-	(2)	2	-	-	-
Effect of FX hedge *	-	-	-	-	(50)	-	-	50	-
Purchase of treasury shares	-	-	(175)	-	-	-	-	-	(175)
At 30 September 2012	430,819	13,368	(175)	87,493	631,794	24	51,962	(2,696)	1,212,589

* The foreign currency difference disclosed under Translation of foreign operation was settled within the transfer of retained earnings and profit for 2010 and 2011 from the foreign branch. Retained earnings were originally generated in Czech Crowns (‘CZK’) and the foreign exchange effect of this translation was hedged.

The accompanying notes on pages 8 to 66 form an integral part of these financial statements.

VÚB BANKA

Statement of cash flows for 9 months ended 30 September 2012

(In thousands of euro)

	Note	Sep 2012	Sep 2011
Cash flows from operating activities			
Profit before tax		82,055	165,044
Adjustments for:			
Amortisation		6,384	6,349
Depreciation		12,155	12,235
Securities at fair value through profit or loss, debt securities in issue and FX differences		6,652	2,935
Interest income		(363,711)	(359,360)
Interest expense		111,654	93,916
Dividend income		(1,281)	(20,151)
Sale of property and equipment		78	(157)
Impairment losses and similar charges		46,777	39,162
Interest received		394,040	372,334
Interest paid		(100,179)	(85,818)
Dividends received		1,281	20,151
Tax received/(paid)		2,583	(32,209)
Due from banks		(111,224)	(490,087)
Financial assets at fair value through profit or loss		10,062	(34,123)
Derivative financial instruments (assets)		36,559	(25,922)
Available-for-sale financial assets		103,182	100,977
Loans and advances to customers		(240,123)	(549,877)
Other assets		(4,012)	(7,687)
Due to central and other banks		(152,764)	(16,773)
Derivative financial instruments (liabilities)		(2,444)	(7,279)
Due to customers		160,806	358,364
Other liabilities		(5,640)	2,092
Net cash used in operating activities		(7,110)	(455,884)
Cash flows from investing activities			
Purchase of held-to-maturity investments		(69,000)	-
Repayments of held-to-maturity investments		161,212	650,449
Purchase of intangible assets and property and equipment		(11,461)	(9,088)
Disposal of property and equipment		691	5,004
Liquidation of subsidiaries		-	324
Net cash from investing activities		81,442	646,689
Cash flows from financing activities			
Proceeds from issue of debt securities		194,150	170,451
Repayments of debt securities		(115,957)	(116,636)
Purchase of treasury shares		(175)	-
Dividends paid		(47,364)	(59,692)
Net cash from/(used in) financing activities		30,654	(5,877)
Net change in cash and cash equivalents		104,986	184,928
Cash and cash equivalents at the beginning of the year	3	97,342	194,854
Cash and cash equivalents at 30 September	3	202,328	379,782

The accompanying notes on pages 8 to 66 form an integral part of these financial statements.

1. General information

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 September 2012, the Bank had a network of 250 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2011: 250). The Bank also has one branch in the Czech Republic.

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

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

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

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

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies

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

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

2.3 Segment reporting

The Bank reports financial and descriptive information about its operating segments in these financial statements. An operating segment is a component of the Bank 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 Bank), whose operating results are regularly reviewed by the Bank'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 Bank 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 Bank 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 Bank's financial statements.

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

2. Summary of significant accounting policies (continued)

2.4 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.

2.5 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.

2.6 Cash and balances with central banks

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

2.7 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.

2.8 Due from banks

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

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

2.9 Securities

Securities held by the Bank are categorised into portfolios in accordance with the intent on the acquisition date and pursuant to the investment strategy. The Bank 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 Bank are recognised using settlement date accounting and are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, any directly attributable incremental costs of acquisition. Securities purchased, but not settled, are recorded in the off-balance sheet and changes in their fair values, for purchases into the fair value through profit or loss and the available-for-sale portfolios, are recognised in the Statement of comprehensive income and in equity respectively.

2. Summary of significant accounting policies (continued)

(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 Bank 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 Bank monitors changes in fair values on a daily basis and recognises unrealised gains and losses in the Statement of comprehensive income in 'Net trading result'. Interest earned on securities at fair value through profit or loss is accrued on a daily basis and reported in the Statement of comprehensive income in 'Interest and similar income'.

Day 1 profit or loss

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

(b) Available-for-sale securities

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

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

(c) Held-to-maturity investments

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

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

The Bank 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.

2.10 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.

2.11 Derivative financial instruments

In the normal course of business, the Bank 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 Bank 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 Bank also acts as an intermediary provider of these instruments to certain customers.

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

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

2. Summary of significant accounting policies (continued)

In the normal course of business, the Bank enters into derivative financial instrument transactions to hedge its liquidity, foreign exchange and interest rate risks. The Bank also enters into proprietary derivative financial transactions for the purpose of generating profits from short-term fluctuations in market prices. The Bank operates a system of market risk and counterparty limits, which are designed to restrict exposure to movements in market prices and counterparty concentrations. The Bank 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 Bank's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses 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 Bank assesses the credit risk of all financial instruments on a daily basis.

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

Embedded derivatives

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

Hedging derivatives

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

At the inception of the hedge relationship, the Bank 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 Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the Statement of comprehensive income.

Cash flow hedges

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

2. Summary of significant accounting policies (continued)

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

Fair value hedges

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

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

2.12 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.

2.13 Non-current assets held for sale

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

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

2.14 Loans and advances to customers and impairment losses

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

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

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

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

2. Summary of significant accounting policies (continued)

2.15 Subsidiaries, associates and jointly controlled entities

Subsidiaries, associates and jointly controlled entities are recorded at cost less impairment losses. The impairment loss is measured using the Dividend discount model.

Dividend discount model

The Management of the companies which are subject to the impairment test provide projection of dividends that are expected to be paid out by their companies in a period of 5 years. The model calculates the present value of these cash flows discounting them at the interest rate resulting from the CAPM (Capital Asset Pricing Model). Cash flows after the period are determined by a present value of the perpetuity with the particular estimated growth rate, determined on the Intesa Sanpaolo Group level.

2.16 Intangible assets

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

	Years
Software	5 – 10
Other intangible assets	5 – 10

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

2.17 Property and equipment

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

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

	Years
Buildings	20 – 40
Equipment	4, 6, 10, 12
Other tangibles	4, 6, 12

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

The Bank 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.

2.18 Provisions

Provisions are recognised when the Bank 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. Summary of significant accounting policies (continued)

2.19 Provisions for employee benefits

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

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

	Jubilee benefits	**Retirement benefits**
Discount rate	0.9%	2.3%
Future growth of wages	n/a	2.5%
Fluctuation of employees (based on age)	8 – 55%	8 – 55%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

The Bank 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'.

2.20 Financial guarantees

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

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

2.21 Legal reserve fund

In accordance with the law and statutes of the Bank, the Bank is obliged to contribute at least 10% of its annual net profit to the 'Legal reserve fund' until it reaches 20% of the 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 the Bank.

2.22 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. Summary of significant accounting policies (continued)

2.23 Interest income

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

2.24 Fee and commission income

Fee and commission income arises on financial services provided by the Bank 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.

2.25 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.

2.26 Dividend income

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

2.27 Income tax

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

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

The Bank is also subject to various indirect operating taxes, which are included in ‘Other operating expenses’.

2.28 Fiduciary assets

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

2.29 Significant accounting judgements and estimates

Judgements

In the process of applying the Bank’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 Bank 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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 Bank 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 Bank 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 21) is proportional to the fair value of these shares.

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

Estimates

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

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

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

3. Cash and cash equivalents

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

	Note	Sep 2012	Dec 2011
Cash and balances with central banks	4	107,409	90,918
Current accounts in other banks	5	19,421	6,424
Term deposits with other banks	5	75,498	-
		202,328	97,342

4. Cash and balances with central banks

	Sep 2012	Dec 2011
Balances with central banks:		
Compulsory minimum reserves	22,766	5,146
Current accounts	60	36
	22,826	5,182
Cash in hand	84,583	85,736
	107,409	90,918

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 Bank and the amount of issued bonds, both with a maturity of up to 2 years. The rate for the calculation of the compulsory minimum reserve is 1% for the reserves held in the NBS and 2% for the reserves held in the Czech National Bank. The required balance is calculated as the total of individual items multiplied by the valid rate.

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

5. Due from banks

	Note	Sep 2012	Dec 2011
Current accounts	3	19,421	6,424
Term deposits			
with contractual maturity less than 90 days	3	75,498	-
with contractual maturity over 90 days		100,848	3,141
Loans and advances			
with contractual maturity over 90 days		504,222	492,081
Impairment losses	10	(51)	(202)
		699,938	501,444

At 30 September 2012 the balance of 'Term deposits' includes short term deposits with the Intesa Sanpaolo Group banks in the total nominal amount of € 155,430 thousand.

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

6. Financial assets at fair value through profit or loss

	Sep 2012	Dec 2011
Financial assets held for trading		
Treasury bills and other eligible bills with contractual maturity over 90 days	247,779	192,233
State bonds with contractual maturity over 90 days	11,198	77,619
	258,977	269,852
Financial assets designated at fair value through profit or loss on initial recognition		
Equity shares	310	-
	259,287	269,852

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

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

7. Derivative financial instruments

	Sep 2012 Assets	Dec 2011 Assets	Sep 2012 Liabilities	Dec 2011 Liabilities
Trading derivatives	41,037	80,255	41,819	42,424
Cash flow hedges of interest rate risk	-	-	3,328	5,668
Fair value hedges of interest rate risk	4,698	144	9,791	9,290
	45,735	80,399	54,938	57,382

Trading derivatives also include hedge instruments that are non-qualifying according to IAS 39, which are held for risk management purposes rather than for trading. The instruments used include cross-currency interest rate swap. At 30 September 2012, the total positive fair value of such derivative was € 1,386 thousand (31 December 2011: € 4,346 thousand) and the negative fair value was nil (31 December 2011: nil).

7. Derivative financial instruments (continued)

Trading derivatives – Fair values	Sep 2012 Assets	Dec 2011 Assets	Sep 2012 Liabilities	Dec 2011 Liabilities
Interest rate instruments				
Swaps	20,792	18,035	21,288	19,489
Forward rate agreements	-	-	6	-
Options	4,935	4,224	4,961	4,248
	25,727	22,259	26,255	23,737
Foreign currency instruments				
Forwards and swaps	7,238	45,773	8,866	10,794
Cross currency swaps	1,386	4,346	-	-
Options	3,171	6,152	3,172	6,168
	11,795	56,271	12,038	16,962
Equity and commodity instruments				
Equity options	3,508	1,725	3,508	1,725
Commodity swaps	7	-	18	-
	3,515	1,725	3,526	1,725
	41,037	80,255	41,819	42,424

Trading derivatives – Notional values	Sep 2012 Assets	Dec 2011 Assets	Sep 2012 Liabilities	Dec 2011 Liabilities
Interest rate instruments				
Swaps	1,015,595	1,045,710	1,015,595	1,045,710
Forward rate agreements	24,368	-	24,368	-
Options	205,519	145,649	205,519	145,649
	1,245,482	1,191,359	1,245,482	1,191,359
Foreign currency instruments				
Forwards and swaps	761,830	824,781	763,519	790,494
Cross currency swaps	31,821	69,803	30,449	65,433
Options	95,195	45,481	95,095	45,395
	888,846	940,065	889,063	901,322
Equity and commodity instruments				
Equity options	20,433	23,297	20,433	23,297
Commodity options	165	234	165	234
Commodity swaps	273	-	264	-
	20,871	23,531	20,862	23,531
	2,155,199	2,154,955	2,155,407	2,116,212

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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

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

Fair value hedges of interest rate risk

The Bank uses three interest rate swaps to hedge the interest rate risk of three fixed rate bonds from the AFS portfolio. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of AFS portfolio bonds, both in relation to changes of interest rates.

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

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

8. Available-for-sale financial assets

	Share Sep 2012	**Share Dec 2011**	**Sep 2012**	**Dec 2011**
State bonds			1,450,084	1,439,321
Bank bonds			11,331	15,666
Equity shares at cost				
RVS, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.01%	0.06%	46	65
			1,462,035	1,455,626

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

9. Loans and advances to customers

30 September 2012	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	163,457	(304)	163,153
Corporate			
Large Corporates	1,119,755	(10,046)	1,109,709
Specialized lending	780,888	(33,429)	747,459
Small and medium enterprises ('SME')	676,484	(32,381)	644,103
Other Financial Institutions	384,543	(669)	383,874
Public Sector Entities	4,351	(30)	4,321
Factoring	65,463	(379)	65,084
	3,031,484	(76,934)	2,954,550
Retail			
Small business	196,170	(17,930)	178,240
Consumer Loans	760,218	(50,980)	709,238
Mortgages	2,818,511	(36,690)	2,781,821
Credit Cards	255,121	(40,078)	215,043
Overdrafts	116,183	(16,419)	99,764
Flat Owners Associations	4,208	(46)	4,162
Other	5,520	(9)	5,511
	4,155,931	(162,152)	3,993,779
	7,350,872	(239,390)	7,111,482

31 December 2011	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	150,654	(294)	150,360
Corporate			
Large Corporates	960,423	(8,943)	951,480
Specialized lending	738,004	(31,765)	706,239
Small and medium enterprises ('SME')	690,100	(36,811)	653,289
Other Financial Institutions	413,213	(588)	412,625
Public Sector Entities	102,304	(706)	101,598
Factoring	123,479	(612)	122,867
	3,027,523	(79,425)	2,948,098
Retail			
Small business	199,625	(15,522)	184,103
Consumer Loans	702,796	(55,588)	647,208
Mortgages	2,716,118	(34,102)	2,682,016
Credit Cards	252,728	(43,861)	208,867
Overdrafts	104,731	(17,788)	86,943
Flat Owners Associations	3,811	(63)	3,748
Other	6,204	(3)	6,201
	3,986,013	(166,927)	3,819,086
	7,164,190	(246,646)	6,917,544

10. Impairment losses on assets

	Note	1 Jan 2012	Creation/ (Reversal) (note 30)	Assets written-off/sold (note 30)	FX losses/ (gains)	Other *	30 Sep 2012
Due from banks	5	202	(151)	-	-	-	51
Loans and advances to customers	9	246,646	35,363	(39,328)	37	(3,328)	239,390
Held-to-maturity investments	11	341	(131)	-	-	-	210
Subsidiaries, associates and JVs	12	41,118	-	-	-	-	41,118
Property and equipment	14	461	(461)	-	-	-	-
Other assets	15	2,566	124	(462)	-	-	2,228
		291,334	34,744	(39,790)	37	(3,328)	282,997

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

11. Held-to-maturity investments

	Sep 2012	Dec 2011
State bonds	1,021,470	1,125,948
Bank bonds and other bonds issued by financial sector	9,986	10,052
Corporate notes and bonds with contractual maturity over 90 days	-	1,881
	1,031,456	1,137,881
Impairment losses (note 10)	(210)	(341)
	1,031,246	1,137,540

At 30 September 2012, state bonds in the total nominal amount of € 73,269 thousand were pledged by the Bank (31 December 2011: € 230,058 thousand) to secure transactions with counterparties.

12. Subsidiaries, associates and jointly controlled entities

	Share %	Cost	Impairment losses (note 10)	Carrying amount
At 30 September 2012				
VÚB Factoring, a.s.	100.0	16,535	(10,533)	6,002
Recovery, a.s.	100.0	3,652	(3,204)	448
VÚB Asset Management, správ. spol. a.s.	100.0	2,821	-	2,821
Consumer Finance Holding, a.s.	100.0	53,114	-	53,114
VÚB Leasing, a. s.	100.0	44,410	(27,381)	17,029
VÚB Generali DSS, a.s.	50.0	16,597	-	16,597
Slovak Banking Credit Bureau, s.r.o.	33.3	3	-	3
		137,132	(41,118)	96,014
At 31 December 2011				
VÚB Factoring, a.s.	100.0	16,535	(10,533)	6,002
Recovery, a.s.	100.0	3,652	(3,204)	448
VÚB Asset Management, správ. spol. a.s.	100.0	2,821	-	2,821
Consumer Finance Holding, a.s.	100.0	53,114	-	53,114
VÚB Leasing, a. s.	100.0	44,410	(27,381)	17,029
VÚB Generali DSS, a.s.	50.0	16,597	-	16,597
Slovak Banking Credit Bureau, s.r.o.	33.3	3	-	3
		137,132	(41,118)	96,014

13. Intangible assets

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2012	142,476	7,893	11,422	161,791
Additions	534	1,169	7,541	9,244
Transfers	6,596	882	(7,478)	-
FX differences	16	1	-	17
At 30 September 2012	149,622	9,945	11,485	171,052
Accumulated amortisation				
At 1 January 2012	(121,494)	(5,309)	-	(126,803)
Amortisation for the period	(5,483)	(901)	-	(6,384)
Additions	(533)	(1,169)	-	(1,702)
Disposals	(6)	-	-	(6)
FX differences	(16)	(1)	-	(17)
At 30 September 2012	(127,532)	(7,380)	-	(134,912)
Carrying amount				
At 1 January 2012	20,982	2,584	11,422	34,988
At 30 September 2012	22,090	2,565	11,485	36,140

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

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2012	199,683	80,002	30,632	3,307	313,624
Additions	-	-	-	3,932	3,932
Disposals	(2,412)	(7,274)	(354)	-	(10,040)
Transfers	1,865	4,015	429	(6,302)	7
FX differences	4	8	3	-	15
At 30 September 2012	199,140	76,751	30,710	937	307,538
Accumulated depreciation					
At 1 January 2012	(85,755)	(63,558)	(26,724)	-	(176,037)
Depreciation for the period	(5,238)	(5,815)	(1,102)	-	(12,155)
Disposals	1,705	7,210	344	-	9,259
FX differences	(3)	(8)	(3)	-	(14)
At 30 September 2012	(89,291)	(62,171)	(27,485)	-	(178,947)
Impairment losses (note 10)					
At 1 January 2012	(461)	-	-	-	(461)
Disposals	461	-	-	-	461
At 30 September 2012	-	-	-	-	-
Carrying amount					
At 1 January 2012	113,467	16,444	3,908	3,307	137,126
At 30 September 2012	109,849	14,580	3,225	937	128,591

At 30 September 2012, no non-current assets held for sale were held by the Bank. At 31 December 2011, the Bank held in its portfolio of non-current assets held for sale buildings as follows:

	Sep 2012	Dec 2011
Cost	-	6
Accumulated depreciation	-	(3)
	-	3

15. Other assets

	Sep 2012	Dec 2011
Operating receivables and advances	11,514	9,886
Prepayments and accrued income	3,623	4,058
Other tax receivables	2,429	1,453
Settlement of operations with financial instruments	1,645	1,517
Receivables from trading with securities	1,480	-
Inventories	964	729
	21,655	17,643
Impairment losses (note 10)	(2,228)	(2,566)
	19,427	15,077

16. Due to central and other banks

	Sep 2012	Dec 2011
Due to central banks		
Current accounts	99,689	68,111
Loans received	-	115,947
	99,689	184,058
Due to other banks		
Current accounts	11,104	9,600
Term deposits	96,213	110,561
Loans received	69,240	125,506
	176,557	245,667
	276,246	429,725

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

17. Due to customers

	Sep 2012	Dec 2011
Current accounts	2,875,384	2,919,666
Term deposits	3,842,091	3,751,566
Savings accounts	226,265	247,784
Government and municipal deposits	410,560	327,652
Loans received	174,802	159,642
Promissory notes	93,918	56,767
Other deposits	48,513	35,074
	7,671,533	7,498,151

18. Debt securities in issue

	Sep 2012	Dec 2011
Bonds	58	41,986
Mortgage bonds	1,333,299	1,410,797
Mortgage bonds subject to cash flow hedges	180,945	180,232
Mortgage bonds subject to fair value hedges	225,965	27,278
	1,740,209	1,618,307
Revaluation of fair value hedged mortgage bonds	3,802	194
	1,744,069	1,660,487

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

18. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 30 Sep 2012	Nominal value in CCY per piece	Issue date	Maturity date	Sep 2012	Dec 2011
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	33,975	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	33,768	34,191
Mortgage bonds VÚB, a.s. XVII.	0.41	EUR	1,678	33,194	28.11.2005	28.11.2015	55,720	55,780
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,997	17,176
Mortgage bonds VÚB, a.s. XXVIII.	1.95	CZK	1,000	1,000,000	20.6.2007	20.6.2012	-	38,905
Mortgage bonds VÚB, a.s. XXIX.	1.07	EUR	500	33,194	16.10.2007	16.10.2012	16,677	16,657
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	32,943	33,346
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,380	19,638
Mortgage bonds VÚB, a.s. 32.	3.01	CZK	800	1,000,000	17.12.2007	17.12.2017	34,197	33,412
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	21,095	21,257
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,662	18,846
Mortgage bonds VÚB, a.s. 39.	0.92	EUR	60	1,000,000	26.6.2008	26.6.2015	60,003	60,017
Mortgage bonds VÚB, a.s. 40.	1.04	EUR	70	1,000,000	28.8.2008	28.8.2015	70,068	70,146
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	27,780	26,651
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	-	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,346	15,484
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	-	15,633
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	150	1,000,000	19.5.2009	19.5.2016	152,535	154,264
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	19,930	1,000	11.5.2009	11.5.2013	20,241	20,472
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	100,686	101,666
Mortgage bonds VÚB, a.s. 50.	3.40	EUR	8,391	1,000	2.11.2009	2.11.2013	8,652	8,438

(Table continues on the next page)

18. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 30 Sep 2012	Nominal value in CCY per piece	Issue date	Maturity date	Sep 2012	Dec 2011
Mortgage bonds VÚB, a.s. 51.	1.23	EUR	100	1,000,000	8.4.2010	8.4.2014	100,283	100,492
Mortgage bonds VÚB, a.s. 52.	1.10	EUR	161	50,000	15.3.2010	15.3.2014	8,054	8,101
Mortgage bonds VÚB, a.s. 53.	1.37	EUR	100	1,000,000	8.4.2010	8.4.2017	100,315	100,525
Mortgage bonds VÚB, a.s. 54.	3.00	EUR	15,000	1,000	1.7.2010	1.7.2014	15,113	15,225
Mortgage bonds VÚB, a.s. 55.	2.85	EUR	14,000	1,000	1.10.2010	1.10.2015	14,399	14,100
Mortgage bonds VÚB, a.s. 56.	2.41	EUR	70	1,000,000	30.9.2010	30.9.2017	70,849	70,543
Mortgage bonds VÚB, a.s. 57.	2.40	EUR	100	1,000,000	30.9.2010	30.9.2018	101,206	100,772
Mortgage bonds VÚB, a.s. 58.	2.74	EUR	80	1,000,000	10.12.2010	10.12.2019	80,678	80,164
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	25,000	1,000	1.3.2011	1.3.2015	25,437	25,625
Mortgage bonds VÚB, a.s. 60.	2.06	CZK	4,345	100,000	20.5.2011	20.5.2014	17,389	16,856
Mortgage bonds VÚB, a.s. 61.	3.10	EUR	467	10,000	7.6.2011	7.6.2015	4,705	4,666
Mortgage bonds VÚB, a.s. 62.	2.70	EUR	100	1,000,000	28.7.2011	28.7.2018	100,476	101,624
Mortgage bonds VÚB, a.s. 63.	3.75	EUR	35,000	1,000	16.9.2011	16.3.2016	35,055	35,383
Mortgage bonds VÚB, a.s. 64.	3.25	CZK	7,000	100,000	26.9.2011	26.9.2016	27,769	27,278
Mortgage bonds VÚB, a.s. 65.	1.42	EUR	60	1,000,000	26.10.2011	26.10.2012	60,280	59,362
Mortgage bonds VÚB, a.s. 66.	2.66	EUR	700	50,000	28.11.2011	28.11.2014	35,065	25,603
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,673	15,071
Mortgage bonds VÚB, a.s. 68.	4.00	EUR	35,000	1,000	16.01.2012	16.07.2015	35,992	-
Mortgage bonds VÚB, a.s. 69.	4.50	EUR	1,000	20,000	06.02.2012	06.02.2016	20,260	-
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	07.03.2012	07.03.2017	40,771	-
Mortgage bonds VÚB, a.s. 71.	3.90	EUR	750	20,000	02.05.2012	02.05.2017	15,589	-
Mortgage bonds VÚB, a.s. 72.	4.70	EUR	250	100,000	21.06.2012	21.06.2027	25,082	-
Mortgage bonds VÚB, a.s. 73.	4.20	EUR	500	100,000	11.07.2012	11.07.2022	50,044	-
							1,740,209	1,618,307

19. Current and deferred income taxes

	Sep 2012	Dec 2011
Current income tax assets	12,279	550

	Sep 2012	Dec 2011
Deferred income tax assets	29,050	64,601

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

	Sep 2012	Profit/ (loss) (note 31)	Equity	Dec 2011
Due from banks	10	(28)	-	38
Derivative financial instruments designated as cash flow hedges	632	-	(445)	1,077
Available-for-sale financial assets	(12,188)	-	(29,217)	17,029
Loans and advances to customers	40,811	(5,896)	-	46,707
Held-to-maturity investments	40	(25)	-	65
Property and equipment	(2,999)	(237)	-	(2,762)
Other liabilities	4,262	296	-	3,966
Other	(1,518)	1	-	(1,519)
Deferred income tax assets	29,050	(5,889)	(29,662)	64,601

20. Provisions

	Sep 2012	Dec 2011
Litigations	25,128	24,285

The movement in provisions was as follows:

	1 Jan 2012	Creation/ (Reversal)	30 Sep 2012
Litigations (note 23, note 29)	24,285	843	25,128

21. Other liabilities

	Sep 2012	Dec 2011
Settlement with employees	17,406	19,861
Various creditors	16,276	18,249
Financial guarantees and commitments	11,307	10,800
Accruals and deferred income	3,163	3,901
Severance and Jubilee benefits	2,256	1,898
VAT payable and other tax payables	1,874	2,507
Settlement with shareholders	908	974
Retention program	626	904
Share remuneration scheme	310	-
Settlement with securities	4	99
	54,130	59,193

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

	Note	1 Jan 2012	Creation/ (Reversal)	FX diff	30 Sep 2012
Financial guarantees and commitments	30	10,800	497	10	11,307
Severance and Jubilee benefits	28	1,898	358	-	2,256
Retention program	28	904	(278)	-	626
		13,602	577	10	14,189

22. Equity

	Sep 2012	Dec 2011
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
	430,819	430,819
Share premium	13,368	13,368
Treasury shares	(175)	-
Reserves	136,783	10,150
Retained earnings (excluding net profit for the period)	570,978	460,458
	1,151,773	914,795

	Sep 2012	Sep 2011
Net profit for 9 months attributable to shareholders	60,816	134,260
Divided by 12,976,478 ordinary shares of € 33.2 each		
Basic and diluted earnings per € 33.2 share in €	4.69	10.35

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

22. Equity (continued)

The structure of shareholders is as follows:

	Sep 2012	Dec 2011
Intesa Holding International S.A.	96.76%	96.76%
Domestic shareholders	2.89%	2.91%
Foreign shareholders	0.35%	0.33%
	100.00%	100.00%

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

The Bank 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 Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have yet been made in the objectives, policies and processes from the previous years, however, it is under the constant scrutiny of the Board.

The Bank's regulatory capital position at 30 September 2012 and 31 December 2011 was as follows:

	Sep 2012	Dec 2011
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,368	13,368
Retained earnings without net profit for the period	570,978	460,458
Legal reserve fund	87,493	87,493
Treasury shares	(175)	-
Less software (including software in Assets in progress)	(33,575)	(32,404)
Less negative revaluation of available-for-sale financial assets *	(574)	(85,695)
Less expected loss	(18,845)	(57,073)
	1,049,489	816,966
Tier 2 capital		
Positive revaluation of available-for-sale financial assets *	57,276	759
Regulatory adjustment		
Subsidiaries and jointly controlled entities	(96,011)	(96,011)
Expected loss (incl. equity instruments)	(2,867)	(4,286)
	(98,878)	(100,297)
Total regulatory capital	1,007,887	717,428

* Calculated based on NBS regulatory requirement.

22. Equity (continued)

Regulatory capital includes items forming the value of basic own funds (ordinary share capital, share premium, retained earnings, legal reserve fund) and items decreasing the value of basic own funds (intangible assets and investments with significant influence). Since 1 January 2011, a new item is deducted from regulatory capital – the difference between the expected loss and impairment losses on exposures treated under the standardised approach. The methodology is prescribed by NBS decree 11/2010 stipulating methods of valuing banking book positions and details of the valuation of banking book positions, including the frequency of such valuations. Since February 2011, the Bank is also obliged to deduct difference between the expected loss and impairment losses if positive for the IRB portfolio (Corporate segment) and the expected loss for equities (Simple IRB approach). Furthermore, according to the amendment to NBS decree 4/2007 (amendment number 3/2011), since 30 May 2011 the Bank is obliged to decrease the value of regulatory capital by the negative revaluation differences arising from the revaluation of available-for-sale financial assets. The positive revaluation differences decreased by the tax represent Tier 2 capital.

	Sep 2012	**Dec 2011**
Tier 1 capital	1,049,489	816,966
Tier 2 capital	57,276	759
Regulatory adjustment	(98,878)	(100,297)
Total regulatory capital	1,007,887	717,428
Total Risk Weighted Assets	6,731,225	7,077,041
Tier 1 capital ratio	15.59%	11.54%
Total capital ratio	14.97%	10.14%

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

The Bank 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 Bank's capital and the risk weighted assets. Risk weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The Bank complied with the Act on Banks requirement for the capital adequacy ratio as at 30 September 2012 and 31 December 2011.

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

23. Financial commitments and contingencies

	Sep 2012	**Dec 2011**
Issued guarantees	554,707	547,302
Commitments and undrawn credit facilities	2,097,601	2,174,294
	2,652,308	2,721,596

23. Financial commitments and contingencies (continued)

(a) Issued guarantees

Commitments from guarantees represent irrevocable assurances that the Bank 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 Bank 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 Bank represent undrawn portions of commitments and approved overdraft loans.

(c) Lease obligations

In the normal course of business, the Bank 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 September 2012 and 31 December 2011 was as follows:

	Sep 2012	**Dec 2011**
Up to 1 year	1,382	1,309
1 to 5 years	2,730	2,201
Over 5 years	-	-
	4,112	3,510

(d) Legal proceedings

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 30 September 2012. Pursuant to this review, management has recorded total provisions of € 25,128 thousand (31 December 2011: € 24,285 thousand) in respect of such legal proceedings (see also note 20). The Bank will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 8,947 thousand, as at 30 September 2012 (31 December 2011: € 21,078 thousand). This amount represents existing legal proceedings against the Bank that in the opinion of the Legal Department of the Bank will most probably not result in any payments due by the Bank.

24. Net interest income

	9 months		3 months	
	Sep 2012	Sep 2011	Sep 2012	Sep 2011
Interest and similar income				
Due from banks	13,174	11,408	4,281	5,057
Loans and advances to customers	277,229	263,924	91,626	91,867
Bonds, treasury bills and other securities:				
Financial assets at fair value through profit or loss	4,823	6,915	1,213	2,341
Available-for-sale financial assets	35,674	39,677	10,750	13,370
Held-to-maturity investments	32,811	37,436	10,771	11,979
	363,711	359,360	118,641	124,614
Interest and similar expense				
Due to banks	(962)	(1,785)	(199)	(735)
Due to customers	(67,448)	(54,208)	(21,838)	(20,351)
Debt securities in issue	(43,244)	(37,923)	(13,962)	(13,538)
	(111,654)	(93,916)	(35,999)	(34,624)
	252,057	265,444	82,642	89,990

25. Net fee and commission income

	9 months		3 months	
	Sep 2012	Sep 2011	Sep 2012	Sep 2011
Fee and commission income				
Received from banks	4,757	4,739	1,679	1,668
Received from customers:				
Current accounts	35,925	34,687	12,408	11,692
Term deposits	722	570	214	183
Insurance mediation	8,322	7,479	3,134	2,603
Loans and guarantees	26,328	28,723	8,688	9,414
Overdrafts	1,190	1,378	486	351
Securities	3,080	4,926	1,035	1,357
Transactions and payments	17,971	17,605	6,206	5,967
Other	1,507	1,697	560	587
	99,802	101,804	34,410	33,822
Fee and commission expense				
Paid to banks	(10,352)	(10,153)	(3,699)	(3,498)
Paid to mediators:				
Credit cards	(26,586)	(26,845)	(9,349)	(9,047)
Securities	(367)	(442)	(115)	(152)
Services	(2,312)	(4,317)	(1,003)	(2,296)
Other	(489)	(949)	(179)	(257)
	(40,106)	(42,706)	(14,345)	(15,250)
	59,696	59,098	20,065	18,572

26. Net trading result

	9 months		3 months	
	Sep 2012	**Sep 2011**	**Sep 2012**	**Sep 2011**
Foreign currency derivatives and transactions	1,051	(900)	297	1,564
Customer FX margins	3,889	3,431	1,427	1,398
Cross currency swaps	1,304	1,052	646	(1,269)
Equity derivatives	237	28	-	4
Other derivatives	(4)	-	7	-
Interest rate derivatives *	2,758	(904)	4,379	(4,421)
Securities:				
Financial assets at fair value through profit or loss				
Held for trading	1,740	(1,608)	250	(632)
Designated at fair value through profit or loss on initial recognition	61	-	56	-
Available-for-sale financial assets *	(35,167)	(443)	(7,836)	2,780
Held-to-maturity investments	1,059	-	-	-
Debt securities in issue *	(3,608)	-	(3,939)	-
	(26,680)	656	(4,713)	(576)

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

At 30 September 2012, the amount still to be recognised in income resulting from Day 1 profit amounted to € 12 thousand (31 December 2011: € 134 thousand), thereof € 6 thousand is to be recognized within one year (31 December 2011: € 124 thousand) and the remaining € 6 thousand in the period 1 to 5 years (31 December 2011: € 10 thousand).

27. Other operating income

	9 months		3 months	
	Sep 2012	**Sep 2011**	**Sep 2012**	**Sep 2011**
Rent	911	1,089	283	349
Services	532	397	177	133
Financial revenues	259	251	8	236
Net (loss)/profit from sale of fixed assets	(78)	1,429	(76)	11
Other	881	4,309	205	3,929
	2,505	7,475	597	4,658

28. Salaries and employee benefits

	9 months		3 months	
	Sep 2012	Sep 2011	Sep 2012	Sep 2011
Remuneration	(49,746)	(49,825)	(16,763)	(17,989)
Social security costs	(18,091)	(17,661)	(5,976)	(6,123)
Social fund	(639)	(606)	(222)	(186)
Retention program (note 21)	278	209	(24)	581
Severance and Jubilee benefits (note 21)	(358)	(470)	-	-
	(68,556)	(68,353)	(22,985)	(23,717)

At 30 September 2012, the total number of employees of the Bank was 3,565 (31 December 2011: 3,542).

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

29. Other operating expenses

	9 months		3 months	
	Sep 2012	Sep 2011	Sep 2012	Sep 2011
Special levy of selected financial institutions *	(15,581)	-	(5,253)	-
Property related expenses	(11,078)	(10,424)	(3,513)	(3,393)
IT systems maintenance	(8,723)	(8,241)	(3,297)	(2,676)
Post and telecom	(7,481)	(7,237)	(2,559)	(2,408)
Advertising and marketing	(5,160)	(5,550)	(1,127)	(1,163)
Equipment related expenses	(5,004)	(4,926)	(1,631)	(1,592)
VAT and other taxes	(4,783)	(4,520)	(1,490)	(1,649)
Contribution to the Deposit Protection Fund	(4,556)	(6,386)	-	(2,130)
Security	(2,651)	(2,689)	(866)	(848)
Stationery	(2,301)	(1,891)	(727)	(567)
Professional services	(1,275)	(2,187)	(262)	194
Provisions for litigations (note 20)	(843)	(507)	2,960	(275)
Insurance	(559)	(576)	(190)	(203)
Travelling	(491)	(474)	(107)	(155)
Third parties' services	(460)	-	(134)	-
Training	(451)	(365)	(99)	(38)
Transport	(389)	(371)	(120)	(110)
Audit **	(332)	(411)	(110)	(137)
Other damages	(310)	(313)	(110)	(30)
Litigations paid	(98)	(540)	(25)	(29)
Other operating expenses	(1,329)	(2,507)	263	(1,193)
	(73,855)	(60,115)	(18,397)	(18,402)

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

** As at 30 September 2012 the audit expense consists of fees for the statutory audit in the amount of € 158 thousand (30 September 2011: € 192 thousand), group reporting in the amount of € 116 thousand (30 September 2011: € 156 thousand) and other reporting in the amount of € 58 thousand (30 September 2011: € 63 thousand).

30. Impairment losses

	9 months		3 months	
	Sep 2012	**Sep 2011**	**Sep 2012**	**Sep 2011**
Net creation of impairment losses (note 10)	(34,744)	(39,947)	(15,527)	(12,173)
Net (creation)/reversal of liabilities – financial guarantees and commitments (note 21)	(497)	2,975	2,185	(744)
	(35,241)	(36,972)	(13,342)	(12,917)
Nominal value of assets written-off	(48,117)	(34,931)	(9,112)	(12,529)
Nominal value of assets sold	(12,123)	(3,154)	(9,762)	(47)
Proceeds from assets written-off	5,042	3,879	1,777	1,154
Proceeds from assets sold	4,795	1,654	3,423	32
	(50,403)	(32,552)	(13,674)	(11,390)
Release of impairment losses to assets written-off/sold (note 10)				
Assets written-off	30,015	26,732	2,922	9,122
Assets sold	9,775	2,064	7,991	17
	39,790	28,796	10,913	9,139
	(45,854)	(40,728)	(16,103)	(15,168)

31. Income tax expense

	9 months		3 months	
	Sep 2012	**Sep 2011**	**Sep 2012**	**Sep 2011**
Current income tax	(15,350)	(31,490)	(6,123)	(11,387)
Deferred income tax (note 19)	(5,889)	706	(4,679)	410
	(21,239)	(30,784)	(10,802)	(10,977)

32. Components of other comprehensive income

	Sep 2012	Sep 2011
Exchange differences on translating foreign operations	175	420
Available-for-sale financial assets:		
Revaluation gains/(losses) arising during the period	153,778	(3,493)
Cash flow hedges:		
Revaluation gains/(losses) arising during the period	2,278	(1,075)
Total other comprehensive income	156,231	(4,148)
Income tax relating to components of other comprehensive income	(29,650)	868
Other comprehensive income for 9 months	126,581	(3,280)

33. Income tax effects relating to comprehensive income

	September 2012			September 2011		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Exchange differences on translating foreign operations	175	-	175	420	-	420
Available-for-sale financial assets	153,778	(29,217)	124,561	(3,493)	664	(2,829)
Net movement on cash flow hedges	2,278	(433)	1,845	(1,075)	204	(871)
	156,231	(29,650)	126,581	(4,148)	868	(3,280)

34. Estimated fair value of financial assets and liabilities

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

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

(a) Cash and balances with central banks

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

(b) Due from banks

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

(c) Loans and advances to customers

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

(d) Held-to-maturity investments

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

(e) Due to banks and customers

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

(f) Debt securities in issue

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

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

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

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

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

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

35. Financial risk management

Introduction and overview

The Bank 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 Bank's exposure to each of the above risks, the Bank'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 Bank's risk management policies are established to identify and analyze the risks faced by the Bank, 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 Bank, 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 Bank's Internal Audit Department is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. 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 Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks as well as investment securities. For risk management reporting purposes, the Bank 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 Bank.

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 Bank's credit risk management process:

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

35. 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 Bank'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 Bank's portfolios and appropriate corrective measures are taken.
- Development, maintenance and validation of scoring and rating models – both application and behavioural.
- Development, maintenance and back-testing of impairment losses model (the Markov chains methodology is used).

Allowances for impairment

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

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

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

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

Credit risk measurement

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

35. Financial risk management (continued)

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

	Category	September 2012 Amortised cost	September 2012 Impairment losses	September 2012 Carrying amount	December 2011 Amortised cost	December 2011 Impairment losses	December 2011 Carrying amount
Banks							
	Performing	699,989	(51)	699,938	501,495	(51)	501,444
	Doubtful	-	-	-	151	(151)	-
		699,989	(51)	699,938	501,646	(202)	501,444
Sovereigns							
	Performing	161,626	(171)	161,455	149,881	(172)	149,709
	Past due	16	-	16	307	-	307
	Substandard	1,547	(26)	1,521	173	(5)	168
	Doubtful	268	(107)	161	293	(117)	176
		163,457	(304)	163,153	150,654	(294)	150,360
Corporate							
	Performing	2,860,839	(24,709)	2,836,130	2,855,988	(21,819)	2,834,169
	Past due	43	(24)	19	221	(133)	88
	Restructured	14,856	(2,972)	11,884	17,974	(5,997)	11,977
	Substandard	118,609	(26,332)	92,277	113,864	(27,409)	86,455
	Doubtful	37,137	(22,897)	14,240	39,476	(24,067)	15,409
		3,031,484	(76,934)	2,954,550	3,027,523	(79,425)	2,948,098
Retail							
	Performing	3,945,482	(45,260)	3,900,222	3,765,940	(47,776)	3,718,164
	Past due	34,350	(13,739)	20,611	34,471	(13,946)	20,525
	Substandard	25,915	(9,930)	15,985	27,298	(10,311)	16,987
	Doubtful	150,184	(93,223)	56,961	158,304	(94,894)	63,410
		4,155,931	(162,152)	3,993,779	3,986,013	(166,927)	3,819,086
Securities							
	Performing	2,752,778	(210)	2,752,568	2,861,478	(231)	2,861,247
	Substandard	-	-	-	1,881	(110)	1,771
		2,752,778	(210)	2,752,568	2,863,359	(341)	2,863,018

35. Financial risk management (continued)

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

	Sep 2012	Dec 2011
Financial assets		
Derivative financial instruments	70,159	106,471
Financial commitments and contingencies		
Issued guarantees	554,707	547,302
Commitments and undrawn credit facilities	2,097,601	2,174,294
	2,652,308	2,721,596
	2,722,467	2,828,067

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 Bank's credit portfolio in terms of delinquency of payments.

	September 2012			December 2011		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	699,989	(51)	699,938	501,494	(51)	501,443
1 – 30 days	-	-	-	1	-	1
Over 181 days *	-	-	-	151	(151)	-
	699,989	(51)	699,938	501,646	(202)	501,444
Sovereigns						
No delinquency	160,515	(170)	160,345	149,991	(172)	149,819
1 – 30 days	990	(1)	989	124	-	124
31 – 60 days	351	-	351	73	-	73
91 – 180 days	-	-	-	464	(122)	342
Over 181 days *	1,601	(133)	1,468	2	-	2
	163,457	(304)	163,153	150,654	(294)	150,360
Corporate						
No delinquency	2,948,997	(47,081)	2,901,916	2,963,155	(53,571)	2,909,584
1 – 30 days	19,725	(1,173)	18,552	9,777	(162)	9,615
31 – 60 days	7,356	(4,500)	2,856	6,075	(224)	5,851
61 – 90 days	14,552	(3,493)	11,059	35	(8)	27
91 – 180 days	2,749	(1,631)	1,118	2,979	(681)	2,298
Over 181 days *	38,105	(19,056)	19,049	45,502	(24,779)	20,723
	3,031,484	(76,934)	2,954,550	3,027,523	(79,425)	2,948,098

35. Financial risk management (continued)

	September 2012			December 2011		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Retail						
No delinquency	3,711,353	(28,934)	3,682,419	3,569,981	(32,843)	3,537,138
1 – 30 days	172,478	(9,858)	162,620	138,346	(7,906)	130,440
31 – 60 days	43,463	(4,712)	38,751	37,317	(3,977)	33,340
61 – 90 days	20,877	(2,960)	17,917	23,472	(3,639)	19,833
91 – 180 days	38,232	(14,292)	23,940	35,985	(14,373)	21,612
Over 181 days *	169,528	(101,396)	68,132	180,912	(104,189)	76,723
	4,155,931	(162,152)	3,993,779	3,986,013	(166,927)	3,819,086
Securities						
No delinquency	2,752,778	(210)	2,752,568	2,863,359	(341)	2,863,018
	2,752,778	(210)	2,752,568	2,863,359	(341)	2,863,018

*** Write-off Policy**

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

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

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

35. Financial risk management (continued)

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

	September 2012			December 2011		
	Amortised cost	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Europe						
Banks	667,764	(32)	667,732	471,961	(185)	471,776
Sovereigns	163,457	(304)	163,153	150,654	(294)	150,360
Corporate	3,031,484	(76,934)	2,954,550	3,027,523	(79,425)	2,948,098
Retail	4,153,541	(162,101)	3,991,440	3,983,641	(166,871)	3,816,770
Securities	2,752,778	(210)	2,752,568	2,861,478	(231)	2,861,247
	10,769,024	(239,581)	10,529,443	10,495,257	(247,006)	10,248,251
America						
Banks	32,096	(19)	32,077	29,123	(17)	29,106
Retail	595	(13)	582	625	(22)	603
Securities	-	-	-	1,881	(110)	1,771
	32,691	(32)	32,659	31,629	(149)	31,480
Asia						
Banks	82	-	82	211	-	211
Retail	1,093	(32)	1,061	980	(28)	952
	1,175	(32)	1,143	1,191	(28)	1,163
Rest of the World						
Banks	47	-	47	351	-	351
Retail	702	(6)	696	767	(6)	761
	749	(6)	743	1,118	(6)	1,112

35. Financial risk management (continued)

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

30 September 2012	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	53,726	25,551	-
Construction	-	-	183,563	14,698	-
Consumers	-	-	-	3,809,315	-
Energy and water supply	-	-	251,595	1,616	-
Financial services	699,938	-	337,333	390	22,241
Government	-	152,387	-	-	2,730,327
Manufacturing	-	-	483,800	23,933	-
Professional services	-	-	74,965	9,945	-
Real estate	-	-	422,028	9,258	-
Retail & Wholesale	-	-	638,752	61,340	-
Services	-	-	174,738	14,128	-
Transportation	-	10,700	280,850	8,805	-
Other	-	66	53,200	14,800	-
	699,938	163,153	2,954,550	3,993,779	2,752,568

31 December 2011	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	43,835	21,581	-
Construction	-	-	136,568	15,254	-
Consumers	-	-	-	3,630,383	-
Energy and water supply	-	-	274,011	1,354	-
Financial services	501,444	-	375,438	584	25,776
Government	-	138,747	-	-	2,834,897
Manufacturing	-	-	458,549	28,395	-
Professional services	-	-	69,122	9,442	-
Real estate	-	-	427,891	9,433	-
Retail & Wholesale	-	-	659,940	65,214	-
Services	-	-	130,200	14,948	574
Transportation	-	11,613	330,379	8,018	-
Other	-	-	42,165	14,480	1,771
	501,444	150,360	2,948,098	3,819,086	2,863,018

35. 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 Bank's internal credit rating system. The amounts presented are gross of impairment allowances. Past due but not impaired financial assets are more than one day overdue.

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
30 September 2012	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	699,989	(51)	699,938	-	-	-	-	-	-
Sovereigns									
Municipalities	160,301	(170)	160,131	1,831	(133)	1,698	1,325	(1)	1,324
Corporate									
Large Corporates	1,109,736	(7,158)	1,102,578	10,010	(2,888)	7,122	9	-	9
Specialized lending	697,884	(9,457)	688,427	78,927	(23,905)	55,022	4,077	(67)	4,010
SME	583,067	(6,529)	576,538	81,555	(25,404)	56,151	11,862	(448)	11,414
Other Fin. Institutions	384,230	(640)	383,590	143	(28)	115	170	(1)	169
Public Sector Entities	4,269	(30)	4,239	10	-	10	72	-	72
Factoring	60,325	(372)	59,953	-	-	-	5,138	(7)	5,131
	2,839,511	(24,186)	2,815,325	170,645	(52,225)	118,420	21,328	(523)	20,805
Retail									
Small business	171,205	(3,892)	167,313	17,266	(13,162)	4,104	7,699	(876)	6,823
Consumer Loans	640,406	(11,356)	629,050	59,721	(34,476)	25,245	60,091	(5,148)	54,943
Mortgages	2,628,544	(7,895)	2,620,649	68,621	(23,562)	45,059	121,346	(5,233)	116,113
Credit Cards	183,799	(3,626)	180,173	48,898	(32,961)	15,937	22,424	(3,491)	18,933
Overdrafts	76,400	(1,618)	74,782	15,927	(12,731)	3,196	23,856	(2,070)	21,786
Flat Owners Associations	3,960	(43)	3,917	-	-	-	248	(3)	245
Other	5,492	(9)	5,483	16	-	16	12	-	12
	3,709,806	(28,439)	3,681,367	210,449	(116,892)	93,557	235,676	(16,821)	218,855
Securities									
FVTPL	259,287	-	259,287	-	-	-	-	-	-
AFS	1,462,035	-	1,462,035	-	-	-	-	-	-
HTM	1,031,456	(210)	1,031,246	-	-	-	-	-	-
	2,752,778	(210)	2,752,568	-	-	-	-	-	-

35. Financial risk management (continued)

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
31 December 2011	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	501,494	(51)	501,443	151	(151)	-	1	-	1
Sovereigns									
Municipalities	149,776	(172)	149,604	773	(122)	651	105	-	105
Corporate									
Large Corporates	942,886	(5,472)	937,414	9,757	(3,448)	6,309	7,780	(23)	7,757
Specialized lending	645,585	(6,608)	638,977	90,743	(25,066)	65,677	1,676	(91)	1,585
SME	616,620	(7,658)	608,962	71,026	(29,092)	41,934	2,454	(61)	2,393
Other Fin. Institutions	413,212	(588)	412,624	1	-	1	-	-	-
Public Sector Entities	102,291	(706)	101,585	8	-	8	5	-	5
Factoring	121,211	(608)	120,603	-	-	-	2,268	(4)	2,264
	2,841,805	(21,640)	2,820,165	171,535	(57,606)	113,929	14,183	(179)	14,004
Retail									
Small business	175,281	(4,501)	170,780	19,555	(10,256)	9,299	4,789	(765)	4,024
Consumer Loans	584,824	(11,333)	573,491	63,909	(39,250)	24,659	54,063	(5,005)	49,058
Mortgages	2,534,845	(8,954)	2,525,891	66,925	(19,709)	47,216	114,348	(5,439)	108,909
Credit Cards	177,153	(3,719)	173,434	52,603	(36,349)	16,254	22,972	(3,793)	19,179
Overdrafts	85,221	(3,707)	81,514	17,077	(13,587)	3,490	2,433	(494)	1,939
Flat Owners Associations	3,796	(63)	3,733	-	-	-	15	-	15
Other	6,200	(3)	6,197	4	-	4	-	-	-
	3,567,320	(32,280)	3,535,040	220,073	(119,151)	100,922	198,620	(15,496)	183,124
Securities									
FVTPL	269,852	-	269,852	-	-	-	-	-	-
AFS	1,455,626	-	1,455,626	-	-	-	-	-	-
HTM	1,136,000	(231)	1,135,769	1,881	(110)	1,771	-	-	-
	2,861,478	(231)	2,861,247	1,881	(110)	1,771	-	-	-

35. Financial risk management (continued)

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

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

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

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

35. Financial risk management (continued)

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

30 September 2012	**Internal rating**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	Unrated	699,989	(51)	699,938
Sovereigns				
Municipalities	Unrated - PPU approach *	163,457	(304)	163,153
		163,457	(304)	163,153
Corporate				
Large Corporates, Specialized lending, SME	I1 - I6	749,105	(524)	748,581
	M1 - M4	1,046,436	(7,087)	1,039,349
	R1 - R5	695,408	(33,696)	661,712
	D (default)	86,178	(34,549)	51,629
Financial Institutions, Public Sector Entities	Unrated - PPU approach *	388,894	(699)	388,195
Factoring	Unrated	65,463	(379)	65,084
		3,031,484	(76,934)	2,954,550
Retail				
Small business, Flat Owners Associations	I1 - I6	21,431	(36)	21,395
	M1 - M4	87,101	(883)	86,218
	R1 - R5	70,075	(3,307)	66,768
	D (default)	17,475	(13,651)	3,824
	Unrated	4,296	(99)	4,197
Mortgages	L1-L4	1,954,735	(396)	1,954,339
	N1-N3	487,646	(958)	486,688
	W1-W3	305,157	(10,977)	294,180
	D (default)	70,973	(24,359)	46,614
Unsecured retail	U1	80,172	(62)	80,110
	U2 - U3	121,303	(288)	121,015
	U4 - U5	160,361	(879)	159,482
	U6 - U7	146,940	(1,750)	145,190
	U8 - U10	126,309	(4,162)	122,147
	U11 - U12	71,908	(9,559)	62,349
	D (default)	70,023	(52,310)	17,713
	Unrated	354,506	(38,467)	316,039
Other	Unrated	5,520	(9)	5,511
		4,155,931	(162,152)	3,993,779
Securities	Unrated	2,752,778	(210)	2,752,568

* 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.

35. Financial risk management (continued)

31 December 2011	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	501,646	(202)	501,444
Sovereigns				
Municipalities	Unrated - PPU approach *	150,654	(294)	150,360
		150,654	(294)	150,360
Corporate				
Large Corporates, Specialized lending, SME	I1 - I6	657,685	(3,326)	654,359
	M1 - M4	944,909	(4,816)	940,093
	R1 - R5	686,237	(27,531)	658,706
	D (default)	99,696	(41,846)	57,850
Financial Institutions, Public Sector Entities	Unrated - PPU approach *	515,517	(1,294)	514,223
Factoring	Unrated	123,479	(612)	122,867
		3,027,523	(79,425)	2,948,098
Retail				
Small business, Flat Owners Associations	I1 - I6	26,914	(49)	26,865
	M1 - M4	75,823	(856)	74,967
	R1 - R5	77,560	(4,014)	73,546
	D (default)	18,604	(10,594)	8,010
	Unrated	4,535	(72)	4,463
Mortgages	L1-L4	1,820,399	(365)	1,820,034
	N1-N3	491,611	(949)	490,662
	W1-W3	333,712	(12,033)	321,679
	D (default)	70,396	(20,755)	49,641
Unsecured retail	U1	68,720	(54)	68,666
	U2 - U3	106,979	(257)	106,722
	U4 - U5	148,610	(860)	147,750
	U6 - U7	114,949	(1,420)	113,529
	U8 - U10	133,123	(4,367)	128,756
	U11 - U12	73,382	(9,901)	63,481
	D (default)	76,743	(57,512)	19,231
	Unrated	337,749	(42,866)	294,883
Other	Unrated	6,204	(3)	6,201
		3,986,013	(166,927)	3,819,086
Securities	Unrated	2,863,359	(341)	2,863,018

35. 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 Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

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

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

Exposure to market risk – trading portfolios

The principal tool used to measure and control market risk exposures within the Bank'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 Bank is based upon a 99% confidence level and assumes a one-day holding period. The VaR and sVaR models used are based on historical simulation. Taking account of market data from the previous year and in case of sVaR one year scenario from 5 years history, and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements. The VaR model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

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

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

€ '000	**September 2012**				**December 2011**			
	Balance	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	68	43	128	3	63	83	228	15
Interest rate risk	11	40	134	11	43	148	372	43
Overall	71	59	167	15	58	182	440	46

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

35. Financial risk management (continued)

Exposure to interest rate risk

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

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

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

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

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

Models applied for the calculation of interest rate gap

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

Contractual

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

Behavioural

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

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

35. Financial risk management (continued)

At 30 September 2012, interest margin sensitivity in a one year time frame, in the event of a 100 basis points rise in interest rates, was € - 179 thousand (31 December 2011: € 6,020 thousand).

At 30 September 2012, interest rate risk generated by the banking book, measured through shift sensitivity analysis to 1 basis point, registered € - 139 thousand (31 December 2011: € 140 thousand).

€ '000	**Sep 2012**	**Dec 2011**
EUR	(145)	134
CZK	3	5
Other	3	1
	(139)	140

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

	Sep 2012 %	**Dec 2011 %**
Assets		
Cash and balances with central banks	0.51	1.22
Due from banks	2.44	2.81
Financial assets at fair value through profit or loss	2.27	3.69
Available-for-sale financial assets	3.15	3.43
Loans and advances to customers	5.16	5.35
Held-to-maturity investments	4.18	4.02
Liabilities		
Due to central and other banks	0.44	0.68
Due to customers	1.18	1.04
Debt securities in issue	3.21	3.06

Currency denominations of assets and liabilities

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

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank 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 Bank's liquidity risk is closely tied to the market liquidity conditions (market liquidity risk).

The Guidelines for Liquidity Risk Management adopted by the Bank 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.

35. Financial risk management (continued)

The basic principles underpinning the Liquidity Policy of the Bank 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 Bank's liquidity or system liquidity.

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

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

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

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

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

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

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

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

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

35. Financial risk management (continued)

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

30 September 2012	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	107,409	-	107,409
Due from banks	622,867	77,071	699,938
Financial assets at fair value through profit or loss	247,789	11,498	259,287
Derivative financial instruments	45,735	-	45,735
Available-for-sale financial assets	152,176	1,309,859	1,462,035
Non-current assets held for sale	-	-	-
Loans and advances to customers	2,272,557	4,838,925	7,111,482
Held-to-maturity investments	65,452	965,794	1,031,246
Subsidiaries, associates and jointly controlled entities	-	96,014	96,014
Intangible assets	-	36,140	36,140
Property and equipment	-	128,591	128,591
Current income tax assets	12,279	-	12,279
Deferred income tax assets	-	29,050	29,050
Other assets	19,427	-	19,427
	3,545,691	7,492,942	11,038,633
Liabilities			
Due to central and other banks	(243,041)	(33,205)	(276,246)
Derivative financial instruments	(54,938)	-	(54,938)
Due to customers	(6,634,716)	(1,036,817)	(7,671,533)
Debt securities in issue	(211,714)	(1,532,355)	(1,744,069)
Provisions	-	(25,128)	(25,128)
Other liabilities	(51,595)	(2,535)	(54,130)
	(7,196,004)	(2,630,040)	(9,826,044)
	(3,650,313)	4,862,902	1,212,589

35. Financial risk management (continued)

31 December 2011	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	90,918	-	90,918
Due from banks	430,642	70,802	501,444
Financial assets at fair value through profit or loss	269,743	109	269,852
Derivative financial instruments	80,399	-	80,399
Available-for-sale financial assets	65,397	1,390,229	1,455,626
Non-current assets held for sale	3	-	3
Loans and advances to customers	2,157,454	4,760,090	6,917,544
Held-to-maturity investments	192,576	944,964	1,137,540
Subsidiaries, associates and jointly controlled entities	-	96,014	96,014
Intangible assets	-	34,988	34,988
Property and equipment	-	137,126	137,126
Current income tax assets	550	-	550
Deferred income tax assets	-	64,601	64,601
Other assets	15,077	-	15,077
	3,302,759	7,498,923	10,801,682
Liabilities			
Due to central and other banks	(392,379)	(37,346)	(429,725)
Derivative financial instruments	(57,382)	-	(57,382)
Due to customers	(6,421,243)	(1,076,908)	(7,498,151)
Debt securities in issue	(211,326)	(1,449,161)	(1,660,487)
Provisions	-	(24,285)	(24,285)
Other liabilities	(56,921)	(2,272)	(59,193)
	(7,139,251)	(2,589,972)	(9,729,223)
	(3,836,492)	4,908,951	1,072,459

35. Financial risk management (continued)

(d) Operational risk

Operational risk management strategies and processes

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

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

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

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

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

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

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

Policies for hedging and mitigating risk

The Bank, in coordination with its parent company, has set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does not currently include the benefit from this transfer of operational risk through insurance policies, however, it is due to be included in the future, after its validation by the Supervisory authority, so that it can contribute to reducing the risk capital calculated through the internal models. The process required to obtain this approval is planned to start in 2012.

36. Segment reporting

Segment information is presented in respect of the Bank'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 Bank 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 Bank's funding, HTM Securities portfolio management, issues of debt securities as well as trading book operations. The Bank also has a central Governance Centre that manages the Bank's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

36. Segment reporting (continued)

30 September 2012	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue					
Interest income	202,075	63,952	87,986	9,698	363,711
Interest expense	(50,822)	(9,143)	(51,798)	109	(111,654)
Inter-segment revenue	(6,667)	(5,682)	(8,638)	20,987	-
Net interest income	144,586	49,127	27,550	30,794	252,057
Net fee and commission income	46,122	14,451	1,335	(2,212)	59,696
Net trading result	2,503	3,285	(32,505)	37	(26,680)
Other operating income	1,500	552	(11)	464	2,505
Dividend income	-	-	-	1,281	1,281
Total segment operating income	194,711	67,415	(3,631)	30,364	288,859
Operating expenses					(160,950)
Operating profit before impairment					127,909
Impairment losses					(45,854)
Income tax expense					(21,239)
Net profit for 9 months					60,816
Segment assets	3,951,317	3,189,742	3,446,452	451,122	11,038,633
Segment liabilities	4,760,804	1,940,619	3,088,316	1,248,894	11,038,633

36. Segment reporting (continued)

30 September 2011	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue					
Interest income	190,722	65,784	95,800	7,054	359,360
Interest expense	(35,527)	(10,483)	(47,903)	(3)	(93,916)
Inter-segment revenue	(457)	(7,499)	(11,699)	19,655	-
Net interest income	154,738	47,802	36,198	26,706	265,444
Net fee and commission income	44,481	14,806	1,592	(1,781)	59,098
Net trading result	2,411	3,705	(5,509)	49	656
Other operating income	2,986	417	-	4,072	7,475
Dividend income	-	-	-	20,151	20,151
Total segment operating income	204,616	66,730	32,281	49,197	352,824
Operating expenses					(147,052)
Operating profit before impairment					205,772
Impairment losses					(40,728)
Income tax expense					(30,784)
Net profit for 9 months					134,260
Segment assets	3,752,320	2,938,546	3,736,111	536,231	10,963,208
Segment liabilities	4,552,758	1,998,857	3,282,409	1,129,184	10,963,208

37. Related parties

Related parties are those counterparties that represent:

(a) enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, 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 Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank 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 Bank and enterprises that have a member of key management in common with the Bank.

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

37. Related parties (continued)

At 30 September 2012, significant outstanding balances with related parties comprised:

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	613,038	613,038
Derivative financial instruments	-	-	-	10,225	10,225
Loans and advances to customers	913	-	183,280	-	184,193
Financial assets at fair value through profit or loss	-	-	-	310	310
Other assets	-	-	709	3,229	3,938
	913	-	183,989	626,802	811,704
Liabilities					
Due to central and other banks	-	-	-	132,723	132,723
Derivative financial instruments	-	-	-	6,844	6,844
Due to customers	1,595	-	2,025	-	3,620
Debt securities in issue					
Bonds	-	-	597	-	597
Mortgage bonds	-	-	-	1,021,723	1,021,723
Other liabilities	310	-	4,410	-	4,720
	1,905	-	7,032	1,161,290	1,170,227
Financial commitments and contingencies	-	-	31,856	-	31,856
Received guarantees	-	-	-	230,906	230,906
Issued guarantees	-	-	-	7,189	7,189
Derivative transactions (notional amount – receivable)	-	-	-	466,668	466,668
Derivative transactions (notional amount – payable)	-	-	-	171,921	171,921
Income and expense items					
Interest and similar income	36	-	1,822	11,005	12,863
Interest and similar expense	(34)	-	(80)	(23,054)	(23,168)
Fee and commission income	1	-	2,448	4	2,453
Fee and commission expense	-	-	(20,386)	(5,303)	(25,689)
Net trading result	-	-	-	(4,032)	(4,032)
Dividend income	-	-	1,281	-	1,281
Other operating income	-	-	858	67	925
Other operating expenses	-	-	(840)	(413)	(1,253)
	3	-	(14,897)	(21,726)	(36,620)

* Key management personnel

37. Related parties (continued)

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

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	458,321	458,321
Derivative financial instruments	-	-	-	9,596	9,596
Loans and advances to customers	1,229	584	143,026	-	144,839
Other assets	-	-	4,532	1,509	6,041
	1,229	584	147,558	469,426	618,797
Liabilities					
Due to central and other banks	-	-	-	144,538	144,538
Derivative financial instruments	-	-	-	4,176	4,176
Due to customers	2,365	-	10,856	-	13,221
Debt securities in issue					
Bonds	-	-	6,928	-	6,928
Mortgage bonds	-	-	-	1,027,101	1,027,101
Other liabilities	-	-	6,879	-	6,879
	2,365	-	24,663	1,175,815	1,202,843
Financial commitments and contingencies	-	-	32,179	-	32,179
Received guarantees	-	-	-	77,075	77,075
Derivative transactions (notional amount – receivable)	-	-	-	376,035	376,035

For the period ended 30 September 2011, significant outstanding balances with related parties comprised:

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Income and expense items					
Interest and similar income	32	3	2,005	8,474	10,514
Interest and similar expense	(33)	-	(129)	(21,446)	(21,608)
Fee and commission income	2	-	3,735	-	3,737
Fee and commission expense	-	-	(21,547)	(3,255)	(24,802)
Net trading result	-	-	-	(3,181)	(3,181)
Dividend income	-	-	20,151	-	20,151
Other operating income	-	-	732	58	790
Other operating expenses	-	-	(307)	-	(307)
	1	3	4,640	(19,350)	(14,706)

38. Profit distribution

On 3 April 2012, the Bank's shareholders approved the following profit distribution for 2011.

Dividends to shareholders (€ 3.65 per € 33.2 share)	47,364
Retained earnings	110,300
	157,664

39. Events after the end of reporting period

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