VÚB BANKA

Interim separate financial statements for 6 months ended 30 June 2014

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

Contents

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Separate statement of financial position at 30 June 2014

(In thousands of euro)

	Note	June 2014	Dec 2013
Assets			
Cash and balances with central banks	7	209,413	96,634
Due from banks	8	717,305	771,467
Financial assets at fair value through profit or loss	9	260,080	207,674
Derivative financial instruments	10	26,598	29,221
Available-for-sale financial assets	11	1,654,920	1,588,324
Loans and advances to customers	12	7,417,139	7,159,983
Held-to-maturity investments	14	521,633	995,831
Subsidiaries, associates and joint ventures	15	95,566	95,990
Intangible assets	16	47,085	51,348
Property and equipment	17	104,917	111,743
Current income tax assets	18	-	1,699
Deferred income tax assets	18	26,875	27,960
Other assets	19	12,002	13,504
		11,093,533	11,151,378
Liabilities			
Due to central and other banks	20	421,880	507,276
Derivative financial instruments	10	28,054	42,884
Due to customers	21	7,874,588	7,839,050
Debt securities in issue	22	1,428,492	1,404,607
Current income tax liabilities	18	9,790	-
Provisions	23	22,242	21,973
Other liabilities	24	59,386	63,161
		9,844,432	9,878,951
Equity			
Equity (excluding net profit for the period)	25	1,190,276	1,167,789
Net profit for the period		58,825	104,638
		1,249,101	1,272,427
		11,093,533	11,151,378
Financial commitments and contingencies	26	2,994,592	2,848,946

The accompanying notes on pages 8 to 76 form an integral part of these financial statements.

These financial statements were authorised for issue on 29 July 2014.

Alexander Resch
Chairman of the Management Board

Peter Magala
Member of the Management Board

VÚB BANKA

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

	Note	June 2014	June 2013
Interest and similar income		225,827	229,918
Interest and similar expense		(47,048)	(56,826)
Net interest income	27	178,779	173,092
Fee and commission income		64,792	66,688
Fee and commission expense		(32,727)	(29,112)
Net fee and commission income	28	32,065	37,576
Net trading result	29	6,130	5,542
Other operating income	30	1,687	1,621
Dividend income		2,287	1,696
Operating income		220,948	219,527
Salaries and employee benefits	31	(49,003)	(46,232)
Other operating expenses	32	(42,663)	(38,355)
Special levy of selected financial institutions	32	(19,583)	(19,195)
Amortisation	16	(5,483)	(4,090)
Depreciation	17	(6,639)	(7,411)
Operating expenses		(123,371)	(115,283)
Operating profit before impairment		97,577	104,244
Impairment losses	33	(22,777)	(31,040)
Profit before tax		74,800	73,204
Income tax expense	34	(15,975)	(17,993)
NET PROFIT FOR 6 MONTHS		58,825	55,211
Other comprehensive income for 6 months, after tax:			
Items that may be reclassified to profit or loss in the future:			
Exchange difference on translating foreign operation		(1)	(3)
Available-for-sale financial assets		2,013	(14,285)
Cash flow hedges		491	473
Other comprehensive income for 6 months, net of tax	35, 36	2,503	(13,815)
TOTAL COMPREHENSIVE INCOME FOR 6 MONTHS		61,328	41,396
Basic and diluted earnings per € 33.2 share in €	25	4.53	4.25

The accompanying notes on pages 8 to 76 form an integral part of these financial statements.

VÚB BANKA

Separate statement of profit or loss and other comprehensive income
for 3 months ended 30 June 2014
(In thousands of euro)

	Note	June 2014	June 2013
Interest and similar income		113,151	114,780
Interest and similar expense		(23,080)	(28,015)
Net interest income	27	90,071	86,765
Fee and commission income		34,182	33,253
Fee and commission expense		(17,758)	(15,228)
Net fee and commission income	28	16,424	18,025
Net trading result	29	4,091	2,006
Other operating income	30	892	851
Dividend income		-	1,696
Operating income		111,478	109,343
Salaries and employee benefits	31	(24,903)	(22,784)
Other operating expenses	32	(21,262)	(19,638)
Special levy of selected financial institutions	32	(9,696)	(9,483)
Amortisation		(2,899)	(1,856)
Depreciation		(3,271)	(3,562)
Operating expenses		(62,031)	(57,323)
Operating profit before impairment		49,447	52,020
Impairment losses	33	(11,417)	(14,003)
Profit before tax		38,030	38,017
Income tax expense	34	(8,160)	(9,648)
NET PROFIT FOR 3 MONTHS		29,870	28,369
Other comprehensive income for 3 months, after tax:			
Items that may be reclassified to profit or loss in the future:			
Exchange difference on translating foreign operation		(1)	4
Available-for-sale financial assets		(227)	(4,171)
Cash flow hedges		146	358
Other comprehensive income for 3 months, net of tax		(82)	(3,809)
TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS		29,788	24,560
Basic and diluted earnings per € 33.2 share in €		2.30	2.19

The accompanying notes on pages 8 to 76 form an integral part of these financial statements.

Separate statement of changes in equity for 6 months ended 30 June 2014

(In thousands of euro)

	Share capital	Share premium	Treasury shares	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2013	430,819	13,368	-	87,493	657,018	-	57,802	(1,425)	1,245,075
Total comprehensive income for 6 months, net of tax	-	-	-	-	55,211	(3)	(14,285)	473	41,396
Dividends to shareholders	-	-	-	-	(64,623)	-	-	-	(64,623)
Reversal of dividends distributed but not collected	-	-	-	-	166	-	-	-	166
Other	-	-	-	-	(14)	14	-	-	-
Purchase of treasury shares	-	-	(701)	-	-	-	-	-	(701)
At 30 June 2013	430,819	13,368	(701)	87,493	647,758	11	43,517	(952)	1,221,313
At 1 January 2014	430,819	13,501	-	87,493	697,185	8	43,149	272	1,272,427
Total comprehensive income for 6 months, net of tax	-	-	-	-	58,825	(1)	2,013	491	61,328
Dividends to shareholders	-	-	-	-	(84,347)	-	-	-	(84,347)
Other	-	-	-	-	7	(7)	-	-	-
Purchase of treasury shares	-	-	(307)	-	-	-	-	-	(307)
At 30 June 2014	430,819	13,501	(307)	87,493	671,670	-	45,162	763	1,249,101

The accompanying notes on pages 8 to 76 form an integral part of these financial statements.

VÚB BANKA

Separate statement of cash flows for 6 months ended 30 June 2014

(In thousands of euro)

	Note	June 2014	June 2013
Cash flows from operating activities			
Profit before tax		74,800	73,204
Adjustments for:			
Amortisation		5,483	4,090
Depreciation		6,639	7,411
Securities at fair value through profit or loss, debt securities in issue and FX differences		11,778	(7,577)
Interest income		(225,827)	(229,918)
Interest expense		47,048	56,826
Dividend income		(2,287)	(1,696)
Sale of property and equipment		(1)	(37)
Impairment losses and similar charges		30,928	30,629
Interest received		259,740	276,465
Interest paid		(45,399)	(50,704)
Dividends received		2,287	1,696
Tax paid		(3,401)	(24,093)
Due from banks		(24,921)	(49,002)
Financial assets at fair value through profit or loss		(52,801)	(128,577)
Derivative financial instruments (assets)		3,114	11,628
Available-for-sale financial assets		(79,028)	87,614
Loans and advances to customers		(276,353)	68,279
Other assets		1,495	(919)
Due to central and other banks		(85,378)	(55,978)
Derivative financial instruments (liabilities)		(14,830)	(19,073)
Due to customers		34,022	221,657
Other liabilities		(4,866)	(10,284)
Net cash (used in)/from operating activities		(337,758)	261,641
Cash flows from investing activities			
Repayments of held-to-maturity investments		445,222	9,958
Purchase of intangible assets and property and equipment		(1,033)	(2,978)
Disposal of property and equipment		1	44
Disposal of subsidiaries		424	-
Net cash from investing activities		444,614	7,024
Cash flows from financing activities			
Proceeds from issue of debt securities		58,627	122,359
Repayments of debt securities		(44,862)	(86,318)
Purchase of treasury shares		(307)	(701)
Dividends paid		(84,347)	(64,623)
Net cash used in financing activities		(70,889)	(29,283)
Net change in cash and cash equivalents		35,967	239,382
Cash and cash equivalents at the beginning of the year	6	275,917	165,716
Cash and cash equivalents at 30 June	6	311,884	405,098

The accompanying notes on pages 8 to 76 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 June 2014, the Bank had a network of 240 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2013: 244). The Bank also has one branch in the Czech Republic.

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.

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The interim 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 and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

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

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies and presentation

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

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

2.3 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.

2. Summary of significant accounting policies (continued)

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.

2.4 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 cash equivalents

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

2.7 Cash and balances with central banks

Cash and balances with central banks comprise cash in hand and balances with the NBS and other central banks, including compulsory minimum reserves. Cash and other valuables are carried at amortised cost in the Statement of financial position.

2.8 Treasury bills and other eligible bills

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

2.9 Due from banks

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

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

2.10 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.

2. Summary of significant accounting policies (continued)

The principal differences among the portfolios relate to the measurement and recognition of fair values in the financial statements. All securities held by the 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 profit or loss and other comprehensive income and in equity respectively.

(a) Securities at fair value through profit or loss

This portfolio comprises following subcategories:

(i) Securities held for trading

These securities are financial assets acquired by the 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 profit or loss and other comprehensive income in ‘Net trading result’. Interest earned on securities at fair value through profit or loss is accrued on a daily basis and reported in the statement of profit or loss and other comprehensive income in ‘Interest and similar income’.

Day 1 profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the 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 profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognised.

(b) Available-for-sale securities

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

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

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

(c) Held-to-maturity investments

'Held-to-maturity' investments are financial assets with fixed or determinable payments and maturities that the 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 profit or loss and other 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.

2.11 Repurchase and reverse repurchase agreements

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

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

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

2. Summary of significant accounting policies (continued)

2.12 Derivative financial instruments

In the normal course of business, the 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.

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.

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

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

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

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.

2. Summary of significant accounting policies (continued)

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 profit or loss and other comprehensive income.

Hedging derivatives

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency, inflation and credit risks, including exposures arising from expected transactions. In order to manage individual risks, the 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 profit or loss and other comprehensive income.

Cash flow hedges

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

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

Fair value hedges

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

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

2. Summary of significant accounting policies (continued)

2.13 Offsetting financial instruments

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

2.14 Non-current assets held for sale

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

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

2.15 Loans and advances to customers and impairment losses

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

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

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

The 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 profit or loss and other comprehensive income on receipt.

2.16 Subsidiaries, associates and joint ventures

Subsidiaries, associates and joint ventures 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 of 5 years are determined by a present value of the perpetuity with the particular estimated growth rate, determined at Intesa Sanpaolo Group level specifically for the Slovak market.

2.17 Intangible assets

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

	Years
Software and Other intangible assets	7

2. Summary of significant accounting policies (continued)

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

2.18 Property and equipment

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

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

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

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

The 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.

2.19 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.

2.20 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 current rates of return on Slovak government bonds with the 15 years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the projected unit credit method. All employees of the 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	3.41%	3.41%
Growth of wages in 2014	n/a	2.00%
Future growth of wages after 2014	n/a	3.00%
Fluctuation of employees (based on age)	6 – 18%	6 – 18%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

2. Summary of significant accounting policies (continued)

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'.

2.21 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 profit or loss and other comprehensive income in 'Fee and commission income' on a straight line basis. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within 'Other liabilities'. Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss and other comprehensive income in 'Impairment losses'.

2.22 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.

2.23 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.

2.24 Interest income

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

2.25 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.

2.26 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. Summary of significant accounting policies (continued)

2.27 Dividend income

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

2.28 Current and deferred 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 the carrying amounts of assets and liabilities and their tax bases. Expected tax rates, applicable for the periods when assets and liabilities are realised, are used to determine deferred tax.

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

2.29 Fiduciary assets

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

2.30 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.

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 24) is proportional to the fair value of these shares.

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

2. Summary of significant accounting policies (continued)

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 profit or loss and other comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific allowance.

In addition to specific allowances against individually significant loans and advances, the 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.

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

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

3. 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,
- Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

3.Financial risk management (continued)

Management of credit risk

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

Impairment losses

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

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

3. Financial risk management (continued)

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

	June 2014			December 2013		
€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Portfolio assessed						
Banks	717,330	(25)	717,305	771,491	(24)	771,467
Customers						
Sovereigns	142,634	(301)	142,333	144,326	(310)	144,016
Corporate	2,762,788	(30,139)	2,732,649	2,716,346	(26,201)	2,690,145
Retail	4,534,091	(141,661)	4,392,430	4,297,207	(142,010)	4,155,197
	7,439,513	(172,101)	7,267,412	7,157,879	(168,521)	6,989,358
Securities						
FVTPL	260,080	-	260,080	207,674	-	207,674
AFS	1,654,920	-	1,654,920	1,588,324	-	1,588,324
HTM	521,945	(312)	521,633	996,428	(597)	995,831
	2,436,945	(312)	2,436,633	2,792,426	(597)	2,791,829
Individually assessed						
Customers						
Sovereigns	53	(5)	48	305	(75)	230
Corporate	218,961	(81,405)	137,556	243,691	(83,875)	159,816
Retail	19,463	(7,340)	12,123	17,626	(7,047)	10,579
	238,477	(88,750)	149,727	261,622	(90,997)	170,625
Securities						
AFS	574	(574)	-	574	(574)	-
	574	(574)	-	574	(574)	-

3. Financial risk management (continued)

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

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

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

Credit risk measurement

The Bank generally uses the standardised approach for the calculation of the capital requirement. However, for the calculation of credit and counterparty risk capital requirements, the Bank, having received authorisation from the Supervisory Authority, uses the Advanced IRB approach for portfolio of residential mortgages from July 2012 and for the Corporate segment and for Retail Small Business from June 2014. Foundation IRB approach is used for corporate exposures where LGD is not available. The Bank is also proceeding with the development of the rating models for other segments, to which the standard methods are currently applied, and also with the extension of the scope of subsidiaries in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

3. Financial risk management (continued)

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

		June 2014			December 2013		
€ '000	**Category**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks							
	Performing	717,330	(25)	717,305	771,491	(24)	771,467
		717,330	(25)	717,305	771,491	(24)	771,467
Sovereigns							
	Performing	142,631	(301)	142,330	144,307	(310)	143,997
	Substandard	56	(5)	51	324	(75)	249
		142,687	(306)	142,381	144,631	(385)	144,246
Corporate							
	Performing	2,829,704	(33,262)	2,796,442	2,791,242	(31,972)	2,759,270
	Past due	5	(1)	4	48	(23)	25
	Restructured	3,881	(3,785)	96	3,881	(3,785)	96
	Substandard	43,562	(7,828)	35,734	59,748	(10,553)	49,195
	Doubtful	104,597	(66,668)	37,929	105,118	(63,743)	41,375
		2,981,749	(111,544)	2,870,205	2,960,037	(110,076)	2,849,961
Retail							
	Performing	4,352,697	(42,463)	4,310,234	4,113,572	(42,242)	4,071,330
	Past due	16,379	(7,152)	9,227	16,925	(7,314)	9,611
	Substandard	15,533	(5,942)	9,591	14,357	(5,694)	8,663
	Doubtful	168,945	(93,444)	75,501	169,979	(93,807)	76,172
		4,553,554	(149,001)	4,404,553	4,314,833	(149,057)	4,165,776
Securities							
	Performing	2,436,945	(312)	2,436,633	2,792,426	(597)	2,791,829
	Doubtful	574	(574)	-	574	(574)	-
		2,437,519	(886)	2,436,633	2,793,000	(1,171)	2,791,829

3. Financial risk management (continued)

The table below shows the maximum amount of credit risk of derivative financial instruments, issued guarantees, commitments and undrawn credit facilities. To express the maximum amount of credit risk, the fair value of derivative financial assets is increased by the value of the potential credit exposure ('add on') calculated as the nominal value of the derivative financial instrument multiplied by the respective coefficient depending on the type of the instrument. The credit risk of the remaining financial assets not reported in the table below approximates their carrying amounts.

€ '000	June 2014	Dec 2013
Financial assets		
Derivative financial instruments	41,261	52,866
Financial commitments and contingencies		
Issued guarantees	597,777	627,306
Commitments and undrawn credit facilities	2,396,815	2,221,640
	2,994,592	2,848,946
	3,035,853	2,901,812

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.

	June 2014			December 2013		
€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	717,330	(25)	717,305	766,533	(22)	766,511
1 – 30 days	-	-	-	4,958	(2)	4,956
	717,330	(25)	717,305	771,491	(24)	771,467
Sovereigns						
No delinquency	142,481	(301)	142,180	144,021	(381)	143,640
1 – 30 days	150	-	150	525	(1)	524
91 – 180 days	-	-	-	66	(3)	63
Over 181 days	56	(5)	51	19	-	19
	142,687	(306)	142,381	144,631	(385)	144,246
Corporate						
No delinquency	2,869,261	(52,855)	2,816,406	2,838,888	(52,132)	2,786,756
1 – 30 days	26,439	(4,285)	22,154	41,464	(16,935)	24,529
31 – 60 days	759	(155)	604	9,135	(3,807)	5,328
61 – 90 days	3,830	(383)	3,447	8,429	(3,016)	5,413
91 – 180 days	9,111	(4,869)	4,242	9,552	(1,472)	8,080
Over 181 days	72,349	(48,997)	23,352	52,569	(32,714)	19,855
	2,981,749	(111,544)	2,870,205	2,960,037	(110,076)	2,849,961

3. Financial risk management (continued)

	June 2014			December 2013		
€ '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Retail						
No delinquency	4,145,833	(26,056)	4,119,777	3,907,727	(26,280)	3,881,447
1 – 30 days	152,044	(8,986)	143,058	153,327	(8,416)	144,911
31 – 60 days	39,878	(3,842)	36,036	38,943	(3,672)	35,271
61 – 90 days	25,898	(3,306)	22,592	24,504	(3,030)	21,474
91 – 180 days	28,718	(11,657)	17,061	29,714	(11,334)	18,380
Over 181 days	161,183	(95,154)	66,029	160,618	(96,325)	64,293
	4,553,554	(149,001)	4,404,553	4,314,833	(149,057)	4,165,776
Securities						
No delinquency	2,437,519	(886)	2,436,633	2,793,000	(1,171)	2,791,829
	2,437,519	(886)	2,436,633	2,793,000	(1,171)	2,791,829

Write-off Policy

The Bank writes off a loan or security balance 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 (1,080 days past due). Since 1 January 2013, an additional condition has been introduced based on which credit balances may be written off only if the collateral has already been realized. Receivables are being collected by external collection agencies until they qualify for write-off.

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

Collateral Policy

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

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

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

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

3. Financial risk management (continued)

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

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

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

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

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

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

€ '000	June 2014 Amortised cost	June 2014 Impairment losses	June 2014 Carrying amount	December 2013 Amortised cost	December 2013 Impairment losses	December 2013 Carrying amount
Europe						
Banks	710,469	(23)	710,446	763,640	(21)	763,619
Sovereigns	142,687	(306)	142,381	144,631	(385)	144,246
Corporate	2,981,749	(111,544)	2,870,205	2,959,864	(110,051)	2,849,813
Retail	4,551,841	(148,955)	4,402,886	4,313,029	(149,026)	4,164,003
Securities	2,437,519	(886)	2,436,633	2,793,000	(1,171)	2,791,829
	10,824,265	(261,714)	10,562,551	10,974,164	(260,654)	10,713,510
America						
Banks	6,217	(2)	6,215	7,742	(3)	7,739
Retail	204	(4)	200	249	(4)	245
	6,421	(6)	6,415	7,991	(7)	7,984
Asia						
Banks	617	-	617	95	-	95
Corporate	-	-	-	173	(25)	148
Retail	993	(25)	968	994	(20)	974
	1,610	(25)	1,585	1,262	(45)	1,217
Rest of the World						
Banks	27	-	27	14	-	14
Retail	516	(17)	499	561	(7)	554
	543	(17)	526	575	(7)	568

3. Financial risk management (continued)

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

30 June 2014 **€ '000**	**Banks**	**Sovereigns**	**Corporate**	**Retail**	**Securities**
Agriculture	-	-	69,527	27,819	-
Construction	-	-	100,990	15,963	-
Consumers	-	-	-	4,194,891	-
Energy and water supply	-	-	356,981	1,724	-
Financial services	717,305	-	329,726	163	162,767
Government	-	133,663	-	-	2,273,866
Manufacturing	-	-	504,928	26,364	-
Professional services	-	-	119,142	12,437	-
Real estate	-	-	423,597	27,889	-
Retail & Wholesale	-	-	535,327	61,873	-
Services	-	-	156,715	13,331	-
Transportation	-	8,718	248,069	10,331	-
Other	-	-	25,203	11,768	-
	717,305	142,381	2,870,205	4,404,553	2,436,633

31 December 2013 **€ '000**	**Banks**	**Sovereigns**	**Corporate**	**Retail**	**Securities**
Agriculture	-	-	50,263	15,641	-
Construction	-	-	146,098	14,567	-
Consumers	-	-	-	3,974,204	-
Energy and water supply	-	-	409,702	1,548	-
Financial services	771,467	-	326,045	370	161,032
Government	-	134,944	-	-	2,630,797
Manufacturing	-	-	463,989	24,010	-
Professional services	-	-	84,547	11,550	-
Real estate	-	-	376,325	23,934	-
Retail & Wholesale	-	-	551,535	61,183	-
Services	-	-	150,641	4,610	-
Transportation	-	9,302	238,472	9,467	-
Other	-	-	52,344	14,692	-
	771,467	144,246	2,849,961	4,165,776	2,791,829

3. Financial risk management (continued)

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the 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 June 2014 € '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	717,330	(25)	717,305	-	-	-	-	-	-
Sovereigns									
Municipalities	142,481	(301)	142,180	56	(5)	51	150	-	150
Corporate									
Large Corporates	974,411	(4,686)	969,725	20,191	(13,156)	7,035	2,001	(15)	1,986
Specialized Lending	715,922	(17,208)	698,714	57,995	(20,342)	37,653	4,424	(117)	4,307
SME	692,457	(9,784)	682,673	73,841	(44,782)	29,059	12,567	(497)	12,070
Other Fin. Institutions	306,935	(190)	306,745	6	(1)	5	-	-	-
Public Sector Entities	10,726	(103)	10,623	10	-	10	71	(1)	70
Factoring	110,125	(651)	109,474	2	(1)	1	65	(10)	55
	2,810,576	(32,622)	2,777,954	152,045	(78,282)	73,763	19,128	(640)	18,488
Retail									
Small Business	180,585	(3,498)	177,087	13,981	(10,786)	3,195	5,813	(584)	5,229
Consumer Loans	772,391	(8,133)	764,258	66,834	(36,047)	30,787	62,945	(3,874)	59,071
Mortgages	2,900,407	(8,043)	2,892,364	65,049	(20,608)	44,441	103,741	(7,274)	96,467
Credit Cards	181,868	(3,211)	178,657	38,861	(26,738)	12,123	24,136	(5,415)	18,721
Overdrafts	73,550	(1,004)	72,546	16,085	(12,359)	3,726	19,844	(1,145)	18,699
Flat Owners Associations	21,525	(281)	21,244	-	-	-	-	-	-
Other	5,884	(1)	5,883	47	-	47	8	-	8
	4,136,210	(24,171)	4,112,039	200,857	(106,538)	94,319	216,487	(18,292)	198,195
Securities									
FVTPL	260,080	-	260,080	-	-	-	-	-	-
AFS	1,654,920	-	1,654,920	574	(574)	-	-	-	-
HTM	521,945	(312)	521,633	-	-	-	-	-	-
	2,436,945	(312)	2,436,633	574	(574)	-	-	-	-

3. Financial risk management (continued)

31 December 2013 € '000	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	766,533	(22)	766,511	-	-	-	4,958	(2)	4,956
Sovereigns									
Municipalities	143,782	(309)	143,473	324	(75)	249	525	(1)	524
Corporate									
Large Corporates	925,787	(4,093)	921,694	20,061	(11,577)	8,484	7,616	(17)	7,599
Specialized Lending	718,142	(16,593)	701,549	71,101	(27,444)	43,657	883	(26)	857
SME	635,705	(9,911)	625,794	77,617	(39,081)	38,536	7,231	(393)	6,838
Other Fin. Institutions	357,557	(350)	357,207	5	(1)	4	-	-	-
Public Sector Entities	1,592	(15)	1,577	9	-	9	3	-	3
Factoring	136,424	(572)	135,852	2	(1)	1	302	(2)	300
	2,775,207	(31,534)	2,743,673	168,795	(78,104)	90,691	16,035	(438)	15,597
Retail									
Small Business	167,041	(3,303)	163,738	13,501	(11,124)	2,377	4,316	(537)	3,779
Consumer Loans	722,262	(7,867)	714,395	63,425	(34,430)	28,995	63,537	(3,863)	59,674
Mortgages	2,727,938	(8,284)	2,719,654	68,315	(21,925)	46,390	102,841	(7,118)	95,723
Credit Cards	175,293	(3,281)	172,012	39,419	(26,700)	12,719	23,200	(5,049)	18,151
Overdrafts	83,133	(1,450)	81,683	16,467	(12,635)	3,832	21,274	(1,209)	20,065
Flat Owners Associations	21,516	(281)	21,235	-	-	-	-	-	-
Other	1,193	-	1,193	134	(1)	133	28	-	28
	3,898,376	(24,466)	3,873,910	201,261	(106,815)	94,446	215,196	(17,776)	197,420
Securities									
FVTPL	207,674	-	207,674	-	-	-	-	-	-
AFS	1,588,324	-	1,588,324	574	(574)	-	-	-	-
HTM	996,428	(597)	995,831	-	-	-	-	-	-
	2,792,426	(597)	2,791,829	574	(574)	-	-	-	-

3. Financial risk management (continued)

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

	June 2014			December 2013		
€ '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks						
1 – 30 days	-	-	-	4,958	(2)	4,956
	-	-	-	4,958	(2)	4,956
Sovereigns						
1 – 30 days	150	-	150	525	(1)	524
	150	-	150	525	(1)	524
Corporate						
1 – 30 days	19,008	(579)	18,429	14,692	(277)	14,415
31 – 60 days	119	(61)	58	1,301	(140)	1,161
61 – 90 days	1	-	1	42	(21)	21
	19,128	(640)	18,488	16,035	(438)	15,597
Retail						
1 – 30 days	145,381	(7,226)	138,155	147,360	(7,241)	140,119
31 – 60 days	35,451	(3,188)	32,263	34,146	(2,913)	31,233
61 – 90 days	21,714	(2,571)	19,143	20,260	(2,342)	17,918
91 – 180 days	11,278	(4,003)	7,275	10,915	(3,856)	7,059
Over 181 days	2,663	(1,304)	1,359	2,515	(1,424)	1,091
	216,487	(18,292)	198,195	215,196	(17,776)	197,420

3. Financial risk management (continued)

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

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

For Specialized Lending which comprises of rating segments Special Purpose Vehicles (‘SPV’), Projected Finance (‘PF’) and Real Estate Development (‘RED’) the Slotting approach is used by the Bank. Clients are assigned into five slotting categories based on the qualitative valuation and information about the default. Risk weights and expected loss used for the capital requirement calculation is also defined for each category. Categories are predefined by the NBS decree no. 4/2007 and internally, the categories used are as follows:

Specialized Lending – SPV, PF and RED

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

3. Financial risk management (continued)

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

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

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

30 June 2014 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	717,330	(25)	717,305
Sovereigns				
Municipalities	Unrated	142,687	(306)	142,381
		142,687	(306)	142,381
Corporate				
Large Corporates, SME	I1 - I6	741,252	(812)	740,440
	M1 - M4	673,270	(5,541)	667,729
	R1 - R5	280,050	(11,206)	268,844
	D (default)	80,896	(55,361)	25,535
Specialized Lending - SPV, PF and RED	Strong	94,651	(134)	94,517
	Good	197,710	(1,252)	196,458
	Satisfactory	391,810	(23,520)	368,290
	Weak	94,170	(12,761)	81,409
Other Financial Institutions, Public Sector Entities	Unrated - PPU approach *	317,748	(295)	317,453
Factoring	Unrated	110,192	(662)	109,530
		2,981,749	(111,544)	2,870,205

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

3. Financial risk management (continued)

30 June 2014 **€ '000**	**Internal rating**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Retail				
Small Business, Flat Owners Associations	I1 - I6	21,055	(39)	21,016
	M1 - M4	105,564	(1,344)	104,220
	R1 - R5	60,366	(2,649)	57,717
	D (default)	12,688	(10,741)	1,947
	Unrated	22,231	(376)	21,855
Mortgages	L1 - L4	2,203,274	(408)	2,202,866
	N1 - N3	517,215	(1,021)	516,194
	W1 - W3	283,515	(11,115)	272,400
	D (default)	65,193	(23,381)	41,812
Unsecured Retail	U1	190,274	(107)	190,167
	U2 - U3	155,161	(268)	154,893
	U4 - U5	177,107	(705)	176,402
	U6 - U7	111,078	(1,006)	110,072
	U8 - U10	95,489	(2,416)	93,073
	U11 - U12	73,679	(7,567)	66,112
	D (default)	65,431	(48,492)	16,939
	Unrated	388,295	(37,365)	350,930
Other	Unrated	5,939	(1)	5,938
		4,553,554	(149,001)	4,404,553
Securities	Unrated	2,437,519	(886)	2,436,633

3. Financial risk management (continued)

31 December 2013 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	771,491	(24)	771,467
Sovereigns				
Municipalities	Unrated	144,631	(385)	144,246
		144,631	(385)	144,246
Corporate				
Large Corporates, SME	I1 - I6	710,594	(813)	709,781
	M1 - M4	668,002	(6,684)	661,318
	R1 - R5	248,172	(26,090)	222,082
	D (default)	47,248	(31,486)	15,762
Specialized Lending - SPV, PF and RED	Strong	95,750	-	95,750
	Good	296,335	(1,179)	295,156
	Satisfactory	275,937	(20,970)	254,967
	Weak	122,105	(21,913)	100,192
Other Financial Institutions, Public Sector Entities	Unrated - PPU approach	359,166	(366)	358,800
Factoring	Unrated	136,728	(575)	136,153
		2,960,037	(110,076)	2,849,961
Retail				
Small Business, Flat Owners Associations	I1 - I6	23,117	(41)	23,076
	M1 - M4	90,798	(938)	89,860
	R1 - R5	57,688	(2,767)	54,921
	D (default)	12,941	(11,195)	1,746
	Unrated	21,830	(304)	21,526
Mortgages	L1 - L4	2,067,309	(391)	2,066,918
	N1 - N3	475,183	(933)	474,250
	W1 - W3	289,071	(11,625)	277,446
	D (default)	67,531	(24,378)	43,153
Unsecured Retail	U1	175,223	(99)	175,124
	U2 - U3	151,426	(263)	151,163
	U4 - U5	162,199	(675)	161,524
	U6 - U7	108,716	(990)	107,726
	U8 - U10	106,577	(2,794)	103,783
	U11 - U12	73,294	(7,558)	65,736
	D (default)	64,714	(47,943)	16,771
	Unrated	365,861	(36,162)	329,699
Other	Unrated	1,355	(1)	1,354
		4,314,833	(149,057)	4,165,776
Securities	Unrated	2,793,000	(1,171)	2,791,829

3. Financial risk management (continued)

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices or foreign exchange rate will affect the 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 sub-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 sub-department and forms part of the trading portfolio for risk management purposes. The non-trading portfolios are managed by the ALM department, and include all positions which are not intended for trading.

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

Exposure to market risk – trading portfolios

The principal tool used to measure and control market risk exposures within the 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 into account market data from the previous year and in case of sVaR one year scenario from 5 years history and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements. The VaR model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

The 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 department. Regular summaries are submitted to Intesa Sanpaolo and ALCO.

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

	June 2014				December 2013			
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	100	108	233	35	108	69	148	17
Interest rate risk	58	119	265	15	16	97	205	15
Overall	121	183	393	94	109	133	223	53
sVaR	339	369	937	178	281	251	439	142

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

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

3. Financial risk management (continued)

These limitations are recognized, by supplementing VaR limits with other position limit structures. In addition, the 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. Furthermore, integrating the sVaR measure into the VaR concept adds to mitigation of the limitation of using historical series and possibly omitting scenarios of an extraordinary nature.

Exposure to interest rate risk

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

The Risk Management division is responsible for monthly monitoring of these gaps. The management of interest rate risk is measured by shift sensitivity analysis (change in present value). To align to the Intesa Sanpaolo Group methodology, since July 2013 the shift sensitivity analysis is defined as a parallel and uniform shift of + 100 basis points of the rate curve (previously + 1 basis point) and +/- 200 basis points of the rate curve. Further adjustments of the shift sensitivity calculation such as incorporation of models for sight loans (e.g. overdrafts and credit cards), sight deposits and prepayment rates for mortgages and consumer loans were made as well due to alignment. These standard scenarios are applied on monthly basis.

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

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

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

Contractual

This category includes instruments where the 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). There are also some items where maturity or re-pricing period is known but it can be assumed that they will behave differently (e.g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the most probable behaviour of these items. The assumptions are based on a detailed analysis of the Bank's historical data and statistical models.

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

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

3. Financial risk management (continued)

At 30 June 2014, interest margin sensitivity on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 5,729 thousand (31 December 2013: € 6,730 thousand).

At 30 June 2014, interest rate risk generated by the banking book, measured through shift sensitivity analysis to 100 basis points, registered € - 24,654 thousand (31 December 2013: € - 32,841 thousand).

€ '000	**June 2014**	**Dec 2013**
EUR	(26,258)	(32,833)
Other	1,604	(8)
	(24,654)	(32,841)

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

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

	June 2014 %	**Dec 2013 %**
Assets		
Cash and balances with central banks	0.24	0.29
Due from banks	0.80	1.44
Financial assets at fair value through profit or loss	2.40	1.62
Available-for-sale financial assets	2.41	2.57
Loans and advances to customers	5.01	5.07
Held-to-maturity investments	4.32	4.17
Liabilities		
Due to central and other banks	0.71	0.52
Due to customers	0.68	0.86
Debt securities in issue	2.61	2.67

Currency denominations of assets and liabilities

Foreign exchange rate risk comprises the risk that the value of financial assets and liabilities will fluctuate due to changes in market foreign exchange rates. It is the policy of the 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.

3. 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 Enterprise Risk Management Department responsible for monitoring indicators and verifying the observation of limits.

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

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

The Structural Liquidity Policy of the 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 Enterprise Risk Management Department and discussed during the ALCO meetings.

3. Financial risk management (continued)

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

30 June 2014 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	209,413	-	209,413
Due from banks	645,287	72,018	717,305
Financial assets at fair value through profit or loss	207,301	52,779	260,080
Derivative financial instruments	26,598	-	26,598
Available-for-sale financial assets	405,064	1,249,856	1,654,920
Loans and advances to customers	2,033,939	5,383,200	7,417,139
Held-to-maturity investments	4,024	517,609	521,633
Subsidiaries, associates and joint ventures	-	95,566	95,566
Intangible assets	-	47,085	47,085
Property and equipment	-	104,917	104,917
Deferred income tax assets	-	26,875	26,875
Other assets	12,002	-	12,002
	3,543,628	7,549,905	11,093,533
Liabilities			
Due to central and other banks	(256,694)	(165,186)	(421,880)
Derivative financial instruments	(28,054)	-	(28,054)
Due to customers	(7,199,835)	(674,753)	(7,874,588)
Debt securities in issue	(266,221)	(1,162,271)	(1,428,492)
Current income tax liabilities	(9,790)	-	(9,790)
Provisions	-	(22,242)	(22,242)
Other liabilities	(56,230)	(3,156)	(59,386)
	(7,816,824)	(2,027,608)	(9,844,432)
	(4,273,196)	5,522,297	1,249,101

3. Financial risk management (continued)

31 December 2013 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	96,634	-	96,634
Due from banks	705,820	65,647	771,467
Financial assets at fair value through profit or loss	194,439	13,235	207,674
Derivative financial instruments	29,221	-	29,221
Available-for-sale financial assets	27,342	1,560,982	1,588,324
Loans and advances to customers	2,139,993	5,019,990	7,159,983
Held-to-maturity investments	477,691	518,140	995,831
Subsidiaries, associates and joint ventures	-	95,990	95,990
Intangible assets	-	51,348	51,348
Property and equipment	-	111,743	111,743
Current income tax assets	1,699	-	1,699
Deferred income tax assets	-	27,960	27,960
Other assets	13,504	-	13,504
	3,686,343	7,465,035	11,151,378
Liabilities			
Due to central and other banks	(327,901)	(179,375)	(507,276)
Derivative financial instruments	(42,884)	-	(42,884)
Due to customers	(7,057,578)	(781,472)	(7,839,050)
Debt securities in issue	(211,876)	(1,192,731)	(1,404,607)
Provisions	-	(21,973)	(21,973)
Other liabilities	(60,005)	(3,156)	(63,161)
	(7,700,244)	(2,178,707)	(9,878,951)
	(4,013,901)	5,286,328	1,272,427

3. 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 VUB 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 participate in the process and each of them is responsible for the identification, assessment, management and mitigation of its operational risks. Specific offices and departments have been identified within these organisational units to be responsible for Operational Risk Management. These functions are responsible for the collection and structured census of information relating to operational events, scenario analyses and evaluation of the level of risk associated with the business environment. The Risk Management Division carries out second level monitoring of these activities.

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

Upon the request of the parent company, the Bank as part of the VUB Group request has received in February 2010, from the relevant Supervisory authorities, approval for usage and thus adopted the Advanced Measurement Approach ('AMA'), for Operational Risk management and measurement. In June 2013, the Bank as part of the VUB Group request has received approval for usage and thus adopted the AMA for subsidiaries Consumer Finance Holding and VUB Leasing. The part of this decision has been an approval of the insurance effect inclusion, as well as approval of a new allocation mechanism, which led to fulfilment of a regulatory condition for the approval of diversification usage.

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

For the use of the AMA, the 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 process is verified by the Internal Audit Department and submitted to the Management Board for the annual certification of compliance with the requirements established by the regulation.

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

Policies for hedging and mitigating risk

The 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 include the benefit from this transfer of operational risk through insurance policies, which contributes to reducing the risk capital calculated through the internal models.

4. Estimated fair value of financial assets and liabilities

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market measurement criterion that is not entity-specific. An entity has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market operators to determine the price of an asset or liability, presuming that the market operators act with a view to satisfying their own economic interest in the best way possible.

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

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the Bank as at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and

Level 3: inputs unobservable for the asset or liability.

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

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

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

In estimating the fair value of the 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.

(c) Loans and advances to customers

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

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

(d) Held-to-maturity investments

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

(e) Due to banks and customers

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

(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.

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

		Carrying amount			Fair value			
30 June 2014 € '000	**Note**	**At amortised cost**	**At fair value**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Cash and balances with central banks	7	209,413	-	209,413	-	209,413	-	209,413
Due from banks	8	717,305	-	717,305	-	717,845	-	717,845
Financial assets at fair value through profit or loss	9	-	260,080	260,080	256,465	3,615	-	260,080
Derivative financial instruments	10	-	26,598	26,598	-	26,598	-	26,598
Available-for-sale financial assets	11	-	1,654,920	1,654,920	345,212	1,309,708	-	1,654,920
Loans and advances to customers	12	7,417,139	-	7,417,139	-	8,831,662	-	8,831,662
Held-to-maturity investments	14	521,633	-	521,633	-	605,209	-	605,209
		8,865,490	1,941,598	10,807,088	601,677	11,704,050	-	12,305,727
Financial liabilities								
Due to central and other banks	20	(421,880)	-	(421,880)	-	(421,880)	-	(421,880)
Derivative financial instruments	10	-	(28,054)	(28,054)	-	(28,054)	-	(28,054)
Due to customers	21	(7,874,588)	-	(7,874,588)	-	(7,752,180)	-	(7,752,180)
Debt securities in issue	22	(1,428,492)	-	(1,428,492)	-	(1,471,227)	-	(1,471,227)
		(9,724,960)	(28,054)	(9,753,014)	-	(9,673,341)	-	(9,673,341)

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

31 December 2013 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and balances with central banks	7	96,634	-	96,634	-	96,634	-	96,634
Due from banks	8	771,467	-	771,467	-	772,242	-	772,242
Financial assets at fair value through profit or loss	9	-	207,674	207,674	166,312	41,362	-	207,674
Derivative financial instruments	10	-	29,221	29,221	-	29,221	-	29,221
Available-for-sale financial assets	11	-	1,588,324	1,588,324	343,070	1,245,254	-	1,588,324
Loans and advances to customers	12	7,159,983	-	7,159,983	-	8,256,800	-	8,256,800
Held-to-maturity investments	14	995,831	-	995,831	-	1,065,202	-	1,065,202
		9,023,915	1,825,219	10,849,134	509,382	11,506,715	-	12,016,097
Financial liabilities								
Due to central and other banks	20	(507,276)	-	(507,276)	-	(507,276)	-	(507,276)
Derivative financial instruments	10	-	(42,884)	(42,884)	-	(42,884)	-	(42,884)
Due to customers	21	(7,839,050)	-	(7,839,050)	-	(7,677,076)	-	(7,677,076)
Debt securities in issue	22	(1,404,607)	-	(1,404,607)	-	(1,435,400)	-	(1,435,400)
		(9,750,933)	(42,884)	(9,793,817)	-	(9,662,636)	-	(9,662,636)

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

5. Segment reporting

Segment information is presented in respect of the 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, 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.

5. Segment reporting (continued)

30 June 2014 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue					
Interest income	140,047	40,138	6,747	38,895	225,827
Interest expense	(21,544)	(4,086)	(2,272)	(19,146)	(47,048)
Inter-segment revenue	(11,427)	(8,402)	(2,353)	22,182	-
Net interest income	107,076	27,650	2,122	41,931	178,779
Net fee and commission income	23,052	9,771	1,432	(2,190)	32,065
Net trading result	1,294	1,782	1,073	1,981	6,130
Other operating income	4,984	457	(9)	(3,745)	1,687
Dividend income	-	-	-	2,287	2,287
Total segment operating income	136,406	39,660	4,618	40,264	220,948
Operating expenses					(123,371)
Operating profit before impairment					97,577
Impairment losses					(22,777)
Income tax expense					(15,975)
Net profit for 6 months					58,825
Segment assets	4,345,133	3,127,423	810,562	2,810,415	11,093,533
Segment liabilities and equity	4,729,298	2,235,631	1,218,405	2,910,199	11,093,533

5. Segment reporting (continued)

30 June 2013 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue					
Interest income	140,764	36,935	9,620	42,599	229,918
Interest expense	(28,728)	(4,111)	(2,771)	(21,216)	(56,826)
Inter-segment revenue	(6,094)	(42)	(3,478)	9,614	-
Net interest income	105,942	32,782	3,371	30,997	173,092
Net fee and commission income	29,277	9,944	1,264	(2,909)	37,576
Net trading result	1,469	1,757	(1,194)	3,510	5,542
Other operating income	1,308	396	(2)	(81)	1,621
Dividend income	-	-	-	1,696	1,696
Total segment operating income	137,996	44,879	3,439	33,213	219,527
Operating expenses					(115,283)
Operating profit before impairment					104,244
Impairment losses					(31,040)
Income tax expense					(17,993)
Net profit for 6 months					55,211
Segment assets	4,045,504	2,968,482	1,078,293	2,886,062	10,978,341
Segment liabilities and equity	4,712,317	2,286,492	1,137,067	2,842,465	10,978,341

6. Cash and cash equivalents

€ '000	Note	June 2014	Dec 2013
Cash and balances with central banks	7	209,413	96,634
Current accounts in other banks	8	53,470	16,145
Term deposits with other banks	8	49,001	163,138
		311,884	275,917

7. Cash and balances with central banks

€ '000	June 2014	Dec 2013
Balances with central banks:		
Compulsory minimum reserves	692	1,128
Current accounts	-	112
Term deposits	119,854	-
	120,546	1,240
Cash in hand	88,867	95,394
	209,413	96,634

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 at the NBS and 2% for the reserves held at the Czech National Bank. The required balance is calculated as the total of individual items multiplied by the valid rate.

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

8. Due from banks

€ '000	Note	June 2014	Dec 2013
Current accounts	6	53,470	16,145
Term deposits			
with contractual maturity less than 90 days	6	49,001	163,138
with contractual maturity over 90 days		20,074	20,071
Loans and advances			
with contractual maturity over 90 days		552,346	562,058
Cash collateral		42,439	10,079
Impairment losses	13	(25)	(24)
		717,305	771,467

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

8. Due from banks (continued)

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

9. Financial assets at fair value through profit or loss

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

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

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

10. Derivative financial instruments

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

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

10. Derivative financial instruments (continued)

€ '000 **Trading derivatives – Fair values**	**June 2014 Assets**	**Dec 2013 Assets**	**June 2014 Liabilities**	**Dec 2013 Liabilities**
Interest rate instruments				
Swaps	7,361	8,390	5,212	7,688
Options	2,829	2,534	2,850	2,551
	10,190	10,924	8,062	10,239
Foreign currency instruments				
Forwards and swaps	2,172	8,201	3,036	16,429
Cross currency swaps	-	-	1,338	1,307
Options	1,567	1,822	1,738	2,385
	3,739	10,023	6,112	20,121
Equity and commodity instruments				
Equity options	2,942	3,394	2,942	3,394
	16,871	24,341	17,116	33,754

€ '000 **Trading derivatives – Notional values**	**June 2014 Assets**	**Dec 2013 Assets**	**June 2014 Liabilities**	**Dec 2013 Liabilities**
Interest rate instruments				
Swaps	440,446	458,950	440,446	458,950
Options	168,428	163,897	168,428	163,897
Futures	616,363	-	616,363	-
	1,225,237	622,847	1,225,237	622,847
Foreign currency instruments				
Forwards and swaps	411,172	843,205	411,886	851,532
Cross currency swaps	29,141	29,168	30,449	30,449
Options	48,372	74,264	48,326	74,123
	488,685	946,637	490,661	956,104
Equity and commodity instruments				
Equity options	8,478	14,304	8,478	14,304
	1,722,400	1,583,788	1,724,376	1,593,255

10. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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 and inflation risk

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

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

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

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

11. Available-for-sale financial assets

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

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

12. Loans and advances to customers

30 June 2014 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	142,687	(306)	142,381
Corporate			
Large Corporates	996,603	(17,857)	978,746
Specialized Lending	778,341	(37,667)	740,674
Small and Medium Enterprises ('SME')	778,865	(55,063)	723,802
Other Financial Institutions	306,941	(191)	306,750
Public Sector Entities	10,807	(104)	10,703
Factoring	110,192	(662)	109,530
	2,981,749	(111,544)	2,870,205
Retail			
Small Business	200,379	(14,868)	185,511
Consumer Loans	902,170	(48,054)	854,116
Mortgages	3,069,197	(35,925)	3,033,272
Credit Cards	244,865	(35,364)	209,501
Overdrafts	109,479	(14,508)	94,971
Flat Owners Associations	21,525	(281)	21,244
Other	5,939	(1)	5,938
	4,553,554	(149,001)	4,404,553
	7,677,990	(260,851)	7,417,139

12. Loans and advances to customers (continued)

31 December 2013 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	144,631	(385)	144,246
Corporate			
Large Corporates	953,464	(15,687)	937,777
Specialized Lending	790,126	(44,063)	746,063
Small and Medium Enterprises ('SME')	720,553	(49,385)	671,168
Other Financial Institutions	357,562	(351)	357,211
Public Sector Entities	1,604	(15)	1,589
Factoring	136,728	(575)	136,153
	2,960,037	(110,076)	2,849,961
Retail			
Small Business	184,858	(14,964)	169,894
Consumer Loans	849,224	(46,160)	803,064
Mortgages	2,899,094	(37,327)	2,861,767
Credit Cards	237,912	(35,030)	202,882
Overdrafts	120,874	(15,294)	105,580
Flat Owners Associations	21,516	(281)	21,235
Other	1,355	(1)	1,354
	4,314,833	(149,057)	4,165,776
	7,419,501	(259,518)	7,159,983

13. Impairment losses on assets

€ '000	Note	1 Jan 2014	Creation (note 33)	Reversal (note 33)	Assets written-off/sold (note 33)	FX diff	Other *	30 June 2014
Due from banks	8	24	2	(1)	-	-	-	25
Available-for-sale financial assets	11	574	-	-	-	-	-	574
Loans and advances to customers	12	259,518	69,139	(42,269)	(21,652)	4	(3,889)	260,851
Held-to-maturity investments	14	597	-	(285)	-	-	-	312
Subsidiaries, associates and JVs	15	41,142	-	-	-	-	(3,228)	37,914
Property and equipment	17	7,000	-	-	-	-	-	7,000
Other assets	19	1,540	942	(935)	-	-	-	1,547
		310,395	70,083	(43,490)	(21,652)	4	(7,117)	308,223

* 'Other' represents:
- The interest portion (unwinding of interest);
- Sale of Recovery, a.s. (see also note 15).

14. Held-to-maturity investments

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

At 30 June 2014, state bonds in the total nominal amount of € 49,054 thousand (31 December 2013: € 49,057 thousand) were pledged by the Bank to secure collateralized transactions. All of these state bonds pledged represented the substitute cover to mortgage bonds issued and were pledged in accordance with the requirements of the Act No. 530/1990 Collection on Bonds.

15. Subsidiaries, associates and joint ventures

All entities are incorporated in the Slovak Republic.

€ '000	Share %	Cost	Impairment losses (note 13)	Carrying amount
At 30 June 2014				
VÚB Factoring, a.s.	100.00	16,535	(10,533)	6,002
Consumer Finance Holding, a.s.	100.00	53,114	-	53,114
VÚB Leasing, a. s.	100.00	44,410	(27,381)	17,029
VÚB Generali DSS, a.s.	50.00	16,597	-	16,597
VÚB Asset Management, správ. spol., a.s.	40.55	2,821	-	2,821
Slovak Banking Credit Bureau, s.r.o.	33.33	3	-	3
		133,480	(37,914)	95,566
At 31 December 2013				
VÚB Factoring, a.s.	100.00	16,535	(10,533)	6,002
Recovery, a.s. *	100.00	3,652	(3,228)	424
Consumer Finance Holding, a.s.	100.00	53,114	-	53,114
VÚB Leasing, a. s.	100.00	44,410	(27,381)	17,029
VÚB Generali DSS, a.s.	50.00	16,597	-	16,597
VÚB Asset Management, správ. spol., a.s.	40.55	2,821	-	2,821
Slovak Banking Credit Bureau, s.r.o.	33.33	3	-	3
		137,132	(41,142)	95,990

* At 31 December 2013, the Bank sold its subsidiary Recovery, a.s. to VÚB Factoring, a.s. The control was transferred together with registering the change in the Central Securities Depository on 2 January 2014. Recovery, a.s. merged into VÚB Factoring, a.s. on 31 January 2014.

16. Intangible assets

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2014	179,850	9,030	8,874	197,754
Additions	-	-	1,221	1,221
Transfers	7,639	115	(7,754)	-
FX differences	(1)	-	-	(1)
At 30 June 2014	187,488	9,145	2,341	198,974
Accumulated amortisation				
At 1 January 2014	(138,564)	(7,842)	-	(146,406)
Amortisation for the period	(5,322)	(161)	-	(5,483)
At 30 June 2014	(143,886)	(8,003)	-	(151,889)
Carrying amount				
At 1 January 2014	41,286	1,188	8,874	51,348
At 30 June 2014	43,602	1,142	2,341	47,085

17. Property and equipment

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost						
At 1 January 2014		199,028	68,444	30,340	2,506	300,318
Disposals		(26)	(736)	(160)	(135)	(1,057)
Transfers		294	1,856	1	(2,151)	-
FX differences		-	(1)	-	-	(1)
At 30 June 2014		199,296	69,563	30,181	220	299,260
Accumulated depreciation						
At 1 January 2014		(96,117)	(57,209)	(28,249)	-	(181,575)
Depreciation for the period		(3,052)	(3,104)	(483)	-	(6,639)
Disposals		20	695	156	-	871
At 30 June 2014		(99,149)	(59,618)	(28,576)	-	(187,343)
Impairment losses	13					
At 1 January 2014		(7,000)	-	-	-	(7,000)
At 30 June 2014		(7,000)	-	-	-	(7,000)
Carrying amount						
At 1 January 2014		95,911	11,235	2,091	2,506	111,743
At 30 June 2014		93,147	9,945	1,605	220	104,917

18. Current and deferred income taxes

€ '000	June 2014	Dec 2013
Current income tax assets	-	1,699

€ '000	June 2014	Dec 2013
Current income tax liabilities	9,790	-

€ '000	June 2014	Dec 2013
Deferred income tax assets	26,875	27,960

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

€ '000	June 2014	Profit/ (loss) (note 34)	Equity	Dec 2013
Due from banks	6	1	-	5
Derivative financial instruments designated as cash flow hedges	(215)	-	(138)	(77)
Available-for-sale financial assets	(12,613)	-	(568)	(12,045)
Loans and advances to customers	42,276	455	-	41,821
Held-to-maturity investments	69	(63)	-	132
Property and equipment	(3,748)	(396)	-	(3,352)
Provisions	111	(6)	-	117
Other liabilities	2,536	(370)	-	2,906
Other	(1,547)	-	-	(1,547)
Deferred income tax assets	26,875	(379)	(706)	27,960

19. Other assets

€ '000	Note	June 2014	Dec 2013
Operating receivables and advances		7,491	7,362
Prepayments and accrued income		3,789	5,336
Other tax receivables		1,578	1,618
Inventories		682	721
Settlement of operations with financial instruments		7	7
Receivables from trading with securities		2	-
		13,549	15,044
Impairment losses	13	(1,547)	(1,540)
		12,002	13,504

20. Due to central and other banks

€ '000	June 2014	Dec 2013
Due to central banks		
Current accounts	1,230	58,973
	1,230	58,973
Due to other banks		
Current accounts	7,350	16,557
Term deposits	229,589	200,605
Loans received	183,711	198,541
Cash collateral received	-	32,600
	420,650	448,303
	421,880	507,276

21. Due to customers

€ '000	June 2014	Dec 2013
Current accounts	3,626,203	3,693,247
Term deposits	3,514,112	3,681,295
Savings accounts	209,800	214,170
Government and municipal deposits	285,937	211,995
Promissory notes	90,118	-
Other deposits	148,418	38,343
	7,874,588	7,839,050

22. Debt securities in issue

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

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

22. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 30 June 2014	Nominal value in CCY per piece	Issue date	Maturity date	June 2014 € '000	Dec 2013 € '000
Mortgage bonds VÚB, a.s. XVII.	0.43	EUR	1,678	33,194	28.11.2005	28.11.2015	55,721	55,717
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,819	17,176
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	34,222	33,383
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,161	19,666
Mortgage bonds VÚB, a.s. 32.	1.92	CZK	800	1,000,000	17.12.2007	17.12.2017	30,439	30,656
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	21,023	21,438
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,527	18,944
Mortgage bonds VÚB, a.s. 39.	0.90	EUR	60	1,000,000	26.6.2008	26.6.2015	60,003	60,005
Mortgage bonds VÚB, a.s. 40.	1.06	EUR	70	1,000,000	28.8.2008	28.8.2015	70,070	70,064
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	16,151	15,679
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	49	1,000,000	19.5.2009	19.5.2016	49,264	50,393
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	103,623	101,664
Mortgage bonds VÚB, a.s. 51.	0.86	EUR	-	1,000,000	8.4.2010	8.4.2014	-	21,051
Mortgage bonds VÚB, a.s. 52.	0.95	EUR	-	50,000	15.3.2010	15.3.2014	-	8,073
Mortgage bonds VÚB, a.s. 53.	1.05	EUR	100	1,000,000	8.4.2010	8.4.2017	100,241	100,218
Mortgage bonds VÚB, a.s. 54.	3.00	EUR	15,000	1,000	1.7.2010	1.7.2014	15,450	15,225
Mortgage bonds VÚB, a.s. 55.	2.85	EUR	14,000	1,000	1.10.2010	1.10.2015	14,299	14,100
Mortgage bonds VÚB, a.s. 57.	1.73	EUR	100	1,000,000	30.9.2010	30.9.2018	100,436	100,416
Mortgage bonds VÚB, a.s. 58.	2.16	EUR	80	1,000,000	10.12.2010	10.12.2019	80,101	80,100
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	25,000	1,000	1.3.2011	1.3.2015	25,250	25,625
Mortgage bonds VÚB, a.s. 60.	1.05	CZK	-	100,000	20.5.2011	20.5.2014	-	15,856
Mortgage bonds VÚB, a.s. 61.	1.28	EUR	467	10,000	7.6.2011	7.6.2015	4,670	4,668
Mortgage bonds VÚB, a.s. 62.	2.39	EUR	100	1,000,000	28.7.2011	28.7.2018	101,016	100,992
Mortgage bonds VÚB, a.s. 63.	3.75	EUR	35,000	1,000	16.9.2011	16.3.2016	36,039	35,383
Mortgage bonds VÚB, a.s. 64.	3.25	CZK	7,000	100,000	26.9.2011	26.9.2016	26,086	25,686
Mortgage bonds VÚB, a.s. 66.	2.10	EUR	700	50,000	28.11.2011	28.11.2014	35,019	34,958
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,473	15,071
Mortgage bonds VÚB, a.s. 68.	4.00	EUR	35,000	1,000	16.1.2012	16.7.2015	35,642	36,342
Mortgage bonds VÚB, a.s. 69.	4.50	EUR	1,000	20,000	6.2.2012	6.2.2016	20,422	20,440
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	7.3.2012	7.3.2017	40,427	41,168

(Table continues on the next page)

22. Debt securities in issue (continued)

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

23. Provisions

€ '000	June 2014	Dec 2013
Litigation	21,737	21,441
Restructuring provision	505	532
	22,242	21,973

The movements in provisions were as follows:

€ '000	Note	1 Jan 2014	Creation	Reversal	Use	30 June 2014
Litigation	26, 32	21,441	462	(164)	(2)	21,737
Restructuring provision	31	532	130	-	(157)	505
		21,973	592	(164)	(159)	22,242

24. Other liabilities

€ '000	June 2014	Dec 2013
Various creditors	18,243	21,994
Settlement with employees	15,522	16,633
Financial guarantees and commitments	13,716	12,186
Accruals and deferred income	3,924	3,692
Severance and Jubilee benefits	3,156	3,156
Settlement with shareholders	1,566	910
VAT payable and other tax payables	1,268	3,312
Settlement with securities	1,251	19
Share remuneration scheme	587	673
Investment certificates	153	153
Retention program	-	433
	59,386	63,161

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

€ '000	Note	1 Jan 2014	Creation/ (Reversal)	FX diff	30 June 2014
Financial guarantees and commitments	33	12,186	1,524	6	13,716
Severance and Jubilee benefits		3,156	-	-	3,156
Retention program	31	433	(433)	-	-
		15,775	1,091	6	16,872

25. Equity

€ '000	June 2014	Dec 2013
Share capital - authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,501	13,501
Treasury shares	(307)	-
Reserves	133,418	130,922
Retained earnings (excluding net profit for the period)	612,845	592,547
	1,190,276	1,167,789

	June 2014	June 2013
Net profit for 6 months attributable to shareholders in € '000	58,825	55,211
Divided by the weighted average number of ordinary shares, calculated as follows:		
89 shares of € 3,319,391.89 each in €	295,425,878	295,425,878
4,078,108 shares of € 33.2 each in €	135,393,186	135,393,186
	430,819,064	430,819,064
Divided by the value of one ordinary share of € 33.2		
The weighted average number of ordinary shares of € 33.2 each	12,976,478	12,976,478
Basic and diluted earnings per € 33.2 share in €	4.53	4.25

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

The structure of shareholders is as follows:

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

25. Equity (continued)

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

€ '000	**June 2014**
Tier 1 capital	
Share capital	430,819
Share premium	13,501
Retained earnings without net profit for the period	612,845
Other reserves	87,493
Treasury shares	(307)
Revaluation of available-for-sale financial assets	52,115
Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities	(6,301)
Less intangible assets	(47,085)
Less IRB shortfall of credit risk adjustments to expected losses	(658)
Less expected loss	(27,120)
	1,115,302
Tier 2 capital	
IRB excess of provisions over expected losses eligible	1,587
Total regulatory capital	1,116,889

€ '000	**June 2014**
Tier 1 capital	1,115,302
Tier 2 capital	1,587
Total regulatory capital	1,116,889
Total Risk Weighted Assets	6,726,754
Tier 1 capital ratio	16.58%
Total capital ratio	16.60%

25. Equity (continued)

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

€ '000	**Dec 2013**
Tier 1 capital	
Share capital	430,819
Share premium	13,501
Retained earnings without net profit for the period	592,547
Legal reserve fund	87,493
Treasury shares	-
Less software (including software in Assets in progress)	(50,160)
Less negative revaluation of available-for-sale financial assets	(1,210)
Less expected loss	(30,308)
	1,042,682
Tier 2 capital	
Positive revaluation of available-for-sale financial assets	44,075
IRB shortfall	26,764
	70,839
Regulatory adjustment	
Subsidiaries, associates and joint ventures	(95,987)
Expected loss (incl. equity instruments)	(15)
	(96,002)
Total regulatory capital	1,017,519

€ '000	**Dec 2013**
Tier 1 capital	1,042,682
Tier 2 capital	70,839
Regulatory adjustment	(96,002)
Total regulatory capital	1,017,519
Total Risk Weighted Assets	6,373,444
Tier 1 capital ratio	16.36%
Total capital ratio	15.96%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, foreign currency translation and reserves. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the CRR regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and IRB excess of provisions over expected losses.

The 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.

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

26. Financial commitments and contingencies

€ '000	**June 2014**	**Dec 2013**
Issued guarantees	597,777	627,306
Commitments and undrawn credit facilities	2,396,815	2,221,640
	2,994,592	2,848,946

(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

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 June 2014 and 31 December 2013 was as follows:

€ '000	**June 2014**	**Dec 2013**
Up to 1 year	1,284	1,375
1 to 5 years	1,657	2,324
Over 5 years	-	-
	2,941	3,699

(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 June 2014. Pursuant to this review, management has recorded total provisions of € 21,737 thousand (31 December 2013: € 21,441 thousand) in respect of such legal proceedings (see also note 23). 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 € 14,598 thousand, as at 30 June 2014 (31 December 2013: € 9,417 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

27. Net interest income

€ '000	6 months June 2014	6 months June 2013	3 months June 2014	3 months June 2013
Interest and similar income				
Due from banks	3,195	7,938	1,604	3,696
Loans and advances to customers	186,367	182,470	93,511	91,497
Bonds, treasury bills and other securities:				
Financial assets at fair value through profit or loss	2,794	997	1,850	596
Available-for-sale financial assets	19,732	17,237	10,466	8,375
Held-to-maturity investments	13,739	21,276	5,720	10,616
	225,827	229,918	113,151	114,780
Interest and similar expense				
Due to banks	(1,021)	(748)	(507)	(322)
Due to customers	(27,250)	(35,798)	(13,315)	(18,152)
Debt securities in issue	(18,777)	(20,280)	(9,258)	(9,541)
	(47,048)	(56,826)	(23,080)	(28,015)
	178,779	173,092	90,071	86,765

28. Net fee and commission income

€ '000	6 months June 2014	6 months June 2013	3 months June 2014	3 months June 2013
Fee and commission income				
Received from banks	3,912	3,313	1,829	1,693
Received from customers:				
Current accounts	24,359	23,792	12,791	11,383
Loans and guarantees	13,625	16,727	7,350	8,172
Transactions and payments	11,557	11,401	6,245	5,994
Insurance mediation	4,213	5,418	2,031	2,330
Securities	2,998	2,502	1,587	1,501
Overdrafts	2,177	1,348	1,281	998
Securities - Custody fee	567	441	299	244
Term deposits	355	457	171	243
Other	1,029	1,289	598	695
	64,792	66,688	34,182	33,253
Fee and commission expense				
Paid to banks	(7,652)	(7,053)	(4,015)	(3,802)
Paid to mediators:				
Credit cards	(21,532)	(18,726)	(11,536)	(9,384)
Securities	(248)	(243)	(158)	(123)
Services	(2,937)	(2,677)	(1,872)	(1,765)
Other	(358)	(413)	(177)	(154)
	(32,727)	(29,112)	(17,758)	(15,228)
	32,065	37,576	16,424	18,025

29. Net trading result

	6 months		3 months	
€ '000	June 2014	June 2013	June 2014	June 2013
Foreign currency derivatives and transactions	1,991	1,877	1,093	645
Customer FX margins	2,241	2,343	1,188	1,302
Cross currency swaps	(21)	(922)	(14)	(228)
Equity derivatives	1	-	1	-
Other derivatives	-	11	-	-
Interest rate derivatives *	1,975	(636)	583	(1,009)
Dividends from equity shares held in FVTPL portfolio	16	13	16	13
Securities:				
Financial assets at fair value through profit or loss				
Held for trading	(897)	(208)	(630)	(38)
Designated at fair value through profit or loss on initial recognition	192	(14)	(36)	28
Available-for-sale financial assets *	10,700	(2,433)	7,082	(3,369)
Debt securities in issue *	(10,068)	5,511	(5,192)	4,662
	6,130	5,542	4,091	2,006

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

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

30. Other operating income

	6 months		3 months	
€ '000	June 2014	June 2013	June 2014	June 2013
Services	465	397	256	205
Rent	463	602	160	303
Financial revenues	111	62	105	53
Net profit from sale of fixed assets	1	37	-	22
Other	647	523	371	268
	1,687	1,621	892	851

31. Salaries and employee benefits

€ '000	Note	6 months June 2014	6 months June 2013	3 months June 2014	3 months June 2013
Remuneration		(35,564)	(33,692)	(18,290)	(16,588)
Social security costs		(13,199)	(12,886)	(6,615)	(6,505)
Social fund		(700)	(429)	(490)	(233)
Retention program	24	433	334	480	420
Restructuring provision	23	27	441	12	122
		(49,003)	(46,232)	(24,903)	(22,784)

At 30 June 2014, the total number of employees of the Bank was 3,498 (31 December 2013: 3,503). The average number of employees of the Bank during 6 months period ended 30 June 2014 was 3,482 (30 June 2013: 3,496).

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

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

€ '000	Note	6 months June 2014	6 months June 2013	3 months June 2014	3 months June 2013
IT systems maintenance		(9,175)	(8,019)	(4,798)	(4,051)
Property related expenses		(8,410)	(9,517)	(3,901)	(4,887)
Post and telecom		(5,055)	(5,429)	(2,428)	(2,635)
Contribution to the Deposit Protection Fund		(4,587)	-	(2,283)	-
Advertising and marketing		(3,351)	(3,075)	(1,654)	(1,657)
Equipment related expenses		(2,793)	(3,447)	(1,489)	(1,731)
Stationery		(1,725)	(1,762)	(870)	(921)
Security		(1,709)	(1,806)	(909)	(971)
Third parties' services		(767)	(317)	(515)	(191)
Insurance		(642)	(415)	(321)	(207)
Training		(371)	(416)	(215)	(313)
Professional services		(370)	(394)	(183)	(210)
Travelling		(346)	(271)	(169)	(155)
Other damages		(330)	(223)	(252)	(177)
Provisions for litigation	23	(296)	(364)	(73)	(146)
VAT and other taxes		(272)	(444)	(112)	(162)
Audit *		(241)	(300)	(110)	(187)
Transport		(224)	(240)	(117)	(129)
Litigations paid		(218)	(308)	(119)	(254)
Other operating expenses		(1,781)	(1,608)	(744)	(654)
		(42,663)	(38,355)	(21,262)	(19,638)

* As at 30 June 2014 the audit expense consists of fees for the statutory audit in the amount of € 113 thousand (30 June 2013: € 135 thousand), group reporting in the amount of € 113 thousand (30 June 2013: € 135 thousand) and other reporting in the amount of € 15 thousand (30 June 2013: € 30 thousand).

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

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

€ '000	6 months June 2014	6 months June 2013	3 months June 2014	3 months June 2013
Special levy of selected financial institutions	(19,583)	(19,195)	(9,696)	(9,483)

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

33. Impairment losses

€ '000	Note	6 months June 2014	6 months Restated June 2013	3 months June 2014	3 months Restated June 2013
Creation of impairment losses	13	(70,083)	(79,694)	(31,304)	(33,647)
Reversal of impairment losses	13	43,490	45,263	15,754	17,967
Net creation of impairment losses		(26,593)	(34,431)	(15,550)	(15,680)
Creation of liabilities – financial guarantees and commitments		(7,268)	(4,955)	(653)	(950)
Reversal of liabilities – financial guarantees and commitments		5,744	6,948	832	1,916
Net (creation)/reversal of liabilities – financial guarantees and commitments	24	(1,524)	1,993	179	966
Nominal value of assets written-off/sold		(24,627)	(26,453)	(15,625)	(12,010)
Release of impairment losses to assets written-off/sold	13	21,652	21,111	14,422	9,226
		(2,975)	(5,342)	(1,203)	(2,784)
Proceeds from assets written-off		3,191	5,035	1,412	2,602
Proceeds from assets sold		5,124	1,705	3,745	893
		(22,777)	(31,040)	(11,417)	(14,003)

34. Income tax expense

€ '000	Note	6 months June 2014	6 months June 2013	3 months June 2014	3 months June 2013
Current income tax		(15,596)	(19,567)	(7,700)	(10,187)
Deferred income tax	18	(379)	1,574	(460)	539
		(15,975)	(17,993)	(8,160)	(9,648)

35. Other comprehensive income

€ '000	June 2014	June 2013
Exchange differences on translating foreign operation	(1)	(3)
Available-for-sale financial assets:		
Revaluation gains/(losses) arising during the period	4,936	(16,557)
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	(2,355)	(1,996)
	2,581	(18,553)
Cash flow hedges:		
Revaluation gains arising during the period	629	615
Total other comprehensive income	3,209	(17,941)
Income tax relating to components of other comprehensive income *	(706)	4,126
Other comprehensive income for 6 months	2,503	(13,815)

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

36. Income tax effects relating to other comprehensive income

€ '000	June 2014 Before tax amount	June 2014 Tax expense	June 2014 Net of tax amount	June 2013 Before tax amount	June 2013 Tax benefit/ (expense)	June 2013 Net of tax amount
Exchange differences on translating foreign operations	(1)	-	(1)	(3)	-	(3)
Available-for-sale financial assets	2,581	(568)	2,013	(18,553)	4,268	(14,285)
Net movement on cash flow hedges	629	(138)	491	615	(142)	473
	3,209	(706)	2,503	(17,941)	4,126	(13,815)

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

37. Related parties (continued)

At 30 June 2014, the outstanding balances with related parties comprised:

€ '000	KMP *	Close members of KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets								
Due from banks	-	-	-	-	-	552,179	40,737	592,916
Derivative financial instruments	-	-	-	-	-	2	6,576	6,578
Loans and advances to customers	333	-	209,596	-	-	-	-	209,929
Financial assets at fair value through profit or loss	-	-	-	-	-	587	-	587
Other assets	-	-	129	1,145	550	-	-	1,824
	333	-	209,725	1,145	550	552,768	47,313	811,834
Liabilities								
Due to central and other banks	-	-	-	-	-	199,728	4,742	204,470
Derivative financial instruments	-	-	-	-	-	-	5,363	5,363
Due to customers	2,552	-	278	-	1,022	-	108	3,960
Debt securities in issue								
Mortgage bonds	-	-	-	638	-	-	664,756	665,394
Other liabilities	587	-	6,668	-	2	-	18	7,275
	3,139	-	6,946	638	1,024	199,728	674,987	886,462
Commitments and undrawn credit facilities	-	-	39,824	-	-	-	-	39,824
Issued guarantees	-	-	-	-	-	-	33,990	33,990
Received guarantees	-	-	-	-	-	-	194,048	194,048
Derivative transactions (notional amount – receivable)	-	-	-	-	-	7,163	369,846	377,009
Derivative transactions (notional amount – payable)	-	-	-	-	-	-	161,463	161,463

37. Related parties (continued)

€ '000	KMP *	Close members of KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Income and expense items								
Interest and similar income	10	-	1,629	-	-	2,039	820	4,498
Interest and similar expense	(24)	-	23	(7)	(2)	(88)	(7,209)	(7,307)
Fee and commission income	1	-	43	-	2,892	-	60	2,996
Fee and commission expense	-	-	(17,250)	-	(11)	(1)	(3,704)	(20,966)
Net trading result	-	-	-	-	-	247	(3,274)	(3,027)
Dividend income	-	-	843	1,140	304	-	-	2,287
Other operating income	-	-	429	56	35	137	15	672
Other operating expenses	-	-	(644)	-	-	-	(283)	(927)
	(13)	-	(14,927)	1,189	3,218	2,334	(13,575)	(21,774)

* Key management personnel

37. Related parties (continued)

At 31 December 2013, the outstanding balances with related parties comprised:

€ '000	KMP	Close members of KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets								
Due from banks	-	-	-	-	-	542,306	71,457	613,763
Derivative financial instruments	-	-	-	-	-	-	8,283	8,283
Loans and advances to customers	528	-	223,956	-	-	-	-	224,484
Financial assets at fair value through profit or loss	-	-	-	-	-	673	-	673
Other assets	-	-	157	7	552	-	-	716
	528	-	224,113	7	552	542,979	79,740	847,919
Liabilities								
Due to central and other banks	-	-	-	-	-	150,748	3,510	154,258
Derivative financial instruments	-	-	-	-	-	39	4,490	4,529
Due to customers	2,126	-	838	-	1,722	-	107	4,793
Debt securities in issue								
Mortgage bonds	-	-	-	629	-	-	684,905	685,534
Other liabilities	673	-	3,811	-	4	-	19	4,507
	2,799	-	4,649	629	1,726	150,787	693,031	853,621
Commitments and undrawn credit facilities	-	-	25,735	-	-	-	-	25,735
Issued guarantees	-	-	-	-	-	-	44,779	44,779
Received guarantees	-	-	-	-	-	-	219,999	219,999
Derivative transactions (notional amount – receivable)	-	-	-	-	-	-	446,778	446,778
Derivative transactions (notional amount – payable)	-	-	-	-	-	57,757	157,705	215,462

37. Related parties (continued)

For the period ended 30 June 2013, the outstanding balances with related parties comprised:

€ '000	KMP	Close members of KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Income and expense items								
Interest and similar income	14	-	1,131	-	-	4,335	1,408	6,888
Interest and similar expense	(15)	-	-	(3)	(1)	(81)	(7,868)	(7,968)
Fee and commission income	1	-	34	-	2,024	-	-	2,059
Fee and commission expense	-	-	(14,540)	-	(11)	-	(3,711)	(18,262)
Net trading result	-	-	-	-	-	(518)	838	320
Dividend income	-	-	696	1,000	-	-	-	1,696
Other operating income	-	-	436	52	103	66	11	668
Other operating expenses	-	-	(715)	-	-	-	(596)	(1,311)
	-	-	(12,958)	1,049	2,115	3,802	(9,918)	(15,910)

38. Profit distribution

On 25 March 2014, the Bank's shareholders approved the following profit distribution for 2013.

€ '000	
Dividends to shareholders (€ 6.50 per € 33.2 share)	84,347
Retained earnings	20,291
	104,638

39. Events after the end of the reporting period

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