VÚB BANKA

Consolidated financial statements prepared in accordance with International Financial Reporting Standards and Independent auditors' report

for the year ended 31 December 2011

Contents

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Independent Auditors' Report

To the Shareholders of Všeobecná úverová banka, a.s.:

We have audited the accompanying consolidated financial statements of Všeobecná úverová banka, a.s. and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

21 February 2012
Bratislava, Slovak Republic

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Peter Matejička
SKAU Licence No. 909

VÚB BANKA

Consolidated statement of financial position at 31 December 2011

(In thousands of euro)

	Note	2011	2010
Assets			
Cash and balances with central banks	4	90,977	179,093
Due from banks	5	502,291	108,843
Financial assets held for trading	6	273,962	253,025
Derivative financial instruments	7	80,399	45,205
Available-for-sale financial assets	8	1,455,626	1,615,823
Non-current assets held for sale	15	3	3,374
Loans and advances to customers	9	7,266,546	6,437,675
Held-to-maturity investments	11	1,137,540	1,788,263
Associates and jointly controlled entities	12	7,077	6,219
Intangible assets	13	41,486	41,342
Goodwill	14	29,305	29,305
Property and equipment	15	146,732	148,921
Current income tax assets	20	2,791	8,931
Deferred income tax assets	20	77,463	66,154
Other assets	16	19,100	26,776
		11,131,298	10,758,949
Liabilities			
Due to central and other banks	17	688,469	662,523
Derivative financial instruments	7	57,382	60,729
Due to customers	18	7,487,408	7,265,367
Debt securities in issue	19	1,660,487	1,624,253
Provisions	21	27,328	24,256
Other liabilities	22	94,966	78,063
		10,016,040	9,715,191
Equity			
Share capital	23	430,819	430,819
Share premium	23	13,368	13,368
Reserves		17,887	61,891
Retained earnings		653,184	537,680
		1,115,258	1,043,758
		11,131,298	10,758,949
Financial commitments and contingencies	24	2,691,354	2,588,428

The accompanying notes on pages 8 to 81 form an integral part of these financial statements.

These financial statements were authorised for issue by the Management Board on 21 February 2012.

Ignacio Jaquotot
Chairman of the Management Board

Andrea De Michelis
Member of the Management Board

VÚB BANKA

Consolidated statement of comprehensive income for the year ended 31 December 2011

(In thousands of euro)

	Note	2011	2010
Interest and similar income		541,281	485,077
Interest expense and similar charges		(138,403)	(114,275)
Net interest income	25	402,878	370,802
Fee and commission income		141,406	143,344
Fee and commission expense		(32,979)	(35,602)
Net fee and commission income	26	108,427	107,742
Net trading income	27	942	6,303
Other operating income	28	13,646	7,860
Operating income		525,893	492,707
Salaries and employee benefits	29	(103,844)	(97,195)
Other operating expenses	30	(99,814)	(91,996)
Amortisation	13	(14,297)	(17,495)
Depreciation	15	(18,314)	(20,985)
Operating expenses		(236,269)	(227,671)
Operating profit before impairment		289,624	265,036
Impairment losses on financial assets	31	(67,935)	(76,495)
Profit from operations		221,689	188,541
Share of profit of associates and jointly controlled entities	12	850	596
Profit before tax		222,539	189,137
Income tax expense	32	(45,636)	(38,814)
NET PROFIT FOR THE YEAR		176,903	150,323
Other comprehensive income for the year, after tax:			
Exchange difference on translating foreign operation		(38)	485
Available-for-sale financial assets		(45,012)	(33,613)
Cash flow hedges		(1,006)	(1,437)
Other comprehensive income for the year, net of tax	33, 34	(46,056)	(34,565)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		130,847	115,758
Basic and diluted earnings per € 33.2 share in €	23	13.63	11.58

All of the Net profit and Total comprehensive income is attributable to owners of the parent.

The accompanying notes on pages 8 to 81 form an integral part of these financial statements.

VÚB BANKA

Consolidated statement of changes in equity for the year ended 31 December 2011

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2010	430,819	13,368	91,541	447,959	(1,649)	5,995	(1,639)	986,394
Total comprehensive income for the year	-	-	-	150,323	485	(33,613)	(1,437)	115,758
Dividends to shareholders	-	-	-	(58,394)	-	-	-	(58,394)
Legal reserve fund	-	-	1,549	(1,549)	-	-	-	-
Other *	-	-	-	(1,188)	1,188	-	-	-
Effect of FX hedge *	-	-	-	529	-	-	(529)	-
At 31 December 2010	430,819	13,368	93,090	537,680	24	(27,618)	(3,605)	1,043,758
At 1 January 2011	430,819	13,368	93,090	537,680	24	(27,618)	(3,605)	1,043,758
Total comprehensive income for the year	-	-	-	176,903	(38)	(45,012)	(1,006)	130,847
Dividends to shareholders	-	-	-	(59,692)	-	-	-	(59,692)
Reversal of dividends distributed but not collected	-	-	-	346	-	-	-	346
Legal reserve fund	-	-	2,203	(2,203)	-	-	-	-
Liquidation of VUB Leasingová, a.s. v likvidácii (in liquidation)	-	-	(32)	31	-	-	-	(1)
Other *	-	-	-	139	(139)	-	-	-
Effect of FX hedge *	-	-	-	(20)	-	-	20	-
At 31 December 2011	430,819	13,368	95,261	653,184	(153)	(72,630)	(4,591)	1,115,258

* The foreign currency difference disclosed under Translation of foreign operation was settled within the transfer of retained earnings and profit for 2009 and 2010 from the foreign branch. Retained earnings were originally generated in Czech Crowns (‘CZK’) and the foreign exchange effect of this translation was hedged.

The accompanying notes on pages 8 to 81 form an integral part of these financial statements.

VÚB BANKA

Consolidated statement of cash flows for the year ended 31 December 2011

(In thousands of euro)

	Note	2011	2010
Cash flows from operating activities			
Profit before tax		222,539	189,137
Adjustments for:			
Amortisation		14,297	17,495
Depreciation		18,314	20,985
Securities held for trading, available-for-sale securities and FX differences		(1,282)	4,952
Share of profit of associates and jointly controlled entities		(858)	(599)
Interest income		(541,281)	(485,077)
Interest expense		138,403	114,275
Sale of property and equipment		(277)	(141)
Impairment losses on financial assets and similar charges		69,183	75,765
Interest received		535,640	467,041
Interest paid		(129,214)	(114,407)
Tax paid		(50,805)	(60,029)
Due from banks		(396,920)	(8,931)
Financial assets held for trading		(24,389)	(86,425)
Derivative financial instruments (assets)		(36,180)	(4,388)
Available-for-sale financial assets		113,544	(635,523)
Loans and advances to customers		(894,979)	(634,555)
Other assets		8,246	(8)
Due to central and other banks		25,201	(133,364)
Derivative financial instruments (liabilities)		(3,347)	8,258
Due to customers		215,138	654,883
Other liabilities		19,588	(10,269)
Net cash used in operating activities		(699,439)	(620,925)
Cash flows from investing activities			
Purchase of held-to-maturity investments		-	(19,083)
Repayments of held-to-maturity investments		650,449	261,962
Purchase of intangible assets and property and equipment		(31,891)	(24,515)
Disposal of property and equipment		6,259	1,932
Net cash from investing activities		624,817	220,296
Cash flows from financing activities			
Proceeds from issue of debt securities		311,504	487,050
Repayments of debt securities		(274,070)	(166,239)
Dividends paid		(59,692)	(58,394)
Net cash from/(used in) financing activities		(22,258)	262,417
Net change in cash and cash equivalents		(96,880)	(138,212)
Cash and cash equivalents at the beginning of the year	3	195,128	333,340
Cash and cash equivalents at the end of the year	3	98,248	195,128

The accompanying notes on pages 8 to 81 form an integral part of these financial statements.

1. General information

1.1 The Bank

Všeobecná úverová banka, a.s. ('the Bank' or 'VUB') provides retail and commercial banking services. The Bank is domiciled in the Slovak Republic with its registered office at Mlynské nivy 1, 829 90 Bratislava 25 and has the identification number (IČO) 313 20 155.

At 31 December 2011, the Bank had a network of 250 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2010: 250). The Bank also has one branch in the Czech Republic.

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

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

1.2 The VUB Group

The consolidated financial statements comprise the Bank and its subsidiaries (together referred to as 'the VUB Group' or 'the Group') and the Group's interest in associates and jointly controlled entities as follows:

	Share 2011	Share 2010	Principal business activity
Subsidiaries			
Consumer Finance Holding, a.s. ('CFH')	100%	100%	Consumer finance business
VÚB Leasing, a. s. ('VÚB Leasing')	100%	100%	Finance and operating leasing
VÚB poisťovací maklér s. r. o.	100%	100%	Insurance mediation
VÚB Asset Management, správ. spol. a.s.	100%	100%	Asset management
VÚB Factoring, a.s.	100%	100%	Factoring of receivables
VÚB Leasingová, a.s. v likvidácii (in liquidation) *	-	100%	Finance leasing
Recovery, a.s.	100%	100%	Finance leasing
Associates			
Slovak Banking Credit Bureau, s.r.o.	33.3%	33.3%	Credit database administration
Jointly controlled entities			
VÚB Generali DSS, a.s.	50%	50%	Pension fund administration

* On 19 January 2011, VÚB Leasingová, a.s. v likvidácii (in liquidation) was removed from the Business Register of the Slovak Republic. This act concluded the process of liquidation and resulted in the loss of control of VUB Group over the subsidiary. The subsidiary was properly deconsolidated within the VUB Group as at the date when control was lost. No profit or loss on disposal of the subsidiary has been recognized in the consolidated financial statements.

Effective from 1 January 2012, VÚB poisťovací maklér s.r.o., the subsidiary of VÚB Leasing, a.s., was dissolved without liquidation as a result of a merger. The successor company is VÚB Leasing, a.s.

All entities are incorporated in the Slovak Republic.

At 31 December 2011, the VUB Group had a total network of 251 points of sale (31 December 2010: 255).

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the VUB Group ('the financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ('IFRIC') as approved by the Commission of European Union in accordance with the Regulation of European Parliament and Council of European Union and in accordance with the Act No. 431/2002 Collection on Accounting.

The separate financial statements of the Bank were issued on 21 February 2012 and are available at the legal office of the Bank.

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

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies

Standards and interpretations relevant to VUB Group's operations, effective in the current period

The following amendments to the existing standards issued by the IASB and adopted by the EU are effective for the current accounting period:

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The amendment to IAS 24 does not have any impact on the financial performance or position of the VUB Group.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment has no impact on the VUB Group's financial position or performance.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the VUB Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In cases where this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation has no effect on the financial statements of the VUB Group.

2. Summary of significant accounting policies (continued)

Improvements to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the VUB Group.

- IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the VUB Group:

- IFRS 3 Business Combinations
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the VUB Group:

- IFRIC 13 Customer Loyalty Programmes
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Standards and interpretations relevant to VUB Group's operations issued but not yet effective

Standards issued but not yet effective or not yet adopted by the EU up to the date of issuance of the VUB Group's financial statements are listed below. This listing of standards and interpretations issued are those that the VUB Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ('OCI')

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The application of this amendment will have no impact on the financial position of the VUB Group. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed to IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

2. Summary of significant accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures— Transfers of Financial Assets (Amendments to IFRS 7)

The IASB has amended the required disclosures relating to transfers of financial assets. The objective of the amendments is to help users of financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The amendment becomes effective for annual periods beginning on or after 1 July 2011.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the VUB Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the VUB Group's financial assets and on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ('JCEs') using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact on the financial position of the VUB Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2. Summary of significant accounting policies (continued)

The VUB Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

2.3 Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Jointly controlled entities

Jointly controlled entities are entities over whose activities the Group has joint control, established by contractual agreement. The financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

2.4 Segment reporting

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

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

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

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

2. Summary of significant accounting policies (continued)

2.5 Foreign currency transactions

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

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

2.6 Foreign operations

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

2.7 Cash and balances with central banks

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

2.8 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 VUB Group will not be able to collect all amounts due.

2.10 Debt securities

Debt securities held by the VUB Group are categorised into portfolios in accordance with the VUB Group's intent on the acquisition date and pursuant to the investment strategy. The VUB Group has developed security investment strategies and, reflecting the intent on acquisition, allocated securities into the following portfolios:

(a) Held for trading

(b) Available-for-sale

(c) Held-to-maturity

The principal differences among the portfolios relate to the measurement and recognition of fair values in the financial statements. All securities held by the VUB Group are recognised using settlement date accounting and are initially measured at fair value plus, in the case of financial assets not held for trading, 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 trading and the available-for-sale portfolios, are recognised in the Statement of comprehensive income and in equity respectively.

(a) Securities held for trading

These securities are financial assets acquired by the VUB Group for the purpose of generating profits from short-term fluctuations in prices. Subsequent to their initial recognition these assets are accounted for and re-measured at fair value.

2. Summary of significant accounting policies (continued)

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

The VUB Group monitors changes in fair values on a daily basis and recognises unrealised gains and losses in the Statement of comprehensive income in 'Net trading income'. Interest earned on securities held for trading is accrued on a daily basis and reported in the Statement of comprehensive income in 'Interest and similar income'.

Day 1 profit or loss

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

(b) Available-for-sale securities

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

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

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

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

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

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 on financial assets' in the Statement of comprehensive income, the impairment loss is reversed through the Statement of comprehensive income.

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

(c) Held-to-maturity investments

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

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

2. Summary of significant accounting policies (continued)

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

2.11 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.

2.12 Derivative financial instruments

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

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

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

In the normal course of business, the VUB Group enters into derivative financial instrument transactions to hedge its liquidity, foreign exchange and interest rate risks. The Group also enters into proprietary derivative financial transactions for the purpose of generating profits from short-term fluctuations in market prices. The VUB Group operates a system of market risk and counterparty limits, which are designed to restrict exposure to movements in market prices and counterparty concentrations. The VUB Group also monitors adherence to these limits on a daily basis.

Credit risk of financial derivatives

Credit exposure or the replacement cost of derivative financial instruments represents the VUB Group's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses of the VUB Group in the event that counterparties fail to perform their obligations. It is usually a small proportion of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to the generally applicable methodology using the current exposure method and involves the market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of the nominal value, which indicates the potential change in market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity. The VUB Group assesses the credit risk of all financial instruments on a daily basis.

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

2. Summary of significant accounting policies (continued)

Embedded derivatives

The VUB Group assesses whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives under IAS 39. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract-with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

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

Hedging derivatives

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

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each month. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

In situations where that hedged item is an expected transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the Statement of comprehensive income.

Cash flow hedges

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

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

Fair value hedges

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

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. Non-current assets held for sale comprise buildings, which are available for immediate sale in their present condition and their sale is considered to be highly probable.

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

2.15 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 comprehensive income.

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

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

2.16 Intangible assets

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

	Years
Software	5 – 10
Other intangible assets	5 – 10

Intangible assets acquired in a business combination are capitalised at fair values as at the date of acquisition and tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Acquired intangible assets are amortised in line with their future cash flows over the estimated useful economic lives as follows:

	Years
Software	3
Customer contracts and relationships including brand names	3 – 9

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

2. Summary of significant accounting policies (continued)

2.17 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition.

Goodwill is measured at cost less impairment, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

2.18 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 comprehensive income when the expenditure is incurred.

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

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

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

The VUB Group periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to this recoverable amount.

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

2.19 Leasing

The determination of whether an arrangement is a finance lease is based on the substance of the arrangement and requires an assessment of whether:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets that could only be used by the lessee without major modifications being made;
- the lease transfers ownership of the asset at the end of the lease term;
- the VUB Group has the option to purchase the asset at a price sufficiently below fair value at exercise date,
- it is reasonably certain the option will be exercised;
- the lease term is for a major part of the asset's economic life even if title is not transferred;
- the present value of minimum lease payments substantially equals the asset's fair value at inception.

VUB Group as a lessee

Finance leases, which transfer to the VUB Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in 'Interest expense and similar charges'.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the VUB Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the Statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and included in 'Other operating expenses'.

2. Summary of significant accounting policies (continued)

VUB Group as a lessor

Leases where the VUB Group transfers substantially all the risk and benefits of ownership of the asset are classified as finance leases. Leases are recognised upon acceptance of the asset by the customer at an amount equal to the net investment in the lease. The sum of future minimum lease payments and initial origination fees equate to the gross investment in the lease. The difference between the gross and net investment in the lease represents unearned finance income, which is recognised as revenue in 'Interest and similar income' over the lease term at a constant periodic rate of return on the net investment in the lease.

2.20 Provisions

Provisions are recognised when the VUB Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.21 Provisions for employee benefits

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

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

	Jubilee benefits	**Retirement benefits**
Discount rate	1.7%	2.6%
Future growth of wages	n/a	2.5%
Fluctuation of employees (based on age)	8 – 45%	8 – 45%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

All gains or losses in relation to the employee benefits are recognised in 'Salaries and employee benefits'. Employee benefit reserves are disclosed in the Statement of financial position in 'Other liabilities'.

2.22 Financial guarantees

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

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

2. Summary of significant accounting policies (continued)

2.23 Legal reserve fund

In accordance with the law and statutes of the VUB Group companies, the VUB Group companies are obliged to contribute at least 10% of its annual net profit to the 'Legal reserve fund' until it reaches 20% of their share capital. Usage of the 'Legal reserve fund' is restricted by the law and the fund can be used for the coverage of the losses of VUB Group companies.

2.24 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.

2.25 Interest income

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

2.26 Fee and commission income

Fee and commission income arises on financial services provided by the VUB Group including account maintenance, cash management services, brokerage services, investment advice and financial planning, investment banking services, project finance transactions and asset management services. Fee and commission income is recognised when the corresponding service is provided.

2.27 Net trading income

Net trading income 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.

2.28 Dividend income

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

2.29 Income tax

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

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

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

2.30 Fiduciary assets

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

2. Summary of significant accounting policies (continued)

2.31 Significant accounting judgements and estimates

Judgements

In the process of applying the VUB Group's accounting policies, management has made judgements, apart from those involving estimations, that significantly affect the amounts recognised in the financial statements. The most significant judgements relate to the classification of financial instruments.

Held-to-maturity investments

The VUB Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the VUB Group evaluates its intention and ability to hold such investments to maturity. If the VUB Group fails to hold these investments to maturity other than for a specific circumstance, for example selling a higher than insignificant amount close to maturity, it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value and not at amortised cost.

Financial assets held for trading

The VUB Group classifies a financial asset as 'held for trading' if it is acquired principally for the purpose of selling it in the near term, or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit taking, or if it is a derivative.

Estimates

The preparation of the financial statements requires management to make certain estimates and assumptions, which impact the carrying amounts of the VUB Group's assets and liabilities and the disclosure of contingent items at the end of reporting period and reported revenues and expenses for the period then ended.

Estimates are used for, but not limited to: fair values of financial instruments, impairment losses on loans and advances to customers, impairment losses for off-balance sheet risks, depreciable lives and residual values of tangible and intangible assets, impairment losses on tangible and intangible assets, liabilities from employee benefits and provisions for legal claims.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments.

Impairment losses on loans and advances

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

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

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

3. Cash and cash equivalents

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

	Note	2011	2010
Cash and balances with central banks	4	90,977	179,093
Current accounts in other banks	5	7,271	8,493
Term deposits with other banks	5	-	7,542
		98,248	195,128

4. Cash and balances with central banks

	2011	2010
Balances with central banks:		
Compulsory minimum reserves	5,146	87,693
Current accounts	36	33
	5,182	87,726
Cash in hand	85,795	91,367
	90,977	179,093

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and the Czech National Bank. The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the VUB Group and the amount of issued bonds, both with a maturity of up to 2 years. The rate for the calculation of the compulsory minimum reserve is 2% and the required balance is calculated as the total of individual items multiplied by the valid rate.

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

Since January 2009, the compulsory minimal reserves account ('CMR') is maintained under the Target2 system. Target2 is a Trans-European Automated Real-Time Gross Settlement Express Transfer System, where payments with priority are realised in real-time.

5. Due from banks

	Note	2011	2010
Current accounts	3	7,271	8,493
Term deposits			
with contractual maturity less than 90 days	3	-	7,542
with contractual maturity over 90 days		3,141	5,081
Loans and advances			
with contractual maturity over 90 days		492,081	87,878
Impairment losses	10	(202)	(151)
		502,291	108,843

At 31 December 2011, the balance of 'Loans and advances' comprises of a short term reverse repo trade in the nominal amount of € 399,587 thousand concluded with Intesa Sanpaolo S.p.A, maturing in May 2012 (at 31 December 2010: nil). The repo trade is secured by state bonds and cash collateral.

6. Financial assets held for trading

	2011	2010
Treasury bills and other eligible bills with contractual maturity over 90 days	192,233	174,201
State bonds with contractual maturity over 90 days	77,619	75,772
Mutual funds	4,110	3,052
	273,962	253,025

At 31 December 2011 and 31 December 2010, no financial assets held for trading were pledged by the VUB Group to secure transactions with counterparties.

7. Derivative financial instruments

	2011 Assets	2010 Assets	2011 Liabilities	2010 Liabilities
Trading derivatives	80,255	45,179	42,424	46,834
Cash flow hedges of interest rate risk	-	-	5,668	4,451
Fair value hedges of interest rate risk	144	26	9,290	9,444
	80,399	45,205	57,382	60,729

Trading derivatives also include hedge instruments that are non-qualifying according to IAS 39, which are held for risk management purposes rather than for trading. The instruments used include cross-currency interest rate swaps. At 31 December 2011, the total positive fair value of such derivatives was € 4,346 thousand (31 December 2010: € 6,386 thousand) and the negative fair value was nil (31 December 2010: nil).

7. Derivative financial instruments (continued)

Trading derivatives – Fair values	2011 Assets	2010 Assets	2011 Liabilities	2010 Liabilities
Interest rate instruments				
Swaps	18,035	21,632	19,489	23,780
Options	4,224	1,806	4,248	1,813
	22,259	23,438	23,737	25,593
Foreign currency instruments				
Forwards and swaps	45,773	2,059	10,794	7,894
Cross currency swaps	4,346	6,386	-	-
Options	6,152	8,842	6,168	8,893
	56,271	17,287	16,962	16,787
Equity and commodity instruments				
Equity options	1,725	4,047	1,725	4,047
Commodity options	-	407	-	407
	1,725	4,454	1,725	4,454
	80,255	45,179	42,424	46,834

Trading derivatives – Notional values	2011 Assets	2010 Assets	2011 Liabilities	2010 Liabilities
Interest rate instruments				
Swaps	1,045,710	954,181	1,045,710	954,181
Options	145,649	78,991	145,649	78,991
	1,191,359	1,033,172	1,191,359	1,033,172
Foreign currency instruments				
Forwards and swaps	824,781	280,758	790,494	288,177
Cross currency swaps	69,803	71,825	65,433	65,433
Options	45,481	50,266	45,395	49,754
	940,065	402,849	901,322	403,364
Equity and commodity instruments				
Equity options	23,297	22,630	23,297	22,630
Commodity options	234	3,280	234	3,280
	23,531	25,910	23,531	25,910
	2,154,955	1,461,931	2,116,212	1,462,446

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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

Below is a schedule indicating as at 31 December 2011, the periods when the hedged cash flows are expected to occur. The cash flows of mortgage bonds represent the future undiscounted value of coupons:

	Up to 1 year	**1 to 5 years**	**Over 5 years**
2011			
Mortgage bonds – interest rate risk	4,982	12,848	1,674
2010			
Mortgage bonds – interest rate risk	5,070	22,413	3,218

The net expense on cash flow hedges reclassified from ‘Other comprehensive income’ to the ‘Net interest income’ during 2011 was € 2,455 thousand (2010: € 3,468 thousand).

Fair value hedges of interest rate risk

The VUB Group uses three interest rate swaps to hedge the interest rate risk of three fixed rate bonds from the available-for-sale ('AFS') portfolio. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of AFS portfolio bonds, both in relation to changes of interest rates.

Furthermore, the VUB Group uses one interest rate swap to hedge the interest rate risk arising from the issuance of one fixed rate mortgage bond. The changes in fair value of this interest rate swap substantially offset the changes in fair value of the mortgage bond, both in relation to changes of interest rates.

In 2011, the Group recognised a net gain of € 455 thousand (2010: net loss of € 3,465 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 300 thousand (2010: net gain of € 3,564 thousand). Both items are disclosed within ‘Net trading income’.

During 2011, interest and similar income from hedged AFS securities in the amount of € 8,038 thousand (2010: € 8,024 thousand) was compensated by interest expense from interest rate swaps hedging instruments in the amount of € 2,559 thousand (2010: € 3,807 thousand).

At 31 December 2011, interest expense from a hedged mortgage bond in the amount of € 163 thousand (31 December 2010: nil) was compensated by interest income from an interest rate swap hedging instrument in the amount of € 17 thousand (31 December 2010: nil).

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

In 2011, the Group recognised in relation to the fair value hedging instruments of the foreign branch of VUB a net loss of € 275 thousand (2010: net gain of € 48 thousand). The net gain on hedged items attributable to the hedged risks amounted to € 287 thousand (2010: net loss of € 47 thousand). Both items are disclosed within ‘Net trading income’.

In 2011, interest and similar income from hedged fixed income loans in the amount of € 463 thousand (2010: € 29 thousand) was compensated by interest expense from interest rate swaps hedging instruments in the amount of € 86 thousand (2010: € 8 thousand).

8. Available-for-sale financial assets

	Share 2011	Share 2010	2011	2010
State bonds			1,439,321	1,595,839
Bank bonds			15,666	19,345
Equity shares at cost				
RVS, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.06%	0.06%	65	65
			1,455,626	1,615,823

At 31 December 2011 and 31 December 2010, no available-for-sale financial assets were pledged by the VUB Group to secure transactions with counterparties.

9. Loans and advances to customers

31 December 2011	**Amortised cost**	**Impairment losses (note 10)**	**Carrying amount**
Sovereigns			
Municipalities	150,654	(294)	150,360
Corporate			
Large Corporates	960,423	(8,943)	951,480
Specialized lending	738,004	(31,765)	706,239
Small and medium enterprises ('SME')	691,524	(36,853)	654,671
Other Financial Institutions	270,187	(588)	269,599
Private Sector Entities	102,304	(706)	101,598
Leasing	221,804	(20,592)	201,212
Factoring	191,559	(3,091)	188,468
	3,175,805	(102,538)	3,073,267
Retail			
Small business	200,154	(15,538)	184,616
Small business – Leasing	19,376	(1,643)	17,733
Consumer Loans	962,405	(116,013)	846,392
Mortgages	2,716,118	(34,102)	2,682,016
Credit Cards	252,728	(43,861)	208,867
Overdrafts	104,731	(17,788)	86,943
Leasing	4,928	(219)	4,709
Flat Owners Associations	3,811	(63)	3,748
Other	8,267	(372)	7,895
	4,272,518	(229,599)	4,042,919
	7,598,977	(332,431)	7,266,546

The segmentation of Loans and advances to customers in both 2011 and 2010 is based on the internal definition of segments which is continuously being improved to reflect the Group's needs. The revised segment definition caused transfers among the individual sectors.

9. Loans and advances to customers (continued)

Restated 31 December 2010	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	101,730	(205)	101,525
Municipalities – Leasing	65	-	65
	101,795	(205)	101,590
Corporate			
Large Corporates	847,014	(17,011)	830,003
Specialized lending	651,086	(16,443)	634,643
Small and medium enterprises ('SME')	636,480	(39,651)	596,829
Other Financial Institutions	295,550	(203)	295,347
Private Sector Entities	3,253	(39)	3,214
Leasing	177,715	(22,324)	155,391
Factoring	85,581	(3,032)	82,549
	2,696,679	(98,703)	2,597,976
Retail			
Small business	188,861	(14,053)	174,808
Small business – Leasing	20,342	(2,035)	18,307
Consumer Loans	882,232	(121,528)	760,704
Mortgages	2,476,074	(26,690)	2,449,384
Credit Cards	260,141	(39,763)	220,378
Overdrafts	112,084	(13,736)	98,348
Leasing	5,168	(282)	4,886
Flat Owners Associations	3,534	(42)	3,492
Other	7,963	(161)	7,802
	3,956,399	(218,290)	3,738,109
	6,754,873	(317,198)	6,437,675

At 31 December 2011, the 20 largest corporate customers represented a total balance of € 808,010 thousand (2010: € 660,240 thousand) or 10.63% (2010: 9.8%) of the gross loan portfolio.

Maturities of gross finance lease receivables are as follows:

	2011	2010
Up to 1 year	77,554	72,136
1 to 5 years	155,255	125,221
Over 5 years	53,426	39,175
	286,235	236,532
Unearned future finance income on finance leases	(40,127)	(33,241)
Impairment losses	(22,454)	(24,642)
	223,654	178,649

9. Loans and advances to customers (continued)

Maturities of net finance lease receivables are as follows:

	2011	2010
Up to 1 year	65,481	60,944
1 to 5 years	133,002	106,932
Over 5 years	47,625	35,415
	246,108	203,291
Impairment losses	(22,454)	(24,642)
	223,654	178,649

10. Impairment losses

	Note	1 Jan 2011	Creation/ (Reversal) (note 31)	Loans written-off/sold (note 31)	FX losses/ (gains)	Other *	31 Dec 2011
Due from banks	5	151	51	-	-	-	202
Non-current assets held for sale	15	1,272	-	-	-	(1,272)	-
Loans and advances to customers	9	317,198	67,721	(46,050)	194	(6,632)	332,431
Held-to-maturity investments	11	249	92	-	-	-	341
Property and equipment	15	770	(14)	-	-	-	756
Other assets	16	16,625	482	-	19	(1,052)	16,074
		336,265	68,332	(46,050)	213	(8,956)	349,804

Other represents the following movements:
- Release of impairment loss to sold buildings in the amount of € 1,272 thousand (see also note 15)
- Interest portion (unwinding of interest) in the amount of € 6,632 thousand
- Release of impairment loss to other receivables written off in the amount of € 1,052 thousand

	Note	1 Jan 2010	Creation/ (Reversal) (note 31)	Loans written-off/sold (note 31)	FX losses/ (gains)	Other*	31 Dec 2010
Due from banks	5	151	-	-	-	-	151
Non-current assets held for sale	15	-	1,272	-	-	-	1,272
Loans and advances to customers	9	265,777	65,069	(12,718)	413	(1,343)	317,198
Held-to-maturity investments	11	377	(128)	-	-	-	249
Property and equipment	15	305	461	-	-	4	770
Other assets	16	10,752	5,411	-	49	413	16,625
		277,362	72,085	(12,718)	462	(926)	336,265

* Interest portion (unwinding of interest)

11. Held-to-maturity investments

	2011	2010
State restructuring bonds	-	617,613
State bonds	1,125,948	1,123,031
Bank bonds and other bonds issued by financial sector	10,052	9,974
Corporate notes and bonds with contractual maturity over 90 days	1,881	37,894
	1,137,881	1,788,512
Impairment losses (note 10)	(341)	(249)
	1,137,540	1,788,263

At 31 December 2011, state bonds in the total nominal amount of € 230,058 thousand were pledged by the Group (31 December 2010: € 106,460 thousand) to secure transactions with counterparties.

The last two 10-year state restructuring bonds held in the held-to-maturity portfolio at 31 December 2010, with nominal values of € 366,594 thousand and € 248,855 thousand were fully redeemed on 30 January 2011 and 29 March 2011, respectively.

12. Associates and jointly controlled entities

	Share %	Cost	Revaluation	Carrying amount
At 31 December 2011				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	39	42
VÚB Generali DSS, a.s.	50.0	16,597	(9,562)	7,035
		16,600	(9,523)	7,077
At 31 December 2010				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	31	34
VÚB Generali DSS, a.s.	50.0	16,597	(10,412)	6,185
		16,600	(10,381)	6,219

The share of profit and revaluation reserves of associates and jointly controlled entities reported in the Statement of comprehensive income is as follows:

	2011	2010
Revaluation at 1 January	(10,381)	(10,980)
Share of profit	850	596
Share of revaluation reserves	8	3
Revaluation at 31 December	(9,523)	(10,381)

12. Associates and jointly controlled entities (continued)

The aggregate amounts of the VUB Group's interest in VÚB Generali DSS, a.s. are as follows:

	2011	**2010**
Assets	7,266	6,374
Liabilities	231	189
Equity	7,035	6,185
Net profit for the year	842	591
Change of revaluation reserves for the year	(31)	(39)

The aggregate amounts of the VUB Group's interest in Slovak Banking Credit Bureau, s.r.o. are as follows:

	2011	**2010**
Assets	200	163
Liabilities	158	129
Equity	42	34
Net profit for the year	8	5

13. Intangible assets

	Software	**Other intangible assets**	**Assets in progress**	**Total**
Cost				
At 1 January 2011	150,167	52,439	5,187	207,793
Additions	8	-	14,439	14,447
Disposals	(3,671)	(22)	(6)	(3,699)
Transfers	6,536	648	(7,184)	-
FX differences	(12)	(1)	-	(13)
At 31 December 2011	153,028	53,064	12,436	218,528
Accumulated amortisation				
At 1 January 2011	(123,971)	(42,480)	-	(166,451)
Amortisation for the year	(8,908)	(5,389)	-	(14,297)
Disposals	3,671	22	-	3,693
FX differences	12	1	-	13
At 31 December 2011	(129,196)	(47,846)	-	(177,042)
Carrying amount				
At 1 January 2011	26,196	9,959	5,187	41,342
At 31 December 2011	23,832	5,218	12,436	41,486

Assets in progress include mainly the costs for development of new software applications that have not yet been put to use.

13. Intangible assets (continued)

	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2010	159,778	55,258	3,697	218,733
Additions	-	-	11,863	11,863
Disposals	(19,392)	(3,386)	(48)	(22,826)
Transfers	9,759	566	(10,325)	-
FX differences	22	1	-	23
At 31 December 2010	150,167	52,439	5,187	207,793
Accumulated amortisation				
At 1 January 2010	(134,847)	(36,864)	-	(171,711)
Amortisation for the year	(8,494)	(9,001)	-	(17,495)
Disposals	19,392	3,386	-	22,778
FX differences	(22)	(1)	-	(23)
At 31 December 2010	(123,971)	(42,480)	-	(166,451)
Carrying amount				
At 1 January 2010	24,931	18,394	3,697	47,022
At 31 December 2010	26,196	9,959	5,187	41,342

Gross book value of fully depreciated assets that are still used by the Group amounts to € 81,256 thousand (€ 76,919 thousand as at 31 December 2010).

14. Goodwill

	2011	2010
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a.s.	18,871	18,871
	29,305	29,305

Goodwill related to VÚB Leasing, a. s. includes both goodwill related to the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million) and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million). Goodwill related to Consumer Finance Holding, a.s. ('CFH') arose in 2005 on the acquisition of CFH, the VUB Group's sales finance subsidiary.

Goodwill is tested for impairment semi-annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Management considers VÚB Leasing, a. s. and CFH to be separate cash generating units for the purposes of impairment testing.

The basis on which the recoverable amount of VÚB Leasing, a. s. and CFH has been determined is the value in use calculation, using cash flow projections based on the most recent financial budgets approved by senior management covering a 5-year period. The discount rates applied to cash flow projections beyond the five year period are adjusted by the projected growth rate.

14. Goodwill (continued)

The following rates are used by the Group:

	VÚB Leasing		CFH	
	2011	**2010**	**2011**	**2010**
Discount rate	11.99%	12.93%	14.44%	16.38%
Projected growth rate	3.00%	5.00%	0.50%	2.00%

In the case of VÚB Leasing a. s., a change in the discount rate of 1% would cause the carrying amount to exceed the recoverable amount by approximately € 1.9 million at 31 December 2011 (31 December 2010: no impact). A decrease in the projected growth rate of 1% would cause the carrying amount to exceed the recoverable amount by approximately € 1.4 million at 31 December 2011 (31 December 2010: no impact).

The recoverable amount of CFH is not sensitive to changes of key assumptions in both 2011 and 2010.

The calculation of value in use for both VÚB Leasing a. s. and CFH considers the following key assumptions:

- interest margins,
- discount rates,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local Gross Domestic Product (GDP),
- local inflation rates.

Interest margins

Key assumptions used in the cash flow projections are the development of margins and volumes by product line.

Discount rates

Discount rates are determined based on the Capital Asset Pricing Model (‘CAPM’). The parameters used reflect market interest rates, industry and size of the subsidiary. The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

VUB Leasing

VUB Leasing will focus on strengthening its market position through the cross-selling potential of the Bank’s SME and large corporate clients. Moreover, the company will increase cooperation with intermediaries.

CFH

According to the product curve, maturing products, market development, credit cards and instalment sales through catalogue and leaflets are forecasted to have a slightly decreasing volume and decreasing margins assuming that the market share of CFH is kept constant.

More recent product lines, such as instalment sales at points of sale and personal loans with or without collateral, are forecasted to have an increasing volume and slightly decreasing margins assuming that the market share of CFH is increasing.

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

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2011	198,847	94,275	41,006	3,866	337,994
Additions	-	-	-	17,328	17,328
Disposals	(934)	(18,710)	(4,931)	(270)	(24,845)
Transfers	3,267	7,208	6,676	(17,152)	(1)
FX differences	(2)	(4)	(3)	-	(9)
At 31 December 2011	201,178	82,769	42,748	3,772	330,467
Accumulated depreciation					
At 1 January 2011	(80,431)	(76,723)	(31,149)	-	(188,303)
Depreciation for the year	(6,822)	(7,836)	(3,656)	-	(18,314)
Disposals	805	18,569	4,255	-	23,629
FX differences	3	4	2	-	9
At 31 December 2011	(86,445)	(65,986)	(30,548)	-	(182,979)
Impairment losses (note 10)					
At 1 January 2011	(504)	-	(266)	-	(770)
Additions	-	-	14	-	14
At 31 December 2011	(504)	-	(252)	-	(756)
Carrying amount					
At 1 January 2011	117,912	17,552	9,591	3,866	148,921
At 31 December 2011	114,229	16,783	11,948	3,772	146,732

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

	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2010	207,287	97,028	40,507	3,783	348,605
Additions	-	-	-	14,074	14,074
Disposals	(10,637)	(10,434)	(3,645)	-	(24,716)
Transfers	2,192	7,660	4,139	(13,991)	-
FX differences	5	21	5	-	31
At 31 December 2010	198,847	94,275	41,006	3,866	337,994
Accumulated depreciation					
At 1 January 2010	(76,614)	(79,155)	(28,427)	-	(184,196)
Depreciation for the year	(9,092)	(7,864)	(4,029)	-	(20,985)
Disposals	5,280	10,316	1,311	-	16,907
FX differences	(5)	(20)	(4)	-	(29)
At 31 December 2010	(80,431)	(76,723)	(31,149)	-	(188,303)
Impairment losses (note 10)					
At 1 January 2010	(43)	-	(262)	-	(305)
Additions	(461)	-	(4)	-	(465)
At 31 December 2010	(504)	-	(266)	-	(770)
Carrying amount					
At 1 January 2010	130,630	17,873	11,818	3,783	164,104
At 31 December 2010	117,912	17,552	9,591	3,866	148,921

Gross book value of fully depreciated assets that are still used by the Group amounts to € 69,367 thousand (€ 68,838 thousand as at 31 December 2010).

The Bank's insurance covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism, and other damages).

At 31 December 2011 and 31 December 2010, the VUB Group held in its portfolio of non-current assets held for sale buildings as follows:

	2011	2010
Cost	6	7,768
Accumulated depreciation	(3)	(3,122)
Impairment (note 10)	-	(1,272)
	3	3,374

16. Other assets

	2011	2010
Operating receivables and advances	10,102	15,296
Inventories (incl. repossessed leased assets)	8,249	10,873
Receivables from termination of leasing	7,505	7,233
Prepayments and accrued income	4,857	4,803
Other tax receivables	2,626	4,490
Settlement of operations with financial instruments	1,517	185
Other	318	521
	35,174	43,401
Impairment losses (note 10)	(16,074)	(16,625)
	19,100	26,776

Impairment losses for 'Other assets' relates mostly to inventories and receivables from the termination of leasing.

17. Due to central and other banks

	2011	2010
Due to central banks		
Current accounts	68,111	53,019
Loans received	115,947	-
	184,058	53,019
Due to other banks		
Current accounts	9,600	8,374
Term deposits	110,561	330,642
Loans received	384,250	270,488
	504,411	609,504
	688,469	662,523

Due to central banks include loan received from the NBS with maturity less than one month.

18. Due to customers

	2011	2010
Current accounts	2,909,565	3,057,737
Term deposits	3,750,924	3,328,893
Savings accounts	247,784	285,567
Government and municipal deposits	327,652	434,586
Loans received	159,642	75,180
Promissory notes	56,767	58,136
Other deposits	35,074	25,268
	7,487,408	7,265,367

19. Debt securities in issue

	2011	2010
Bonds	41,986	59,663
Mortgage bonds	1,410,797	1,383,033
Mortgage bonds subject to cash flow hedges	180,232	181,557
Mortgage bonds subject to fair value hedge	27,278	-
	1,618,307	1,564,590
Revaluation of fair value hedged mortgage bonds	194	-
	1,660,487	1,624,253

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

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2011	Nominal value in CCY per piece	Issue date	Maturity date	2011	2010
Mortgage bonds VÚB, a.s. VII.	5.10	EUR	10,000	3,319	15.4.2003	15.4.2013	34,398	34,398
Mortgage bonds VÚB, a.s. VIII.	5.10	EUR	1,000	33,194	29.5.2003	29.5.2013	34,191	34,191
Mortgage bonds VÚB, a.s. XVII.	1.58	EUR	1,678	33,194	28.11.2005	28.11.2015	55,780	55,757
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a.s. XXI.	1.10	EUR	500	33,194	10.3.2006	10.3.2011	-	16,608
Mortgage bonds VÚB, a.s. XXII.	1.18	EUR	1,200	50,000	29.6.2006	29.6.2011	-	60,004
Mortgage bonds VÚB, a.s. XXIII.	1.18	EUR	60	1,000,000	26.10.2006	26.10.2011	-	60,128
Mortgage bonds VÚB, a.s. XXIV.	1.35	EUR	1,500	33,194	24.11.2006	24.11.2011	-	49,860
Mortgage bonds VÚB, a.s. XXV.	1.19	EUR	30	1,000,000	5.12.2006	5.12.2011	-	30,026
Mortgage bonds VÚB, a.s. XXVIII.	1.95	CZK	1,000	1,000,000	20.6.2007	20.6.2012	38,905	40,240
Mortgage bonds VÚB, a.s. XXIX.	1.80	EUR	500	33,194	16.10.2007	16.10.2012	16,657	16,637
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	33,346	33,327
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	19,638	19,624
Mortgage bonds VÚB, a.s. 32.	2.95	CZK	800	1,000,000	17.12.2007	17.12.2017	33,412	34,791
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	21,257	21,167
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,846	18,796
Mortgage bonds VÚB, a.s. 37.	1.47	EUR	40	1,000,000	30.4.2008	30.4.2011	-	40,103
Mortgage bonds VÚB, a.s. 39.	2.10	EUR	60	1,000,000	26.6.2008	26.6.2015	60,017	60,012
Mortgage bonds VÚB, a.s. 40.	2.21	EUR	70	1,000,000	28.8.2008	28.8.2015	70,146	70,117
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	26,651	25,807
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	400	50,000	28.4.2009	28.4.2012	20,540	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,484	15,387
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	300	50,000	11.2.2009	11.2.2012	15,633	15,633
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	150	1,000,000	19.5.2009	19.5.2016	154,264	154,264
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	19,961	1,000	11.5.2009	11.5.2013	20,472	20,511
Mortgage bonds VÚB, a.s. 49.	3.92	EUR	100	1,000,000	28.7.2009	28.7.2014	101,666	101,666
Mortgage bonds VÚB, a.s. 50.	3.40	EUR	8,391	1,000	2.11.2009	2.11.2013	8,438	8,454

(Table continues on the next page)

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2011	Nominal value in CCY per piece	Issue date	Maturity date	2011	2010
Mortgage bonds VÚB, a.s. 51.	2.14	EUR	100	1,000,000	8.4.2010	8.4.2014	100,492	100,355
Mortgage bonds VÚB, a.s. 52.	2.16	EUR	161	50,000	15.3.2010	15.3.2014	8,101	8,102
Mortgage bonds VÚB, a.s. 53.	2.28	EUR	100	1,000,000	8.4.2010	8.4.2017	100,525	100,387
Mortgage bonds VÚB, a.s. 54.	3.00	EUR	15,000	1,000	1.7.2010	1.7.2014	15,225	15,225
Mortgage bonds VÚB, a.s. 55.	2.85	EUR	14,000	1,000	1.10.2010	1.10.2015	14,100	14,100
Mortgage bonds VÚB, a.s. 56.	3.07	EUR	70	1,000,000	30.9.2010	30.9.2017	70,543	70,434
Mortgage bonds VÚB, a.s. 57.	3.06	EUR	100	1,000,000	30.9.2010	30.9.2018	100,772	100,620
Mortgage bonds VÚB, a.s. 58.	3.50	EUR	80	1,000,000	10.12.2010	10.12.2019	80,164	80,143
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	25,000	1,000	1.3.2011	1.3.2015	25,625	-
Mortgage bonds VÚB, a.s. 60.	2.05	CZK	4,345	100,000	20.5.2011	20.5.2014	16,856	-
Mortgage bonds VÚB, a.s. 61.	3.10	EUR	467	10,000	7.6.2011	7.6.2015	4,666	-
Mortgage bonds VÚB, a.s. 62.	3.82	EUR	100	1,000,000	28.7.2011	28.7.2018	101,624	-
Mortgage bonds VÚB, a.s. 63.	3.75	EUR	35,000	1,000	16.9.2011	16.3.2016	35,383	-
Mortgage bonds VÚB, a.s. 64.	3.25	CZK	7,000	100,000	26.9.2011	26.9.2016	27,278	-
Mortgage bonds VÚB, a.s. 65.	2.19	EUR	60	1,000,000	26.10.2011	26.10.2012	59,362	-
Mortgage bonds VÚB, a.s. 66.	3.40	EUR	517	50,000	28.11.2011	28.11.2014	25,603	-
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,071	-
							1,618,307	1,564,590

20. Current and deferred income taxes

	2011	2010
Current income tax assets	2,791	8,931

	2011	2010
Deferred income tax assets	77,463	66,154

Deferred income taxes are calculated on all temporary differences using a tax rate of 19% (31 December 2010: 19%) as follows:

	2011	Profit/ (loss) (note 32)	Equity	2010
Due from banks	38	9	-	29
Derivative financial instruments designated as cash flow hedges	1,077	-	231	846
Available-for-sale financial assets	17,029	-	10,560	6,469
Loans and advances to customers	60,218	2,036	-	58,182
Held-to-maturity investments	65	18	-	47
Intangible assets identified on acquisition	(501)	809	-	(1,310)
Property and equipment	(3,303)	(729)	-	(2,574)
Other liabilities	4,367	(146)	-	4,513
Other	(1,527)	(1,479)	-	(48)
Deferred income tax assets	77,463	518	10,791	66,154

21. Provisions

	2011	2010
Litigations	27,328	24,256

The movement in provisions was as follows:

	1 Jan 2011	Creation/ (Reversal)	FX diff	Other	31 Dec 2011
Litigations (note 24, note 30)	24,256	3,134	(14)	(48)	27,328

	1 Jan 2010	Creation/ (Reversal)	FX diff	Other	31 Dec 2010
Litigations (note 24, note 30)	25,111	(826)	(11)	(18)	24,256

22. Other liabilities

	2011	2010
Factoring	24,796	9,115
Various creditors	24,218	22,970
Settlement with employees	21,539	20,741
Financial guarantees and commitments	10,800	13,674
Accruals and deferred income	6,253	4,006
VAT payables and other tax payables	2,547	2,704
Severance and Jubilee benefits	1,942	1,392
Settlement with shareholders	974	1,178
Retention program	904	1,016
Settlement with securities	99	1
Other	894	1,266
	94,966	78,063

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

	Note	1 Jan 2011	Creation/ (Reversal)	FX diff	31 Dec 2011
Financial guarantees and commitments	31	13,674	(2,860)	(14)	10,800
Severance and Jubilee benefits	29	1,392	550	-	1,942
Retention program	29	1,016	(112)	-	904
		16,082	(2,422)	(14)	13,646

	Note	1 Jan 2010	Creation/ (Reversal)	FX diff	31 Dec 2010
Financial guarantees and commitments	31	9,595	4,079	-	13,674
Severance and Jubilee benefits	29	1,286	106	-	1,392
Retention program	29	1,026	(10)	-	1,016
		11,907	4,175	-	16,082

23. Share capital

	2011	2010
Authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Net profit for the year attributable to shareholders	176,903	150,323
Divided by 12,976,478 ordinary shares of € 33.2 each		
Basic and diluted earnings per € 33.2 share in €	13.63	11.58

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

23. Share capital (continued)

The structure of shareholders is as follows:

	2011	2010
Intesa Holding International S.A.	96.76%	96.76%
Domestic shareholders	2.91%	2.97%
Foreign shareholders	0.33%	0.27%
	100.00%	100.00%

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities. No changes have yet been made in the objectives, policies and processes from the previous years, however, it is under the constant scrutiny of the Board.

The VUB Group's regulatory capital position at 31 December 2011 and 31 December 2010 was as follows:

	2011	2010
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,368	13,368
Retained earnings without net profit for the year	476,281	387,357
Legal reserve fund	95,261	93,090
Less goodwill and software (including software in Assets in progress)	(65,573)	(60,688)
Less negative revaluation of available-for-sale financial assets *	(85,726)	-
Less expected loss	(57,073)	-
	807,357	863,946
Tier 2 capital		
Positive revaluation of available-for-sale financial assets *	759	-
Regulatory adjustment		
Associates and jointly controlled entities	(7,035)	(6,185)
Expected loss (incl. equity instruments)	(4,286)	-
	(11,321)	(6,185)
Total regulatory capital	796,795	857,761

* Calculated based on NBS regulatory requirement.

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

23. Share capital (continued)

	2011	2010
Tier 1 capital	807,357	863,946
Tier 2 capital	759	-
Regulatory adjustment	(11,321)	(6,185)
Total regulatory capital	796,795	857,761
Total Risk Weighted Assets	7,508,276	6,854,299
Tier 1 capital ratio	10.75%	12.60%
Total capital ratio	10.61%	12.51%

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

The VUB Group must maintain a capital adequacy ratio of at least 8% according to the act on banks. The capital adequacy ratio is the ratio between the Group's capital and the risk-weighted assets. Risk weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The VUB Group complied with the Act on Banks requirement for the capital adequacy ratio as at 31 December 2011 and 31 December 2010.

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

24. Financial commitments and contingencies

	2011	2010
Issued guarantees	549,239	594,173
Commitments and undrawn credit facilities	2,142,115	1,994,255
	2,691,354	2,588,428

(a) Issued guarantees

Commitments from guarantees represent irrevocable assurances that the VUB Group will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the VUB Group books liabilities against these instruments on a similar basis as is applicable to loans.

(b) Commitments and undrawn credit facilities

The primary purpose of commitments to extend credit is to ensure that funds are available to the customer as required. Commitments to extend credit issued by the VUB Group represent undrawn portions of commitments and approved overdraft loans.

24. Financial commitments and contingencies (continued)

(c) Lease obligations

In the normal course of business, the VUB Group enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 December 2011 and 31 December 2010 was as follows:

	2011	2010
Up to 1 year	577	1,615
1 to 5 years	282	1,313
Over 5 years	-	-
	859	2,928

(d) Operating lease – the Group as a lessor

The VUB Group has entered into a number of non-cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 31 December 2011 and 31 December 2010 are as follows:

	2011	2010
Up to 1 year	598	2,443
1 to 5 years	1,683	3,025
Over 5 years	-	-
	2,281	5,468

(e) Legal

In the normal course of business the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2011. Pursuant to this review, management has recorded total provisions of € 27,328 thousand (31 December 2010: € 24,256 thousand) in respect of such legal proceedings (see also note 21). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 21,078 thousand, as at 31 December 2011 (31 December 2010: € 19,039 thousand). This amount represents existing legal proceedings against the VUB Group that in the opinion of the Legal Department of the VUB will most probably not result in any payments due by the VUB Group.

The particular requirements pursuant to IAS 37.85 are not disclosed in accordance with IAS 37.92 in order not to compromise the Group's position in the ongoing legal proceedings and disputes.

25. Net interest income

	2011	2010
Interest and similar income		
Due from banks	16,397	8,822
Loans and advances to customers	413,022	362,670
Bonds, treasury bills and other securities:		
Financial assets held for trading	8,969	9,386
Available-for-sale financial assets	53,348	44,830
Held-to-maturity investments	49,545	59,369
	541,281	485,077
Interest expense and similar charges		
Due to banks	(9,004)	(9,272)
Due to customers	(76,213)	(62,005)
Debt securities in issue	(53,186)	(42,998)
	(138,403)	(114,275)
	402,878	370,802

Interest income on individually impaired loans and advances to customers for 2011 amounted to € 9,964 thousand (2010: € 15,024 thousand).

26. Net fee and commission income

	2011	2010
Fee and commission income		
Received from banks	6,395	5,718
Received from customers:		
Current accounts	46,430	44,046
Mutual funds	7,057	6,951
Term deposits	1,003	638
Insurance mediation	11,429	9,079
Loans and guarantees	39,285	40,922
Overdrafts	1,921	2,438
Securities	1,757	1,079
Transactions and payments	23,702	30,179
Other	2,427	2,294
	141,406	143,344
Fee and commission expense		
Paid to banks	(13,803)	(19,966)
Paid to mediators:		
Credit cards	(7,332)	(9,932)
Securities	(629)	(678)
Services	(8,810)	(2,558)
Other	(2,405)	(2,468)
	(32,979)	(35,602)
	108,427	107,742

27. Net trading income

	2011	2010
Foreign currency derivatives and transactions	766	(4,341)
Customer FX margins	4,839	5,584
Cross currency swaps	(1,908)	4,352
Equity derivatives	80	106
Interest rate derivatives *	(1,086)	(3,755)
Securities:		
Financial assets held for trading	(1,307)	792
Available-for-sale financial assets *	(248)	3,565
Debt securities in issue *	(194)	-
	942	6,303

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

At 31 December 2011, the amount still to be recognised in income resulting from Day 1 profit amounted to € 134 thousand (31 December 2010: € 257 thousand), thereof € 124 thousand is to be recognized within one year (31 December 2010: € 241 thousand) and the remaining € 10 thousand in the period 1 to 5 years (31 December 2010: € 16 thousand).

28. Other operating income

	2011	2010
Compensation settlement from Generali Slovensko poisťovňa, a.s. *	4,100	-
Income from leasing	3,071	2,618
Rent	1,133	1,425
Other services	366	385
Net profit/(loss) from sale of fixed assets	277	141
Sales of consumer goods	191	158
Other	4,508	3,133
	13,646	7,860

* Represents the settlement for new clients' acquisition done by the VUB Bank after the incorporation of VUB Generali DSS, a.s.

29. Salaries and employee benefits

	2011	2010
Remuneration	(75,881)	(70,989)
Social security costs	(26,193)	(25,218)
Social fund	(1,332)	(892)
Retention program (note 22)	112	10
Severance and Jubilee benefits (note 22)	(550)	(106)
	(103,844)	(97,195)

At 31 December 2011, the total number of employees of the VUB Group was 4,062 (31 December 2010: 3,970).

29. Salaries and employee benefits (continued)

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

30. Other operating expenses

	2011	2010
Property related expenses	(14,815)	(13,889)
IT systems maintenance	(13,475)	(12,622)
Post and telecom	(12,344)	(12,787)
Advertising and marketing	(11,446)	(10,179)
Contribution to the Deposit Protection Fund	(8,562)	(8,437)
VAT and other taxes	(7,543)	(6,844)
Equipment related expenses	(6,668)	(7,366)
Security	(3,708)	(3,621)
Stationery	(3,564)	(3,368)
Professional services	(3,209)	(3,603)
Provisions for litigations (note 21)	(3,134)	826
Insurance	(1,692)	(773)
Transport	(919)	(815)
Audit *	(868)	(832)
Travelling	(853)	(923)
Training	(778)	(757)
Litigations paid	(617)	(1,126)
Other damages	(215)	(1,842)
Sale of repossessed leased assets	-	(893)
Other operating expenses	(5,404)	(2,145)
	(99,814)	(91,996)

* As at 31 December 2011 the audit expense consists of fees for the statutory audit in the amount of € 347 thousand (31 December 2010: € 333 thousand), group reporting in the amount of € 347 thousand (31 December 2010: € 333 thousand) and other reporting in the amount of € 174 thousand (31 December 2010: € 166 thousand).

31. Impairment losses on financial assets

	2011	2010
Net creation of impairment losses (note 10)	(68,332)	(72,085)
Net reversal/(creation) of liabilities – financial guarantees and commitments (note 22)	2,860	(4,079)
	(65,472)	(76,164)
Nominal value of loans written-off	(33,054)	(13,554)
Nominal value of loans sold	(27,661)	(5,040)
Proceeds from loans written-off	5,787	3,754
Proceeds from loans sold	6,415	1,791
	(48,513)	(13,049)
Release of impairment losses to loans written-off/sold (note 10)		
Loans written-off	22,101	8,916
Loans sold	23,949	3,802
	46,050	12,718
	(67,935)	(76,495)

32. Income tax expense

	2011	2010
Current income tax	(46,154)	(48,787)
Deferred income tax (note 20)	518	9,973
	(45,636)	(38,814)

The movement in the Statement of comprehensive income in deferred taxes is as follows:

	2011	2010
Due from banks	9	1
Loans and advances to customers	2,036	7,496
Held-to-maturity investments	18	(24)
Property and equipment	(729)	193
Other liabilities and provisions	(146)	835
Intangible assets identified on acquisition	809	1,489
Other	(1,479)	(17)
	518	9,973

The effective tax rate differs from the statutory tax rate in 2011 and in 2010.

32. Income tax expense (continued)

Reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

	2011	2010
Profit before tax	222,539	189,137
Applicable tax rate	19%	19%
Theoretical tax charge	(42,282)	(35,936)
Tax non-deductible items	(3,426)	(3,070)
Adjustments for current tax of prior periods	72	192
Tax expense	(45,636)	(38,814)
Effective tax rate	20.51%	20.52%

33. Components of other comprehensive income

	2011	2010
Exchange differences on translating foreign operations	(38)	485
Available-for-sale financial assets:		
Revaluation losses arising during the year	(55,572)	(41,498)
Cash flow hedges:		
Revaluation losses arising during the year	(1,242)	(1,774)
Total other comprehensive income	(56,852)	(42,787)
Income tax relating to components of other comprehensive income	10,796	8,222
Other comprehensive income for the year	(46,056)	(34,565)

34. Income tax effects relating to comprehensive income

	2011			2010		
	Before tax amount	Tax benefit	Net of tax amount	Before tax amount	Tax benefit	Net of tax amount
Exchange differences on translating foreign operations	(38)	-	(38)	485	-	485
Available-for-sale financial assets	(55,572)	10,560	(45,012)	(41,498)	7,885	(33,613)
Net movement on cash flow hedges	(1,242)	236	(1,006)	(1,774)	337	(1,437)
	(56,852)	10,796	(46,056)	(42,787)	8,222	(34,565)

35. Estimated fair value of financial assets and liabilities

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

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

(a) Cash and balances with central banks

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

(b) Due from banks

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

(c) Loans and advances to customers

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

(d) Held-to-maturity investments

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

(e) Due to banks and customers

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

(f) Debt securities in issue

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

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

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

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

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

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

31 December 2011	Note	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances with central banks	4	-	-	90,977	-	-	90,977	90,977
Due from banks	5	-	-	502,291	-	-	502,291	503,177
Financial assets held for trading	6	273,962	-	-	-	-	273,962	273,962
Derivative financial instruments	7	80,399	-	-	-	-	80,399	80,399
Available-for-sale financial assets	8	-	-	-	1,455,626	-	1,455,626	1,455,626
Loans and advances to customers	9	-	-	7,266,546	-	-	7,266,546	7,471,031
Held-to-maturity investments	11	-	1,137,540	-	-	-	1,137,540	1,116,000
		354,361	1,137,540	7,859,814	1,455,626	-	10,807,341	10,991,172
Due to central and other banks	17	-	-	-	-	(688,469)	(688,469)	(688,469)
Derivative financial instruments	7	(57,382)	-	-	-	-	(57,382)	(57,382)
Due to customers	18	-	-	-	-	(7,487,408)	(7,487,408)	(7,305,140)
Debt securities in issue	19	-	-	-	-	(1,660,487)	(1,660,487)	(1,498,658)
		(57,382)	-	-	-	(9,836,364)	(9,893,746)	(9,549,649)

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

31 December 2010	Note	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances with central banks	4	-	-	179,093	-	-	179,093	179,093
Due from banks	5	-	-	108,843	-	-	108,843	108,843
Financial assets held for trading	6	253,025	-	-	-	-	253,025	253,025
Derivative financial instruments	7	45,205	-	-	-	-	45,205	45,205
Available-for-sale financial assets	8	-	-	-	1,615,823	-	1,615,823	1,615,823
Loans and advances to customers	9	-	-	6,437,675	-	-	6,437,675	6,899,879
Held-to-maturity investments	11	-	1,788,263	-	-	-	1,788,263	1,819,302
		298,230	1,788,263	6,725,611	1,615,823	-	10,427,927	10,921,170
Due to central and other banks	17	-	-	-	-	(662,523)	(662,523)	(662,523)
Derivative financial instruments	7	(60,729)	-	-	-	-	(60,729)	(60,729)
Due to customers	18	-	-	-	-	(7,265,367)	(7,265,367)	(6,887,012)
Debt securities in issue	19	-	-	-	-	(1,624,253)	(1,624,253)	(1,550,718)
		(60,729)	-	-	-	(9,552,143)	(9,612,872)	(9,160,982)

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

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

		2011				2010			
	Note	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Financial assets held for trading	6								
Treasury bills and other eligible bills		23,098	169,135	-	192,233	-	174,201	-	174,201
State bonds		47,279	30,340	-	77,619	75,772	-	-	75,772
Mutual funds		4,110	-	-	4,110	-	3,052	-	3,052
		74,487	199,475	-	273,962	75,772	177,253	-	253,025
Derivative financial instruments	7								
Interest rate instruments		-	22,403	-	22,403	-	23,464	-	23,464
Foreign currency instruments		-	56,271	-	56,271	-	17,287	-	17,287
Equity and commodity instruments		-	1,725	-	1,725	-	4,454	-	4,454
		-	80,399	-	80,399	-	45,205	-	45,205
Available-for-sale financial assets	8								
State bonds		256,449	1,182,872	-	1,439,321	272,747	1,323,092	-	1,595,839
Bank bonds		-	15,666	-	15,666	-	19,345	-	19,345
Equity shares		-	639	-	639	-	639	-	639
		256,449	1,199,177	-	1,455,626	272,747	1,343,076	-	1,615,823
Financial liabilities									
Derivative financial instruments	7								
Interest rate instruments		-	38,695	-	38,695	-	39,488	-	39,488
Foreign currency instruments		-	16,962	-	16,962	-	16,787	-	16,787
Equity and commodity instruments		-	1,725	-	1,725	-	4,454	-	4,454
		-	57,382	-	57,382	-	60,729	-	60,729

There were no significant transfers of financial instruments among the levels during 2011 and 2010.

36. Financial risk management

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

(a) credit risk,

(b) market risk,

(c) liquidity risk,

(d) operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Management Board is the statutory body governing the executive management of the Bank, and has absolute authority over all matters concerning risk. The Management Board has primary responsibility for the creation and dissolution of risk related governance bodies. The primary governance bodies overseeing risk issues are:

- Asset/Liability Committee ('ALCO'),
- Credit Risk Committee ('CRC'),
- Operational Risk Committee ('ORC').

The Management Board delegates its risk authority to these governance bodies in the form of statutes, which identify members of the governance bodies, competencies and responsibilities of the members. The competency of each governance body is established in relevant Charters.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Group's Internal Audit Department is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures.

(a) Credit risk

The credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and banks as well as investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). For risk management purposes, the credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Credit Risk Charter establishes the guidelines for measurement, control and management of credit risk by defining the legal framework, main responsibilities, policies and methodologies that support the credit risk management process of VUB Group.

More specifically, the Credit Risk Charter defines both the general and specific (retail, corporate) credit risk requirements for applied methodologies and procedures, and includes, as separate sections, the policies governing the key aspects of the Group's credit risk management process:

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

36. Financial risk management (continued)

Management of credit risk

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

- The development of credit risk strategies, policies, processes and procedures covering rules for credit assessment, collateral requirements, risk grading and reporting.
- Setting limits for the concentration of exposure to counterparties, related parties, countries and total assets and monitoring compliance with those limits.
- Establishment of the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are set in the Credit Risk Charter.
- Credit risk assessment according to defined policy.
- Monitoring of quality portfolio performance and its compliance with set limits (regulatory, internal). Regular reports are provided to Management Board and CRC on the credit quality of Group's portfolios and appropriate corrective measures are taken.
- Development, maintenance and validation of scoring and rating models – both application and behavioural.
- Development, maintenance and back-testing of impairment losses model (the Markov chains methodology is used).

Allowances for impairment

The Group establishes an allowance for impairment losses, which represents its estimate of incurred losses in its loan portfolio.

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

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

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

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

Credit risk measurement

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

36. Financial risk management (continued)

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

	Category	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount	Restated 2010 Amortised cost	Restated 2010 Impairment losses	Restated 2010 Carrying amount
Banks							
	Performing	502,342	(51)	502,291	108,666	-	108,666
	Doubtful	151	(151)	-	328	(151)	177
		502,493	(202)	502,291	108,994	(151)	108,843
Sovereigns							
	Performing	149,881	(172)	149,709	100,865	(163)	100,702
	Past due	307	-	307	95	-	95
	Substandard	173	(5)	168	835	(42)	793
	Doubtful	293	(117)	176	-	-	-
		150,654	(294)	150,360	101,795	(205)	101,590
Corporate							
	Performing	2,968,757	(25,640)	2,943,117	2,516,292	(32,243)	2,484,049
	Past due	430	(186)	244	287	(61)	226
	Restructured	17,974	(5,997)	11,977	19,719	(4,352)	15,367
	Substandard	137,387	(35,791)	101,596	102,025	(24,592)	77,433
	Doubtful	51,257	(34,924)	16,333	58,356	(37,455)	20,901
		3,175,805	(102,538)	3,073,267	2,696,679	(98,703)	2,597,976
Retail							
	Performing	3,985,747	(59,699)	3,926,048	3,688,253	(55,671)	3,632,582
	Past due	41,710	(18,147)	23,563	41,254	(18,468)	22,786
	Substandard	33,411	(13,590)	19,821	34,915	(17,367)	17,548
	Doubtful	211,650	(138,163)	73,487	191,977	(126,784)	65,193
		4,272,518	(229,599)	4,042,919	3,956,399	(218,290)	3,738,109
Securities							
	Performing	2,865,588	(231)	2,865,357	3,655,479	-	3,655,479
	Substandard	1,881	(110)	1,771	1,881	(249)	1,632
		2,867,469	(341)	2,867,128	3,657,360	(249)	3,657,111

The comparative balances for 2010 were restated to better reflect the actual split to individual categories.

36. Financial risk management (continued)

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

	2011	2010
Financial assets		
Derivative financial instruments	106,471	65,554
Financial commitments and contingencies		
Issued guarantees	549,239	594,173
Commitments and undrawn credit facilities	2,142,115	1,994,255
	2,691,354	2,588,428
	2,797,825	2,653,982

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

	2011			Restated 2010		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	502,341	(51)	502,290	96,254	-	96,254
1 – 30 days	1	-	1	12,412	-	12,412
Over 181 days *	151	(151)	-	328	(151)	177
	502,493	(202)	502,291	108,994	(151)	108,843
Sovereigns						
No delinquency	149,991	(172)	149,819	98,632	(163)	98,469
1 – 30 days	124	-	124	2,042	-	2,042
31 – 60 days	73	-	73	191	-	191
61 – 90 days	-	-	-	95	-	95
91 – 180 days	464	(122)	342	834	(42)	792
Over 181 days *	2	-	2	1	-	1
	150,654	(294)	150,360	101,795	(205)	101,590
Corporate						
No delinquency	3,029,064	(60,815)	2,968,249	2,554,876	(49,173)	2,505,703
1 – 30 days	51,766	(1,422)	50,344	33,683	(1,106)	32,577
31 – 60 days	13,868	(450)	13,418	13,928	(2,439)	11,489
61 – 90 days	2,576	(193)	2,383	6,642	(1,284)	5,358
91 – 180 days	10,115	(1,425)	8,690	6,449	(1,822)	4,627
Over 181 days *	68,416	(38,233)	30,183	81,101	(42,879)	38,222
	3,175,805	(102,538)	3,073,267	2,696,679	(98,703)	2,597,976

36. Financial risk management (continued)

	2011			Restated 2010		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Retail						
No delinquency	3,750,683	(37,949)	3,712,734	3,458,477	(34,090)	3,424,387
1 – 30 days	164,888	(10,769)	154,119	159,750	(10,418)	149,332
31 – 60 days	45,840	(6,136)	39,704	45,938	(6,224)	39,714
61 – 90 days	27,970	(5,565)	22,405	25,704	(5,221)	20,483
91 – 180 days	43,571	(18,628)	24,943	44,260	(19,325)	24,935
Over 181 days *	239,566	(150,552)	89,014	222,270	(143,012)	79,258
	4,272,518	(229,599)	4,042,919	3,956,399	(218,290)	3,738,109
Securities						
No delinquency	2,867,469	(341)	2,867,128	3,657,360	(249)	3,657,111
	2,867,469	(341)	2,867,128	3,657,360	(249)	3,657,111

*** Write-off Policy**

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

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

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

Value of collateral and other security enhancements held against financial assets is shown below:

	2011		Restated 2010	
	Clients	Banks	Clients	Banks
Debt securities	23,028	326,581	27,505	-
Other	832,676	107,079	560,513	22,522
Property	3,370,404	-	3,023,028	-
	4,226,108	433,660	3,611,046	22,522

The value of collateral and other security enhancements as at 31 December 2010 was restated to reflect the approach of accepting the collateral value up to the total amount of receivable as well as Basel II eligibility of the collateral.

36. Financial risk management (continued)

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

	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount	Restated 2010 Amortised cost	Restated 2010 Impairment losses	Restated 2010 Carrying amount
Europe						
Banks	472,808	(185)	472,623	76,947	(151)	76,796
Sovereigns	150,654	(294)	150,360	101,795	(205)	101,590
Corporate	3,175,805	(102,538)	3,073,267	2,696,666	(98,703)	2,597,963
Retail	4,270,146	(229,543)	4,040,603	3,954,173	(218,258)	3,735,915
Securities	2,865,588	(231)	2,865,357	3,652,023	-	3,652,023
	10,935,001	(332,791)	10,602,210	10,481,604	(317,317)	10,164,287
America						
Banks	29,123	(17)	29,106	31,856	-	31,856
Retail	625	(22)	603	739	(16)	723
Securities	1,881	(110)	1,771	5,337	(249)	5,088
	31,629	(149)	31,480	37,932	(265)	37,667
Asia						
Banks	211	-	211	99	-	99
Corporate	-	-	-	13	-	13
Retail	980	(28)	952	686	(15)	671
	1,191	(28)	1,163	798	(15)	783
Rest of the World						
Banks	351	-	351	92	-	92
Retail	767	(6)	761	801	(1)	800
	1,118	(6)	1,112	893	(1)	892

An analysis of concentrations of credit risk of securities at the reporting date is shown below.

	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount	2010 Amortised cost	2010 Impairment losses	2010 Carrying amount
Europe						
Slovakia	2,451,700	(231)	2,451,469	3,193,206	-	3,193,206
Poland	202,521	-	202,521	194,596	-	194,596
Ireland	120,427	-	120,427	113,137	-	113,137
Italy	34,050	-	34,050	99,525	-	99,525
Portugal	27,219	-	27,219	45,093	-	45,093
Czech republic	23,098	-	23,098	-	-	-
Other	8,454	(110)	8,344	6,466	-	6,466
	2,867,469	(341)	2,867,128	3,652,023	-	3,652,023
America						
USA	-	-	-	5,337	(249)	5,088

36. Financial risk management (continued)

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

31 December 2011	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	47,324	22,520	-
Construction	-	-	144,013	17,488	-
Consumers	-	-	61	3,835,736	-
Energy and water supply	-	-	283,201	1,480	-
Financial services	502,291	-	232,546	705	29,886
Government	-	138,747	-	-	2,834,897
Manufacturing	-	-	517,369	29,371	-
Professional services	-	-	69,839	9,442	-
Real estate	-	-	441,444	11,444	-
Retail & Wholesale	-	-	706,428	67,538	-
Services	-	-	158,558	17,154	574
Transportation	-	11,613	362,981	10,060	-
Other	-	-	109,503	19,981	1,771
	502,291	150,360	3,073,267	4,042,919	2,867,128

Restated 31 December 2010	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	43,656	21,973	-
Construction	-	-	128,963	15,391	-
Consumers	-	-	-	3,539,468	-
Energy and water supply	-	-	202,985	1,416	-
Financial services	108,843	-	256,658	698	68,383
Government	-	88,333	-	-	3,587,096
Manufacturing	-	-	428,086	30,580	-
Professional services	-	-	84,371	8,476	-
Real estate	-	-	389,860	9,223	-
Retail & Wholesale	-	-	587,930	63,510	-
Services	-	-	95,820	16,592	-
Transportation	-	12,501	293,040	10,581	-
Other	-	756	86,607	20,201	1,632
	108,843	101,590	2,597,976	3,738,109	3,657,111

36. Financial risk management (continued)

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances. Past due but not impaired financial assets are more than one day overdue.

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
31 December 2011	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	502,341	(51)	502,290	151	(151)	-	1	-	1
Sovereigns									
Municipalities	149,776	(172)	149,604	773	(122)	651	105	-	105
Corporate									
Large Corporates	942,886	(5,472)	937,414	9,757	(3,448)	6,309	7,780	(23)	7,757
Specialized lending	645,585	(6,608)	638,977	90,743	(25,066)	65,677	1,676	(91)	1,585
SME	617,813	(7,691)	610,122	71,152	(29,218)	41,934	2,685	(70)	2,615
Other Fin. Institutions	270,186	(588)	269,598	1	-	1	-	-	-
Private Sector Entities	102,291	(706)	101,585	8	-	8	5	-	5
Leasing	144,734	(2,154)	142,580	31,982	(16,705)	15,277	44,962	(1,607)	43,355
Factoring	179,023	(608)	178,415	3,405	(2,461)	944	9,131	(22)	9,109
	2,902,518	(23,827)	2,878,691	207,048	(76,898)	130,150	66,239	(1,813)	64,426
Retail									
Small business	175,705	(4,513)	171,192	19,555	(10,256)	9,299	4,895	(770)	4,125
Small business – Leasing	11,297	(168)	11,129	2,243	(1,315)	928	5,836	(160)	5,676
Consumer Loans	747,976	(16,092)	731,884	127,637	(88,170)	39,467	86,791	(11,750)	75,041
Mortgages	2,534,845	(8,954)	2,525,891	66,925	(19,709)	47,216	114,348	(5,439)	108,909
Credit Cards	177,153	(3,719)	173,434	52,603	(36,349)	16,254	22,972	(3,793)	19,179
Overdrafts	85,221	(3,707)	81,514	17,077	(13,587)	3,490	2,433	(494)	1,939
Leasing	3,851	(29)	3,822	180	(145)	35	897	(45)	852
Flat Owners Associations	3,796	(63)	3,733	-	-	-	15	-	15
Other	7,716	(3)	7,713	551	(369)	182	-	-	-
	3,747,560	(37,248)	3,710,312	286,771	(169,900)	116,871	238,187	(22,451)	215,736
Securities									
Trading	273,962	-	273,962	-	-	-	-	-	-
AFS	1,455,626	-	1,455,626	-	-	-	-	-	-
HTM	1,136,000	(231)	1,135,769	1,881	(110)	1,771	-	-	-
	2,865,588	(231)	2,865,357	1,881	(110)	1,771	-	-	-

36. Financial risk management (continued)

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
Restated 31 December 2010	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	96,254	-	96,254	328	(151)	177	12,412	-	12,412
Sovereigns									
Municipalities	98,586	(163)	98,423	930	(42)	888	2,214	-	2,214
Municipalities – Leasing	65	-	65	-	-	-	-	-	-
	98,651	(163)	98,488	930	(42)	888	2,214	-	2,214
Corporate									
Large Corporates	808,778	(5,682)	803,096	38,236	(11,329)	26,907	-	-	-
Specialized lending	619,057	(11,272)	607,785	31,436	(5,123)	26,313	593	(48)	545
SME	561,233	(11,542)	549,691	70,242	(27,932)	42,310	5,131	(303)	4,828
Other Fin. Institutions	295,549	(203)	295,346	1	-	1	-	-	-
Private Sector Entities	3,224	(39)	3,185	7	-	7	22	-	22
Leasing	102,945	(1,351)	101,594	36,290	(19,724)	16,566	38,354	(1,123)	37,231
Factoring	78,594	(673)	77,921	4,175	(2,352)	1,823	2,812	(7)	2,805
	2,469,380	(30,762)	2,438,618	180,387	(66,460)	113,927	46,912	(1,481)	45,431
Retail									
Small business	164,804	(1,484)	163,320	18,158	(11,473)	6,685	5,899	(1,096)	4,803
Small business – Leasing	13,040	(195)	12,845	2,351	(1,597)	754	4,951	(243)	4,708
Consumer Loans	674,552	(21,707)	652,845	125,113	(87,535)	37,578	82,567	(12,286)	70,281
Mortgages	2,312,865	(7,604)	2,305,261	56,756	(14,633)	42,123	106,453	(4,453)	102,000
Credit Cards	184,798	(1,701)	183,097	48,406	(33,567)	14,839	26,937	(4,495)	22,442
Overdrafts	94,201	(959)	93,242	15,179	(12,410)	2,769	2,704	(367)	2,337
Leasing	4,211	(24)	4,187	290	(232)	58	667	(26)	641
Flat Owners Associations	3,534	(42)	3,492	-	-	-	-	-	-
Other	7,796	(17)	7,779	161	(144)	17	6	-	6
	3,459,801	(33,733)	3,426,068	266,414	(161,591)	104,823	230,184	(22,966)	207,218
Securities									
Trading	253,025	-	253,025	-	-	-	-	-	-
AFS	1,615,824	-	1,615,824	-	-	-	-	-	-
HTM	1,786,630	-	1,786,630	1,881	(249)	1,632	-	-	-
	3,655,479	-	3,655,479	1,881	(249)	1,632	-	-	-

36. Financial risk management (continued)

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

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

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

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

36. Financial risk management (continued)

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

31 December 2011	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	502,493	(202)	502,291
Sovereigns				
Municipalities	Unrated - PPU approach *	150,654	(294)	150,360
		150,654	(294)	150,360
Corporate				
Large Corporates, Specialized lending, SME	I1 - I6	657,685	(3,326)	654,359
	M1 - M4	944,909	(4,816)	940,093
	R1 - R5	686,237	(27,531)	658,706
	D (default)	99,696	(41,846)	57,850
	Unrated	1,550	(168)	1,382
Financial Institutions, Private Sector Entities	Unrated - PPU approach *	372,491	(1,294)	371,197
Leasing, Factoring	Unrated	413,237	(23,557)	389,680
		3,175,805	(102,538)	3,073,267
Retail				
Small business, Flat Owners Associations	I1 - I6	26,914	(49)	26,865
	M1 - M4	75,823	(856)	74,967
	R1 - R5	77,560	(4,014)	73,546
	D (default)	18,604	(10,594)	8,010
	Unrated	5,064	(88)	4,976
Mortgages	L1 - L4	1,820,399	(365)	1,820,034
	N1 - N3	491,611	(949)	490,662
	W1 - W3	333,712	(12,033)	321,679
	D (default)	70,396	(20,755)	49,641
Unsecured retail	U1	68,720	(54)	68,666
	U2 - U3	106,979	(257)	106,722
	U4 - U5	148,610	(860)	147,750
	U6 - U7	114,949	(1,420)	113,529
	U8 - U10	133,123	(4,367)	128,756
	U11 - U12	73,382	(9,901)	63,481
	D (default)	76,743	(57,512)	19,231
	Unrated	597,358	(103,291)	494,067
Small business - Leasing, Leasing	Unrated	24,304	(1,862)	22,442
Other	Unrated	8,267	(372)	7,895
		4,272,518	(229,599)	4,042,919
Securities	Unrated	2,867,469	(341)	2,867,128

* Permanent Partial Use ('PPU') approach is applied to exposures for which the Foundation IRB approach will never be used in respect of the capital requirement calculation.

36. Financial risk management (continued)

Due to the phased development of the internal rating models, comparative data as of 31 December 2010 is available only for the corporate segment and mortgages.

31 December 2010	Internal rating	Amortised costs	Impairment losses	Carrying amount
Corporate				
Large Corporates, Specialized lending, SME	I1 - I6	523,608	(580)	523,028
	M1 - M4	890,205	(7,443)	882,762
	R1 - R5	639,043	(28,921)	610,122
	D (default)	81,724	(36,161)	45,563
Financial Institutions, Private Sector Entities	Unrated - PPU approach	298,803	(242)	298,561
Leasing, Factoring	Unrated	263,296	(25,356)	237,940
		2,696,679	(98,703)	2,597,976
Retail				
Mortgages	L1 - L4	1,604,361	(344)	1,604,017
	N1 - N3	474,088	(969)	473,119
	W1 - W3	337,903	(10,026)	327,877
	D (default)	59,722	(15,351)	44,371
		2,476,074	(26,690)	2,449,384

36. Financial risk management (continued)

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices or foreign exchange rate will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

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

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

Exposure to market risk – trading portfolios

The principal tool used to measure and control market risk exposures within the Group's trading portfolio is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99% confidence level and assumes a one-day holding period. The VaR model used is based on historical simulation. Taking account of market data from the previous year, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements. The model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

The Group uses VaR limits for total market risk in the trading book, foreign exchange risk and interest rate risk. The overall structure of VaR 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 limits are submitted to the trading unit, the head of the Risk Management division and the head of the Finance and Capital Markets division. Regular summaries are submitted to Intesa Sanpaolo and ALCO.

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

€ '000	2011				2010			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	63	83	228	15	58	99	307	8
Interest rate risk	43	148	372	43	96	105	161	75
Overall	58	182	440	46	113	163	367	80

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

36. Financial risk management (continued)

Exposure to interest rate risk

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

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

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

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

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

Models applied for the calculation of interest rate gap

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

Contractual

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

Behavioural

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

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

36. Financial risk management (continued)

At 31 December 2011, interest margin sensitivity in a one year time frame in the event of a 100 basis points rise in interest rates, was € 5,754 thousand (31 December 2010: €6,032 thousand).

At 31 December 2011, interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 1 basis point, registered € 142 thousand (31 December 2010: € 111 thousand).

€ '000	**2011**	**2010**
EUR	135	102
CZK	5	8
Other	2	1
	142	111

The re-pricing structure of financial assets and liabilities based on contractual undiscounted cash-flows for the non-trading portfolios was as follows:

31 December 2011	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with central banks	18,710	-	7,217	28,869	36,181	90,977
Due from banks	65,325	4,127	414,060	14,093	-	497,605
Available-for-sale financial assets	317,886	22,909	47,486	875,038	501,241	1,764,560
Loans and advances to customers	2,187,352	1,401,119	1,725,214	2,542,088	784,785	8,640,558
Held-to-maturity investments	-	18,435	197,446	545,895	602,153	1,363,929
	2,589,273	1,446,590	2,391,423	4,005,983	1,924,360	12,357,629
Liabilities						
Due to central and other banks	(457,039)	(122,999)	(60,980)	(52,861)	(80)	(693,959)
Due to customers	(2,354,355)	(634,172)	(1,296,114)	(2,218,181)	(1,116,804)	(7,619,626)
Debt securities in issue	(303,001)	(428,906)	(321,400)	(627,040)	(205,744)	(1,886,091)
	(3,114,395)	(1,186,077)	(1,678,494)	(2,898,082)	(1,322,628)	(10,199,676)
Net position of financial instruments	(525,122)	260,513	712,929	1,107,901	601,732	2,157,953

36. Financial risk management (continued)

31 December 2010	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with central banks	94,488	-	8,543	34,174	42,717	179,922
Due from banks	66,757	-	12,031	11,807	-	90,595
Available-for-sale financial assets	319,427	233,748	23,425	475,204	842,893	1,894,697
Loans and advances to customers	1,850,776	1,250,164	1,860,208	2,095,658	804,068	7,860,874
Held-to-maturity investments	378,474	280,997	66,838	727,168	626,757	2,080,234
	2,709,922	1,764,909	1,971,045	3,344,011	2,316,435	12,106,322
Liabilities						
Due to central and other banks	(389,383)	(110,171)	(116,932)	(28,502)	(319)	(645,307)
Due to customers	(2,664,660)	(372,646)	(822,787)	(2,285,797)	(1,198,383)	(7,344,273)
Debt securities in issue	(301,147)	(515,372)	(259,626)	(396,848)	(364,090)	(1,837,083)
	(3,355,190)	(998,189)	(1,199,345)	(2,711,147)	(1,562,792)	(9,826,663)
Net position of financial instruments	(645,268)	766,720	771,700	632,864	753,643	2,279,659

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

	2011 %	2010 %
Assets		
Cash and balances with central banks	1.22	1.04
Due from banks	2.80	2.10
Financial assets held for trading	3.64	3.96
Available-for-sale financial assets	3.43	2.94
Loans and advances to customers	5.85	5.73
Held-to-maturity investments	4.02	3.21
Liabilities		
Due to central and other banks	1.51	1.16
Due to customers	1.04	0.88
Debt securities in issue	3.06	2.87

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36. Financial risk management (continued)

Currency denominations of assets and liabilities

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

31 December 2011	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	80,458	1,050	7,261	2,208	90,977
Due from banks	478,374	19,635	3,206	1,076	502,291
Financial assets held for trading	68,601	-	23,098	182,263	273,962
Derivative financial instruments	80,394	-	5	-	80,399
Available-for-sale financial assets	1,455,626	-	-	-	1,455,626
Loans and advances to customers	6,823,077	141,605	270,645	31,219	7,266,546
Held-to-maturity investments	1,137,540	-	-	-	1,137,540
	10,124,070	162,290	304,215	216,766	10,807,341
Liabilities					
Due to central and other banks	(487,990)	(127,950)	(65,880)	(6,649)	(688,469)
Derivative financial instruments	(57,146)	-	(236)	-	(57,382)
Due to customers	(7,121,122)	(140,250)	(160,732)	(65,304)	(7,487,408)
Debt securities in issue	(1,517,385)	(26,651)	(116,451)	-	(1,660,487)
	(9,183,643)	(294,851)	(343,299)	(71,953)	(9,893,746)
Net position	940,427	(132,561)	(39,084)	144,813	913,595

31 December 2010	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	168,955	1,251	6,556	2,331	179,093
Due from banks	79,019	19,156	1,538	9,130	108,843
Financial assets held for trading	78,824	-	-	174,201	253,025
Derivative financial instruments	45,179	-	26	-	45,205
Available-for-sale financial assets	1,615,823	-	-	-	1,615,823
Loans and advances to customers	6,026,871	90,147	302,637	18,020	6,437,675
Held-to-maturity investments	1,788,263	-	-	-	1,788,263
	9,802,934	110,554	310,757	203,682	10,427,927
Liabilities					
Due to central and other banks	(450,569)	(101,110)	(83,810)	(27,034)	(662,523)
Derivative financial instruments	(60,730)	-	1	-	(60,729)
Due to customers	(6,887,318)	(120,467)	(216,181)	(41,401)	(7,265,367)
Debt securities in issue	(1,523,415)	(25,807)	(75,031)	-	(1,624,253)
	(8,922,032)	(247,384)	(375,021)	(68,435)	(9,612,872)
Net position	880,902	(136,830)	(64,264)	135,247	815,055

36. Financial risk management (continued)

(c) Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

36. Financial risk management (continued)

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

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

The remaining maturities of assets and liabilities based on contractual undiscounted cash-flows were as follows:

31 December 2011	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	90,977	-	-	-	-	-	90,977
Due from banks	10,914	591	422,887	65,283	32,208	-	531,883
Financial assets held for trading	11,000	170,481	91,222	115	-	4,110	276,928
Available-for-sale financial assets	6,610	22,909	53,110	1,207,657	501,241	-	1,791,527
Loans and advances to customers	482,445	355,029	1,331,352	3,108,586	4,223,002	12,296	9,512,710
Held-to-maturity investments	-	18,435	187,474	556,232	602,052	-	1,364,193
	601,946	567,445	2,086,045	4,937,873	5,358,503	16,406	13,568,218
Liabilities							
Due to central and other banks	(456,992)	(1,845)	(86,203)	(170,248)	(35,028)	-	(750,316)
Due to customers	(4,399,295)	(726,411)	(1,173,994)	(1,202,070)	(88,363)	(66)	(7,590,199)
Debt securities in issue	(3,001)	(22,524)	(220,624)	(993,096)	(711,089)	-	(1,950,334)
	(4,859,288)	(750,780)	(1,480,821)	(2,365,414)	(834,480)	(66)	(10,290,849)
Net position of financial instruments	(4,257,342)	(183,335)	605,224	2,572,459	4,524,023	16,340	3,277,369
Cash inflows from derivatives	315,300	305,479	335,645	170,188	161,261	-	1,287,873
Cash outflows from derivatives	(316,359)	(282,394)	(322,662)	(183,002)	(160,687)	-	(1,265,104)
Net position from derivatives	(1,059)	23,085	12,983	(12,814)	574	-	22,769
Total net position	(4,258,401)	(160,250)	618,207	2,559,645	4,524,597	16,340	3,300,138

36. Financial risk management (continued)

31 December 2010	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	179,923	-	-	-	-	-	179,923
Due from banks	20,135	2,929	51,666	23,208	32,435	-	130,373
Financial assets held for trading	25,161	62,894	90,584	77,748	25	3,052	259,464
Available-for-sale financial assets	5,509	229,579	28,059	823,133	842,893	-	1,929,173
Loans and advances to customers	515,930	576,230	1,167,536	2,726,188	4,203,875	1,647	9,191,406
Held-to-maturity investments	368,397	268,514	63,263	737,753	626,757	-	2,064,684
	1,115,055	1,140,146	1,401,108	4,388,030	5,705,985	4,699	13,755,023
Liabilities							
Due to central and other banks	(396,565)	(137,426)	(138,219)	(97,918)	(36,777)	-	(806,905)
Due to customers	(4,925,390)	(453,290)	(570,538)	(1,271,639)	(50,137)	(25,208)	(7,296,202)
Debt securities in issue	(1,146)	(23,201)	(295,641)	(843,750)	(787,847)	-	(1,951,585)
	(5,323,101)	(613,917)	(1,004,398)	(2,213,307)	(874,761)	(25,208)	(10,054,692)
Net position of financial instruments	(4,208,046)	526,229	396,710	2,174,723	4,831,224	(20,509)	3,700,331
Cash inflows from derivatives	26,404	103,025	180,837	200,101	98,132	-	608,499
Cash outflows from derivatives	(28,242)	(104,400)	(186,119)	(203,652)	(96,838)	-	(619,251)
Net position from derivatives	(1,838)	(1,375)	(5,282)	(3,551)	1,294	-	(10,752)
Total net position	(4,209,884)	524,854	391,428	2,171,172	4,832,518	(20,509)	3,689,579

36. Financial risk management (continued)

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

31 December 2011	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	90,977	-	90,977
Due from banks	431,489	70,802	502,291
Financial assets held for trading	269,743	4,219	273,962
Derivative financial instruments	80,399	-	80,399
Available-for-sale financial assets	65,397	1,390,229	1,455,626
Non-current assets held for sale	3	-	3
Loans and advances to customers	2,280,026	4,986,520	7,266,546
Held-to-maturity investments	192,576	944,964	1,137,540
Associates and jointly controlled entities	-	7,077	7,077
Intangible assets	501	40,985	41,486
Goodwill	-	29,305	29,305
Property and equipment	-	146,732	146,732
Current income tax assets	2,791	-	2,791
Deferred income tax assets	-	77,463	77,463
Other assets	19,100	-	19,100
	3,433,002	7,698,296	11,131,298
Liabilities			
Due to central and other banks	(591,254)	(97,215)	(688,469)
Derivative financial instruments	(57,382)	-	(57,382)
Due to customers	(6,410,500)	(1,076,908)	(7,487,408)
Debt securities in issue	(211,326)	(1,449,161)	(1,660,487)
Provisions	-	(27,328)	(27,328)
Other liabilities	(92,694)	(2,272)	(94,966)
	(7,363,156)	(2,652,884)	(10,016,040)
	(3,930,154)	5,045,412	1,115,258

36. Financial risk management (continued)

31 December 2010	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	179,093	-	179,093
Due from banks	71,199	37,644	108,843
Financial assets held for trading	176,187	76,838	253,025
Derivative financial instruments	45,205	-	45,205
Available-for-sale financial assets	244,614	1,371,209	1,615,823
Non-current assets held for sale	3,374	-	3,374
Loans and advances to customers	1,993,131	4,444,544	6,437,675
Held-to-maturity investments	687,236	1,101,027	1,788,263
Associates and jointly controlled entities	-	6,219	6,219
Intangible assets	490	40,852	41,342
Goodwill	-	29,305	29,305
Property and equipment	-	148,921	148,921
Current income tax assets	8,931	-	8,931
Deferred income tax assets	-	66,154	66,154
Other assets	26,776	-	26,776
	3,436,236	7,322,713	10,758,949
Liabilities			
Due to central and other banks	(602,085)	(60,438)	(662,523)
Derivative financial instruments	(60,729)	-	(60,729)
Due to customers	(5,994,063)	(1,271,304)	(7,265,367)
Debt securities in issue	(290,108)	(1,334,145)	(1,624,253)
Provisions	-	(24,256)	(24,256)
Other liabilities	(76,302)	(1,761)	(78,063)
	(7,023,287)	(2,691,904)	(9,715,191)
	(3,587,051)	4,630,809	1,043,758

36. Financial risk management (continued)

(d) Operational risk

Operational risk management strategies and processes

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

The control of operational risk was attributed to the Group Operational Risk Committee, which identifies risk management policies. The Supervisory and Management Board of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Group Operational Risk Committee (composing of the heads of the areas of the governance centre and of the business areas more involved in operational risk management), has the task of periodically reviewing the Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

Organisational structure of the associated risk management function

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

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

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

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

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

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

Policies for hedging and mitigating risk

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

37. Segment reporting

Segment information is presented in respect of the Group's operating segments, based on the management and internal reporting structure.

Operating segments pay and receive interest to and from the Central Treasury on an arm's length basis in order to reflect the costs of funding.

The Group comprises the following main operating segments:

- Retail Banking
- Corporate Banking
- Central Treasury

Retail Banking includes loans, deposits and other transactions and balances with households, entrepreneurs and small business segment.

Corporate Banking comprises Small and Medium Enterprises ('SME') and the Corporate Customer Desk ('CCD'). SME includes loans, deposits and other transactions and balances with small and medium enterprises (company revenue in the range of € 1 million to € 40 million; if revenue information is not available, bank account turnover is used). The CCD includes loans, deposits and other transactions and balances with large corporate customers (company revenue over € 40 million).

Central Treasury undertakes the Group's funding, HTM Securities portfolio management, issues of debt securities as well as trading book operations. The Group also has a central Governance Centre that manages the Group's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

37. Segment reporting (continued)

31 December 2011	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	302,269	101,223	129,067	8,722	541,281
Interest expense	(50,286)	(14,316)	(72,481)	(1,320)	(138,403)
Inter-segment revenue	(2,443)	(11,619)	(12,649)	26,711	-
Net interest income	249,540	75,288	43,937	34,113	402,878
Net fee and commission income	67,398	40,955	2,587	(2,513)	108,427
Net trading income	3,335	4,840	(7,297)	64	942
Other operating income	5,171	3,859	-	4,616	13,646
Total segment operating income	325,444	124,942	39,227	36,280	525,893
Depreciation and amortisation	(19,140)	(2,643)	(196)	(10,632)	(32,611)
Operating expenses					(203,658)
Operating profit before impairment					289,624
Impairment losses on financial assets	(51,786)	(15,664)	(574)	89	(67,935)
Share of profit of associates and jointly controlled entities					850
Income tax expense					(45,636)
Net profit for the year					176,903
Segment assets	4,062,560	3,203,892	3,256,231	608,615	11,131,298
Segment liabilities	4,796,796	2,032,282	3,131,908	1,170,312	11,131,298

37. Segment reporting (continued)

31 December 2010	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest income	278,873	81,586	120,311	4,307	485,077
Interest expense	(49,081)	(7,006)	(57,644)	(544)	(114,275)
Inter-segment revenue	(3,557)	(11,806)	(8,686)	24,049	-
Net interest income	226,235	62,774	53,981	27,812	370,802
Net fee and commission income	58,368	47,846	1,444	84	107,742
Net trading income	3,680	4,242	(1,452)	(167)	6,303
Other operating income	3,930	3,506	1	423	7,860
Total segment operating income	292,213	118,368	53,974	28,152	492,707
Depreciation and amortisation	(22,839)	(4,799)	(136)	(10,706)	(38,480)
Operating expenses					(189,191)
Operating profit before impairment					265,036
Impairment losses on financial assets	(46,687)	(27,468)	157	(2,497)	(76,495)
Share of profit of associates and jointly controlled entities					596
Income tax expense					(38,814)
Net profit for the year					150,323
Segment assets	3,760,447	2,944,337	3,568,183	485,982	10,758,949
Segment liabilities	4,427,781	2,022,837	3,220,700	1,087,631	10,758,949

38. Related parties

Related parties are those counterparties that represent:

(a) enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, or are under the common control of, the reporting enterprise;

(b) associates – enterprises in which the parent company has significant influence and which are neither a subsidiary nor a joint venture;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

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

In 2011, the remuneration and other benefits provided to members of the Supervisory Board and the Management Board were € 5,404 thousand (2010: € 4,301 thousand).

38. Related parties (continued)

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

	KMP *	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	458,321	458,321
Derivative financial instruments	-	-	-	9,596	9,596
Loans and advances to customers	1,229	584	-	-	1,813
Other assets	-	-	5	1,509	1,514
	1,229	584	5	469,426	471,244
Liabilities					
Due to central and other banks	-	-	-	356,281	356,281
Derivative financial instruments	-	-	-	4,176	4,176
Due to customers	2,365	-	113	-	2,478
Debt securities in issue					
Bonds	-	-	6,928	-	6,928
Mortgage bonds	-	-	-	1,027,101	1,027,101
	2,365	-	7,041	1,387,558	1,396,964
Received guarantees	-	-	-	77,075	77,075
Derivative transactions (notional amount – receivable)	-	-	-	376,035	376,035
Income and expense items					
Interest and similar income	46	3	-	12,312	12,361
Interest expense and similar charges	(46)	-	(165)	(35,569)	(35,780)
Fee and commission income	3	-	-	-	3
Fee and commission expense	-	-	-	(4,750)	(4,750)
Net trading income	-	-	-	(7,225)	(7,225)
Operating income	-	-	96	73	169
Operating expenses	-	-	-	(71)	(71)
	3	3	(69)	(35,230)	(35,293)

* Key management personnel

During the year 2011, VUB Group has purchased performing loans from an Intesa Sanpaolo Group bank in the total amount of € 116,973 thousand and HUF 3,505,620 thousand. The transaction was realised at fair value.

38. Related parties (continued)

At 31 December 2010, significant outstanding balances with related parties comprised:

	KMP	Close members of KMP	Affiliated companies	Intesa Sanpaolo Group	Total
Assets					
Due from banks	-	-	-	65,319	65,319
Derivative financial instruments	-	-	-	6,260	6,260
Loans and advances to customers	931	878	-	-	1,809
Other assets	-	-	10	-	10
	931	878	10	71,579	73,398
Liabilities					
Due to central and other banks	-	-	-	349,167	349,167
Derivative financial instruments	-	-	-	1,537	1,537
Due to customers	1,567	-	114	-	1,681
Debt securities in issue					
Bonds	97	-	6,726	-	6,823
Mortgage bonds	-	-	-	1,054,067	1,054,067
	1,664	-	6,840	1,404,771	1,413,275
Received guarantees	-	-	-	35,000	35,000
Derivative transactions (notional amount – receivable)	-	-	-	136,382	136,382
Income and expense items					
Interest and similar income	40	48	-	5,567	5,655
Interest expense and similar charges	(49)	(59)	(124)	(25,278)	(25,510)
Fee and commission income	4	-	6	-	10
Fee and commission expense	-	-	-	(1,422)	(1,422)
Net trading income	-	-	-	1,408	1,408
Operating income	-	-	100	232	332
Operating expense	-	(23)	-	-	(23)
	(5)	(34)	(18)	(19,493)	(19,550)

39. Events after the end of reporting period

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

From 31 December 2011 up to the date of issue of these financial statements there were no further events identified that would require adjustments to or disclosure in these financial statements.