VÚB BANKA

Consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European union and Independent auditors’ report

for the year ended 31 December 2012

VÚB BANKA

Contents

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Translation of the independent Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and Board of Directors of Všeobecná úverová banka, a.s.:

We have audited the accompanying consolidated financial statements of Všeobecná úverová banka, a.s. ("the Bank"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management as represented by the statutory body is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union 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 about 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 our 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, we consider internal control relevant to the entity's preparation of the 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 opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, 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 European Union.

Other Matter
The consolidated financial statements of the Bank for the year ended 31 December 2011 were audited by another auditor, whose report, dated 21 February 2012, expressed an unqualified opinion on those statements.

18 February 2013
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Slovenská komora audítorov
SKAU
Č.licencie 96
KPMG
Slovensko spol. s r.o.

Responsible auditor:
Ing. Richard Farkaš, PhD.
License SKAU No. 406

VÚB BANKA

Consolidated statement of financial position at 31 December 2012

(In thousands of euro)

	Note	2012	2011
Assets			
Cash and balances with central banks	4	150,837	90,977
Due from banks	5	580,780	502,291
Financial assets at fair value through profit or loss	6	73,770	273,962
Derivative financial instruments	7	42,619	80,399
Available-for-sale financial assets	8	1,482,727	1,455,626
Non-current assets held for sale	15	2	3
Loans and advances to customers	9	7,526,581	7,266,546
Held-to-maturity investments	11	1,041,721	1,137,540
Associates and jointly controlled entities	12	7,596	7,077
Intangible assets	13	47,841	41,486
Goodwill	14	29,305	29,305
Property and equipment	15	138,774	146,732
Current income tax assets	20	16,475	2,791
Deferred income tax assets	20	43,637	77,463
Other assets	16	33,292	19,100
		11,215,957	11,131,298
Liabilities			
Due to central and other banks	17	533,565	688,469
Derivative financial instruments	7	53,194	57,382
Due to customers	18	7,766,469	7,487,408
Debt securities in issue	19	1,417,762	1,660,487
Provisions	21	25,607	27,328
Other liabilities	22	97,766	94,966
		9,894,363	10,016,040
Equity			
Equity (excluding net profit for the year)	23	1,201,890	938,355
Net profit for the year	23	119,704	176,903
		1,321,594	1,115,258
		11,215,957	11,131,298
Financial commitments and contingencies	24	2,682,700	2,691,354

The accompanying notes on pages 8 to 92 form an integral part of these financial statements.

These financial statements were authorised for issue by the Management Board on 13 February 2013.

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

Consolidated statement of comprehensive income for the year ended 31 December 2012

(In thousands of euro)

	Note	2012	2011
Interest and similar income		543,131	541,281
Interest and similar expense		(151,895)	(138,403)
Net interest income	25	391,236	402,878
Fee and commission income		142,294	141,406
Fee and commission expense		(32,670)	(32,979)
Net fee and commission income	26	109,624	108,427
Net trading result	27	(25,485)	942
Other operating income	28	6,338	13,646
Operating income		481,713	525,893
Salaries and employee benefits	29	(97,428)	(103,844)
Other operating expenses	30	(91,766)	(99,814)
Special levy of selected financial institutions	30	(35,151)	-
Amortisation	13	(12,171)	(14,297)
Depreciation	15	(18,575)	(18,314)
Operating expenses		(255,091)	(236,269)
Operating profit before impairment		226,622	289,624
Impairment losses	31	(79,995)	(67,935)
Profit from operations		146,627	221,689
Share of profit of associates and jointly controlled entities	12	1,213	850
Profit before tax		147,840	222,539
Income tax expense	32	(28,136)	(45,636)
NET PROFIT FOR THE YEAR		119,704	176,903
Other comprehensive income for the year, after tax:			
Exchange difference on translating foreign operation		152	(38)
Available-for-sale financial assets		130,458	(45,012)
Cash flow hedges		3,116	(1,006)
Other comprehensive income for the year, net of tax	33, 34	133,726	(46,056)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		253,430	130,847

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

The accompanying notes on pages 8 to 92 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012

(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 2011	430,819	13,368	93,090	537,680	24	(27,618)	(3,605)	1,043,758
Total comprehensive income for the year, net of tax	-	-	-	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
At 1 January 2012	430,819	13,368	95,261	653,184	(153)	(72,630)	(4,591)	1,115,258
Total comprehensive income for the year, net of tax	-	-	-	119,704	152	130,458	3,116	253,430
Dividends to shareholders	-	-	-	(47,364)	-	-	-	(47,364)
Reversal of dividends distributed but not collected	-	-	-	272	-	-	-	272
Legal reserve fund	-	-	2,482	(2,482)	-	-	-	-
Other **	-	-	-	(3)	1	-	-	(2)
Effect of FX hedge **	-	-	-	(50)	-	-	50	-
At 31 December 2012	430,819	13,368	97,743	723,261	-	57,828	(1,425)	1,321,594

* On 19 January 2011, the subsidiary 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 foreign currency difference disclosed under Translation of foreign operation was settled within the transfer of profit for 2010 and 2011 from the foreign branch. Retained earnings were originally generated in Czech Crowns (‘CZK’) and the foreign exchange effect of this translation was hedged.

The accompanying notes on pages 8 to 92 form an integral part of these financial statements.

VÚB BANKA

Consolidated statement of cash flows for the year ended 31 December 2012

(In thousands of euro)

	Note	2012	2011
Cash flows from operating activities			
Profit before tax		147,840	222,539
Adjustments for:			
Amortisation		12,171	14,297
Depreciation		18,575	18,314
Securities at fair value through profit or loss, debt securities in issue and FX differences		7,944	(1,282)
Share of profit of associates and jointly controlled entities		(1,270)	(858)
Interest income		(543,131)	(541,281)
Interest expense		151,895	138,403
Sale of property and equipment		109	(277)
Impairment losses and similar charges		79,967	69,183
Interest received		550,347	535,640
Interest paid		(154,594)	(129,214)
Tax paid		(7,994)	(50,805)
Due from banks		(69,915)	(396,920)
Financial assets at fair value through profit or loss		200,335	(24,389)
Derivative financial instruments (assets)		40,946	(36,180)
Available-for-sale financial assets		99,195	113,544
Loans and advances to customers		(334,846)	(894,979)
Other assets		(17,613)	8,246
Due to central and other banks		(153,303)	25,201
Derivative financial instruments (liabilities)		(4,188)	(3,347)
Due to customers		278,728	215,138
Other liabilities		(1,341)	19,588
Net cash from/(used in) operating activities		299,857	(699,439)
Cash flows from investing activities			
Purchase of held-to-maturity investments		(69,000)	-
Repayments of held-to-maturity investments		161,212	650,449
Purchase of intangible assets and property and equipment		(30,800)	(31,891)
Disposal of property and equipment		2,220	6,259
Net cash from investing activities		63,632	624,817
Cash flows from financing activities			
Proceeds from issue of debt securities		194,150	311,504
Repayments of debt securities		(442,554)	(274,070)
Dividends paid		(47,364)	(59,692)
Net cash used in financing activities		(295,768)	(22,258)
Net change in cash and cash equivalents		67,721	(96,880)
Cash and cash equivalents at the beginning of the year	3	98,248	195,128
Cash and cash equivalents at the end of the year	3	165,969	98,248

The accompanying notes on pages 8 to 92 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 2012, the Bank had a network of 247 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2011: 250). The Bank also has one branch in the Czech Republic.

The members of the Management Board are:

Ignacio Jaquotot (Chairman)
Andrea De Michelis
Daniele Fanin
Stanislav Hodek (from 1 October 2012)
Jozef Kausich
Elena Kohútiková
Tomislav Lazarić (until 31 January 2012)
Peter Magala (from 1 March 2012)
Silvia Púchovská
Alexander Resch (until 29 February 2012)
Adrián Ševčík

The members of the Supervisory Board are:

György Surányi (Chairman)
Massimo Malagoli (Vice Chairman from 3 April 2012, member until 2 April 2012)
Fabrizio Centrone (Vice Chairman until 3 April 2012)
Adriano Arietti
Jana Finková
Antonio Furesi
Ján Gallo
Juraj Jurenka (until 6 March 2012)

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 2012	Share 2011	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%	Insurance mediation
VÚB Asset Management, správ. spol. a.s.	100%	100%	Asset management
VÚB Factoring, a.s.	100%	100%	Factoring of receivables
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

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.

1. General information (continued)

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 last consolidated financial statements of the company are available at the address of its registered office at Piazza San Carlo 156, 10121 Torino, Italy.

2. Summary of significant accounting policies

2.1 Basis of preparation

The 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 13 February 2013 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 at fair value through profit or loss and all derivative financial instruments to fair value and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

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

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies

There have not been any changes in the accounting policies during the year ended 31 December 2012.

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.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

The amendments contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statement of financial position; or
- subject to master netting arrangements or similar agreements.

The amendments become effective for annual periods beginning on or after 1 January 2013 and for interim periods within those annual periods and should be applied retrospectively. The Group is currently assessing the impact these amendments will have on disclosures in the financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

- it is exposed or has rights to variable returns from its involvements with the investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

2. Summary of significant accounting policies (continued)

The new standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008). IFRS 10 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

IFRS 11 Joint Arrangements

IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements. The standard is effective for annual periods beginning on or after 1 January 2014. The Group does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after 1 January 2014. The VUB Group does not expect the new standard will have a material impact on the financial statements.

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. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on the financial position and performance.

IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The amendments:

- require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections;
- change the title of the Statement of comprehensive income to Statement of profit or loss and other comprehensive income, however, other titles are also allowed to be used.

The amendments are effective for annual periods beginning on or after 1 July 2012. The amendments affect presentation only and have no impact on the VUB Group's financial position or performance.

2. Summary of significant accounting policies (continued)

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)

The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendments are effective for annual periods beginning on or after 1 January 2013. The amendments are not relevant to the Group's financial statements, since the Group does not have any investment properties measured using the fair value model in IAS 40.

IAS 19 Employee Benefits (2011 Amendments to IAS 19)

The amendments require actuarial gains and losses to be recognised immediately in other comprehensive income. The amendments remove the corridor method previously applicable to recognising actuarial gains and losses, and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendments also require the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendments are effective for annual periods beginning on or after 1 January 2013. The application of these amendments will have no impact on the financial position of the VUB Group.

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 2014.

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 2014. The Group does not expect the amendment to standard to have material impact on its financial position or financial performance.

IAS 32 – Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments are effective for annual periods beginning on or after 1 January 2014.

2. Summary of significant accounting policies (continued)

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 result', as well as gains and losses arising from movements in exchange rates after the date of the transaction.

2.6 Foreign operations

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

2.7 Cash and cash equivalents

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

2.8 Cash and balances with central banks

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

2.9 Treasury bills and other eligible bills

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

2.10 Due from banks

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

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

2.11 Securities

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

(a) Fair value through profit or loss,

(b) Available-for-sale,

(c) Held-to-maturity.

The principal differences among the portfolios relate to the measurement and recognition of fair values in the financial statements. All securities held by the VUB Group are recognised using settlement date accounting and are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, any directly attributable incremental costs of acquisition. Securities purchased, but not settled, are recorded in the off-balance sheet and changes in their fair values, for purchases into the fair value through profit or loss and the available-for-sale portfolios, are recognised in the Statement of comprehensive income and in equity respectively.

2. Summary of significant accounting policies (continued)

(a) Securities at fair value through profit or loss

This portfolio comprises following subcategories:

(i) Securities held for trading

These securities are financial assets acquired by the VUB Group for the purpose of generating profits from short-term fluctuations in prices.

(ii) Securities designated at fair value through profit or loss on initial recognition

Securities classified in this category are those that have been designated by the management on initial recognition. This designation may be used only when at least one of the following conditions is met:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis;
- the assets and financial liabilities are a part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Subsequent to their initial recognition these assets are accounted for and re-measured at fair value. The fair value of securities at fair value through profit or loss, for which an active market exists, and a market value can be estimated reliably, is measured at quoted market prices. In circumstances where the quoted market prices are not readily available, the fair value is estimated using the present value of future cash flows.

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

Day 1 profit or loss

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

(b) Available-for-sale securities

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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

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

(c) Held-to-maturity investments

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

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

2.12 Repurchase and reverse repurchase agreements

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

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

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

2.13 Derivative financial instruments

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

2. Summary of significant accounting policies (continued)

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

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

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

Credit risk of financial derivatives

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

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.

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.

2. Summary of significant accounting policies (continued)

Cash flow hedges

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

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

Fair value hedges

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

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

2.14 Offsetting financial instruments

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

2.15 Non-current assets held for sale

Non-current assets held for sale are assets where the carrying amount will be recovered principally through a sale transaction rather than through continuing use. 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.

2.16 Loans and advances to customers and impairment losses

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

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

2. Summary of significant accounting policies (continued)

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.

2.17 Intangible assets

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

	Years
Software	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.

2.18 Goodwill

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

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

2.19 Property and equipment

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

2. Summary of significant accounting policies (continued)

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.

2.20 Leasing

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

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

VUB Group as a lessee

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

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

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

VUB Group as a lessor

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

2.21 Provisions

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

2.22 Provisions for employee benefits

The Group's obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is determined by reference to 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 the statement of comprehensive income in the period in which they arise. All employees of the Group are covered by the retirement and jubilee employee benefits program.

2. Summary of significant accounting policies (continued)

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

	Jubilee benefits	Retirement benefits
Discount rate	3.54%	3.54%
Future growth of wages in 2013	n/a	2.5%
Future growth of wages after 2013	n/a	4.0%
Fluctuation of employees (based on age)	6 – 17%	6 – 17%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

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

2.23 Financial guarantees

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

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

2.24 Legal reserve fund

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

2.25 Equity reserves

The reserves recorded in equity that are disclosed in the Statement of financial position include:

'Translation of foreign operation' reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations.

'Available-for-sale financial assets' reserve which comprises changes in the fair value of available-for-sale investments.

'Cash flow hedges' reserve which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

2.26 Interest income

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

2. Summary of significant accounting policies (continued)

2.27 Fee and commission income

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

2.28 Net trading result

Net trading result includes gains and losses arising from purchases, disposals and changes in the fair value of financial assets and liabilities including securities and derivative instruments. It also includes the result of all foreign currency transactions.

2.29 Dividend income

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

2.30 Current and deferred income tax

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

Deferred tax assets and liabilities are recognised, using the balance sheet method, for all temporary differences arising between 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'.

2.31 Fiduciary assets

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

2.32 Significant accounting judgements and estimates

Judgements

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

Held-to-maturity investments

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

Financial assets held for trading

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

2. Summary of significant accounting policies (continued)

Financial assets designated at fair value through profit or loss on initial recognition

The VUB Group uses the category ‘at fair value through profit or loss on initial recognition’ to recognize equity shares acquired as a part of the incentive plan based on which the amount due to employees benefiting from the plan recognized under share remuneration scheme in ‘Other liabilities’ (see also note 22) is proportional to the fair value of these shares.

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

Estimates

The preparation of the financial statements requires management to make certain estimates and assumptions, which impact the carrying amounts of the 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.

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

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

3. Cash and cash equivalents

€ '000	Note	2012	2011
Cash and balances with central banks	4	150,837	90,977
Current accounts in other banks	5	15,132	7,271
		165,969	98,248

4. Cash and balances with central banks

€ '000	2012	2011
Balances with central banks:		
Compulsory minimum reserves	47,616	5,146
Current accounts	66	36
Term deposits	7,955	-
	55,637	5,182
Cash in hand	95,200	85,795
	150,837	90,977

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and the Czech National Bank. The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the VUB Group and the amount of issued bonds, both with a maturity of up to 2 years. The rate for the calculation of the compulsory minimum reserve is 1% for the reserves held in the NBS and 2% for the reserves held in the Czech National Bank. The required balance is calculated as the total of individual items multiplied by the valid rate.

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

5. Due from banks

€ '000	Note	2012	Restated 2011
Current accounts	3	15,132	7,271
Term deposits			
with contractual maturity over 90 days		20,091	3,141
Loans and advances			
with contractual maturity over 90 days		488,902	489,351
Cash collateral		56,689	2,730
Impairment losses	10	(34)	(202)
		580,780	502,291

At 31 December 2012 the balance of 'Term deposits' includes a short term deposit with Intesa Sanpaolo S.p.A in the total nominal amount of € 20,000 thousand.

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

The comparative balance of 'Loans and advances' for 2011 was restated to separately present the cash collateral in order to provide more relevant information to the users of the financial statements.

6. Financial assets at fair value through profit or loss

€ '000	2012	2011
Financial assets held for trading		
Treasury bills and other eligible bills		
with contractual maturity over 90 days	24,970	192,233
State bonds		
with contractual maturity over 90 days	43,273	77,619
Bank bonds		
with contractual maturity over 90 days	314	-
Mutual funds	4,883	4,110
	73,440	273,962
Financial assets designated at fair value through profit or loss on initial recognition		
Equity shares	330	-
	73,770	273,962

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

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

7. Derivative financial instruments

€ '000	2012 Assets	2011 Assets	2012 Liabilities	2011 Liabilities
Trading derivatives	32,396	80,255	38,388	42,424
Cash flow hedges of interest rate risk	3,220	-	5,070	5,668
Fair value hedges of interest rate risk	7,003	144	9,736	9,290
	42,619	80,399	53,194	57,382

Trading derivatives also include hedge instruments that are non-qualifying according to IAS 39, which are held for risk management purposes rather than for trading. The instruments used include cross-currency interest rate swap. At 31 December 2012, the total positive fair value of such derivative was € 1,329 thousand (31 December 2011: € 4,346 thousand) and the negative fair value was nil (31 December 2011: nil).

7. Derivative financial instruments (continued)

€ '000 **Trading derivatives – Fair values**	2012 Assets	2011 Assets	2012 Liabilities	2011 Liabilities
Interest rate instruments				
Swaps	17,045	18,035	17,734	19,489
Forward rate agreements	-	-	53	-
Options	4,508	4,224	4,947	4,248
	21,553	22,259	22,734	23,737
Foreign currency instruments				
Forwards and swaps	3,360	45,773	9,497	10,794
Cross currency swaps	1,329	4,346	-	-
Options	2,426	6,152	2,424	6,168
	7,115	56,271	11,921	16,962
Equity and commodity instruments				
Equity options	3,716	1,725	3,716	1,725
Commodity swaps	12	-	17	-
	3,728	1,725	3,733	1,725
	32,396	80,255	38,388	42,424

€ '000 **Trading derivatives – Notional values**	2012 Assets	2011 Assets	2012 Liabilities	2011 Liabilities
Interest rate instruments				
Swaps	983,183	1,045,710	983,183	1,045,710
Forward rate agreements	24,546	-	24,546	-
Options	203,123	145,649	203,123	145,649
	1,210,852	1,191,359	1,210,852	1,191,359
Foreign currency instruments				
Forwards and swaps	727,954	824,781	733,929	790,494
Cross currency swaps	31,808	69,803	30,449	65,433
Options	85,723	45,481	85,666	45,395
	845,485	940,065	850,044	901,322
Equity and commodity instruments				
Equity options	20,433	23,297	20,433	23,297
Commodity options	165	234	165	234
Commodity swaps	143	-	138	-
	20,741	23,531	20,736	23,531
	2,077,078	2,154,955	2,081,632	2,116,212

7. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

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

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

Below is a schedule indicating as at 31 December 2012, the periods when the hedged cash flows are expected to occur. The cash flows of mortgage bonds and AFS bond represent the future undiscounted value of coupons:

€ '000	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
2012			
Mortgage bonds – interest rate risk	(4,695)	(14,710)	-
AFS bond – interest rate risk	5,336	10,214	-
2011			
Mortgage bonds – interest rate risk	(4,982)	(12,848)	(1,674)

The net expense on cash flow hedges reclassified from ‘Other comprehensive income’ to the ‘Net interest income’ during 2012 was € 2,794 thousand (2011: net expense of € 2,455 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 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 seven interest rate swaps to hedge the interest rate risk arising from the issuance of seven fixed rate mortgage bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage bonds, both in relation to changes of interest rates.

In 2012, the Group recognised a net gain of € 5,571 thousand (2011: net gain of € 455 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 5,473 thousand (2011: net loss of € 300 thousand). Both items are disclosed within ‘Net trading result’.

During 2012, interest and similar income from hedged AFS securities in the amount of € 8,063 thousand (2011: € 8,038 thousand) was compensated by interest expense from interest rate swap hedging instruments in the amount of € 4,006 thousand (2011: € 2,559 thousand).

At 31 December 2012, interest expense from the hedged mortgage bonds in the amount of € 6,092 thousand (31 December 2011: € 163 thousand) was compensated by interest income from the interest rate swap hedging instruments in the amount of € 1,122 thousand (31 December 2011: € 17 thousand).

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 2012, the Group recognised in relation to the fair value hedging instruments of the foreign branch of VUB a net loss of € 116 thousand (2011: net loss of € 275 thousand). The net gain on hedged items attributable to the hedged risks amounted to € 106 thousand (2011: net gain of € 287 thousand). Both items are disclosed within ‘Net trading result’.

In 2012, interest and similar income from hedged fixed income loans in the amount of € 668 thousand (2011: € 463 thousand) was compensated by interest expense from interest rate swap hedging instruments in the amount of € 111 thousand (2011: € 86 thousand).

8. Available-for-sale financial assets

€ '000	Share 2012	Share 2011	2012	2011
State bonds of EU countries			1,470,678	1,439,321
Bank bonds			11,429	15,666
Equity shares at cost				
RVS, a.s.	8.38%	8.38%	574	574
S.W.I.F.T.	0.01%	0.06%	46	65
			1,482,727	1,455,626

At 31 December 2012 and 31 December 2011, 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 2012 € '000	Amortised cost	Impairment losses (note 10)	Carrying amount
Sovereigns			
Municipalities	160,578	(449)	160,129
Municipalities – Leasing	178	(3)	175
	160,756	(452)	160,304
Corporate			
Large Corporates	999,534	(9,960)	989,574
Specialized Lending	850,229	(40,584)	809,645
Small and Medium Enterprises ('SME')	718,931	(39,114)	679,817
Other Financial Institutions	180,365	(359)	180,006
Public Sector Entities	4,197	(105)	4,092
Leasing	235,854	(19,170)	216,684
Factoring	207,850	(3,009)	204,841
	3,196,960	(112,301)	3,084,659
Retail			
Small Business	187,830	(17,244)	170,586
Small Business – Leasing	17,194	(1,589)	15,605
Consumer Loans	1,079,798	(101,650)	978,148
Mortgages	2,830,474	(37,124)	2,793,350
Credit Cards	244,810	(38,486)	206,324
Overdrafts	115,870	(14,883)	100,987
Leasing	4,338	(185)	4,153
Flat Owners Associations	4,211	(55)	4,156
Other	8,647	(338)	8,309
	4,493,172	(211,554)	4,281,618
	7,850,888	(324,307)	7,526,581

9. Loans and advances to customers (continued)

31 December 2011 **€ '000**	**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
Public 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

At 31 December 2012, the 20 largest corporate customers represented a total balance of € 791,565 thousand (2011: € 808,010 thousand) or 10.08% (2011: 10.63%) of the gross loan portfolio.

Maturities of gross finance lease receivables are as follows:

€ '000	**2012**	**2011**
Up to 1 year	70,498	77,554
1 to 5 years	164,856	155,255
Over 5 years	58,309	53,426
	293,663	286,235
Unearned future finance income on finance leases	(36,099)	(40,127)
Impairment losses	(20,947)	(22,454)
	236,617	223,654

9. Loans and advances to customers (continued)

Maturities of net finance lease receivables are as follows:

€ '000	2012	2011
Up to 1 year	59,128	65,481
1 to 5 years	145,435	133,002
Over 5 years	53,001	47,625
	257,564	246,108
Impairment losses	(20,947)	(22,454)
	236,617	223,654

10. Impairment losses on assets

€ '000	Note	1 Jan 2012	Creation/ (Reversal) (note 31)	Assets written-off/sold (note 31)	FX losses/ (gains)	Other *	31 Dec 2012
Due from banks	5	202	(168)	-	-	-	34
Loans and advances to customers	9	332,431	70,200	(71,587)	27	(6,764)	324,307
Held-to-maturity investments	11	341	282	-	-	-	623
Property and equipment	15	756	(671)	-	-	-	85
Other assets	16	16,074	3,883	(462)	-	-	19,495
		349,804	73,526	(72,049)	27	(6,764)	344,544

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

€ '000	Note	1 Jan 2011	Creation/ (Reversal) (note 31)	Assets 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		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
- 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

11. Held-to-maturity investments

€ '000	2012	2011
State bonds	1,032,318	1,125,948
Bank bonds and other bonds issued by financial sector	10,026	10,052
Corporate notes and bonds with contractual maturity over 90 days	-	1,881
	1,042,344	1,137,881
Impairment losses (note 10)	(623)	(341)
	1,041,721	1,137,540

At 31 December 2012, state bonds in the total nominal amount of € 71,556 thousand were pledged by the Group to secure collateralized transactions. All of these state bonds pledged represented the substitute cover to mortgage bonds issued and were pledged in accordance with the requirements of the Act No. 530/1990 Collection on Bonds.

At 31 December 2011, state bonds in the total nominal amount of € 80,685 thousand were pledged in order to provide the substitute cover to mortgage bonds issued and state bonds in the total nominal amount of € 149,373 thousand were pledged to secure the loan received from the NBS that expired on 5 January 2012.

12. Associates and jointly controlled entities

€ '000	Share %	Cost	Revaluation	Carrying amount
At 31 December 2012				
Slovak Banking Credit Bureau, s.r.o.	33.3	3	40	43
VÚB Generali DSS, a.s.	50.0	16,597	(9,044)	7,553
		16,600	(9,004)	7,596
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

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

€ '000	2012	2011
Revaluation at 1 January	(9,523)	(10,381)
Share of profit	1,213	850
Share of revaluation reserves	56	8
Dividends received from VÚB Generali DSS, a.s.	(750)	-
Revaluation at 31 December	(9,004)	(9,523)

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

€ '000	2012	2011
Assets	8,065	7,266
Liabilities	512	231
Equity	7,553	7,035
Net profit for the year	1,212	842
Change of revaluation reserves for the year	26	(31)

12. Associates and jointly controlled entities (continued)

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

€ '000	2012	2011
Assets	225	200
Liabilities	182	158
Equity	43	42
Net profit for the year	1	8

13. Intangible assets

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2012	153,028	53,064	12,436	218,528
Additions	538	1,169	18,527	20,234
Disposals	(27)	(3)	(1)	(31)
Transfers	9,845	984	(10,829)	-
FX differences	12	-	-	12
At 31 December 2012	163,396	55,214	20,133	238,743
Accumulated amortisation				
At 1 January 2012	(129,196)	(47,846)	-	(177,042)
Amortisation for the year	(8,713)	(3,458)	-	(12,171)
Additions	(533)	(1,169)	-	(1,702)
Disposals	27	3	-	30
FX differences	(17)	-	-	(17)
At 31 December 2012	(138,432)	(52,470)	-	(190,902)
Carrying amount				
At 1 January 2012	23,832	5,218	12,436	41,486
At 31 December 2012	24,964	2,744	20,133	47,841

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

13. Intangible assets (continued)

€ '000	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

At 31 December 2012, the gross book value of fully amortised assets that are still used by the Group amounted to € 92,209 thousand (31 December 2011: € 81,256 thousand).

At 31 December 2012, the amount of contractual commitments for the acquisition of intangible assets was € 6,190 thousand (31 December 2011: € 6,492 thousand).

14. Goodwill

€ '000	2012	2011
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a.s.	18,871	18,871
	29,305	29,305

Goodwill related to VÚB Leasing, a. s. includes both goodwill related to the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million from 2007) and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million from 2010). Goodwill related to Consumer Finance Holding, a.s. ('CFH') arose in 2005 on the acquisition of CFH, the VUB Group's sales finance subsidiary.

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

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

14. Goodwill (continued)

The following rates are used by the Group:

	VÚB Leasing		CFH	
	2012	**2011**	**2012**	**2011**
Discount rate	10.40%	11.99%	10.40%	14.44%
Projected growth rate	5.21%	3.00%	5.21%	0.50%

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 € 0.8 million at 31 December 2012 (31 December 2011: € 1.9 million). A decrease in the projected growth rate of 1% would cause the carrying amount to exceed the recoverable amount by approximately € 0.3 million at 31 December 2012 (31 December 2011: € 1.4 million).

The recoverable amount of CFH is not sensitive to changes of key assumptions in both 2012 and 2011.

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

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

Interest margins

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

Discount rates

Discount rates are determined based on the Capital Asset Pricing Model ('CAPM'). The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

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

€ '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost					
At 1 January 2012	201,178	82,769	42,748	3,772	330,467
Additions	-	-	-	11,653	11,653
Disposals	(3,060)	(15,353)	(3,038)	-	(21,451)
Transfers	2,266	5,209	5,579	(13,054)	-
FX differences	2	6	2	-	10
At 31 December 2012	200,386	72,631	45,291	2,371	320,679
Accumulated depreciation					
At 1 January 2012	(86,445)	(65,986)	(30,548)	-	(182,979)
Depreciation for the year	(7,076)	(7,772)	(3,727)	-	(18,575)
Disposals	2,243	15,259	2,242	-	19,744
FX differences	(2)	(5)	(3)	-	(10)
At 31 December 2012	(91,280)	(58,504)	(32,036)	-	(181,820)
Impairment losses (note 10)					
At 1 January 2012	(504)	-	(252)	-	(756)
Disposals	461	-	210	-	671
At 31 December 2012	(43)	-	(42)	-	(85)
Carrying amount					
At 1 January 2012	114,229	16,783	11,948	3,772	146,732
At 31 December 2012	109,063	14,127	13,213	2,371	138,774

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

€ '000	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)
Disposals	-	-	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

At 31 December 2012, the gross book value of fully depreciated assets that are still used by the Group amounted to € 65,973 thousand (31 December 2011: € 69,367 thousand).

At 31 December 2012, the amount of contractual commitments for the acquisition of tangible assets was € 227 thousand (31 December 2011: € 184 thousand).

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

At 31 December 2012 and 31 December 2011, the VUB Group held in its portfolio of non-current assets held for sale land and buildings:

€ '000	2012	2011
Cost	2	6
Accumulated depreciation	-	(3)
	2	3

16. Other assets

€ '000	2012	2011
Operating receivables and advances	18,764	10,102
Inventories (incl. repossessed leased assets)	12,861	8,249
Receivables from termination of leasing	10,035	7,505
Prepayments and accrued income	5,622	4,857
Other tax receivables	5,450	2,626
Settlement of operations with financial instruments	7	1,517
Other	48	318
	52,787	35,174
Impairment losses (note 10)	(19,495)	(16,074)
	33,292	19,100

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

17. Due to central and other banks

€ '000	2012	Restated 2011
Due to central banks		
Current accounts	69,378	68,111
Loans received from central banks	-	115,947
	69,378	184,058
Due to other banks		
Current accounts	7,569	9,600
Term deposits	140,751	110,561
Loans received	308,667	299,949
Cash collateral received	7,200	84,301
	464,187	504,411
	533,565	688,469

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

The comparative balance of 'Loans received' for 2011 was restated to separately present the cash collateral received in order to provide more relevant information to the users of the financial statements.

The breakdown of 'Loans received' according to the counterparty is presented below:

€ '000	2012	2011
Intesa Sanpaolo S.p.A.	215,699	211,742
Tatra banka, a.s.	40,000	40,000
Council of Europe Development Bank	34,647	39,882
Komerční banka, a.s.	9,610	6,971
BKS Bank AG	8,000	-
Slovenská záručná a rozvojová banka, a.s. ('SZRB')	681	1,323
Other	30	31
	308,667	299,949

17. Due to central and other banks (continued)

Intesa Sanpaolo S.p.A.

At 31 December 2012, there were several loan arrangements concluded with Intesa Sanpaolo S.p.A. maturing between 2013 and 2017 and with interest rates between 0.38% and 3.62%. At 31 December 2011 the interest rates were in the range between 1.46% and 5.58%. The frequency of the repayment of the principal and interests varies for each loan contract.

Tatra banka, a.s.

Loans received from Tatra banka, a.s. comprised of two loans in the nominal amount of € 15,000 thousand and € 25,000 thousand, both maturing on 12 September 2014. The principal is payable at the maturity of the loans and the interest is payable on monthly basis. The agreed interest rates were 3.85% and 3.84%, respectively.

Council of Europe Development Bank

At 31 December 2012, loans from Council of Europe Development Bank comprised of seven loans in the nominal amount of € 6,667 thousand, € 2,979 thousand, € 3,497 thousand, € 1,500 thousand, € 1,500 thousand, € 10,500 thousand and € 8,000 thousand (31 December 2011: seven loans in the nominal amount of € 7,333 thousand, € 3,575 thousand, € 3,934 thousand, € 2,000 thousand, € 2,000 thousand, € 12,000 thousand and € 9,000 thousand). The purpose of these loans is to fund SME projects and development of municipalities in the Slovak republic.

The interest rates of these loans are linked to 3M Euribor and are between 0.18% and 0.66% at 31 December 2012 (31 December 2011: 1.45% - 1.86%). The interest is payable quarterly and the principal is payable on annual basis. The maturity of the individual loans is between 2015 and 2022.

Komerční banka, a.s.

At 31 December 2012, the balance with Komerční banka, a.s. comprised of one loan in the nominal amount of € 9,600 thousand which was granted on 7 November 2012 and is maturing on 7 February 2013. The loan has a fixed interest rate of 0.7% and both principal and interest are repayable at the maturity. At 31 December 2011 the balance comprised of two loans which were fully repaid in 2012.

BKS Bank AG

The loan received from BKS Bank AG in the nominal amount of € 8,000 thousand is maturing on 30 June 2016. The interest rate is 3.4% with monthly interest payments and bullet repayment of the principal.

Slovenská záručná a rozvojová banka, a.s.

Loans from SZRB were granted under the programmes 'Podpora', 'Rozvoj' and 'Rozvoj II' to support the long and mid-term development of small and medium sized enterprises. Under these programmes, individual contracts were concluded between the Bank and SZRB to finance specific clients. The interest rates are between 1.29% and 3.7% and the payment conditions are in line with individual client contracts. In the case the client is late with the repayment of the loan the Group is obliged to repay the total amount of the loan granted by SZRB.

18. Due to customers

€ '000	2012	2011
Current accounts	3,099,753	2,909,565
Term deposits	3,805,321	3,750,924
Savings accounts	223,894	247,784
Government and municipal deposits	400,918	327,652
Loans received	133,785	159,642
Promissory notes	61,707	56,767
Other deposits	41,091	35,074
	7,766,469	7,487,408

19. Debt securities in issue

€ '000	2012	2011
Bonds	58	41,986
Mortgage bonds	1,019,919	1,410,797
Mortgage bonds subject to cash flow hedges	163,897	180,232
Mortgage bonds subject to fair value hedges	228,195	27,278
	1,412,011	1,618,307
Revaluation of fair value hedged mortgage bonds	5,693	194
	1,417,762	1,660,487

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 2012	Nominal value in CCY per piece	Issue date	Maturity date	2012 € '000	2011 € '000
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.	0.30	EUR	1,678	33,194	28.11.2005	28.11.2015	55,715	55,780
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. XXVIII.	1.95	CZK	-	1,000,000	20.6.2007	20.6.2012	-	38,905
Mortgage bonds VÚB, a.s. XXIX.	1.07	EUR	-	33,194	16.10.2007	16.10.2012	-	16,657
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	33,364	33,346
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	19,650	19,638
Mortgage bonds VÚB, a.s. 32.	2.18	CZK	800	1,000,000	17.12.2007	17.12.2017	33,832	33,412
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	21,347	21,257
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,895	18,846
Mortgage bonds VÚB, a.s. 39.	0.87	EUR	60	1,000,000	26.6.2008	26.6.2015	60,004	60,017
Mortgage bonds VÚB, a.s. 40.	0.93	EUR	70	1,000,000	28.8.2008	28.8.2015	70,061	70,146
Mortgage bonds VÚB, a.s. 41.	5.63	USD	34	1,000,000	30.9.2008	30.9.2013	26,136	26,651
Mortgage bonds VÚB, a.s. 42.	4.00	EUR	-	50,000	28.4.2009	28.4.2012	-	20,540
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,582	15,484
Mortgage bonds VÚB, a.s. 44.	4.75	EUR	-	50,000	11.2.2009	11.2.2012	-	15,633
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	49	1,000,000	19.5.2009	19.5.2016	50,393	154,264
Mortgage bonds VÚB, a.s. 48.	4.00	EUR	19,930	1,000	11.5.2009	11.5.2013	20,440	20,472
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	8,438

(Table continues on the next page)

19. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2012	Nominal value in CCY per piece	Issue date	Maturity date	2012 € '000	2011 € '000
Mortgage bonds VÚB, a.s. 51.	0.80	EUR	21	1,000,000	8.4.2010	8.4.2014	21,196	100,492
Mortgage bonds VÚB, a.s. 52.	1.10	EUR	161	50,000	15.3.2010	15.3.2014	8,076	8,101
Mortgage bonds VÚB, a.s. 53.	0.94	EUR	100	1,000,000	8.4.2010	8.4.2017	100,216	100,525
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.	2.41	EUR	-	1,000,000	30.9.2010	30.9.2017	-	70,543
Mortgage bonds VÚB, a.s. 57.	1.75	EUR	100	1,000,000	30.9.2010	30.9.2018	100,445	100,772
Mortgage bonds VÚB, a.s. 58.	2.14	EUR	80	1,000,000	10.12.2010	10.12.2019	80,100	80,164
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	25,000	1,000	1.3.2011	1.3.2015	25,625	25,625
Mortgage bonds VÚB, a.s. 60.	1.26	CZK	4,345	100,000	20.5.2011	20.5.2014	17,281	16,856
Mortgage bonds VÚB, a.s. 61.	3.10	EUR	467	10,000	7.6.2011	7.6.2015	4,670	4,666
Mortgage bonds VÚB, a.s. 62.	2.70	EUR	100	1,000,000	28.7.2011	28.7.2018	101,151	101,624
Mortgage bonds VÚB, a.s. 63.	3.75	EUR	35,000	1,000	16.9.2011	16.3.2016	35,383	35,383
Mortgage bonds VÚB, a.s. 64.	3.25	CZK	7,000	100,000	26.9.2011	26.9.2016	27,989	27,278
Mortgage bonds VÚB, a.s. 65.	1.42	EUR	-	1,000,000	26.10.2011	26.10.2012	-	59,362
Mortgage bonds VÚB, a.s. 66.	2.05	EUR	700	50,000	28.11.2011	28.11.2014	34,842	25,603
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a.s. 68.	4.00	EUR	35,000	1,000	16.01.2012	16.07.2015	36,342	-
Mortgage bonds VÚB, a.s. 69.	4.50	EUR	1,000	20,000	06.02.2012	06.02.2016	20,476	-
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	07.03.2012	07.03.2017	41,150	-
Mortgage bonds VÚB, a.s. 71.	3.90	EUR	750	20,000	02.05.2012	02.05.2017	15,425	-
Mortgage bonds VÚB, a.s. 72.	4.70	EUR	250	100,000	21.06.2012	21.06.2027	25,380	-
Mortgage bonds VÚB, a.s. 73.	4.20	EUR	500	100,000	11.07.2012	11.07.2022	50,580	-
							1,412,011	1,618,307

20. Current and deferred income taxes

€ '000	2012	2011
Current income tax assets	16,475	2,791

€ '000	2012	2011
Deferred income tax assets	43,637	77,463

Deferred income taxes are calculated on all temporary differences using a tax rate of 23% (31 December 2011: 19%) as follows:

€ '000	2012	Profit/ (loss) (note 32)	Equity	2011
Due from banks	8	(30)	-	38
Derivative financial instruments designated as cash flow hedges	426	-	(651)	1,077
Available-for-sale financial assets	(17,266)	-	(34,295)	17,029
Loans and advances to customers	62,895	2,677	-	60,218
Held-to-maturity investments	143	78	-	65
Intangible assets identified on acquisition	(82)	419	-	(501)
Property and equipment	(3,309)	(6)	-	(3,303)
Provisions	230	230	-	-
Other liabilities	2,418	(1,949)	-	4,367
Other	(1,826)	(299)	-	(1,527)
Deferred income tax assets	43,637	1,120	(34,946)	77,463

Based on the Amendment to the Act on income taxes, the tax rate of 23% represents the income tax rate valid from 1 January 2013. In the case there was not a change in the income tax rate, the deferred income tax asset calculated using the rate of 19% would be € 35,998 thousand.

21. Provisions

€ '000	2012	2011
Litigation	24,607	27,328
Restructuring provision	1,000	-
	25,607	27,328

The Group has created a restructuring provision for the purpose of organisational structure changes planned to take place during the year 2013.

21. Provisions (continued)

The movements in provisions were as follows:

€ '000	1 Jan 2012	Creation	Reversal	Use	Other	31 Dec 2012
Litigation (note 24, note 30)	27,328	4,559	(6,584)	(696)	-	24,607
Restructuring provision (note 29)	-	1,000	-	-	-	1,000
	27,328	5,559	(6,584)	(696)	-	25,607

€ '000	1 Jan 2011	Creation	Reversal	Use	FX diff	31 Dec 2011
Litigation (note 24, note 30)	24,256	3,604	(27)	(491)	(14)	27,328

22. Other liabilities

€ '000	2012	2011
Various creditors	33,662	24,218
Factoring	17,957	24,796
Financial guarantees and commitments	13,951	10,800
Settlement with employees	12,963	21,539
Accruals and deferred income	8,751	6,253
VAT payable and other tax payables	4,554	2,547
Severance and Jubilee benefits	3,145	1,942
Settlement with shareholders	850	974
Retention program	698	904
Share remuneration scheme	330	-
Settlement with securities	8	99
Other	897	894
	97,766	94,966

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

€ '000	Note	1 Jan 2012	Creation/ (Reversal)	FX diff	31 Dec 2012
Financial guarantees and commitments	31	10,800	3,144	7	13,951
Severance and Jubilee benefits	29	1,942	1,203	-	3,145
Retention program	29	904	(206)	-	698
		13,646	4,141	7	17,794

€ '000	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

22. Other liabilities (continued)

The movements in social fund liability presented within Settlement with employees were as follows:

€ '000	1 Jan 2012	Creation (note 29)	Use	31 Dec 2012
Social fund	1,142	1,207	(1,471)	878

€ '000	1 Jan 2011	Creation (note 29)	Use	31 Dec 2011
Social fund	1,289	1,332	(1,479)	1,142

23. Equity

€ '000	2012	2011
Share capital - authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,368	13,368
Reserves	154,146	17,887
Retained earnings (excluding net profit for the year)	603,557	476,281
	1,201,890	938,355
Net profit for the year attributable to shareholders	119,704	176,903

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

The structure of shareholders is as follows:

	2012	2011
Intesa Sanpaolo Holding International S.A.	96.84%	96.76%
Domestic shareholders	2.72%	2.91%
Foreign shareholders	0.44%	0.33%
	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.

23. Equity (continued)

The VUB Group's regulatory capital position at 31 December 2012 and 31 December 2011 was as follows:

€ '000	2012	2011
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,368	13,368
Retained earnings without net profit for the year	603,557	476,281
Legal reserve fund	97,743	95,261
Less goodwill and software (including software in Assets in progress)	(74,402)	(65,573)
Less negative revaluation of available-for-sale financial assets *	-	(85,726)
Less expected loss	(14,828)	(57,073)
	1,056,257	807,357
Tier 2 capital		
Positive revaluation of available-for-sale financial assets *	64,799	759
IRB shortfall	5,110	-
	69,909	759
Regulatory adjustment		
Associates and jointly controlled entities	(7,553)	(7,035)
Expected loss (incl. equity instruments)	(15)	(4,286)
	(7,568)	(11,321)
Total regulatory capital	1,118,598	796,795

* 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. The positive revaluation differences net of tax represent Tier 2 capital.

€ '000	2012	2011
Tier 1 capital	1,056,257	807,357
Tier 2 capital	69,909	759
Regulatory adjustment	(7,568)	(11,321)
Total regulatory capital	1,118,598	796,795
Total Risk Weighted Assets	7,014,769	7,508,276
Tier 1 capital ratio	15.06%	10.75%
Total capital ratio	15.95%	10.61%

23. Equity (continued)

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

The 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 2012 and 31 December 2011.

In addition to the requirements 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 was obliged to maintain the Total capital ratio of at least 10% for both the separate and consolidated level during the year 2012. In December 2012 the Group has received a new decision that requires to maintain the Total capital ratio of at least 10.05% for both the separate and consolidated level. The VUB Group complied with this requirement as at 31 December 2012 and 31 December 2011.

24. Financial commitments and contingencies

€ '000	2012	2011
Issued guarantees	624,260	549,239
Commitments and undrawn credit facilities	2,058,440	2,142,115
	2,682,700	2,691,354

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

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 2012 and 31 December 2011 was as follows:

€ '000	2012	2011
Up to 1 year	240	577
1 to 5 years	186	282
Over 5 years	-	-
	426	859

24. Financial commitments and contingencies (continued)

(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 2012 and 31 December 2011 are as follows:

€ '000	2012	2011
Up to 1 year	1,672	598
1 to 5 years	2,342	1,683
Over 5 years	-	-
	4,014	2,281

(e) Legal proceedings

In the normal course of business the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2012. Pursuant to this review, management has recorded total provisions of € 24,607 thousand (31 December 2011: € 27,328 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 € 5,219 thousand, as at 31 December 2012 (31 December 2011: € 21,078 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

€ '000	2012	2011
Interest and similar income		
Due from banks	17,004	16,397
Loans and advances to customers	430,889	413,022
Bonds, treasury bills and other securities:		
Financial assets at fair value through profit or loss	6,216	8,969
Available-for-sale financial assets	45,323	53,348
Held-to-maturity investments	43,699	49,545
	543,131	541,281
Interest and similar expense		
Due to banks	(8,727)	(9,004)
Due to customers	(87,211)	(76,213)
Debt securities in issue	(55,957)	(53,186)
	(151,895)	(138,403)
	391,236	402,878

Interest income on impaired loans and advances to customers for 2012 amounted to € 21,434 thousand (2011: € 13,978 thousand).

26. Net fee and commission income

€ '000	2012	2011
Fee and commission income		
Received from banks	6,534	6,395
Received from customers:		
Current accounts	48,620	46,430
Loans and guarantees	38,032	39,285
Transactions and payments	24,405	23,702
Insurance mediation	12,957	11,429
Mutual funds	5,564	7,057
Overdrafts	1,589	1,921
Securities - Custody fee	983	1,000
Term deposits	926	1,003
Securities	273	757
Other	2,411	2,427
	142,294	141,406
Fee and commission expense		
Paid to banks	(14,948)	(13,803)
Paid to mediators:		
Credit cards	(8,389)	(7,332)
Securities	(485)	(629)
Services	(7,142)	(8,810)
Other	(1,706)	(2,405)
	(32,670)	(32,979)
	109,624	108,427

27. Net trading result

€ '000	2012	2011
Foreign currency derivatives and transactions	2,119	766
Customer FX margins	5,173	4,839
Cross currency swaps	1,340	(1,908)
Equity derivatives	238	80
Other derivatives	5	-
Interest rate derivatives *	5,499	(1,086)
Securities:		
Financial assets at fair value through profit or loss		
Held for trading	757	(1,307)
Designated at fair value through profit or loss on initial recognition	81	-
Available-for-sale financial assets *	(36,258)	(248)
Held-to-maturity investments	1,059	-
Debt securities in issue *	(5,498)	(194)
	(25,485)	942

* 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).

27. Net trading result (continued)

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

28. Other operating income

€ '000	2012	2011
Income from leasing	2,428	3,071
Rent	939	1,133
Services	408	366
Financial revenues	263	22
Sales of consumer goods	-	191
Compensation settlement from Generali Slovensko poisťovňa, a.s. *	-	4,100
Net (loss)/profit from sale of fixed assets	(109)	277
Other	2,409	4,486
	6,338	13,646

* 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

€ '000	2012	2011
Remuneration	(67,808)	(75,881)
Social security costs	(26,416)	(26,193)
Social fund (note 22)	(1,207)	(1,332)
Retention program (note 22)	206	112
Severance and Jubilee benefits (note 22)	(1,203)	(550)
Restructuring provision (note 21)	(1,000)	-
	(97,428)	(103,844)

At 31 December 2012, the total number of employees of the VUB Group was 4,003 (31 December 2011: 4,062).

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

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

€ '000	2012	2011
Property related expenses	(16,343)	(14,815)
IT systems maintenance	(14,644)	(13,475)
Post and telecom	(12,506)	(12,344)
Advertising and marketing	(12,505)	(11,446)
VAT and other taxes	(8,834)	(7,543)
Equipment related expenses	(5,945)	(6,668)
Contribution to the Deposit Protection Fund	(4,556)	(8,562)
Stationery	(4,068)	(3,564)
Security	(3,560)	(3,708)
Professional services	(1,880)	(3,209)
Insurance	(1,652)	(1,692)
Transport	(899)	(919)
Travelling	(777)	(853)
Training	(738)	(778)
Audit *	(672)	(868)
Third parties' services	(647)	-
Other damages	(485)	(215)
Litigations paid	(365)	(617)
Provisions for litigation (note 21)	2,025	(3,134)
Other operating expenses	(2,715)	(5,404)
	(91,766)	(99,814)

* As at 31 December 2012 the audit expense consists of fees for the statutory audit in the amount of € 302 thousand (31 December 2011: € 347 thousand), group reporting in the amount of € 302 thousand (31 December 2011: € 347 thousand) and other reporting in the amount of € 68 thousand (31 December 2011: € 174 thousand).

At 31 December 2012, the special levy recognized by the Bank was as follows:

€ '000	2012	2011
Special levy of selected financial institutions *	(35,151)	-

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

Based on the amendment to the Act on Special levy of selected financial institutions, effective from 1 September 2012 the basis for calculation of the levy was extended by the amount of deposits subject to protection based on the special regulation. In addition, the levy for the last quarter of 2012 comprises extraordinary levy of 0.1% of the liabilities presented in the individual financial statements for the year ended 31 December 2011.

31. Impairment losses

€ '000	2012	2011
Net creation of impairment losses (note 10)	(73,526)	(68,332)
Net (creation)/reversal of liabilities – financial guarantees and commitments (note 22)	(3,144)	2,860
	(76,670)	(65,472)
Nominal value of assets written-off/sold	(96,207)	(60,715)
Proceeds from assets written-off/sold	20,833	12,202
	(75,374)	(48,513)
Release of impairment losses to assets written-off/sold (note 10)	72,049	46,050
	(79,995)	(67,935)

32. Income tax expense

€ '000	2012	2011
Current income tax	(29,256)	(46,154)
Deferred income tax (note 20)	1,120	518
	(28,136)	(45,636)

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

€ '000	2012	2011
Due from banks	(30)	9
Loans and advances to customers	2,677	2,036
Held-to-maturity investments	78	18
Intangible assets identified on acquisition	419	809
Property and equipment	(6)	(729)
Provisions	230	-
Other liabilities	(1,949)	(146)
Other	(299)	(1,479)
	1,120	518

32. Income tax expense (continued)

The effective tax rate differs from the statutory tax rate in 2012 and in 2011. Reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

€ '000	2012		2011	
	Tax base	Tax at applicable tax rate (19%)	Tax base	Tax at applicable tax rate (19%)
Profit before tax	147,840	(28,090)	222,539	(42,282)
Tax effect of expenses that are not deductible in determining taxable profit				
Creation of provisions and other reserves	22,140	(4,207)	8,054	(1,530)
Creation of impairment losses	144,647	(27,483)	212,527	(40,380)
Write-off and sale of assets	8,983	(1,707)	6,919	(1,315)
Other	13,323	(2,531)	24,645	(4,683)
	189,093	(35,928)	252,145	(47,908)
Tax effect of revenues that are deductible in determining taxable profit				
Release of provisions and other reserves	(16,517)	3,138	(9,615)	1,827
Release of impairment losses	(145,188)	27,586	(202,274)	38,432
Other	(20,463)	3,888	(19,874)	3,776
	(182,168)	34,612	(231,763)	44,035
Adjustments for current tax of prior periods	(747)	142	(379)	72
Withholding tax paid abroad - settlement of advance payments	(42)	8	374	(71)
Current income tax	153,976	(29,256)	242,916	(46,154)
Deferred income tax at 23% in 2012 (note 20)		1,120		518
Income tax expense		(28,136)		(45,636)
Effective tax rate		19.03%		20.51%

33. Other comprehensive income

€ '000	2012	2011
Exchange differences on translating foreign operations	152	(38)
Available-for-sale financial assets:		
Revaluation gains/(losses) arising during the year	128,470	(55,572)
Reclassification adjustment for loss on sale of AFS bonds included in the profit or loss	36,283	-
	164,753	(55,572)
Cash flow hedges:		
Revaluation gains/(losses) arising during the year	3,757	(1,242)
Total other comprehensive income	168,662	(56,852)
Income tax relating to components of other comprehensive income	(34,936)	10,796
Other comprehensive income for the year	133,726	(46,056)

34. Income tax effects relating to other comprehensive income

	2012			2011		
€ '000	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax benefit	Net of tax amount
Exchange differences on translating foreign operations	152	-	152	(38)	-	(38)
Available-for-sale financial assets	164,753	(34,295)	130,458	(55,572)	10,560	(45,012)
Net movement on cash flow hedges	3,757	(641)	3,116	(1,242)	236	(1,006)
	168,662	(34,936)	133,726	(56,852)	10,796	(46,056)

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 2012 **€ '000**	**Note**	**FVTPL/ 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	-	-	150,837	-	-	150,837	150,837
Due from banks	5	-	-	580,780	-	-	580,780	583,944
Financial assets at fair value through profit or loss	6	73,770	-	-	-	-	73,770	73,770
Derivative financial instruments	7	42,619	-	-	-	-	42,619	42,619
Available-for-sale financial assets	8	-	-	-	1,482,727	-	1,482,727	1,482,727
Loans and advances to customers	9	-	-	7,526,581	-	-	7,526,581	8,521,824
Held-to-maturity investments	11	-	1,041,721	-	-	-	1,041,721	1,130,340
		116,389	1,041,721	8,258,198	1,482,727	-	10,899,035	11,986,061
Due to central and other banks	17	-	-	-	-	(533,565)	(533,565)	(533,565)
Derivative financial instruments	7	(53,194)	-	-	-	-	(53,194)	(53,194)
Due to customers	18	-	-	-	-	(7,766,469)	(7,766,469)	(7,682,051)
Debt securities in issue	19	-	-	-	-	(1,417,762)	(1,417,762)	(1,414,365)
		(53,194)	-	-	-	(9,717,796)	(9,770,990)	(9,683,175)

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

31 December 2011 € '000	Note	FVTPL/ 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 at fair value through profit or loss	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)

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

€ '000	Note	2012 Level 1	2012 Level 2	2012 Level 3	2012 Total	2011 Level 1	2011 Level 2	2011 Level 3	2011 Total
Financial assets									
Financial assets at fair value through profit or loss	6								
Treasury bills and other eligible bills		-	24,970	-	24,970	23,098	169,135	-	192,233
State bonds		-	43,273	-	43,273	47,279	30,340	-	77,619
Bank bonds		-	314	-	314	-	-	-	-
Equity shares		330	-	-	330	-	-	-	-
Mutual funds		4,883	-	-	4,883	4,110	-	-	4,110
		5,213	68,557	-	73,770	74,487	199,475	-	273,962
Derivative financial instruments	7								
Interest rate instruments		-	31,776	-	31,776	-	22,403	-	22,403
Foreign currency instruments		-	7,115	-	7,115	-	56,271	-	56,271
Equity and commodity instruments		-	3,728	-	3,728	-	1,725	-	1,725
		-	42,619	-	42,619	-	80,399	-	80,399
Available-for-sale financial assets	8								
State bonds		117,609	1,353,069	-	1,470,678	256,449	1,182,872	-	1,439,321
Bank bonds		-	11,429	-	11,429	-	15,666	-	15,666
Equity shares		-	620	-	620	-	639	-	639
		117,609	1,365,118	-	1,482,727	256,449	1,199,177	-	1,455,626
Financial liabilities									
Derivative financial instruments	7								
Interest rate instruments		-	37,540	-	37,540	-	38,695	-	38,695
Foreign currency instruments		-	11,921	-	11,921	-	16,962	-	16,962
Equity and commodity instruments		-	3,733	-	3,733	-	1,725	-	1,725
		-	53,194	-	53,194	-	57,382	-	57,382

There were no significant transfers of financial instruments among the levels during 2012 and 2011.

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

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).

Impairment losses

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

If there is evidence of impairment for any individually significant client of the Group, such as a breach of contract, problems with repayments or collateral, the Group transfers such a client to the Recovery Department, 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.

36. Financial risk management (continued)

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

€ '000	2012 Amortised cost	2012 Impairment losses	2012 Carrying amount	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount
Portfolio assessed						
Banks	580,814	(34)	580,780	502,342	(51)	502,291
Customers						
Sovereigns	160,475	(339)	160,136	150,190	(172)	150,018
Corporate	2,979,450	(32,819)	2,946,631	2,960,045	(26,497)	2,933,548
Retail	4,470,486	(202,667)	4,267,819	4,252,245	(222,138)	4,030,107
	7,610,411	(235,825)	7,374,586	7,362,480	(248,807)	7,113,673
Securities						
FVTPL	73,770	-	73,770	273,962	-	273,962
AFS	1,482,727	-	1,482,727	1,455,626	-	1,455,626
HTM	1,042,344	(623)	1,041,721	1,136,000	(231)	1,135,769
	2,598,841	(623)	2,598,218	2,865,588	(231)	2,865,357
Individually assessed						
Banks	-	-	-	151	(151)	-
Customers						
Sovereigns	281	(113)	168	464	(122)	342
Corporate	217,510	(79,482)	138,028	215,760	(76,041)	139,719
Retail	22,686	(8,887)	13,799	20,273	(7,461)	12,812
	240,477	(88,482)	151,995	236,497	(83,624)	152,873
Securities						
HTM	-	-	-	1,881	(110)	1,771
	-	-	-	1,881	(110)	1,771

36. Financial risk management (continued)

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.

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

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

Credit risk measurement

The Bank generally uses the standardised approach for the calculation of the capital requirement. However, for the calculation of credit and counterparty risk capital requirements, the Bank, having received authorisation from the Supervisory Authority, uses the Foundation IRB approach for the Corporate segment from February 2011 and Advanced IRB approach for portfolio of residential mortgages from July 2012. 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:

€ '000	Category	2012 Amortised cost	2012 Impairment losses	2012 Carrying amount	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount
Banks							
	Performing	580,814	(34)	580,780	502,342	(51)	502,291
	Doubtful	-	-	-	151	(151)	-
		580,814	(34)	580,780	502,493	(202)	502,291
Sovereigns							
	Performing	160,457	(339)	160,118	149,881	(172)	149,709
	Past due	-	-	-	307	-	307
	Substandard	18	-	18	173	(5)	168
	Doubtful	281	(113)	168	293	(117)	176
		160,756	(452)	160,304	150,654	(294)	150,360
Corporate							
	Performing	2,999,536	(33,698)	2,965,838	2,968,757	(25,640)	2,943,117
	Past due	877	(115)	762	430	(186)	244
	Restructured	14,708	(2,943)	11,765	17,974	(5,997)	11,977
	Substandard	72,654	(18,449)	54,205	137,387	(35,791)	101,596
	Doubtful	109,185	(57,096)	52,089	51,257	(34,924)	16,333
		3,196,960	(112,301)	3,084,659	3,175,805	(102,538)	3,073,267
Retail							
	Performing	4,228,133	(54,011)	4,174,122	3,985,747	(59,699)	3,926,048
	Past due	39,659	(17,504)	22,155	41,710	(18,147)	23,563
	Substandard	32,510	(13,002)	19,508	33,411	(13,590)	19,821
	Doubtful	192,870	(127,037)	65,833	211,650	(138,163)	73,487
		4,493,172	(211,554)	4,281,618	4,272,518	(229,599)	4,042,919
Securities							
	Performing	2,598,841	(623)	2,598,218	2,865,588	(231)	2,865,357
	Substandard	-	-	-	1,881	(110)	1,771
		2,598,841	(623)	2,598,218	2,867,469	(341)	2,867,128

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. To express the maximum amount of credit risk, the fair value of derivative financial assets is increased by the value of the potential credit exposure ('add on') calculated as the nominal value of the derivative financial instrument multiplied by the respective coefficient depending on the type of the instrument, as defined by the NBS regulation no. 4/2007. The credit risk of the remaining financial assets not reported in the table below approximates their carrying amounts.

€ '000	**2012**	**2011**
Financial assets		
Derivative financial instruments	65,213	106,471
Financial commitments and contingencies		
Issued guarantees	624,260	549,239
Commitments and undrawn credit facilities	2,058,440	2,142,115
	2,682,700	2,691,354
	2,747,913	2,797,825

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.

	2012			**2011**		
€ '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks						
No delinquency	573,357	(31)	573,326	502,341	(51)	502,290
1 – 30 days	7,457	(3)	7,454	1	-	1
Over 181 days *	-	-	-	151	(151)	-
	580,814	(34)	580,780	502,493	(202)	502,291
Sovereigns						
No delinquency	157,377	(443)	156,934	149,991	(172)	149,819
1 – 30 days	3,314	(9)	3,305	124	-	124
31 – 60 days	47	-	47	73	-	73
91 – 180 days	15	-	15	464	(122)	342
Over 181 days *	3	-	3	2	-	2
	160,756	(452)	160,304	150,654	(294)	150,360
Corporate						
No delinquency	2,991,154	(62,271)	2,928,883	3,029,064	(60,815)	2,968,249
1 – 30 days	87,122	(7,645)	79,477	51,766	(1,422)	50,344
31 – 60 days	38,946	(1,691)	37,255	13,868	(450)	13,418
61 – 90 days	11,972	(1,182)	10,790	2,576	(193)	2,383
91 – 180 days	7,631	(4,066)	3,565	10,115	(1,425)	8,690
Over 181 days *	60,135	(35,446)	24,689	68,416	(38,233)	30,183
	3,196,960	(112,301)	3,084,659	3,175,805	(102,538)	3,073,267

36. Financial risk management (continued)

€ '000	2012 Amortised cost	2012 Impairment losses	2012 Carrying amount	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount
Retail						
No delinquency	3,949,887	(29,652)	3,920,235	3,750,683	(37,949)	3,712,734
1 – 30 days	197,840	(12,279)	185,561	164,888	(10,769)	154,119
31 – 60 days	53,833	(7,059)	46,774	45,840	(6,136)	39,704
61 – 90 days	29,876	(5,616)	24,260	27,970	(5,565)	22,405
91 – 180 days	46,453	(19,185)	27,268	43,571	(18,628)	24,943
Over 181 days *	215,283	(137,763)	77,520	239,566	(150,552)	89,014
	4,493,172	(211,554)	4,281,618	4,272,518	(229,599)	4,042,919
Securities						
No delinquency	2,598,841	(623)	2,598,218	2,867,469	(341)	2,867,128
	2,598,841	(623)	2,598,218	2,867,469	(341)	2,867,128

*** 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.

Collateral Policy

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

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

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

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

36. Financial risk management (continued)

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

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

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

The Group holds collateral 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:

	2012		2011	
€ '000	**Clients**	**Banks**	**Clients**	**Banks**
Debt securities	40,125	463,371	23,028	326,581
Other	930,060	30,916	832,676	107,079
Property	3,599,739	-	3,370,404	-
	4,569,924	494,287	4,226,108	433,660

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.

€ '000	2012 Amortised cost	2012 Impairment losses	2012 Carrying amount	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount
Europe						
Banks	550,893	(22)	550,871	472,808	(185)	472,623
Sovereigns	160,756	(452)	160,304	150,654	(294)	150,360
Corporate	3,196,960	(112,301)	3,084,659	3,175,805	(102,538)	3,073,267
Retail	4,491,041	(211,515)	4,279,526	4,270,146	(229,543)	4,040,603
Securities	2,598,841	(623)	2,598,218	2,865,588	(231)	2,865,357
	10,998,491	(324,913)	10,673,578	10,935,001	(332,791)	10,602,210
America						
Banks	29,818	(12)	29,806	29,123	(17)	29,106
Retail	360	(15)	345	625	(22)	603
Securities	-	-	-	1,881	(110)	1,771
	30,178	(27)	30,151	31,629	(149)	31,480
Asia						
Banks	69	-	69	211	-	211
Retail	1,065	(20)	1,045	980	(28)	952
	1,134	(20)	1,114	1,191	(28)	1,163
Rest of the World						
Banks	34	-	34	351	-	351
Retail	706	(4)	702	767	(6)	761
	740	(4)	736	1,118	(6)	1,112

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

€ '000	2012 Amortised cost	2012 Impairment losses	2012 Carrying amount	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount
Europe						
Slovakia	2,569,097	(623)	2,568,474	2,451,700	(231)	2,451,469
Poland	22,718	-	22,718	202,521	-	202,521
Italy	330	-	330	34,050	-	34,050
Ireland	-	-	-	120,427	-	120,427
Portugal	-	-	-	27,219	-	27,219
Czech Republic	-	-	-	23,098	-	23,098
Other	6,696	-	6,696	8,454	(110)	8,344
	2,598,841	(623)	2,598,218	2,867,469	(341)	2,867,128

36. Financial risk management (continued)

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

31 December 2012 **€ '000**	**Banks**	**Sovereigns**	**Corporate**	**Retail**	**Securities**
Agriculture	-	-	41,782	15,460	-
Construction	-	-	164,229	15,662	-
Consumers	-	-	75	4,088,767	-
Energy and water supply	-	-	366,006	1,617	-
Financial services	580,780	-	142,086	514	27,598
Government	-	149,823	-	-	2,570,620
Manufacturing	-	-	549,865	24,922	-
Professional services	-	-	81,892	10,238	-
Real estate	-	-	430,386	11,342	-
Retail & Wholesale	-	-	677,320	64,183	-
Services	-	-	189,314	16,723	-
Transportation	-	10,397	297,795	10,757	-
Other	-	84	143,909	21,433	-
	580,780	160,304	3,084,659	4,281,618	2,598,218

31 December 2011 **€ '000**	**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

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.

31 December 2012 € '000	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	573,357	(31)	573,326	-	-	-	7,457	(3)	7,454
Sovereigns									
Municipalities	157,094	(330)	156,764	299	(113)	186	3,185	(6)	3,179
Municipalities – Leasing	177	(3)	174	-	-	-	1	-	1
	157,271	(333)	156,938	299	(113)	186	3,186	(6)	3,180
Corporate									
Large Corporates	973,912	(5,037)	968,875	16,388	(4,923)	11,465	9,234	-	9,234
Specialized Lending	763,853	(15,358)	748,495	79,890	(25,007)	54,883	6,486	(219)	6,267
SME	635,942	(8,460)	627,482	69,228	(29,685)	39,543	13,761	(969)	12,792
Other Fin. Institutions	180,245	(336)	179,909	119	(23)	96	1	-	1
Public Sector Entities	4,186	(105)	4,081	9	-	9	2	-	2
Leasing	171,583	(1,566)	170,017	27,890	(16,344)	11,546	36,381	(1,260)	35,121
Factoring	155,971	(337)	155,634	3,900	(2,621)	1,279	47,979	(51)	47,928
	2,885,692	(31,199)	2,854,493	197,424	(78,603)	118,821	113,844	(2,499)	111,345
Retail									
Small Business	163,113	(3,523)	159,590	17,141	(13,131)	4,010	7,576	(590)	6,986
Small Business – Leasing	10,317	(92)	10,225	3,683	(1,381)	2,302	3,194	(116)	3,078
Consumer Loans	856,283	(13,125)	843,158	113,470	(75,021)	38,449	110,045	(13,504)	96,541
Mortgages	2,649,515	(8,340)	2,641,175	68,581	(23,164)	45,417	112,378	(5,620)	106,758
Credit Cards	176,677	(3,272)	173,405	45,734	(31,837)	13,897	22,399	(3,377)	19,022
Overdrafts	77,863	(954)	76,909	15,683	(12,546)	3,137	22,324	(1,383)	20,941
Leasing	3,455	(17)	3,438	161	(133)	28	722	(35)	687
Flat Owners Associations	4,113	(54)	4,059	-	-	-	98	(1)	97
Other	8,003	(8)	7,995	586	(330)	256	58	-	58
	3,949,339	(29,385)	3,919,954	265,039	(157,543)	107,496	278,794	(24,626)	254,168
Securities									
FVTPL	73,770	-	73,770	-	-	-	-	-	-
AFS	1,482,727	-	1,482,727	-	-	-	-	-	-
HTM	1,042,344	(623)	1,041,721	-	-	-	-	-	-
	2,598,841	(623)	2,598,218	-	-	-	-	-	-

36. Financial risk management (continued)

31 December 2011 € '000	Neither past due nor impaired Amortised cost	Impairment losses	Carrying amount	Impaired (non-performing) Amortised cost	Impairment losses	Carrying amount	Past due but not impaired 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	-	-	-
Public 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									
FVTPL	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)

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

€ '000	2012 Amortised cost	2012 Impairment losses	2012 Carrying amount	2011 Amortised cost	2011 Impairment losses	2011 Carrying amount
Banks						
1 – 30 days	7,457	(3)	7,454	1	-	1
	7,457	(3)	7,454	1	-	1
Sovereigns						
1 – 30 days	3,140	(6)	3,134	74	-	74
31 – 60 days	46	-	46	31	-	31
	3,186	(6)	3,180	105	-	105
Corporate						
1 – 30 days	66,943	(1,040)	65,903	51,472	(1,393)	50,079
31 – 60 days	37,701	(1,225)	36,476	12,253	(243)	12,010
61 – 90 days	9,104	(208)	8,896	2,507	(177)	2,330
91 – 180 days	57	(10)	47	7	-	7
Over 181 days	39	(16)	23	-	-	-
	113,844	(2,499)	111,345	66,239	(1,813)	64,426
Retail						
1 – 30 days	194,968	(11,859)	183,109	164,634	(10,727)	153,907
31 – 60 days	53,785	(7,039)	46,746	45,826	(6,135)	39,691
61 – 90 days	29,642	(5,559)	24,083	27,478	(5,490)	21,988
91 – 180 days	267	(125)	142	159	(68)	91
Over 181 days	132	(44)	88	90	(31)	59
	278,794	(24,626)	254,168	238,187	(22,451)	215,736

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 problematic debt management.

* For part of Specialized Lending, the usage of the Slotting approach was approved by the NBS in 2012. Clients from rating segments Special Purpose Vehicles ('SPV') and Projected Finance ('PF'), both disclosed within Specialized lending, are assigned into five slotting categories based on the qualitative valuation and information about the default. Risk weights and expected loss used for the capital requirement calculation is also defined for each category. Categories are prescribed by the NBS decree no. 4/2007 and internally, categories used are as follows:

Specialized Lending – SPV and PF

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

36. Financial risk management (continued)

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

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

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

31 December 2012 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	580,814	(34)	580,780
Sovereigns				
Municipalities, Municipalities – Leasing	Unrated	160,756	(452)	160,304
		160,756	(452)	160,304
Corporate				
Large Corporates, Specialized lending excl. SPV and PF, SME	I1 - I6	715,589	(492)	715,097
	M1 - M4	717,711	(4,514)	713,197
	R1 - R5	287,092	(22,726)	264,366
	D (default)	79,950	(35,951)	43,999
	Unrated	19,281	(450)	18,831
Specialized lending - SPV and PF	Strong	146,521	(587)	145,934
	Good	241,818	(1,641)	240,177
	Satisfactory	267,581	(11,291)	256,290
	Weak	93,151	(12,006)	81,145
Financial Institutions, Public Sector Entities	Unrated - PPU approach *	184,562	(464)	184,098
Leasing, Factoring	Unrated	443,704	(22,179)	421,525
		3,196,960	(112,301)	3,084,659

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

36. Financial risk management (continued)

31 December 2012 **€ '000**	**Internal rating**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Retail				
Small business, Flat Owners Associations	I1 - I6	21,772	(35)	21,737
	M1 - M4	78,203	(788)	77,415
	R1 - R5	67,235	(3,006)	64,229
	D (default)	17,377	(13,351)	4,026
	Unrated	7,454	(119)	7,335
Mortgages	L1 - L4	1,978,952	(406)	1,978,546
	N1 - N3	471,864	(943)	470,921
	W1 - W3	308,266	(11,586)	296,680
	D (default)	71,392	(24,189)	47,203
Unsecured retail	U1	160,605	(93)	160,512
	U2 - U3	136,296	(238)	136,058
	U4 - U5	172,934	(726)	172,208
	U6 - U7	102,645	(941)	101,704
	U8 - U10	92,713	(2,275)	90,438
	U11 - U12	63,068	(6,370)	56,698
	D (default)	65,605	(49,285)	16,320
	Unrated	646,612	(95,091)	551,521
Small business – Leasing, Leasing	Unrated	21,532	(1,774)	19,758
Other	Unrated	8,647	(338)	8,309
		4,493,172	(211,554)	4,281,618
Securities	Unrated	2,598,841	(623)	2,598,218

36. Financial risk management (continued)

31 December 2011 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	502,493	(202)	502,291
Sovereigns				
Municipalities	Unrated	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, Public 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

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 Department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for their implementation and day-to-day risk monitoring and reporting.

Exposure to market risk – trading portfolios

The principal tool used to measure and control market risk exposures within the Group's trading portfolio is Value at Risk (VaR). Derivation of VaR is a stress VaR (sVaR), which represents maximal VaR of selected one year period generating the highest value of VaR during the last 5 years. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99% confidence level and assumes a one-day holding period. The VaR and sVaR models used are based on historical simulation. Taking account of market data from the previous year and in case of sVaR one year scenario from 5 years history, and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements. The VaR model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

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

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

	2012				2011			
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	53	43	128	3	63	83	228	15
Interest rate risk	80	40	134	11	43	148	372	43
Overall	90	58	167	15	58	182	440	46

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

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

These limitations are recognized, by supplementing VaR limits with other position limit structures. In addition, the Group uses a wide range of stress tests, to model the financial impact of a variety of exceptional market scenarios on the Group's position. Furthermore, integrating the sVaR measure into the VaR concept adds to mitigation of the limitation of using historical series and thus possibly omitting scenarios of an extraordinary nature.

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 interest rate risk calculation

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

Contractual

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

Behavioural

These are items for which it is not exactly known when the maturity or next re-pricing will take place (e.g. current accounts). 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.

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

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

36. Financial risk management (continued)

At 31 December 2012, interest margin sensitivity in a one year time frame in the event of a 100 basis points rise in interest rates, was € 1,500 thousand (31 December 2011: € 5,754 thousand).

At 31 December 2012, interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 1 basis point, registered € - 126 thousand (31 December 2011: € 142 thousand).

€ '000	2012	2011
EUR	(127)	135
CZK	2	5
Other	(1)	2
	(126)	142

The sensitivity of the equity on the movement of interest rates is measured at Intesa Sanpaolo Group level.

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 2012 € '000	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	150,837	-	-	-	-	150,837
Due from banks	132,277	12,928	411,647	15,024	53	571,929
Available-for-sale financial assets	311,384	145,901	13,967	972,446	74,512	1,518,210
Loans and advances to customers	2,306,095	1,322,634	1,720,753	2,889,270	1,087,483	9,326,235
Held-to-maturity investments	-	18,435	69,372	709,269	430,309	1,227,385
	2,900,593	1,499,898	2,215,739	4,586,009	1,592,357	12,794,596
Liabilities						
Due to central and other banks	(376,188)	(141,524)	(21,126)	(63,666)	(32)	(602,536)
Due to customers	(2,608,311)	(555,210)	(1,454,672)	(2,021,325)	(1,266,340)	(7,905,858)
Debt securities in issue	(222,625)	(301,536)	(314,618)	(500,129)	(290,599)	(1,629,507)
	(3,207,124)	(998,270)	(1,790,416)	(2,585,120)	(1,556,971)	(10,137,901)
Net position of financial instruments	(306,531)	501,628	425,323	2,000,889	35,386	2,656,695

36. Financial risk management (continued)

31 December 2011 **€ '000**	**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

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

	2012 **%**	**2011** **%**
Assets		
Cash and balances with central banks	0.57	1.22
Due from banks	2.45	2.80
Financial assets at fair value through profit or loss	2.21	3.64
Available-for-sale financial assets	3.02	3.43
Loans and advances to customers	5.63	5.85
Held-to-maturity investments	4.19	4.02
Liabilities		
Due to central and other banks	1.54	1.51
Due to customers	1.14	1.04
Debt securities in issue	3.16	3.06

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 2012 **€ '000**	**EUR**	**USD**	**CZK**	**Other**	**Total**
Assets					
Cash and balances with central banks	132,474	987	14,338	3,038	150,837
Due from banks	537,456	33,864	47	9,413	580,780
Financial assets at fair value through profit or loss	73,770	-	-	-	73,770
Derivative financial instruments	42,618	-	1	-	42,619
Available-for-sale financial assets	1,482,727	-	-	-	1,482,727
Loans and advances to customers	7,146,727	140,882	231,062	7,910	7,526,581
Held-to-maturity investments	1,041,721	-	-	-	1,041,721
	10,457,493	175,733	245,448	20,361	10,899,035
Liabilities					
Due to central and other banks	(456,814)	(68,798)	(4,856)	(3,097)	(533,565)
Derivative financial instruments	(52,849)	-	(345)	-	(53,194)
Due to customers	(7,351,097)	(130,521)	(153,380)	(131,471)	(7,766,469)
Debt securities in issue	(1,312,524)	(26,136)	(79,102)	-	(1,417,762)
	(9,173,284)	(225,455)	(237,683)	(134,568)	(9,770,990)
Net position	1,284,209	(49,722)	7,765	(114,207)	1,128,045

31 December 2011 **€ '000**	**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 at fair value through profit or loss	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

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

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

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

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

Rule 1: Real Estate + Equity Investments <= 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 Enterprise Risk Management 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 2012 € '000	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	150,837	-	-	-	-	-	150,837
Due from banks	15,602	48	435,235	67,444	33,035	38,100	589,464
Financial assets at fair value through profit or loss	532	12	25,016	44,624	-	5,213	75,397
Available-for-sale financial assets	10,611	145,125	11,453	1,265,391	81,306	620	1,514,506
Loans and advances to customers	555,156	328,858	1,702,413	3,048,052	4,280,415	2,048	9,916,942
Held-to-maturity investments	-	18,424	69,385	708,844	430,051	-	1,226,704
	732,738	492,467	2,243,502	5,134,355	4,824,807	45,981	13,473,850
Liabilities							
Due to central and other banks	(233,507)	(44,162)	(82,741)	(171,760)	(22,656)	-	(554,826)
Due to customers	(4,845,185)	(512,593)	(1,202,058)	(1,186,762)	(79,604)	(36)	(7,826,238)
Debt securities in issue	(1,625)	(6,028)	(154,688)	(875,705)	(610,239)	-	(1,648,285)
	(5,080,317)	(562,783)	(1,439,487)	(2,234,227)	(712,499)	(36)	(10,029,349)
Net position of financial instruments	(4,347,579)	(70,316)	804,015	2,900,128	4,112,308	45,945	3,444,501
Cash inflows from derivatives	915,842	97,607	255,061	214,825	121,300	-	1,604,635
Cash outflows from derivatives	(486,140)	(83,068)	(694,258)	(210,842)	(122,133)	-	(1,596,441)
Net position from derivatives	429,702	14,539	(439,197)	3,983	(833)	-	8,194
Commitments and undrawn credit facilities	2,048,539	5,884	3,832	-	-	185	2,058,440
Issued guarantees	280,387	45,511	157,959	61,810	78,593	-	624,260
Net position from financial commitments and contingencies	2,328,926	51,395	161,791	61,810	78,593	185	2,682,700

36. Financial risk management (continued)

31 December 2011 € '000	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 at fair value through profit or loss	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
Commitments and undrawn credit facilities	2,102,975	9,389	29,226	502	-	23	2,142,115
Issued guarantees	219,428	48,750	109,364	99,489	72,208	-	549,239
Net position from financial commitments and contingencies	2,322,403	58,139	138,590	99,991	72,208	23	2,691,354

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 2012 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	150,837	-	150,837
Due from banks	463,932	116,848	580,780
Financial assets at fair value through profit or loss	25,696	48,074	73,770
Derivative financial instruments	42,619	-	42,619
Available-for-sale financial assets	161,048	1,321,679	1,482,727
Non-current assets held for sale	2	-	2
Loans and advances to customers	2,404,194	5,122,387	7,526,581
Held-to-maturity investments	76,691	965,030	1,041,721
Associates and jointly controlled entities	-	7,596	7,596
Intangible assets	668	47,173	47,841
Goodwill	-	29,305	29,305
Property and equipment	-	138,774	138,774
Current income tax assets	16,475	-	16,475
Deferred income tax assets	-	43,637	43,637
Other assets	33,292	-	33,292
	3,375,454	7,840,503	11,215,957
Liabilities			
Due to central and other banks	(356,697)	(176,868)	(533,565)
Derivative financial instruments	(53,194)	-	(53,194)
Due to customers	(6,610,720)	(1,155,749)	(7,766,469)
Debt securities in issue	(143,834)	(1,273,928)	(1,417,762)
Provisions	-	(25,607)	(25,607)
Other liabilities	(94,395)	(3,371)	(97,766)
	(7,258,840)	(2,635,523)	(9,894,363)
	(3,883,386)	5,204,980	1,321,594

36. Financial risk management (continued)

31 December 2011 **€ '000**	**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 at fair value through profit or loss	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)

(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 AMA (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 has started 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 2012 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue					
Interest income	323,276	94,131	114,206	11,518	543,131
Interest expense	(66,667)	(11,431)	(72,448)	(1,349)	(151,895)
Inter-segment revenue	(8,706)	(5,242)	(15,357)	29,305	-
Net interest income	247,903	77,458	26,401	39,474	391,236
Net fee and commission income	65,388	45,117	2,508	(3,389)	109,624
Net trading result	3,434	4,325	(33,290)	46	(25,485)
Other operating income	3,025	3,080	-	233	6,338
Total segment operating income	319,750	129,980	(4,381)	36,364	481,713
Depreciation and amortisation	(18,119)	(2,847)	(268)	(9,512)	(30,746)
Operating expenses					(224,345)
Operating profit before impairment					226,622
Impairment losses	(50,382)	(30,691)	259	819	(79,995)
Share of profit of associates and jointly controlled entities					1,213
Income tax expense					(28,136)
Net profit for the year					119,704
Segment assets	4,317,168	3,293,408	3,156,823	448,558	11,215,957
Segment liabilities and equity	4,885,886	2,073,525	2,904,308	1,352,238	11,215,957

37. Segment reporting (continued)

31 December 2011 € '000	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 result	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	(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 and equity	4,796,796	2,032,282	3,131,908	1,170,312	11,131,298

38. Related parties

Related parties are those counterparties that represent:

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

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

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

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

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

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

In 2012, the remuneration and other benefits provided to members of the Supervisory Board and the Management Board were € 4,451 thousand (2011: € 5,404 thousand).

38. Related parties (continued)

At 31 December 2012, significant outstanding balances with related parties comprised:

€ '000	KMP *	Close members of KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets							
Due from banks	-	-	-	-	464,937	50,801	515,738
Derivative financial instruments	-	-	-	-	75	12,479	12,554
Loans and advances to customers	631	-	-	-	-	-	631
Financial assets at fair value through profit or loss	-	-	-	-	330	-	330
Other assets	-	-	6	-	6	1	13
	631	-	6	-	465,348	63,281	529,266
Liabilities							
Due to central and other banks	-	-	-	-	253,527	6,817	260,344
Derivative financial instruments	-	-	-	-	4	7,003	7,007
Due to customers	1,363	-	-	126	-	9	1,498
Debt securities in issue							
Mortgage bonds	-	-	612	-	-	711,369	711,981
Other liabilities	330	-	-	-	-	7	337
	1,693	-	612	126	253,531	725,205	981,167
Issued guarantees	-	-	-	-	17,155	-	17,155
Received guarantees	-	-	-	-	17,155	132,075	149,230
Derivative transactions (notional amount – receivable)	-	-	-	-	-	470,200	470,200
Derivative transactions (notional amount – payable)	-	-	-	-	1,135	148,866	150,001

38. Related parties (continued)

€ '000	KMP *	Close members of KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Income and expense items							
Interest and similar income	46	-	-	-	9,217	4,947	14,210
Interest and similar expense	(47)	-	(106)	-	(6,291)	(27,879)	(34,323)
Fee and commission income	2	-	-	-	-	4	6
Fee and commission expense	-	-	-	-	(51)	(7,072)	(7,123)
Net trading result	-	-	-	-	1,589	(3,342)	(1,753)
Other operating income	-	-	103	-	81	115	299
Other operating expenses	-	-	-	-	(22)	(713)	(735)
	1	-	(3)	-	4,523	(33,940)	(29,419)

* Key management personnel

38. Related parties (continued)

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

€ '000	KMP	Close members of KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets							
Due from banks	-	-	-	-	407,819	50,502	458,321
Derivative financial instruments	-	-	-	-	3,978	5,618	9,596
Loans and advances to customers	1,229	584	-	-	-	-	1,813
Other assets	-	-	5	-	-	1,509	1,514
	1,229	584	5	-	411,797	57,629	471,244
Liabilities							
Due to central and other banks	-	-	-	-	349,262	7,019	356,281
Derivative financial instruments	-	-	-	-	564	3,612	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	-	6,928	113	349,826	1,037,732	1,396,964
Received guarantees	-	-	-	-	-	77,075	77,075
Derivative transactions (notional amount – receivable)	-	-	-	-	130,694	245,341	376,035
Income and expense items							
Interest and similar income	46	3	-	-	5,160	7,152	12,361
Interest and similar expense	(46)	-	(165)	-	(7,092)	(28,477)	(35,780)
Fee and commission income	3	-	-	-	-	-	3
Fee and commission expense	-	-	-	-	-	(4,750)	(4,750)
Net trading result	-	-	-	-	-	(7,225)	(7,225)
Other operating income	-	-	96	-	73	-	169
Other operating expenses	-	-	-	-	-	(71)	(71)
	3	3	(69)	-	(1,859)	(33,371)	(35,293)

39. Events after the end of reporting period

From 31 December 2012 up to the date of issue of these financial statements there were no further events identified that would require adjustments to or disclosure in these financial statements.