



**Interim separate financial statements  
for 9 months ended 30 September 2014**

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

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**Separate statement of financial position at 30 September 2014**
**(In thousands of euro)**

	Note	Sep 2014	Dec 2013
<b>Assets</b>			
Cash and balances with central banks	7	145,830	96,634
Due from banks	8	584,464	771,467
Financial assets at fair value through profit or loss	9	260,941	207,674
Derivative financial instruments	10	32,381	29,221
Available-for-sale financial assets	11	1,766,782	1,588,324
Loans and advances to customers	12	7,599,215	7,159,983
Held-to-maturity investments	14	527,353	995,831
Subsidiaries, associates and joint ventures	15	95,566	95,990
Intangible assets	16	46,812	51,348
Property and equipment	17	102,709	111,743
Current income tax assets	18	-	1,699
Deferred income tax assets	18	30,367	27,960
Other assets	19	12,780	13,504
		<u>11,205,200</u>	<u>11,151,378</u>
<b>Liabilities</b>			
Due to central and other banks	20	412,858	507,276
Derivative financial instruments	10	58,658	42,884
Due to customers	21	7,979,902	7,839,050
Debt securities in issue	22	1,384,529	1,404,607
Current income tax liabilities	18	10,486	-
Provisions	23	22,431	21,973
Other liabilities	24	59,674	63,161
		<u>9,928,538</u>	<u>9,878,951</u>
<b>Equity</b>			
Equity (excluding net profit for the period)	25	1,186,885	1,167,789
Net profit for the period		89,777	104,638
		<u>1,276,662</u>	<u>1,272,427</u>
		<u>11,205,200</u>	<u>11,151,378</u>
Financial commitments and contingencies	26	<u>2,723,525</u>	<u>2,848,946</u>

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

These financial statements were authorised for issue on 28 October 2014.



Alexander Resch  
Chairman of the Management Board



Antonio Bergalio  
Member of the Management Board

**Separate statement of profit or loss and other comprehensive income**  
**for 9 months ended 30 September 2014**  
(In thousands of euro)

	Note	Sep 2014	Sep 2013
Interest and similar income		335,379	344,968
Interest and similar expense		(67,564)	(84,612)
<b>Net interest income</b>	27	267,815	260,356
Fee and commission income		100,996	100,047
Fee and commission expense		(47,882)	(45,343)
<b>Net fee and commission income</b>	28	53,114	54,704
Net trading result	29	9,004	7,679
Other operating income	30	2,424	2,380
Dividend income		2,287	1,696
<b>Operating income</b>		334,644	326,815
Salaries and employee benefits	31	(73,939)	(70,471)
Other operating expenses	32	(61,525)	(59,061)
Special levy of selected financial institutions	32	(29,413)	(28,817)
Amortisation	16	(8,353)	(6,127)
Depreciation	17	(9,672)	(10,897)
<b>Operating expenses</b>		(182,902)	(175,373)
<b>Operating profit before impairment</b>		151,742	151,442
Impairment losses	33	(37,124)	(44,471)
<b>Profit before tax</b>		114,618	106,971
Income tax expense	34	(24,841)	(22,334)
<b>NET PROFIT FOR 9 MONTHS</b>		89,777	84,637
<b>Other comprehensive income for 9 months, after tax:</b>			
<i>Items that may be reclassified to profit or loss in the future:</i>			
Exchange difference on translating foreign operation		-	(14)
Available-for-sale financial assets		(1,788)	(13,126)
Cash flow hedges		1,010	1,084
<b>Other comprehensive income for 9 months, net of tax</b>	35, 36	(778)	(12,056)
<b>TOTAL COMPREHENSIVE INCOME FOR 9 MONTHS</b>		88,999	72,581
Basic and diluted earnings per € 33.2 share in €	25	6.92	6.52

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

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

	Note	Sep 2014	Sep 2013
Interest and similar income		109,552	115,050
Interest and similar expense		(20,516)	(27,786)
<b>Net interest income</b>	27	89,036	87,264
Fee and commission income		36,204	33,359
Fee and commission expense		(15,155)	(16,231)
<b>Net fee and commission income</b>	28	21,049	17,128
Net trading result	29	2,874	2,137
Other operating income	30	737	759
<b>Operating income</b>		113,696	107,288
Salaries and employee benefits	31	(24,936)	(24,239)
Other operating expenses	32	(18,862)	(20,706)
Special levy of selected financial institutions	32	(9,830)	(9,622)
Amortisation		(2,870)	(2,037)
Depreciation		(3,033)	(3,486)
<b>Operating expenses</b>		(59,531)	(60,090)
<b>Operating profit before impairment</b>		54,165	47,198
Impairment losses	33	(14,347)	(13,431)
<b>Profit before tax</b>		39,818	33,767
Income tax expense	34	(8,866)	(4,341)
<b>NET PROFIT FOR 3 MONTHS</b>		30,952	29,426
<b>Other comprehensive income for 3 months, after tax:</b>			
<i>Items that may be reclassified to profit or loss in the future:</i>			
Exchange difference on translating foreign operation		1	(11)
Available-for-sale financial assets		(3,801)	1,159
Cash flow hedges		519	611
<b>Other comprehensive income for 3 months, net of tax</b>		(3,281)	1,759
<b>TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS</b>		27,671	31,185
Basic and diluted earnings per € 33.2 share in €		2.39	2.27

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

**Separate statement of changes in equity for 9 months ended 30 September 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
<b>At 1 January 2013</b>	430,819	13,368	-	87,493	657,018	-	57,802	(1,425)	1,245,075
Total comprehensive income for 9 months, net of tax	-	-	-	-	84,637	(14)	(13,126)	1,084	72,581
Dividends to shareholders	-	-	-	-	(64,623)	-	-	-	(64,623)
Reversal of dividends distributed but not collected	-	-	-	-	166	-	-	-	166
Other	-	-	-	-	(14)	14	-	-	-
Purchase of treasury shares	-	-	(899)	-	-	-	-	-	(899)
<b>At 30 September 2013</b>	<u>430,819</u>	<u>13,368</u>	<u>(899)</u>	<u>87,493</u>	<u>677,184</u>	<u>-</u>	<u>44,676</u>	<u>(341)</u>	<u>1,252,300</u>
<b>At 1 January 2014</b>	430,819	13,501	-	87,493	697,185	8	43,149	272	1,272,427
Total comprehensive income for 9 months, net of tax	-	-	-	-	89,777	-	(1,788)	1,010	88,999
Dividends to shareholders	-	-	-	-	(84,347)	-	-	-	(84,347)
Other	-	-	-	-	8	(8)	-	-	-
Purchase of treasury shares	-	-	(417)	-	-	-	-	-	(417)
<b>At 30 September 2014</b>	<u>430,819</u>	<u>13,501</u>	<u>(417)</u>	<u>87,493</u>	<u>702,623</u>	<u>-</u>	<u>41,361</u>	<u>1,282</u>	<u>1,276,662</u>

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

**Separate statement of cash flows for 9 months ended 30 September 2014**
**(In thousands of euro)**

	Note	Sep 2014	Sep 2013
<b>Cash flows from operating activities</b>			
Profit before tax		114,618	106,971
Adjustments for:			
Amortisation		8,353	6,127
Depreciation		9,672	10,897
Securities at fair value through profit or loss, debt securities in issue and FX differences		5,122	(8,635)
Interest income		(335,379)	(344,968)
Interest expense		67,564	84,612
Dividend income		(2,287)	(1,696)
Sale of property and equipment		1	(37)
Impairment losses and similar charges		51,921	42,247
Interest received		351,985	370,912
Interest paid		(68,626)	(86,237)
Dividends received		2,287	1,696
Tax paid		(15,063)	(35,111)
Due from banks		11,414	(30,278)
Financial assets at fair value through profit or loss		(53,253)	(123,543)
Derivative financial instruments (assets)		(2,150)	17,225
Available-for-sale financial assets		(187,046)	(37,906)
Loans and advances to customers		(474,831)	84,640
Other assets		690	(1,099)
Due to central and other banks		(94,402)	(23,328)
Derivative financial instruments (liabilities)		15,774	(19,776)
Due to customers		137,782	157,980
Other liabilities		(4,713)	(8,608)
<i>Net cash (used in)/from operating activities</i>		<u>(460,567)</u>	<u>162,085</u>
<b>Cash flows from investing activities</b>			
Repayments of held-to-maturity investments		445,221	43,153
Purchase of intangible assets and property and equipment		(4,459)	(7,218)
Disposal of property and equipment		3	44
Disposal of subsidiaries		424	-
<i>Net cash from investing activities</i>		<u>441,189</u>	<u>35,979</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debt securities		139,751	122,359
Repayments of debt securities		(159,862)	(111,494)
Purchase of treasury shares		(417)	(899)
Dividends paid		(84,347)	(64,623)
<i>Net cash used in financing activities</i>		<u>(104,875)</u>	<u>(54,657)</u>
Net change in cash and cash equivalents		(124,253)	143,407
Cash and cash equivalents at the beginning of the year	6	275,917	165,716
<b>Cash and cash equivalents at 30 September</b>	6	<u>151,664</u>	<u>309,123</u>

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 September 2014, the Bank had a network of 238 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 September 2014, the members of the Management Board are: Alexander Resch (Chairman), Jiří Huml, Jozef Kausich, Elena Kohútiková and Peter Magala.

At 30 September 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:

	<b>Years</b>
Buildings	20, 30, 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:

	<b>Jubilee benefits</b>	<b>Retirement benefits</b>
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:

€ '000	September 2014			December 2013		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
<b>Portfolio assessed</b>						
<b>Banks</b>	584,469	(5)	584,464	771,491	(24)	771,467
<b>Customers</b>						
Sovereigns	141,592	(296)	141,296	144,326	(310)	144,016
Corporate	2,921,264	(32,100)	2,889,164	2,716,346	(26,201)	2,690,145
Retail	4,598,935	(148,516)	4,450,419	4,297,207	(142,010)	4,155,197
	<u>7,661,791</u>	<u>(180,912)</u>	<u>7,480,879</u>	<u>7,157,879</u>	<u>(168,521)</u>	<u>6,989,358</u>
<b>Securities</b>						
FVTPL	260,941	-	260,941	207,674	-	207,674
AFS	1,766,782	-	1,766,782	1,588,324	-	1,588,324
HTM	527,669	(316)	527,353	996,428	(597)	995,831
	<u>2,555,392</u>	<u>(316)</u>	<u>2,555,076</u>	<u>2,792,426</u>	<u>(597)</u>	<u>2,791,829</u>
<b>Individually assessed</b>						
<b>Customers</b>						
Sovereigns	53	(5)	48	305	(75)	230
Corporate	187,145	(81,327)	105,818	243,691	(83,875)	159,816
Retail	20,121	(7,651)	12,470	17,626	(7,047)	10,579
	<u>207,319</u>	<u>(88,983)</u>	<u>118,336</u>	<u>261,622</u>	<u>(90,997)</u>	<u>170,625</u>
<b>Securities</b>						
AFS	574	(574)	-	574	(574)	-
	<u>574</u>	<u>(574)</u>	<u>-</u>	<u>574</u>	<u>(574)</u>	<u>-</u>

### 3. Financial risk management (continued)

The 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:

<b>Classification category</b>	<b>Description</b>
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:

€ '000	Category	September 2014			December 2013		
		Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
<b>Banks</b>	Performing	584,469	(5)	584,464	771,491	(24)	771,467
		<u>584,469</u>	<u>(5)</u>	<u>584,464</u>	<u>771,491</u>	<u>(24)</u>	<u>771,467</u>
<b>Sovereigns</b>	Performing	141,588	(296)	141,292	144,307	(310)	143,997
	Substandard	57	(5)	52	324	(75)	249
		<u>141,645</u>	<u>(301)</u>	<u>141,344</u>	<u>144,631</u>	<u>(385)</u>	<u>144,246</u>
<b>Corporate</b>	Performing	2,928,283	(31,778)	2,896,505	2,791,242	(31,972)	2,759,270
	Past due	195	(98)	97	48	(23)	25
	Restructured	7,394	(3,961)	3,433	3,881	(3,785)	96
	Substandard	66,798	(9,309)	57,489	59,748	(10,553)	49,195
	Doubtful	105,739	(68,281)	37,458	105,118	(63,743)	41,375
		<u>3,108,409</u>	<u>(113,427)</u>	<u>2,994,982</u>	<u>2,960,037</u>	<u>(110,076)</u>	<u>2,849,961</u>
<b>Retail</b>	Performing	4,415,609	(48,583)	4,367,026	4,113,572	(42,242)	4,071,330
	Past due	18,011	(8,335)	9,676	16,925	(7,314)	9,611
	Substandard	17,308	(6,640)	10,668	14,357	(5,694)	8,663
	Doubtful	168,128	(92,609)	75,519	169,979	(93,807)	76,172
		<u>4,619,056</u>	<u>(156,167)</u>	<u>4,462,889</u>	<u>4,314,833</u>	<u>(149,057)</u>	<u>4,165,776</u>
<b>Securities</b>	Performing	2,555,392	(316)	2,555,076	2,792,426	(597)	2,791,829
	Doubtful	574	(574)	-	574	(574)	-
		<u>2,555,966</u>	<u>(890)</u>	<u>2,555,076</u>	<u>2,793,000</u>	<u>(1,171)</u>	<u>2,791,829</u>

### 3. Financial risk management (continued)

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

€ '000	Sep 2014	Dec 2013
Financial assets		
Derivative financial instruments	49,921	52,866
Financial commitments and contingencies		
Issued guarantees	621,832	627,306
Commitments and undrawn credit facilities	2,101,693	2,221,640
	<u>2,723,525</u>	<u>2,848,946</u>
	<u>2,773,446</u>	<u>2,901,812</u>

The payment discipline of each client is monitored regularly. If a client is past due with some payments, appropriate action is taken. The following table shows the Bank's credit portfolio in terms of delinquency of payments.

€ '000	September 2014			December 2013		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
<b>Banks</b>						
No delinquency	584,469	(5)	584,464	766,533	(22)	766,511
1 – 30 days	-	-	-	4,958	(2)	4,956
	<u>584,469</u>	<u>(5)</u>	<u>584,464</u>	<u>771,491</u>	<u>(24)</u>	<u>771,467</u>
<b>Sovereigns</b>						
No delinquency	141,492	(296)	141,196	144,021	(381)	143,640
1 – 30 days	96	-	96	525	(1)	524
91 – 180 days	-	-	-	66	(3)	63
Over 181 days	57	(5)	52	19	-	19
	<u>141,645</u>	<u>(301)</u>	<u>141,344</u>	<u>144,631</u>	<u>(385)</u>	<u>144,246</u>
<b>Corporate</b>						
No delinquency	2,999,510	(53,730)	2,945,780	2,838,888	(52,132)	2,786,756
1 – 30 days	28,421	(5,163)	23,258	41,464	(16,935)	24,529
31 – 60 days	2,046	(90)	1,956	9,135	(3,807)	5,328
61 – 90 days	100	(51)	49	8,429	(3,016)	5,413
91 – 180 days	567	(208)	359	9,552	(1,472)	8,080
Over 181 days	77,765	(54,185)	23,580	52,569	(32,714)	19,855
	<u>3,108,409</u>	<u>(113,427)</u>	<u>2,994,982</u>	<u>2,960,037</u>	<u>(110,076)</u>	<u>2,849,961</u>



### 3. Financial risk management (continued)

€ '000	September 2014			December 2013		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
<b>Retail</b>						
No delinquency	4,208,907	(29,186)	4,179,721	3,907,727	(26,280)	3,881,447
1 – 30 days	150,136	(10,790)	139,346	153,327	(8,416)	144,911
31 – 60 days	41,227	(4,820)	36,407	38,943	(3,672)	35,271
61 – 90 days	26,626	(4,205)	22,421	24,504	(3,030)	21,474
91 – 180 days	29,783	(12,628)	17,155	29,714	(11,334)	18,380
Over 181 days	162,377	(94,538)	67,839	160,618	(96,325)	64,293
	<u>4,619,056</u>	<u>(156,167)</u>	<u>4,462,889</u>	<u>4,314,833</u>	<u>(149,057)</u>	<u>4,165,776</u>
<b>Securities</b>						
No delinquency	2,555,966	(890)	2,555,076	2,793,000	(1,171)	2,791,829
	<u>2,555,966</u>	<u>(890)</u>	<u>2,555,076</u>	<u>2,793,000</u>	<u>(1,171)</u>	<u>2,791,829</u>

#### 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	September 2014			December 2013		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
<b>Europe</b>						
Banks	578,644	(3)	578,641	763,640	(21)	763,619
Sovereigns	141,645	(301)	141,344	144,631	(385)	144,246
Corporate	3,108,409	(113,427)	2,994,982	2,959,864	(110,051)	2,849,813
Retail	4,617,475	(156,113)	4,461,362	4,313,029	(149,026)	4,164,003
Securities	2,555,966	(890)	2,555,076	2,793,000	(1,171)	2,791,829
	<u>11,002,139</u>	<u>(270,734)</u>	<u>10,731,405</u>	<u>10,974,164</u>	<u>(260,654)</u>	<u>10,713,510</u>
<b>America</b>						
Banks	5,390	(2)	5,388	7,742	(3)	7,739
Retail	171	(3)	168	249	(4)	245
	<u>5,561</u>	<u>(5)</u>	<u>5,556</u>	<u>7,991</u>	<u>(7)</u>	<u>7,984</u>
<b>Asia</b>						
Banks	408	-	408	95	-	95
Corporate	-	-	-	173	(25)	148
Retail	862	(35)	827	994	(20)	974
	<u>1,270</u>	<u>(35)</u>	<u>1,235</u>	<u>1,262</u>	<u>(45)</u>	<u>1,217</u>
<b>Rest of the World</b>						
Banks	27	-	27	14	-	14
Retail	548	(16)	532	561	(7)	554
	<u>575</u>	<u>(16)</u>	<u>559</u>	<u>575</u>	<u>(7)</u>	<u>568</u>

### 3. Financial risk management (continued)

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

**30 September 2014**  
**€ '000**

	<b>Banks</b>	<b>Sovereigns</b>	<b>Corporate</b>	<b>Retail</b>	<b>Securities</b>
Agriculture	-	-	76,851	31,174	-
Construction	-	-	113,500	15,275	-
Consumers	-	-	-	4,252,049	-
Energy and water supply	-	-	365,545	1,621	-
Financial services	584,464	-	345,026	136	211,661
Government	-	132,723	-	-	2,343,415
Manufacturing	-	-	546,975	24,824	-
Professional services	-	-	125,786	11,969	-
Real estate	-	-	407,489	27,955	-
Retail & Wholesale	-	-	534,725	62,474	-
Services	-	-	171,203	12,378	-
Transportation	-	8,621	284,304	11,103	-
Other	-	-	23,578	11,931	-
	<u>584,464</u>	<u>141,344</u>	<u>2,994,982</u>	<u>4,462,889</u>	<u>2,555,076</u>

**31 December 2013**  
**€ '000**

	<b>Banks</b>	<b>Sovereigns</b>	<b>Corporate</b>	<b>Retail</b>	<b>Securities</b>
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	14,610	-
Transportation	-	9,302	238,472	9,467	-
Other	-	-	52,344	14,692	-
	<u>771,467</u>	<u>144,246</u>	<u>2,849,961</u>	<u>4,165,776</u>	<u>2,791,829</u>

**3. Financial risk management (continued)**

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the 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.

30 September 2014 € '000	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
<b>Banks</b>	584,469	(5)	584,464	-	-	-	-	-	-
<b>Sovereigns</b>									
Municipalities	141,492	(296)	141,196	57	(5)	52	96	-	96
<b>Corporate</b>									
Large Corporates	1,150,314	(5,000)	1,145,314	21,712	(14,384)	7,328	-	-	-
Specialized Lending	683,285	(13,551)	669,734	86,445	(22,517)	63,928	8,787	(166)	8,621
SME	716,101	(11,127)	704,974	71,860	(44,728)	27,132	11,828	(498)	11,330
Other Fin. Institutions	317,462	(870)	316,592	7	(2)	5	-	-	-
Public Sector Entities	3,658	(36)	3,622	102	(18)	84	31	-	31
Factoring	36,817	(530)	36,287	-	-	-	-	-	-
	<u>2,907,637</u>	<u>(31,114)</u>	<u>2,876,523</u>	<u>180,126</u>	<u>(81,649)</u>	<u>98,477</u>	<u>20,646</u>	<u>(664)</u>	<u>19,982</u>
<b>Retail</b>									
Small Business	180,692	(3,165)	177,527	14,128	(10,659)	3,469	6,755	(731)	6,024
Consumer Loans	792,881	(11,204)	781,677	69,370	(37,139)	32,231	64,256	(6,712)	57,544
Mortgages	2,952,896	(7,953)	2,944,943	65,860	(21,195)	44,665	100,976	(6,645)	94,331
Credit Cards	171,034	(3,353)	167,681	38,001	(26,415)	11,586	23,374	(5,963)	17,411
Overdrafts	73,939	(1,081)	72,858	16,045	(12,175)	3,870	20,806	(1,488)	19,318
Flat Owners Associations	22,100	(288)	21,812	-	-	-	-	-	-
Other	5,893	-	5,893	43	(1)	42	7	-	7
	<u>4,199,435</u>	<u>(27,044)</u>	<u>4,172,391</u>	<u>203,447</u>	<u>(107,584)</u>	<u>95,863</u>	<u>216,174</u>	<u>(21,539)</u>	<u>194,635</u>
<b>Securities</b>									
FVTPL	260,941	-	260,941	-	-	-	-	-	-
AFS	1,766,782	-	1,766,782	574	(574)	-	-	-	-
HTM	527,669	(316)	527,353	-	-	-	-	-	-
	<u>2,555,392</u>	<u>(316)</u>	<u>2,555,076</u>	<u>574</u>	<u>(574)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**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
<b>Banks</b>	766,533	(22)	766,511	-	-	-	4,958	(2)	4,956
<b>Sovereigns</b>									
Municipalities	143,782	(309)	143,473	324	(75)	249	525	(1)	524
<b>Corporate</b>									
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
	<u>2,775,207</u>	<u>(31,534)</u>	<u>2,743,673</u>	<u>168,795</u>	<u>(78,104)</u>	<u>90,691</u>	<u>16,035</u>	<u>(438)</u>	<u>15,597</u>
<b>Retail</b>									
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
	<u>3,898,376</u>	<u>(24,466)</u>	<u>3,873,910</u>	<u>201,261</u>	<u>(106,815)</u>	<u>94,446</u>	<u>215,196</u>	<u>(17,776)</u>	<u>197,420</u>
<b>Securities</b>									
FVTPL	207,674	-	207,674	-	-	-	-	-	-
AFS	1,588,324	-	1,588,324	574	(574)	-	-	-	-
HTM	996,428	(597)	995,831	-	-	-	-	-	-
	<u>2,792,426</u>	<u>(597)</u>	<u>2,791,829</u>	<u>574</u>	<u>(574)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 3. Financial risk management (continued)

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

€ '000	September 2014			December 2013		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
<b>Banks</b>						
1 – 30 days	-	-	-	4,958	(2)	4,956
	-	-	-	4,958	(2)	4,956
<b>Sovereigns</b>						
1 – 30 days	96	-	96	525	(1)	524
	96	-	96	525	(1)	524
<b>Corporate</b>						
1 – 30 days	18,955	(590)	18,365	14,692	(277)	14,415
31 – 60 days	1,643	(50)	1,593	1,301	(140)	1,161
61 – 90 days	48	(24)	24	42	(21)	21
	20,646	(664)	19,982	16,035	(438)	15,597
<b>Retail</b>						
1 – 30 days	142,913	(8,601)	134,312	147,360	(7,241)	140,119
31 – 60 days	37,500	(4,148)	33,352	34,146	(2,913)	31,233
61 – 90 days	21,652	(3,193)	18,459	20,260	(2,342)	17,918
91 – 180 days	11,701	(4,383)	7,318	10,915	(3,856)	7,059
Over 181 days	2,408	(1,214)	1,194	2,515	(1,424)	1,091
	216,174	(21,539)	194,635	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 September 2014 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
<b>Banks</b>	Unrated	584,469	(5)	584,464
<b>Sovereigns</b>				
Municipalities	Unrated	141,645	(301)	141,344
		141,645	(301)	141,344
<b>Corporate</b>				
Large Corporates, SME	I1 - I6	900,783	(1,069)	899,714
	M1 - M4	668,578	(5,410)	663,168
	R1 - R5	324,115	(13,016)	311,099
	D (default)	78,339	(56,242)	22,097
Specialized Lending - SPV, PF and RED	Strong	88,170	(134)	88,036
	Good	255,601	(1,706)	253,895
	Satisfactory	343,781	(22,040)	321,741
	Weak	74,778	(10,909)	63,869
	D (default)	16,187	(1,445)	14,742
Other Financial Institutions, Public Sector Entities	Unrated - PPU approach *	321,260	(926)	320,334
Factoring	Unrated	36,817	(530)	36,287
		<u>3,108,409</u>	<u>(113,427)</u>	<u>2,994,982</u>

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



**3. Financial risk management (continued)**
**30 September 2014**  
**€ '000**

	<b>Internal rating</b>	<b>Amortised cost</b>	<b>Impairment losses</b>	<b>Carrying amount</b>
<b>Retail</b>				
Small Business, Flat Owners Associations				
	I1 - I6	22,081	(40)	22,041
	M1 - M4	107,418	(1,116)	106,302
	R1 - R5	59,110	(2,753)	56,357
	D (default)	12,918	(10,635)	2,283
	Unrated	22,148	(299)	21,849
Mortgages				
	L1 - L4	2,295,958	(410)	2,295,548
	N1 - N3	483,348	(951)	482,397
	W1 - W3	275,651	(11,170)	264,481
	D (default)	64,775	(23,262)	41,513
Unsecured Retail				
	U1	242,664	(174)	242,490
	U2 - U3	149,545	(316)	149,229
	U4 - U5	148,293	(717)	147,576
	U6 - U7	107,352	(1,223)	106,129
	U8 - U10	104,365	(3,342)	101,023
	U11 - U12	70,373	(10,208)	60,165
	D (default)	66,901	(48,633)	18,268
	Unrated	380,213	(40,917)	339,296
Other				
	Unrated	5,943	(1)	5,942
		<u>4,619,056</u>	<u>(156,167)</u>	<u>4,462,889</u>
<b>Securities</b>				
	Unrated	<u>2,555,966</u>	<u>(890)</u>	<u>2,555,076</u>

**3. Financial risk management (continued)**

31 December 2013 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
<b>Banks</b>	Unrated	<u>771,491</u>	<u>(24)</u>	<u>771,467</u>
<b>Sovereigns</b>				
Municipalities	Unrated	<u>144,631</u>	<u>(385)</u>	<u>144,246</u>
		<u>144,631</u>	<u>(385)</u>	<u>144,246</u>
<b>Corporate</b>				
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	<u>136,728</u>	<u>(575)</u>	<u>136,153</u>
		<u>2,960,037</u>	<u>(110,076)</u>	<u>2,849,961</u>
<b>Retail</b>				
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	<u>1,355</u>	<u>(1)</u>	<u>1,354</u>
		<u>4,314,833</u>	<u>(149,057)</u>	<u>4,165,776</u>
<b>Securities</b>	Unrated	<u>2,793,000</u>	<u>(1,171)</u>	<u>2,791,829</u>

### 3. Financial risk management (continued)

#### (b) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices or foreign exchange rate will affect the 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:

€ '000	September 2014				December 2013			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	37	98	233	35	108	69	148	17
Interest rate risk	70	107	300	15	16	97	205	15
Overall	85	163	393	71	109	133	223	53
sVaR	243	356	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  $\pm 100$  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 September 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 € 10,128 thousand (31 December 2013: € 6,730 thousand).

At 30 September 2014, interest rate risk generated by the banking book, measured through shift sensitivity analysis to 100 basis points, registered € - 16,511 thousand (31 December 2013: € - 32,841 thousand).

€ '000	Sep 2014	Dec 2013
EUR	(17,603)	(32,833)
Other	1,092	(8)
	<u>(16,511)</u>	<u>(32,841)</u>

At 30 September 2014, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € - 7 thousand (31 December 2013: € - 3,238 thousand).

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

	Sep 2014 %	Dec 2013 %
<b>Assets</b>		
Cash and balances with central banks	0.23	0.29
Due from banks	0.72	1.44
Financial assets at fair value through profit or loss	2.26	1.62
Available-for-sale financial assets	2.30	2.57
Loans and advances to customers	4.93	5.07
Held-to-maturity investments	4.33	4.17
<b>Liabilities</b>		
Due to central and other banks	0.61	0.52
Due to customers	0.65	0.86
Debt securities in issue	2.51	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  $\leq$  Regulatory Capital

Rule 2: Medium term assets + 0.5 x Long Term Assets  $\leq$  Long term liabilities + 0.5 x Medium term liabilities + 0.25 x (short term customer liabilities + interbank liabilities) + excess in Rule 1

Together with the Short term and Structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the 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.

<b>30 September 2014</b> <b>€ '000</b>	<b>Less than 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
<b>Assets</b>			
Cash and balances with central banks	145,830	-	145,830
Due from banks	564,181	20,283	584,464
Financial assets at fair value through profit or loss	220,177	40,764	260,941
Derivative financial instruments	32,381	-	32,381
Available-for-sale financial assets	414,706	1,352,076	1,766,782
Loans and advances to customers	2,008,818	5,590,397	7,599,215
Held-to-maturity investments	10,192	517,161	527,353
Subsidiaries, associates and joint ventures	-	95,566	95,566
Intangible assets	-	46,812	46,812
Property and equipment	-	102,709	102,709
Deferred income tax assets	-	30,367	30,367
Other assets	12,780	-	12,780
	<b>3,409,065</b>	<b>7,796,135</b>	<b>11,205,200</b>
<b>Liabilities</b>			
Due to central and other banks	(249,377)	(163,481)	(412,858)
Derivative financial instruments	(58,658)	-	(58,658)
Due to customers	(7,293,848)	(686,054)	(7,979,902)
Debt securities in issue	(245,292)	(1,139,237)	(1,384,529)
Current income tax liabilities	(10,486)	-	(10,486)
Provisions	-	(22,431)	(22,431)
Other liabilities	(56,518)	(3,156)	(59,674)
	<b>(7,914,179)</b>	<b>(2,014,359)</b>	<b>(9,928,538)</b>
	<b>(4,505,114)</b>	<b>5,781,776</b>	<b>1,276,662</b>

**3. Financial risk management (continued)**

31 December 2013 € '000	Less than 12 months	Over 12 months	Total
<b>Assets</b>			
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
	<u>3,686,343</u>	<u>7,465,035</u>	<u>11,151,378</u>
<b>Liabilities</b>			
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)
	<u>(7,700,244)</u>	<u>(2,178,707)</u>	<u>(9,878,951)</u>
	<u>(4,013,901)</u>	<u>5,286,328</u>	<u>1,272,427</u>



### 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)**

30 September 2014 € '000	Note	Carrying amount			Fair value			Total fair value
		At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	
<b>Financial assets</b>								
Cash and balances with central banks	7	145,830	-	145,830	-	145,830	-	145,830
Due from banks	8	584,464	-	584,464	-	585,600	-	585,600
Financial assets at fair value through profit or loss	9	-	260,941	260,941	257,445	3,496	-	260,941
Derivative financial instruments	10	-	32,381	32,381	-	32,381	-	32,381
Available-for-sale financial assets	11	-	1,766,782	1,766,782	410,887	1,355,895	-	1,766,782
Loans and advances to customers	12	7,599,215	-	7,599,215	-	8,899,676	-	8,899,676
Held-to-maturity investments	14	527,353	-	527,353	-	610,040	-	610,040
		<u>8,856,862</u>	<u>2,060,104</u>	<u>10,916,966</u>	<u>668,332</u>	<u>11,632,918</u>	<u>-</u>	<u>12,301,250</u>
<b>Financial liabilities</b>								
Due to central and other banks	20	(412,858)	-	(412,858)	-	(412,858)	-	(412,858)
Derivative financial instruments	10	-	(58,658)	(58,658)	-	(58,658)	-	(58,658)
Due to customers	21	(7,979,902)	-	(7,979,902)	-	(7,938,376)	-	(7,938,376)
Debt securities in issue	22	(1,384,529)	-	(1,384,529)	-	(1,469,892)	-	(1,469,892)
		<u>(9,777,289)</u>	<u>(58,658)</u>	<u>(9,835,947)</u>	<u>-</u>	<u>(9,879,784)</u>	<u>-</u>	<u>(9,879,784)</u>

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

31 December 2013 € '000	Note	Carrying amount			Fair value			Total fair value
		At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	
<b>Financial assets</b>								
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
		<u>9,023,915</u>	<u>1,825,219</u>	<u>10,849,134</u>	<u>509,382</u>	<u>11,506,715</u>	<u>-</u>	<u>12,016,097</u>
<b>Financial liabilities</b>								
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)
		<u>(9,750,933)</u>	<u>(42,884)</u>	<u>(9,793,817)</u>	<u>-</u>	<u>(9,662,636)</u>	<u>-</u>	<u>(9,662,636)</u>

There were no significant transfers of financial instruments among the levels during the period ended 30 September 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 September 2014**  
**€ '000**

 External revenue  
 Interest income  
 Interest expense  
 Inter-segment revenue

Net interest income

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

**Total segment operating income**

Operating expenses

 Operating profit before impairment  
 Impairment losses  
 Income tax expense

**Net profit for 9 months**

Segment assets

Segment liabilities and equity

	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Central Treasury</b>	<b>Other</b>	<b>Total</b>
	209,938	60,248	9,142	56,051	335,379
	(31,228)	(5,760)	(2,450)	(28,126)	(67,564)
	(18,072)	(12,502)	(6,147)	36,721	-
	160,638	41,986	545	64,646	267,815
	39,005	15,125	2,187	(3,203)	53,114
	2,423	2,723	(526)	4,384	9,004
	766	763	(10)	905	2,424
	-	-	-	2,287	2,287
	202,832	60,597	2,196	69,019	334,644
					(182,902)
					151,742
					(37,124)
					(24,841)
					89,777
	4,409,380	3,174,894	769,083	2,851,843	11,205,200
	4,711,040	2,239,690	1,319,873	2,934,597	11,205,200

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

	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Central Treasury</b>	<b>Other</b>	<b>Total</b>
External revenue					
Interest income	211,542	55,597	13,019	64,810	344,968
Interest expense	(41,737)	(6,456)	(5,360)	(31,059)	(84,612)
Inter-segment revenue	(8,139)	653	(2,508)	9,994	-
<b>Net interest income</b>	<b>161,666</b>	<b>49,794</b>	<b>5,151</b>	<b>43,745</b>	<b>260,356</b>
Net fee and commission income	41,683	15,047	1,954	(3,980)	54,704
Net trading result	2,388	2,673	(840)	3,458	7,679
Other operating income	1,892	610	-	(122)	2,380
Dividend income	-	-	-	1,696	1,696
<b>Total segment operating income</b>	<b>207,629</b>	<b>68,124</b>	<b>6,265</b>	<b>44,797</b>	<b>326,815</b>
Operating expenses					(175,373)
Operating profit before impairment					151,442
Impairment losses					(44,471)
Income tax expense					(22,334)
<b>Net profit for 9 months</b>					<b>84,637</b>
Segment assets	4,094,971	2,968,344	799,035	3,081,008	10,943,358
Segment liabilities and equity	4,649,853	2,461,566	940,827	2,891,112	10,943,358



## 6. Cash and cash equivalents

€ '000	Note	Sep 2014	Dec 2013
Cash and balances with central banks	7	145,830	96,634
Current accounts in other banks	8	5,834	16,145
Term deposits with other banks	8	-	163,138
		<u>151,664</u>	<u>275,917</u>

## 7. Cash and balances with central banks

€ '000	Sep 2014	Dec 2013
Balances with central banks:		
Compulsory minimum reserves	3,553	1,128
Current accounts	-	112
Term deposits	41,455	-
	<u>45,008</u>	<u>1,240</u>
Cash in hand	100,822	95,394
	<u>145,830</u>	<u>96,634</u>

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and the Czech National Bank. The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the 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	Sep 2014	Dec 2013
Current accounts	6	5,834	16,145
Term deposits			
with contractual maturity less than 90 days	6	-	163,138
with contractual maturity over 90 days		20,070	20,071
Loans and advances			
with contractual maturity over 90 days		514,075	562,058
Cash collateral		44,490	10,079
Impairment losses	13	(5)	(24)
		<u>584,464</u>	<u>771,467</u>

At 30 September 2014 the balance of 'Term deposits' includes one deposit with Intesa Sanpaolo S.p.A. in the nominal amount of € 20,000 thousand (31 December 2013: several deposits with commercial banks located in the Czech republic and in other European countries in the total nominal amount of € 183,131 thousand).

## 8. Due from banks (continued)

At 30 September 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	Sep 2014	Dec 2013
Financial assets held for trading		
State bonds		
with contractual maturity over 90 days	260,069	206,639
Bank bonds		
with contractual maturity over 90 days	258	362
	<u>260,327</u>	<u>207,001</u>
Financial assets designated at fair value through profit or loss on initial recognition		
Equity shares	614	673
	<u>260,941</u>	<u>207,674</u>

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

At 30 September 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	Sep 2014 Assets	Dec 2013 Assets	Sep 2014 Liabilities	Dec 2013 Liabilities
Trading derivatives	26,591	24,341	16,770	33,754
Cash flow hedges of interest rate risk	1,644	1,608	-	1,259
Fair value hedges of interest rate and inflation risk	4,146	3,272	41,888	7,871
	<u>32,381</u>	<u>29,221</u>	<u>58,658</u>	<u>42,884</u>

Trading derivatives also include hedging instruments that are non-qualifying according to IAS 39, which are held for risk management purposes rather than for trading. These instruments currently consist of one cross-currency interest rate swap. At 30 September 2014, the negative fair value of this derivative was € 1,389 thousand (31 December 2013: € 1,307 thousand).

**10. Derivative financial instruments (continued)**

<b>€ '000</b>	<b>Sep 2014 Assets</b>	<b>Dec 2013 Assets</b>	<b>Sep 2014 Liabilities</b>	<b>Dec 2013 Liabilities</b>
<b>Trading derivatives – Fair values</b>				
Interest rate instruments				
Swaps	7,564	8,390	4,491	7,688
Options	1,742	2,534	1,760	2,551
	<u>9,306</u>	<u>10,924</u>	<u>6,251</u>	<u>10,239</u>
Foreign currency instruments				
Forwards and swaps	12,722	8,201	4,432	16,429
Cross currency swaps	-	-	1,389	1,307
Options	1,724	1,822	1,859	2,385
	<u>14,446</u>	<u>10,023</u>	<u>7,680</u>	<u>20,121</u>
Equity and commodity instruments				
Equity options	2,839	3,394	2,839	3,394
	<u>26,591</u>	<u>24,341</u>	<u>16,770</u>	<u>33,754</u>
<b>Trading derivatives – Notional values</b>				
Interest rate instruments				
Swaps	422,404	458,950	422,404	458,950
Options	144,509	163,897	144,509	163,897
Futures	152,486	-	152,486	-
	<u>719,399</u>	<u>622,847</u>	<u>719,399</u>	<u>622,847</u>
Foreign currency instruments				
Forwards and swaps	504,616	843,205	496,219	851,532
Cross currency swaps	29,091	29,168	30,449	30,449
Options	92,237	74,264	91,869	74,123
	<u>625,944</u>	<u>946,637</u>	<u>618,537</u>	<u>956,104</u>
Equity and commodity instruments				
Equity options	10,578	14,304	10,582	14,304
	<u>1,355,921</u>	<u>1,583,788</u>	<u>1,348,518</u>	<u>1,593,255</u>

## 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.

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

### Fair value hedges of interest rate and inflation risk

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

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

## 11. Available-for-sale financial assets

€ '000	Note	Share Sep 2014	Share Dec 2013	Sep 2014	Dec 2013
State bonds				1,555,993	1,428,327
Bank bonds				210,741	159,957
Equity shares at cost					
RVS, a.s.		8.38%	8.38%	574	574
S.W.I.F.T.		0.01%	0.01%	48	40
Impairment losses to equity shares at cost	13			(574)	(574)
				<u>1,766,782</u>	<u>1,588,324</u>

At 30 September 2014, bonds in the total nominal amount of € 830,261 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 September 2014**  
**€ '000**
**Sovereigns**

Municipalities

**Corporate**

Large Corporates

Specialized Lending

Small and Medium Enterprises ('SME')

Other Financial Institutions

Public Sector Entities

Factoring

**Retail**

Small Business

Consumer Loans

Mortgages

Credit Cards

Overdrafts

Flat Owners Associations

Other

	<b>Amortised cost</b>	<b>Impairment losses (note 13)</b>	<b>Carrying amount</b>
Municipalities	141,645	(301)	141,344
Large Corporates	1,172,026	(19,384)	1,152,642
Specialized Lending	778,517	(36,234)	742,283
Small and Medium Enterprises ('SME')	799,789	(56,353)	743,436
Other Financial Institutions	317,469	(872)	316,597
Public Sector Entities	3,791	(54)	3,737
Factoring	36,817	(530)	36,287
	<u>3,108,409</u>	<u>(113,427)</u>	<u>2,994,982</u>
Small Business	201,575	(14,555)	187,020
Consumer Loans	926,507	(55,055)	871,452
Mortgages	3,119,732	(35,793)	3,083,939
Credit Cards	232,409	(35,731)	196,678
Overdrafts	110,790	(14,744)	96,046
Flat Owners Associations	22,100	(288)	21,812
Other	5,943	(1)	5,942
	<u>4,619,056</u>	<u>(156,167)</u>	<u>4,462,889</u>
	<u>7,869,110</u>	<u>(269,895)</u>	<u>7,599,215</u>

**12. Loans and advances to customers (continued)**

31 December 2013 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
<b>Sovereigns</b>			
Municipalities	144,631	(385)	144,246
<b>Corporate</b>			
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
	<u>2,960,037</u>	<u>(110,076)</u>	<u>2,849,961</u>
<b>Retail</b>			
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
	<u>4,314,833</u>	<u>(149,057)</u>	<u>4,165,776</u>
	<u>7,419,501</u>	<u>(259,518)</u>	<u>7,159,983</u>

**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 Sep 2014
Due from banks	8	24	3	(22)	-	-	-	5
Available-for-sale financial assets	11	574	-	-	-	-	-	574
Loans and advances to customers	12	259,518	97,194	(49,247)	(31,795)	50	(5,825)	269,895
Held-to-maturity investments	14	597	-	(281)	-	-	-	316
Subsidiaries, associates and JVs	15	41,142	-	-	-	-	(3,228)	37,914
Property and equipment	17	7,000	-	-	-	-	-	7,000
Other assets	19	1,540	1,142	(1,108)	-	(1)	-	1,573
		<u>310,395</u>	<u>98,339</u>	<u>(50,658)</u>	<u>(31,795)</u>	<u>49</u>	<u>(9,053)</u>	<u>317,277</u>

\* 'Other' represents:

- The interest portion (unwinding of interest);
- Sale of Recovery, a.s. (see also note 15).

#### 14. Held-to-maturity investments

€ '000	Note	Sep 2014	Dec 2013
State bonds		527,669	996,428
Impairment losses	13	(316)	(597)
		<u>527,353</u>	<u>995,831</u>

At 30 September 2014, state bonds in the total nominal amount of € 39,049 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
<b>At 30 September 2014</b>				
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
		<u>133,480</u>	<u>(37,914)</u>	<u>95,566</u>
<b>At 31 December 2013</b>				
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
		<u>137,132</u>	<u>(41,142)</u>	<u>95,990</u>

\* 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
<b>Cost</b>				
At 1 January 2014	179,850	9,030	8,874	197,754
Additions	-	-	3,817	3,817
Transfers	8,314	388	(8,702)	-
FX differences	(1)	-	-	(1)
At 30 September 2014	188,163	9,418	3,989	201,570
<b>Accumulated amortisation</b>				
At 1 January 2014	(138,564)	(7,842)	-	(146,406)
Amortisation for the period	(8,103)	(250)	-	(8,353)
FX differences	1	-	-	1
At 30 September 2014	(146,666)	(8,092)	-	(154,758)
<b>Carrying amount</b>				
<b>At 1 January 2014</b>	<u>41,286</u>	<u>1,188</u>	<u>8,874</u>	<u>51,348</u>
<b>At 30 September 2014</b>	<u>41,497</u>	<u>1,326</u>	<u>3,989</u>	<u>46,812</u>

**17. Property and equipment**

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
<b>Cost</b>						
At 1 January 2014		199,028	68,444	30,340	2,506	300,318
Additions		-	4	-	689	693
Disposals		(317)	(1,571)	(249)	-	(2,137)
Transfers		700	1,869	1	(2,570)	-
At 30 September 2014		199,411	68,746	30,092	625	298,874
<b>Accumulated depreciation</b>						
At 1 January 2014		(96,117)	(57,209)	(28,249)	-	(181,575)
Depreciation for the period		(4,490)	(4,494)	(688)	-	(9,672)
Disposals		271	1,566	245	-	2,082
At 30 September 2014		(100,336)	(60,137)	(28,692)	-	(189,165)
<b>Impairment losses</b>	13					
At 1 January 2014		(7,000)	-	-	-	(7,000)
At 30 September 2014		(7,000)	-	-	-	(7,000)
<b>Carrying amount</b>						
<b>At 1 January 2014</b>		<u>95,911</u>	<u>11,235</u>	<u>2,091</u>	<u>2,506</u>	<u>111,743</u>
<b>At 30 September 2014</b>		<u>92,075</u>	<u>8,609</u>	<u>1,400</u>	<u>625</u>	<u>102,709</u>



**18. Current and deferred income taxes**

€ '000	Sep 2014	Dec 2013
Current income tax assets	-	1,699
€ '000	Sep 2014	Dec 2013
Current income tax liabilities	10,486	-
€ '000	Sep 2014	Dec 2013
Deferred income tax assets	30,367	27,960

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

€ '000	Sep 2014	Profit/ (loss) (note 34)	Equity	Dec 2013
Due from banks	1	(4)	-	5
Derivative financial instruments designated as cash flow hedges	(362)	-	(285)	(77)
Available-for-sale financial assets	(11,540)	-	505	(12,045)
Loans and advances to customers	43,713	1,892	-	41,821
Held-to-maturity investments	70	(62)	-	132
Property and equipment	(4,013)	(661)	-	(3,352)
Provisions	97	(20)	-	117
Other liabilities	3,189	283	-	2,906
Other	(788)	759	-	(1,547)
Deferred income tax assets	30,367	2,187	220	27,960

**19. Other assets**

€ '000	Note	Sep 2014	Dec 2013
Operating receivables and advances		8,870	7,362
Prepayments and accrued income		3,039	5,336
Other tax receivables		1,626	1,618
Inventories		810	721
Settlement of operations with financial instruments		6	7
Receivables from trading with securities		2	-
		14,353	15,044
Impairment losses	13	(1,573)	(1,540)
		12,780	13,504

**20. Due to central and other banks**

€ '000	Sep 2014	Dec 2013
Due to central banks		
Current accounts	1,524	58,973
	<u>1,524</u>	<u>58,973</u>
Due to other banks		
Current accounts	14,565	16,557
Term deposits	216,852	200,605
Loans received	179,917	198,541
Cash collateral received	-	32,600
	<u>411,334</u>	<u>448,303</u>
	<u>412,858</u>	<u>507,276</u>

**21. Due to customers**

€ '000	Sep 2014	Dec 2013
Current accounts	3,836,809	3,693,247
Term deposits	3,198,693	3,681,295
Savings accounts	207,344	214,170
Government and municipal deposits	577,487	211,995
Other deposits	159,569	38,343
	<u>7,979,902</u>	<u>7,839,050</u>

**22. Debt securities in issue**

€ '000	Sep 2014	Dec 2013
Bonds	58	58
Mortgage bonds	1,017,930	1,025,505
Mortgage bonds subject to cash flow hedges	125,403	160,725
Mortgage bonds subject to fair value hedges	237,993	219,043
	<u>1,381,326</u>	<u>1,405,273</u>
Revaluation of fair value hedged mortgage bonds	1,812	(2,561)
Amortisation of revaluation related to terminated fair value hedges	1,333	1,837
	<u>1,384,529</u>	<u>1,404,607</u>

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 Sep 2014	Nominal value in CCY per piece	Issue date	Maturity date	Sep 2014 € '000	Dec 2013 € '000
Mortgage bonds VÚB, a.s. XVII.	0.28	EUR	1,678	33,194	28.11.2005	28.11.2015	55,714	55,717
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,997	17,176
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	32,982	33,383
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,409	19,666
Mortgage bonds VÚB, a.s. 32.	1.92	CZK	800	1,000,000	17.12.2007	17.12.2017	30,433	30,656
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	21,275	21,438
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,760	18,944
Mortgage bonds VÚB, a.s. 39.	0.77	EUR	60	1,000,000	26.6.2008	26.6.2015	60,006	60,005
Mortgage bonds VÚB, a.s. 40.	0.91	EUR	70	1,000,000	28.8.2008	28.8.2015	70,060	70,064
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,540	15,679
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	49	1,000,000	19.5.2009	19.5.2016	49,828	50,393
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	-	1,000,000	28.7.2009	28.7.2014	-	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.	0.92	EUR	100	1,000,000	8.4.2010	8.4.2017	100,215	100,218
Mortgage bonds VÚB, a.s. 54.	3.00	EUR	-	1,000	1.7.2010	1.7.2014	-	15,225
Mortgage bonds VÚB, a.s. 55.	2.85	EUR	14,000	1,000	1.10.2010	1.10.2015	14,399	14,100
Mortgage bonds VÚB, a.s. 57.	1.49	EUR	100	1,000,000	30.9.2010	30.9.2018	100,004	100,416
Mortgage bonds VÚB, a.s. 58.	2.16	EUR	80	1,000,000	10.12.2010	10.12.2019	80,532	80,100
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	25,000	1,000	1.3.2011	1.3.2015	25,437	25,625
Mortgage bonds VÚB, a.s. 60.	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	4,686	4,668
Mortgage bonds VÚB, a.s. 62.	2.30	EUR	100	1,000,000	28.7.2011	28.7.2018	100,402	100,992
Mortgage bonds VÚB, a.s. 63.	3.75	EUR	35,000	1,000	16.9.2011	16.3.2016	35,055	35,383
Mortgage bonds VÚB, a.s. 64.	3.25	CZK	7,000	100,000	26.9.2011	26.9.2016	25,426	25,686
Mortgage bonds VÚB, a.s. 66.	2.10	EUR	700	50,000	28.11.2011	28.11.2014	35,232	34,958
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,673	15,071
Mortgage bonds VÚB, a.s. 68.	4.00	EUR	35,000	1,000	16.1.2012	16.7.2015	35,992	36,342
Mortgage bonds VÚB, a.s. 69.	4.50	EUR	1,000	20,000	6.2.2012	6.2.2016	20,188	20,440
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	7.3.2012	7.3.2017	40,806	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 Sep 2014	Nominal value in CCY per piece	Issue date	Maturity date	Sep 2014 € '000	Dec 2013 € '000
Mortgage bonds VÚB, a.s. 71.	3.90	EUR	750	20,000	2.5.2012	2.5.2017	15,441	15,350
Mortgage bonds VÚB, a.s. 72.	4.70	EUR	250	100,000	21.6.2012	21.6.2027	25,115	25,396
Mortgage bonds VÚB, a.s. 73.	4.20	EUR	500	100,000	11.7.2012	11.7.2022	50,130	50,623
Mortgage bonds VÚB, a.s. 74.	3.35	EUR	700	100,000	16.1.2013	15.12.2023	71,229	71,780
Mortgage bonds VÚB, a.s. 75.	2.00	EUR	300	100,000	5.4.2013	5.4.2019	30,338	30,496
Mortgage bonds VÚB, a.s. 76.	2.40	EUR	309	10,000	22.4.2013	22.4.2018	3,124	3,143
Mortgage bonds VÚB, a.s. 77.	1.80	CZK	5,000	100,000	20.6.2013	20.6.2018	18,210	18,328
Mortgage bonds VÚB, a.s. 78.	2.16	EUR	905	10,000	3.3.2014	3.3.2020	9,201	-
Mortgage bonds VÚB, a.s. 79.	2.00	EUR	10,000	1,000	24.3.2014	24.9.2020	10,104	-
Mortgage bonds VÚB, a.s. 80.	1.85	EUR	21	1,000,000	27.3.2014	27.3.2021	21,156	-
Mortgage bonds VÚB, a.s. 81.	2.55	EUR	38	1,000,000	27.3.2014	27.3.2024	39,739	-
Mortgage bonds VÚB, a.s. 82.	1.65	EUR	1,701	1,000	16.6.2014	16.12.2020	1,709	-
Mortgage bonds VÚB, a.s. 83.	0.90	EUR	500	100,000	28.7.2014	28.7.2019	49,764	-
Mortgage bonds VÚB, a.s. 84.	0.60	EUR	100	100,000	29.9.2014	30.9.2019	10,015	-
							<u>1,381,326</u>	<u>1,405,273</u>

**23. Provisions**

€ '000	Sep 2014	Dec 2013
Litigation	21,992	21,441
Restructuring provision	439	532
	<u>22,431</u>	<u>21,973</u>

The movements in provisions were as follows:

€ '000	Note	1 Jan 2014	Creation	Reversal	Use	30 Sep 2014
Litigation	26, 32	21,441	717	(164)	(2)	21,992
Restructuring provision	31	532	130	-	(223)	439
		<u>21,973</u>	<u>847</u>	<u>(164)</u>	<u>(225)</u>	<u>22,431</u>

**24. Other liabilities**

€ '000	Sep 2014	Dec 2013
Various creditors	17,796	21,994
Settlement with employees	17,163	16,633
Financial guarantees and commitments	13,860	12,186
Accruals and deferred income	4,183	3,692
Severance and Jubilee benefits	3,156	3,156
VAT payable and other tax payables	1,416	3,312
Settlement with shareholders	1,307	910
Share remuneration scheme	614	673
Investment certificates	153	153
Settlement with securities	26	19
Retention program	-	433
	<u>59,674</u>	<u>63,161</u>

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

€ '000	Note	1 Jan 2014	Creation/ (Reversal)	FX diff	30 Sep 2014
Financial guarantees and commitments	33	12,186	1,659	15	13,860
Severance and Jubilee benefits		3,156	-	-	3,156
Retention program	31	433	(433)	-	-
		<u>15,775</u>	<u>1,226</u>	<u>15</u>	<u>17,016</u>

**25. Equity**

€ '000	Sep 2014	Dec 2013
Share capital - authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	<u>430,819</u>	<u>430,819</u>
Share premium	13,501	13,501
Treasury shares	(417)	-
Reserves	130,136	130,922
Retained earnings (excluding net profit for the period)	612,846	592,547
	<u>1,186,885</u>	<u>1,167,789</u>
	Sep 2014	Sep 2013
Net profit for 9 months attributable to shareholders in € '000	<u>89,777</u>	<u>84,637</u>
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
	<u>430,819,064</u>	<u>430,819,064</u>
Divided by the value of one ordinary share of € 33.2		
The weighted average number of ordinary shares of € 33.2 each	<u>12,976,478</u>	<u>12,976,478</u>
Basic and diluted earnings per € 33.2 share in €	<u>6.92</u>	<u>6.52</u>
The principal rights attached to shares are to take part in and vote at the general meeting of shareholders and to receive dividends.		
The structure of shareholders is as follows:		
	Sep 2014	Dec 2013
Intesa Sanpaolo Holding International S.A.	96.97%	96.97%
Domestic shareholders	2.26%	2.23%
Foreign shareholders	0.77%	0.80%
	<u>100.00%</u>	<u>100.00%</u>

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 September 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	Sep 2014
<b>Tier 1 capital</b>	
Share capital	430,819
Share premium	13,501
Retained earnings without net profit for the period	612,846
Other reserves	87,493
Treasury shares	(417)
Revaluation of available-for-sale financial assets	(1,337)
Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities	(2,800)
Less intangible assets	(46,812)
Less IRB shortfall of credit risk adjustments to expected losses	(1,241)
	<u>1,092,052</u>
<b>Tier 2 capital</b>	-
<b>Total regulatory capital</b>	<u>1,092,052</u>
€ '000	Sep 2014
Tier 1 capital	1,092,052
Tier 2 capital	-
<b>Total regulatory capital</b>	<u>1,092,052</u>
<b>Total Risk Weighted Assets</b>	<u>6,756,494</u>
Tier 1 capital ratio	16.16%
Total capital ratio	16.16%

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.

**25. Equity (continued)**

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

<b>€ '000</b>	<b>Dec 2013</b>
<b>Tier 1 capital</b>	
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	<u>(30,308)</u>
	<u>1,042,682</u>
<b>Tier 2 capital</b>	
Positive revaluation of available-for-sale financial assets	44,075
IRB shortfall	<u>26,764</u>
	<u>70,839</u>
<b>Regulatory adjustment</b>	
Subsidiaries, associates and joint ventures	(95,987)
Expected loss (incl. equity instruments)	<u>(15)</u>
	<u>(96,002)</u>
<b>Total regulatory capital</b>	<u>1,017,519</u>
<b>€ '000</b>	<b>Dec 2013</b>
Tier 1 capital	1,042,682
Tier 2 capital	70,839
Regulatory adjustment	<u>(96,002)</u>
<b>Total regulatory capital</b>	<u>1,017,519</u>
<b>Total Risk Weighted Assets</b>	<u>6,373,444</u>
Tier 1 capital ratio	16.36%
Total capital ratio	15.96%

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 September 2014 and 31 December 2013.



**26. Financial commitments and contingencies**

€ '000	Sep 2014	Dec 2013
Issued guarantees	621,832	627,306
Commitments and undrawn credit facilities	<u>2,101,693</u>	<u>2,221,640</u>
	<u>2,723,525</u>	<u>2,848,946</u>

**(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 September 2014 and 31 December 2013 was as follows:

€ '000	Sep 2014	Dec 2013
Up to 1 year	1,249	1,375
1 to 5 years	1,423	2,324
Over 5 years	-	-
	<u>2,672</u>	<u>3,699</u>

**(d) Legal proceedings**

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 30 September 2014. Pursuant to this review, management has recorded total provisions of € 21,992 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 € 14,635 thousand, as at 30 September 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	9 months		3 months	
	Sep 2014	Sep 2013	Sep 2014	Sep 2013
<b>Interest and similar income</b>				
Due from banks	4,154	10,260	959	2,322
Loans and advances to customers	279,017	274,330	92,650	91,860
Bonds, treasury bills and other securities:				
Financial assets at fair value through profit or loss	4,032	1,639	1,238	642
Available-for-sale financial assets	28,715	27,172	8,983	9,935
Held-to-maturity investments	19,461	31,567	5,722	10,291
	<u>335,379</u>	<u>344,968</u>	<u>109,552</u>	<u>115,050</u>
<b>Interest and similar expense</b>				
Due to banks	(1,520)	(1,268)	(499)	(520)
Due to customers	(39,110)	(52,379)	(11,860)	(16,581)
Debt securities in issue	(26,934)	(30,965)	(8,157)	(10,685)
	<u>(67,564)</u>	<u>(84,612)</u>	<u>(20,516)</u>	<u>(27,786)</u>
	<u>267,815</u>	<u>260,356</u>	<u>89,036</u>	<u>87,264</u>

**28. Net fee and commission income**

€ '000	9 months		3 months	
	Sep 2014	Sep 2013	Sep 2014	Sep 2013
<b>Fee and commission income</b>				
Received from banks	6,061	5,226	2,149	1,913
Received from customers:				
Current accounts	38,283	35,890	13,924	12,098
Loans and guarantees	21,220	24,021	7,595	7,294
Transactions and payments	18,134	17,465	6,577	6,064
Insurance mediation	6,430	7,715	2,217	2,297
Securities	4,728	4,092	1,730	1,590
Overdrafts	3,082	2,351	905	1,003
Securities - Custody fee	838	692	271	251
Term deposits	507	680	152	223
Other	1,713	1,915	684	626
	<u>100,996</u>	<u>100,047</u>	<u>36,204</u>	<u>33,359</u>
<b>Fee and commission expense</b>				
Paid to banks	(11,746)	(11,122)	(4,094)	(4,069)
Paid to mediators:				
Credit cards	(31,700)	(29,449)	(10,168)	(10,723)
Securities	(374)	(373)	(126)	(130)
Services	(3,519)	(3,799)	(582)	(1,122)
Other	(543)	(600)	(185)	(187)
	<u>(47,882)</u>	<u>(45,343)</u>	<u>(15,155)</u>	<u>(16,231)</u>
	<u>53,114</u>	<u>54,704</u>	<u>21,049</u>	<u>17,128</u>

**29. Net trading result**

€ '000	9 months		3 months	
	Sep 2014	Sep 2013	Sep 2014	Sep 2013
Foreign currency derivatives and transactions	3,014	1,983	1,023	106
Customer FX margins	3,876	3,766	1,635	1,423
Cross currency swaps	(72)	(634)	(51)	288
Equity derivatives	10	58	9	58
Other derivatives	-	11	-	-
Interest rate derivatives *	(11)	(1,260)	(1,986)	(624)
Dividends from equity shares held in FVTPL portfolio	16	13	-	-
Securities:				
Financial assets at fair value through profit or loss				
Held for trading	(1,054)	(108)	(157)	100
Designated at fair value through profit or loss on initial recognition	218	68	26	82
Available-for-sale financial assets *	7,380	(1,844)	(3,320)	589
Debt securities in issue *	(4,373)	5,626	5,695	115
	<u>9,004</u>	<u>7,679</u>	<u>2,874</u>	<u>2,137</u>

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

At 30 September 2014, the amount still to be recognised in income resulting from Day 1 profit was nil (31 December 2013: € 4 thousand).

**30. Other operating income**

€ '000	9 months		3 months	
	Sep 2014	Sep 2013	Sep 2014	Sep 2013
Services	773	629	308	232
Rent	689	903	226	301
Financial revenues	122	72	11	10
Net (loss)/profit from sale of fixed assets	(1)	37	(2)	-
Other	841	739	194	216
	<u>2,424</u>	<u>2,380</u>	<u>737</u>	<u>759</u>

**31. Salaries and employee benefits**

€ '000	Note	9 months		3 months	
		Sep 2014	Sep 2013	Sep 2014	Sep 2013
Remuneration		(53,453)	(51,017)	(17,889)	(17,325)
Social security costs		(20,001)	(19,574)	(6,802)	(6,688)
Social fund		(1,011)	(623)	(311)	(194)
Retention program	24	433	298	-	(36)
Restructuring provision	23	93	445	66	4
		<u>(73,939)</u>	<u>(70,471)</u>	<u>(24,936)</u>	<u>(24,239)</u>

At 30 September 2014, the total number of employees of the Bank was 3,492 (31 December 2013: 3,503). The average number of employees of the Bank during 9 months period ended 30 September 2014 was 3,483 (30 September 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	9 months		3 months	
		Sep 2014	Sep 2013	Sep 2014	Sep 2013
IT systems maintenance		(14,528)	(12,777)	(5,353)	(4,758)
Property related expenses		(12,476)	(13,679)	(4,066)	(4,162)
Post and telecom		(7,796)	(8,085)	(2,741)	(2,656)
Contribution to the Deposit Protection Fund *		(5,050)	-	(463)	-
Advertising and marketing		(4,549)	(4,072)	(1,198)	(997)
Equipment related expenses		(4,205)	(4,724)	(1,412)	(1,277)
Stationery		(2,659)	(2,551)	(934)	(789)
Security		(2,573)	(2,775)	(864)	(969)
Third parties' services		(926)	(664)	(159)	(347)
Insurance		(914)	(742)	(272)	(327)
Professional services		(622)	(587)	(252)	(193)
Provisions for litigation	23	(551)	1,481	(255)	1,845
Travelling		(533)	(389)	(187)	(118)
Training		(498)	(510)	(127)	(94)
Other damages		(456)	(764)	(126)	(541)
Audit **		(352)	(474)	(111)	(174)
Transport		(334)	(350)	(110)	(110)
VAT and other taxes		(313)	(738)	(41)	(294)
Litigations paid		(248)	(4,235)	(30)	(3,927)
Other operating expenses		(1,942)	(2,426)	(161)	(818)
		<u>(61,525)</u>	<u>(59,061)</u>	<u>(18,862)</u>	<u>(20,706)</u>

\* The Bank started to contribute to the Deposit Protection Fund according to the legislation amendment valid from 1 August 2014. This amendment decreased the quarterly contribution for the third and fourth quarter of 2014 to 0.01% p.q. from the protected deposit base.

\*\* As at 30 September 2014 the audit expense consists of fees for the statutory audit in the amount of € 167 thousand (30 September 2013: € 213 thousand), group reporting in the amount of € 167 thousand (30 September 2013: € 213 thousand) and other reporting in the amount of € 18 thousand (30 September 2013: € 48 thousand).

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

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

€ '000	9 months		3 months	
	Sep 2014	Sep 2013	Sep 2014	Sep 2013
Special levy of selected financial institutions	(29,413)	(28,817)	(9,830)	(9,622)

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	9 months		3 months	
		Sep 2014	Restated Sep 2013	Sep 2014	Restated Sep 2013
Creation of impairment losses	13	(98,339)	(105,035)	(28,256)	(25,341)
Reversal of impairment losses	13	50,658	55,715	7,168	10,452
Net creation of impairment losses		(47,681)	(49,320)	(21,088)	(14,889)
Creation of liabilities – financial guarantees and commitments		(8,424)	(403)	(1,156)	4,552
Reversal of liabilities – financial guarantees and commitments		6,765	3,271	1,021	(3,677)
Net (creation)/reversal of liabilities – financial guarantees and commitments	24	(1,659)	2,868	(135)	875
Nominal value of assets written-off/sold		(34,351)	(36,464)	(9,724)	(10,011)
Release of impairment losses to assets written-off/sold	13	31,795	29,609	10,143	8,498
		(2,556)	(6,855)	419	(1,513)
Proceeds from assets written-off		6,124	6,911	2,933	1,876
Proceeds from assets sold		8,648	1,925	3,524	220
		(37,124)	(44,471)	(14,347)	(13,431)

**34. Income tax expense**

€ '000	Note	9 months		3 months	
		Sep 2014	Sep 2013	Sep 2014	Sep 2013
Current income tax		(27,028)	(15,982)	(11,432)	3,585
Deferred income tax	18	2,187	(6,352)	2,566	(7,926)
		<u>(24,841)</u>	<u>(22,334)</u>	<u>(8,866)</u>	<u>(4,341)</u>

**35. Other comprehensive income**

€ '000	Sep 2014	Sep 2013
Exchange differences on translating foreign operation	-	(14)
Available-for-sale financial assets:		
Revaluation gains/(losses) arising during the period	564	(15,051)
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	(2,857)	(1,996)
	<u>(2,293)</u>	<u>(17,047)</u>
Cash flow hedges:		
Revaluation gains arising during the period	1,295	1,408
	<u>1,295</u>	<u>1,408</u>
Total other comprehensive income	(998)	(15,653)
Income tax relating to components of other comprehensive income *	220	3,597
	<u>(778)</u>	<u>(12,056)</u>

\* 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	September 2014			September 2013		
	Before tax amount	Tax benefit/(expense)	Net of tax amount	Before tax amount	Tax benefit/(expense)	Net of tax amount
Exchange differences on translating foreign operations	-	-	-	(14)	-	(14)
Available-for-sale financial assets	(2,293)	505	(1,788)	(17,047)	3,921	(13,126)
Net movement on cash flow hedges	1,295	(285)	1,010	1,408	(324)	1,084
	<u>(998)</u>	<u>220</u>	<u>(778)</u>	<u>(15,653)</u>	<u>3,597</u>	<u>(12,056)</u>

### 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 September 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
<b>Assets</b>								
Due from banks	-	-	-	-	-	534,015	697	534,712
Derivative financial instruments	-	-	-	-	-	3	5,306	5,309
Loans and advances to customers	318	-	220,843	-	-	-	-	221,161
Financial assets at fair value through profit or loss	-	-	-	-	-	614	-	614
Other assets	-	-	177	1,145	1,222	-	-	2,544
	<u>318</u>	<u>-</u>	<u>221,020</u>	<u>1,145</u>	<u>1,222</u>	<u>534,632</u>	<u>6,003</u>	<u>764,340</u>
<b>Liabilities</b>								
Due to central and other banks	-	-	-	-	-	156,556	4,095	160,651
Derivative financial instruments	-	-	-	-	-	32	4,245	4,277
Due to customers	2,650	-	428	-	2,201	-	114	5,393
Debt securities in issue								
Mortgage bonds	-	-	-	643	-	-	561,047	561,690
Other liabilities	614	-	6,211	-	7	-	3	6,835
	<u>3,264</u>	<u>-</u>	<u>6,639</u>	<u>643</u>	<u>2,208</u>	<u>156,588</u>	<u>569,504</u>	<u>738,846</u>
<b>Commitments and undrawn credit facilities</b>	-	-	28,864	-	-	-	-	28,864
<b>Issued guarantees</b>	-	-	-	-	-	-	12,486	12,486
<b>Received guarantees</b>	-	-	-	-	-	135,000	54,384	189,384
<b>Derivative transactions (notional amount – receivable)</b>	-	-	-	-	-	2,620	522,211	524,831
<b>Derivative transactions (notional amount – payable)</b>	-	-	-	-	-	7,590	294,778	302,368



**37. Related parties (continued)**

€ '000	KMP *	Close members of KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
<b>Income and expense items</b>								
Interest and similar income	14	-	2,437	-	-	2,882	849	6,182
Interest and similar expense	(36)	-	35	(23)	(3)	(128)	(9,769)	(9,924)
Fee and commission income	1	-	66	-	4,656	-	61	4,784
Fee and commission expense	-	-	(25,187)	-	(17)	(2)	(5,648)	(30,854)
Net trading result	-	-	-	-	-	273	(3,274)	(3,001)
Dividend income	-	-	843	1,140	304	-	-	2,287
Other operating income	-	-	707	84	77	223	23	1,114
Other operating expenses	-	-	(961)	-	-	-	(320)	(1,281)
	<u>(21)</u>	<u>-</u>	<u>(22,060)</u>	<u>1,201</u>	<u>5,017</u>	<u>3,248</u>	<u>(18,078)</u>	<u>(30,693)</u>

\* 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
<b>Assets</b>								
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
	<u>528</u>	<u>-</u>	<u>224,113</u>	<u>7</u>	<u>552</u>	<u>542,979</u>	<u>79,740</u>	<u>847,919</u>
<b>Liabilities</b>								
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	-	-	-	629	-	-	684,905	685,534
Mortgage bonds	-	-	-	629	-	-	684,905	685,534
Other liabilities	673	-	3,811	-	4	-	19	4,507
	<u>2,799</u>	<u>-</u>	<u>4,649</u>	<u>629</u>	<u>1,726</u>	<u>150,787</u>	<u>693,031</u>	<u>853,621</u>
<b>Commitments and undrawn credit facilities</b>	<u>-</u>	<u>-</u>	<u>25,735</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,735</u>
<b>Issued guarantees</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,779</u>	<u>44,779</u>
<b>Received guarantees</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219,999</u>	<u>219,999</u>
<b>Derivative transactions (notional amount – receivable)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>446,778</u>	<u>446,778</u>
<b>Derivative transactions (notional amount – payable)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,757</u>	<u>157,705</u>	<u>215,462</u>

**37. Related parties (continued)**

For the period ended 30 September 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
<b>Income and expense items</b>								
Interest and similar income	19	-	1,820	-	-	5,452	2,025	9,316
Interest and similar expense	(25)	-	34	(5)	(1)	(82)	(11,777)	(11,856)
Fee and commission income	1	-	76	-	3,475	-	-	3,552
Fee and commission expense	-	-	(23,131)	-	(17)	-	(5,566)	(28,714)
Net trading result	-	-	-	-	-	(2,792)	(28)	(2,820)
Dividend income	-	-	696	1,000	-	-	-	1,696
Other operating income	-	-	665	83	159	110	21	1,038
Other operating expenses	-	-	(1,064)	-	-	-	(804)	(1,868)
	<u>(5)</u>	<u>-</u>	<u>(20,904)</u>	<u>1,078</u>	<u>3,616</u>	<u>2,688</u>	<u>(16,129)</u>	<u>(29,656)</u>

**38. Profit distribution**

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

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

**39. Events after the end of the reporting period**

From 30 September 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.