



Všeobecná úverová banka, a.s.

SUPPLEMENT NO. 2

TO BASE PROSPECTUS DATED MAY 15, 2015

This Supplement No. 2 to the Base Prospectus dated May 15, 2015 (hereinafter "**Supplement No. 2**") for debt securities issued within the offering program (hereinafter "**Base Prospectus**"), on the basis of which Všeobecná úverová banka, a.s., with the registered office at Mlynské nivy 1, 829 90 Bratislava, CRN: 31 320 155, registered in the Business Register of District Court Bratislava I, section: Sa, file no. 341/B (hereinafter "**VÚB, a.s.**", "**Issuer**" or "**Bank**") is authorized to issue, in compliance with the generally binding legal regulations, individual bond issues – mortgage bonds (hereinafter "**MB**" or "**Bonds**") in any currency, on the basis of the information provided in the Base Prospectus as later amended (hereinafter "**Program**"). The total nominal value of all unpaid Bonds issued within Program must not exceed EUR 1 500 000 000.00 or equivalent sum in other currency. Program duration, during which VÚB, a.s., may issue individual Bonds issues within Program, is 10 years.

This Supplement No. 2 updates the Base Prospectus approved by National bank of Slovakia with ruling No. ODT-5830/2015-1 as of May 28, 2015 as amended by Supplement No.1 to the Base Prospectus dated September 16, 2015 (hereinafter "**Supplement No. 1**") approved by National bank of Slovakia with ruling No. ODT-10791/2015-1 as of September 23, 2015. The information about the free of charge accessibility of the Base Prospectus was published in Hospodárske noviny on June 2, 2015 and from this day it is available in written form at the registered office of Issuer and on Issuer's website. The information about the free of charge accessibility of the Supplement No.1 was published in Hospodárske noviny on September 28, 2015 and from this day it is available in written form at the registered office of Issuer and on Issuer's website.

All public offers announced by the date of this Supplement No. 2 based on valid Base Prospectus were closed and all Bonds were delivered to the investors.

To the date of preparation of Supplement No. 2 Issuer did not realize the public offer of securities based on valid Base Prospectus and did not publish any Final Terms and to the date of publishing of Supplement No. 2 will not do so, and for this reason does not state in Supplement No. 2 information about the possibility of a right of withdrawal their acceptances pursuant to Act No. 566/2001 Coll. on securities and investment services as amended, art. 125c sub-sect. 5.

In order to acquire complete information about the Issuer and Bonds offer, the Supplement No. 2 shall be read together with the Base Prospectus as amended, Final Terms and Summaries. The words in this Supplement No. 2, starting with capital letter, shall have the meaning as defined in the Base Prospectus.

Once approved by National Bank of Slovakia, the Supplement No. 2 will be published free of charge and available in written form at the registered Office of Issuer: Mlynské nivy 1, 829 90 Bratislava, in department: Balance Sheet Management and on Issuer's website: <http://www.vub.sk/informacny-servis/prospekty-cennych-papierov/>. A notification of availability will be published in daily national press.

December 2, 2015

RESPONSIBLE PERSONS

Všeobecná úverová banka, a.s., represented by Ing. Elena Kohútiková, PhD., member of Management Board, and Antonio Bergalio, member of Management Board, represents that it is liable for the information contained in the entire Supplement No. 2.

Issuer represents, that it paid due care to the Supplement No. 2 preparation, that it prepared the Supplement No. 2 using its best knowledge, that information and data contained therein are up-to-date, complete, true and actual to the date of preparation thereof and that no data which may influence the meaning thereof, accurate and correct assessment of Issuer and Bonds issued by Issuer were omitted.

Bratislava, 2nd of December, 2015

Ing. Elena Kohútiková, PhD.
Member of Management Board VÚB, a.s.

Antonio Bergalio
Member of Management Board VÚB, a.s.

From the date of approval and publishing the announcement about the free of charge availability of the Base Prospectus the below mentioned new factors have occurred which could influence the correct assessment of Issuer and Bonds issued by Issuer.

Here below are stated only those parts of sections from the Base Prospectus as amended by Supplement No.1, which are updated or amended.

In section:

I. SUMMARY

Section B – Issuer Element B.12

The original text of the Base Prospectus as amended by Supplement No.1 is amended as follows:

Selected key interim financial information		
The selected key interim financial information from the Interim separate financial statements, unverified by auditor, for the period ending on September 30, 2015 prepared in compliance with the International Accounting Standard IAS 34 Interim Financial Reporting.		
Separate statement of financial position at 30 September 2015 (In thousands of euro)		
	Sep 2015	Dec 2014
Assets		
Cash and balances with central banks	167 899	405 060
Due from banks	171 456	610 865
Financial assets at fair value through profit or loss	148 931	1 055
Derivative financial instruments	37 680	49 937
Available-for-sale financial assets	1 780 497	1 523 939
Loans and advances to customers	8 263 066	7 752 189
Held-to-maturity investments	525 974	533 456
Subsidiaries, associates and joint ventures	95 566	95 566
Intangible assets	52 793	55 032
Property and equipment	92 676	100 041
Deferred income tax assets	39 531	34 685
Other assets	16 871	13 190
	11 392 940	11 175 015
Liabilities		
Due to central and other banks	303 116	380 038
Derivative financial instruments	56 697	62 059
Due to customers	8 037 340	7 864 398
Debt securities in issue	1 596 937	1 469 465
Current income tax liabilities	10 794	8 240
Provisions	32 596	27 608
Other liabilities	69 834	76 204
	10 107 314	9 888 012
Equity		
Equity (excluding net profit for the period)	1 185 821	1 175 346
Net profit for the period	99 805	111 657
	1 285 626	1 287 003
	11 392 940	11 175 015
Financial commitments and contingencies	3 326 740	3 227 458

**Separate statement of profit or loss and other comprehensive income
for 9 months ended 30 September 2015
(In thousands of euro)**

	Sep 2015	Sep 2014
Interest and similar income	311 084	335 379
Interest and similar expense	(53 220)	(67 564)
Net interest income	257 864	267 815
Fee and commission income	111 465	100 996
Fee and commission expense	(46 169)	(47 882)
Net fee and commission income	65 296	53 114
Net trading result	7 759	9 004
Other operating income	3 518	2 424
Dividend income	5 913	2 287
Operating income	340 350	334 644
Salaries and employee benefits	(74 727)	(73 939)
Other operating expenses	(63 066)	(61 525)
Special levy of selected financial institutions	(14 941)	(29 413)
Amortisation	(9 277)	(8 353)
Depreciation	(8 502)	(9 672)
Operating expenses	(170 513)	(182 902)
Operating profit before impairment	169 837	151 742
Impairment losses	(39 362)	(37 124)
Profit before tax	130 475	114 618
Income tax expense	(30 670)	(24 841)
NET PROFIT FOR 9 MONTHS	99 805	89 777
Other comprehensive income for 9 months, after tax: <i>Items that may be reclassified to profit or loss in the future:</i>		
Exchange difference on translating foreign operation	9	-
Available-for-sale financial assets	(11 499)	(1 788)
Cash flow hedges	(213)	1 010
Other comprehensive income for 6 months, net of tax	(11 703)	(778)
TOTAL COMPREHENSIVE INCOME FOR 9 MONTHS	88 102	88 999
Basic and diluted earnings per € 33,2 share in €	7,69	6,92

In section:

III. INFORMATION ABOUT ISSUER

3.9 Administrative, managing and supervising bodies

3.9.1 Information on the members of statutory body and Supervisory Board

The original text of the Base Prospectus as amended by Supplement No.1 is replaced in the part regarding Supervisory Board by following text:

Supervisory Board

Name and surname	Position
SALVAI Ezio	Chairman
JAQUOTOT Ignacio	Vice Chairman
STRAKA Andrej, Ing.	Member
GALLO Ján, Ing.	Member
SARCINELLI Paolo	Member
SCHAACK Christian	Member

The provided composition of the Supervisory Board corresponds to the extract from the Business Register dated December 2, 2015.

In section:

III. INFORMATION ABOUT ISSUER

3.11 Financial information concerning assets and liabilities, financial situation, Issuer's profit and losses

3.11.4 Interim and other financial information

The original text of the Base Prospectus as amended by Supplement No.1 is amended as follows:

Interim Financial Statement prepared in compliance with the IAS 34 as of 30 September 2015

Bellow mentioned data for the period ended 30 September 2015 have been assumed from the Interim separate financial statements unverified by auditor, for 9 months ended on 30 September 2015 prepared in compliance with the International Accounting Standard IAS 34 Interim Financial Reporting. The financial statements are attached herein.

Separate statement of financial position at 30 September 2015 (In thousands of euro)

	Sep 2015	Dec 2014
Assets		
Cash and balances with central banks	167 899	405 060
Due from banks	171 456	610 865
Financial assets at fair value through profit or loss	148 931	1 055
Derivative financial instruments	37 680	49 937
Available-for-sale financial assets	1 780 497	1 523 939
Loans and advances to customers	8 263 066	7 752 189
Held-to-maturity investments	525 974	533 456
Subsidiaries, associates and joint ventures	95 566	95 566
Intangible assets	52 793	55 032
Property and equipment	92 676	100 041
Deferred income tax assets	39 531	34 685
Other assets	16 871	13 190
	11 392 940	11 175 015
Liabilities		
Due to central and other banks	303 116	380 038

Derivative financial instruments	56 697	62 059
Due to customers	8 037 340	7 864 398
Debt securities in issue	1 596 937	1 469 465
Current income tax liabilities	10 794	8 240
Provisions	32 596	27 608
Other liabilities	69 834	76 204
	10 107 314	9 888 012
Equity		
Equity (excluding net profit for the period)	1 185 821	1 175 346
Net profit for the period	99 805	111 657
	1 285 626	1 287 003
	11 392 940	11 175 015
Financial commitments and contingencies	3 326 740	3 227 458

**Separate statement of profit or loss and other comprehensive income
for 9 months ended 30 September 2015
(In thousands of euro)**

	Sep 2015	Sep 2014
Interest and similar income	311 084	335 379
Interest and similar expense	(53 220)	(67 564)
Net interest income	257 864	267 815
Fee and commission income	111 465	100 996
Fee and commission expense	(46 169)	(47 882)
Net fee and commission income	65 296	53 114
Net trading result	7 759	9 004
Other operating income	3 518	2 424
Dividend income	5 913	2 287
Operating income	340 350	334 644
Salaries and employee benefits	(74 727)	(73 939)
Other operating expenses	(63 066)	(61 525)
Special levy of selected financial institutions	(14 941)	(29 413)
Amortisation	(9 277)	(8 353)
Depreciation	(8 502)	(9 672)
Operating expenses	(170 513)	(182 902)
Operating profit before impairment	169 837	151 742
Impairment losses	(39 362)	(37 124)
Profit before tax	130 475	114 618
Income tax expense	(30 670)	(24 841)
NET PROFIT FOR 9 MONTHS	99 805	89 777
Other comprehensive income for 9 months, after tax:		
<i>Items that may be reclassified to profit or loss in the future:</i>		
Exchange difference on translating foreign operation	9	-
Available-for-sale financial assets	(11 499)	(1 788)
Cash flow hedges	(213)	1 010
Other comprehensive income for 9 months, net of tax	(11 703)	(778)

TOTAL COMPREHENSIVE INCOME FOR 9 MONTHS
88 102
88 999

Basic and diluted earnings per € 33.2 share in €

7,69
6,92

**Separate statement of profit or loss and other comprehensive income
for 9 months ended 30 September 2015
(In thousands of euro)**

	Sep 2015	Sep 2014
Interest and similar income	103 683	109 552
Interest and similar expense	(16 705)	(20 516)
Net interest income	86 978	89 036
Fee and commission income	37 773	36 204
Fee and commission expense	(16 799)	(15 155)
Net fee and commission income	20 974	21 049
Net trading result	2 484	2 874
Other operating income	2 133	737
Operating income	112 569	113 696
Salaries and employee benefits	(25 583)	(24 936)
Other operating expenses	(20 338)	(18 862)
Special levy of selected financial institutions	(5 129)	(9 830)
Amortisation	(3 346)	(2 870)
Depreciation	(2 820)	(3 033)
Operating expenses	(57 216)	(59 531)
Operating profit before impairment	55 353	54 165
Impairment losses	(13 480)	(14 347)
Profit before tax	41 873	39 818
Income tax expense	(10 336)	(8 866)
NET PROFIT FOR 3 MONTHS	31 537	30 952
Other comprehensive income for 3 months, after tax: <i>Items that may be reclassified to profit or loss in the future:</i>		
Exchange difference on translating foreign operation	1	1
Available-for-sale financial assets	1 889	(3 801)
Cash flow hedges	(263)	519
Other comprehensive income for 3 months, net of tax	1 627	(3 281)
TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS	33 164	27 671
Basic and diluted earnings per € 33.2 share in €	<u>2,43</u>	<u>2,39</u>

Separate statement of changes in equity for 9 months ended 30 September 2015
(In thousands of euro)

	Share capital	Share premium	Treasury shares	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2014	430 819	13 501	-	87 493	697 185	8	43 149	272	1 272 427
Total comprehensive income for 6 months, net of tax	-	-	-	-	89 777	-	(1 788)	1 010	88 999
Dividends to shareholders	-	-	-	-	(84 347)	-	-	-	(84 347)
Other	-	-	-	-	8	(8)	-	-	-
Purchase of treasury shares	-	-	(417)	-	-	-	-	-	(417)
At 30 September 2014	<u>430</u> <u>819</u>	<u>13 501</u>	<u>(417)</u>	<u>87 493</u>	<u>702 623</u>	<u>-</u>	<u>41 361</u>	<u>1 282</u>	<u>1 276 662</u>
At 1 January 2015	430 819	13 636	-	87 493	724 503	(9)	31 446	(885)	1 287 003
Total comprehensive income for 6 months, net of tax	-	-	-	-	99 805	9	(11 499)	(213)	88 102
Dividends to shareholders	-	-	-	-	(89 538)	-	-	-	(89 538)
Reversal of dividends distributed but not collected	-	-	-	-	147	-	-	-	147
Other	-	-	-	-	(15)	15	-	-	-
Purchase of treasury shares	-	-	(88)	-	-	-	-	-	(88)
At 30 September 2015	<u>430</u> <u>819</u>	<u>13 636</u>	<u>(88)</u>	<u>87 493</u>	<u>734 902</u>	<u>15</u>	<u>19 947</u>	<u>(1 098)</u>	<u>1 285 626</u>

Separate statement of cash flows for 9 months ended 30 September 2015
(In thousands of euro)

	Sep 2015	Sep 2014
Cash flows from operating activities		
Profit before tax	130 475	114 618
Adjustments for:		
Amortisation	9 277	8 353
Depreciation	8 502	9 672
Securities at fair value through profit or loss, debt securities in issue and FX differences	(1 491)	5 122
Interest income	(311 084)	(335 379)
Interest expense	53 220	67 564
Dividend income	(5 913)	(2 287)
	(3)	1

Sale of property and equipment	56 689	51 921
Impairment losses and similar charges	329 335	351 985
Interest received	(62 761)	(68 626)
Interest paid	5 913	2 287
Dividends received	(32 962)	(15 063)
Tax paid	437 791	11 414
Due from banks	(144 163)	(53 253)
Financial assets at fair value through profit or loss	12 044	(2 150)
Derivative financial instruments (assets)	(279 801)	(187 046)
Available-for-sale financial assets	(563 527)	(474 831)
Loans and advances to customers	(3 324)	690
Other assets	(76 859)	(94 402)
Due to central and other banks	(5 362)	15 774
Derivative financial instruments (liabilities)	169 849	137 782
Due to customers	(8 177)	(4 713)
<i>Net cash used in operating activities</i>	<i>(282 332)</i>	<i>(460 567)</i>
Cash flows from investing activities		
Repayments of held-to-maturity investments	-	445 221
Purchase of intangible assets and property and equipment	(8 177)	(4 459)
Disposal of property and equipment	5	3
Disposal of subsidiaries	-	424
<i>Net cash (used in)/from investing activities</i>	<i>(8 172)</i>	<i>441 189</i>
Cash flows from financing activities		
Proceeds from issue of debt securities	338 000	139 751
Repayments of debt securities	(194 870)	(159 862)
Purchase of treasury shares	(88)	(417)
Dividends paid	(89 538)	(84 347)
<i>Net cash from/(used in) financing activities</i>	<i>53 504</i>	<i>(104 875)</i>
Net change in cash and cash equivalents	(237 000)	(124 253)
Cash and cash equivalents at the beginning of the year	428 960	275 917
Cash and cash equivalents at 30 September	191 960	151 664

In section:

III. INFORMATION ABOUT ISSUER

3.14 Documents for inspection

The original text of the Base Prospectus as amended by Supplement No. 1 is amended as follows:

- Interim separate financial statements for 9 months ended 30 September 2015 prepared in compliance with the International Accounting Standard IAS 34 Interim Financial Reporting.

In section:

VIII. ANNEXES

The original text of the Base Prospectus as amended by Supplement No. 1 is amended as follows:

Interim separate financial statements for 9 months ended 30 September 2015 prepared in compliance with the International Accounting Standard IAS 34 Interim Financial Reporting.



**Interim separate financial statements
for 9 months ended 30 September 2015**

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

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Separate statement of financial position at 30 September 2015
(In thousands of euro)

	Note	Sep 2015	Dec 2014
Assets			
Cash and balances with central banks	7	167,899	405,060
Due from banks	8	171,456	610,865
Financial assets at fair value through profit or loss	9	148,931	1,055
Derivative financial instruments	10	37,680	49,937
Available-for-sale financial assets	11	1,780,497	1,523,939
Loans and advances to customers	12	8,263,066	7,752,189
Held-to-maturity investments	14	525,974	533,456
Subsidiaries, associates and joint ventures	15	95,566	95,566
Intangible assets	16	52,793	55,032
Property and equipment	17	92,676	100,041
Deferred income tax assets	18	39,531	34,685
Other assets	19	16,871	13,190
		<u>11,392,940</u>	<u>11,175,015</u>
Liabilities			
Due to central and other banks	20	303,116	380,038
Derivative financial instruments	10	56,697	62,059
Due to customers	21	8,037,340	7,864,398
Debt securities in issue	22	1,596,937	1,469,465
Current income tax liabilities	18	10,794	8,240
Provisions	23	32,596	27,608
Other liabilities	24	69,834	76,204
		<u>10,107,314</u>	<u>9,888,012</u>
Equity			
Equity (excluding net profit for the period)	25	1,185,821	1,175,346
Net profit for the period		99,805	111,657
		<u>1,285,626</u>	<u>1,287,003</u>
		<u>11,392,940</u>	<u>11,175,015</u>
Financial commitments and contingencies	26	<u>3,326,740</u>	<u>3,227,458</u>

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

These financial statements were authorised for issue on 28 October 2015.



Elena Kohútiková
Member of the Management Board



Antonio Bergalio
Member of the Management Board

**Separate statement of profit or loss and other comprehensive income
for 9 months ended 30 September 2015
(In thousands of euro)**

	Note	Sep 2015	Sep 2014
Interest and similar income		311,084	335,379
Interest and similar expense		(53,220)	(67,564)
Net interest income	27	257,864	267,815
Fee and commission income		111,465	100,996
Fee and commission expense		(46,169)	(47,882)
Net fee and commission income	28	65,296	53,114
Net trading result	29	7,759	9,004
Other operating income	30	3,518	2,424
Dividend income		5,913	2,287
Operating income		340,350	334,644
Salaries and employee benefits	31	(74,727)	(73,939)
Other operating expenses	32	(63,066)	(61,525)
Special levy of selected financial institutions	32	(14,941)	(29,413)
Amortisation	16	(9,277)	(8,353)
Depreciation	17	(8,502)	(9,672)
Operating expenses		(170,513)	(182,902)
Operating profit before impairment		169,837	151,742
Impairment losses	33	(39,362)	(37,124)
Profit before tax		130,475	114,618
Income tax expense	34	(30,670)	(24,841)
NET PROFIT FOR 9 MONTHS		99,805	89,777
Other comprehensive income for 9 months, after tax: <i>Items that may be reclassified to profit or loss in the future:</i>			
Exchange difference on translating foreign operation		9	-
Available-for-sale financial assets		(11,499)	(1,788)
Cash flow hedges		(213)	1,010
Other comprehensive income for 9 months, net of tax	35, 36	(11,703)	(778)
TOTAL COMPREHENSIVE INCOME FOR 9 MONTHS		88,102	88,999
Basic and diluted earnings per € 33.2 share in €	25	7.69	6.92

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

**Separate statement of profit or loss and other comprehensive income
for 3 months ended 30 September 2015
(In thousands of euro)**

	Note	Sep 2015	Sep 2014
Interest and similar income		103,683	109,552
Interest and similar expense		(16,705)	(20,516)
Net interest income	27	86,978	89,036
Fee and commission income		37,773	36,204
Fee and commission expense		(16,799)	(15,155)
Net fee and commission income	28	20,974	21,049
Net trading result	29	2,484	2,874
Other operating income	30	2,133	737
Operating income		112,569	113,696
Salaries and employee benefits	31	(25,583)	(24,936)
Other operating expenses	32	(20,338)	(18,862)
Special levy of selected financial institutions	32	(5,129)	(9,830)
Amortisation		(3,346)	(2,870)
Depreciation		(2,820)	(3,033)
Operating expenses		(57,216)	(59,531)
Operating profit before impairment		55,353	54,165
Impairment losses	33	(13,480)	(14,347)
Profit before tax		41,873	39,818
Income tax expense	34	(10,336)	(8,866)
NET PROFIT FOR 3 MONTHS		31,537	30,952
Other comprehensive income for 3 months, after tax:			
<i>Items that may be reclassified to profit or loss in the future:</i>			
Exchange difference on translating foreign operation		1	1
Available-for-sale financial assets		1,889	(3,801)
Cash flow hedges		(263)	519
Other comprehensive income for 3 months, net of tax		1,627	(3,281)
TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS		33,164	27,671
Basic and diluted earnings per € 33.2 share in €		2.43	2.39

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

Separate statement of changes in equity for 9 months ended 30 September 2015

(In thousands of euro)

	Share capital	Share premium	Treasury shares	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2014	430,819	13,501	-	87,493	697,185	8	43,149	272	1,272,427
Total comprehensive income for 9 months, net of tax	-	-	-	-	89,777	-	(1,788)	1,010	88,999
Dividends to shareholders	-	-	-	-	(84,347)	-	-	-	(84,347)
Other	-	-	-	-	8	(8)	-	-	-
Purchase of treasury shares	-	-	(417)	-	-	-	-	-	(417)
At 30 September 2014	<u>430,819</u>	<u>13,501</u>	<u>(417)</u>	<u>87,493</u>	<u>702,623</u>	<u>-</u>	<u>41,361</u>	<u>1,282</u>	<u>1,276,662</u>
At 1 January 2015	430,819	13,636	-	87,493	724,503	(9)	31,446	(885)	1,287,003
Total comprehensive income for 9 months, net of tax	-	-	-	-	99,805	9	(11,499)	(213)	88,102
Dividends to shareholders	-	-	-	-	(89,538)	-	-	-	(89,538)
Reversal of dividends distributed but not collected	-	-	-	-	147	-	-	-	147
Other	-	-	-	-	(15)	15	-	-	-
Purchase of treasury shares	-	-	(88)	-	-	-	-	-	(88)
At 30 September 2015	<u>430,819</u>	<u>13,636</u>	<u>(88)</u>	<u>87,493</u>	<u>734,902</u>	<u>15</u>	<u>19,947</u>	<u>(1,098)</u>	<u>1,285,626</u>

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

Separate statement of cash flows for 9 months ended 30 September 2015

(In thousands of euro)

	Note	Sep 2015	Sep 2014
Cash flows from operating activities			
Profit before tax		130,475	114,618
Adjustments for:			
Amortisation		9,277	8,353
Depreciation		8,502	9,672
Securities at fair value through profit or loss, debt securities in issue and FX differences		(1,491)	5,122
Interest income		(311,084)	(335,379)
Interest expense		53,220	67,564
Dividend income		(5,913)	(2,287)
Sale of property and equipment		(3)	1
Impairment losses and similar charges		56,689	51,921
Interest received		329,335	351,985
Interest paid		(62,761)	(68,626)
Dividends received		5,913	2,287
Tax paid		(32,962)	(15,063)
Due from banks		437,791	11,414
Financial assets at fair value through profit or loss		(144,163)	(53,253)
Derivative financial instruments (assets)		12,044	(2,150)
Available-for-sale financial assets		(279,801)	(187,046)
Loans and advances to customers		(563,527)	(474,831)
Other assets		(3,324)	690
Due to central and other banks		(76,859)	(94,402)
Derivative financial instruments (liabilities)		(5,362)	15,774
Due to customers		169,849	137,782
Other liabilities		(8,177)	(4,713)
<i>Net cash used in operating activities</i>		<u>(282,332)</u>	<u>(460,567)</u>
Cash flows from investing activities			
Repayments of held-to-maturity investments		-	445,221
Purchase of intangible assets and property and equipment		(8,177)	(4,459)
Disposal of property and equipment		5	3
Disposal of subsidiaries		-	424
<i>Net cash (used in)/from investing activities</i>		<u>(8,172)</u>	<u>441,189</u>
Cash flows from financing activities			
Proceeds from issue of debt securities		338,000	139,751
Repayments of debt securities		(194,870)	(159,862)
Purchase of treasury shares		(88)	(417)
Dividends paid		(89,538)	(84,347)
<i>Net cash from/(used in) financing activities</i>		<u>53,504</u>	<u>(104,875)</u>
Net change in cash and cash equivalents		(237,000)	(124,253)
Cash and cash equivalents at the beginning of the year	6	428,960	275,917
Cash and cash equivalents at 30 September	6	<u>191,960</u>	<u>151,664</u>

The accompanying notes on pages 8 to 77 form an integral part of these financial statements.

1. General information

Všeobecná úverová banka, a.s. ('the Bank' or 'VUB') provides retail and commercial banking services. The Bank is domiciled in the Slovak Republic with its registered office at Mlynské nivy 1, 829 90 Bratislava 25 and has the identification number (IČO) 313 20 155 and the tax identification number (DIČ) 2020411811.

At 30 September 2015, the Bank had a network of 236 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2014: 239). The Bank also has one branch in the Czech Republic.

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

At 30 September 2015, the members of the Management Board are: Alexander Resch (Chairman), Antonio Bergaglio, Jozef Kausich, Elena Kohútiková, Peter Magala, Peter Novák and Martin Techman.

At 30 September 2015, the members of the Supervisory Board are: Ezio Salvai (Chairman), Ignacio Jaquotot (Vice Chairman), Ján Gallo, Massimo Malagoli, Paolo Sarcinelli, Christian Schaack and Andrej Straka.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and all derivative financial instruments to fair value and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

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

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies and presentation

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

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

2.3 Segment reporting

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

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

2. Summary of significant accounting policies (continued)

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

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

2.4 Foreign currency transactions

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

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

2.5 Foreign operations

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

2.6 Cash and cash equivalents

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

2.7 Cash and balances with central banks

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

2.8 Treasury bills and other eligible bills

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

2.9 Due from banks

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

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

2.10 Securities

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

2. Summary of significant accounting policies (continued)

- (a) Fair value through profit or loss,
- (b) Available-for-sale,
- (c) Held-to-maturity.

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

(a) Securities at fair value through profit or loss

This portfolio comprises following subcategories:

(i) Securities held for trading

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

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

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

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

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

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

Day 1 profit or loss

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

2. Summary of significant accounting policies (continued)

(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 profit or loss and other comprehensive income in 'Interest and similar income'.

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

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

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

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

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

(c) Held-to-maturity investments

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

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

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

2.11 Repurchase and reverse repurchase agreements

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

2. Summary of significant accounting policies (continued)

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

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

2.12 Derivative financial instruments

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

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

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

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

Credit risk of financial derivatives

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

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

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

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

2. Summary of significant accounting policies (continued)

Embedded derivatives

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

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

Hedging derivatives

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

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

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

In situations where that hedged item is an expected transaction, the Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of profit or loss and other comprehensive income.

Cash flow hedges

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

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

Fair value hedges

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

2. Summary of significant accounting policies (continued)

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.

2.13 Offsetting financial instruments

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

2.14 Non-current assets held for sale

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

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

2.15 Loans and advances to customers and impairment losses

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

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

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

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

2.16 Subsidiaries, associates and joint ventures

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

Dividend discount model

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

2. Summary of significant accounting policies (continued)

2.17 Intangible assets

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

	Years
Software and Other intangible assets	7

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

2.18 Property and equipment

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

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

	Years
Buildings	20, 30, 40
Equipment	4, 6, 10, 12
Other tangibles	4, 6, 12

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

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

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

2.19 Provisions

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

2.20 Provisions for employee benefits

The Bank's obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is determined by reference to current rates of return on Slovak government bonds with the 15 years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the projected unit credit method. All employees of the Bank are covered by the retirement and jubilee employee benefits program.

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	2.05%	2.05%
Growth of wages in 2015	n/a	1.50%
Future growth of wages after 2015	n/a	1.00%
Fluctuation of employees (based on age)	6 – 21%	6 – 21%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

2.21 Financial guarantees

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

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

2.22 Legal reserve fund

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

2.23 Equity reserves

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

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

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

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

2.24 Interest income

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

2. Summary of significant accounting policies (continued)

2.25 Fee and commission income

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

2.26 Net trading result

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

2.27 Dividend income

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

2.28 Current and deferred income tax

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

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

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

2.29 Fiduciary assets

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

2.30 Significant accounting judgements and estimates

Judgements

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

Held-to-maturity investments

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

Financial assets held for trading

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

2. Summary of significant accounting policies (continued)

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

The Bank uses the category 'at fair value through profit or loss on initial recognition' to recognize equity shares acquired as a part of the incentive plan based on which the amount due to employees benefiting from the plan recognized under share remuneration scheme in 'Other liabilities' (see also note 24) is proportional to the fair value of these shares.

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

Estimates

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

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

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

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

3. Financial risk management

Introduction and overview

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

- (a) Credit risk,
- (b) Market risk,
- (c) Liquidity risk,
- (d) Operational risk.

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

Risk management framework

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

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

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

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

(a) Credit risk

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

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

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

- Authorized Approval Authority,
- Collateral Management Policy,
- Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

3. Financial risk management (continued)

Management of credit risk

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

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

Impairment losses

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

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

Impairment losses are calculated individually for individually significant clients for which evidence of impairment exists and collectively for individually significant clients without evidence of impairment and for individually insignificant client groups of homogeneous assets. For the purpose of provisioning for loans collectively assessed for impairment the Bank follows the Intesa Sanpaolo Group methodology as well as the methodology based on the Markov chains theory developed internally by VUB Bank. This methodology is used for those segments for which IRB approach is not used and sufficient data for the calculation exist.

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

3. Financial risk management (continued)

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

€ '000	September 2015			December 2014		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Portfolio assessed						
Banks	171,461	(5)	171,456	610,871	(6)	610,865
Customers						
Sovereigns	135,614	(301)	135,313	146,978	(349)	146,629
Corporate	3,173,964	(38,440)	3,135,524	2,981,630	(32,184)	2,949,446
Retail	5,033,218	(153,886)	4,879,332	4,692,751	(148,160)	4,544,591
	<u>8,342,796</u>	<u>(192,627)</u>	<u>8,150,169</u>	<u>7,821,359</u>	<u>(180,693)</u>	<u>7,640,666</u>
Securities						
FVTPL	148,931	-	148,931	1,055	-	1,055
AFS	1,780,497	-	1,780,497	1,523,939	-	1,523,939
HTM	525,974	-	525,974	533,456	-	533,456
	<u>2,455,402</u>	<u>-</u>	<u>2,455,402</u>	<u>2,058,450</u>	<u>-</u>	<u>2,058,450</u>
Individually assessed						
Customers						
Corporate	183,325	(76,669)	106,656	174,769	(76,488)	98,281
Retail	10,947	(4,706)	6,241	21,088	(7,846)	13,242
	<u>194,272</u>	<u>(81,375)</u>	<u>112,897</u>	<u>195,857</u>	<u>(84,334)</u>	<u>111,523</u>
Securities						
AFS	574	(574)	-	574	(574)	-
	<u>574</u>	<u>(574)</u>	<u>-</u>	<u>574</u>	<u>(574)</u>	<u>-</u>

3. Financial risk management (continued)

The Bank uses the definitions of non-performing loans derived from the Harmonisation project. The Harmonisation project is driven by Intesa Sanpaolo in order to unify the definitions and categories of non-performing loans across the foreign subsidiaries of the Intesa Sanpaolo Group. In March 2015 the next phase of the project was realized based on which three classification categories of non-performing loans were introduced (past due, unlikely to pay, doubtful) instead of previously used four categories (past due, restructured, substandard, doubtful). This change was fully reflected in the disclosures as of 30 September 2015 as well as in comparative balances as of 31 December 2014. The definition of non-performing loans is based on delinquency (days past due - DPD) and judgemental criteria for categories doubtful and unlikely to pay. In case of past due category, DPD and materiality threshold of client are taken into account.

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 in a state of insolvency (although not yet legally) or in a de facto equivalent status, regardless of any loss forecasts made by the Bank.
Unlikely to pay	Exposures to borrowers assessed as improbable to thoroughly meet their credit obligations without recourse to actions such as the enforcement of guarantees/collateral.
Past due	Exposures other than those classified as doubtful or unlikely to pay that, as at reporting date, are past due for over 90 days and exceed the materiality threshold of higher than 5% of outstanding total credit exposures to client.
Performing	All exposures that are not classified as doubtful, unlikely to pay and past due.

Capital requirement calculation

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

3. Financial risk management (continued)

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

€ '000	Category	September 2015			December 2014		
		Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	Performing	171,461	(5)	171,456	610,871	(6)	610,865
		<u>171,461</u>	<u>(5)</u>	<u>171,456</u>	<u>610,871</u>	<u>(6)</u>	<u>610,865</u>
Sovereigns	Performing	135,583	(301)	135,282	146,941	(349)	146,592
	Past due	27	-	27	1	-	1
	Doubtful	4	-	4	36	-	36
		<u>135,614</u>	<u>(301)</u>	<u>135,313</u>	<u>146,978</u>	<u>(349)</u>	<u>146,629</u>
Corporate	Performing	3,160,707	(33,299)	3,127,408	2,977,897	(31,774)	2,946,123
	Past due	389	(237)	152	60	(31)	29
	Unlikely to pay	117,566	(28,295)	89,271	68,418	(9,746)	58,672
	Doubtful	78,627	(53,278)	25,349	110,024	(67,121)	42,903
		<u>3,357,289</u>	<u>(115,109)</u>	<u>3,242,180</u>	<u>3,156,399</u>	<u>(108,672)</u>	<u>3,047,727</u>
Retail	Performing	4,817,547	(42,429)	4,775,118	4,489,095	(43,082)	4,446,013
	Past due	21,185	(8,574)	12,611	15,658	(7,229)	8,429
	Unlikely to pay	24,262	(9,945)	14,317	30,748	(11,820)	18,928
	Doubtful	181,171	(97,644)	83,527	178,338	(93,875)	84,463
		<u>5,044,165</u>	<u>(158,592)</u>	<u>4,885,573</u>	<u>4,713,839</u>	<u>(156,006)</u>	<u>4,557,833</u>
Securities	Performing	2,455,402	-	2,455,402	2,058,450	-	2,058,450
	Doubtful	574	(574)	-	574	(574)	-
		<u>2,455,976</u>	<u>(574)</u>	<u>2,455,402</u>	<u>2,059,024</u>	<u>(574)</u>	<u>2,058,450</u>

3. Financial risk management (continued)

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

€ '000	Sep 2015	Dec 2014
Financial assets		
Derivative financial instruments	65,538	67,097
Financial commitments and contingencies		
Issued guarantees	820,490	733,162
Commitments and undrawn credit facilities	2,506,250	2,494,296
	<u>3,326,740</u>	<u>3,227,458</u>

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

€ '000	September 2015			December 2014		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	171,461	(5)	171,456	610,871	(6)	610,865
	<u>171,461</u>	<u>(5)</u>	<u>171,456</u>	<u>610,871</u>	<u>(6)</u>	<u>610,865</u>
Sovereigns						
No delinquency	135,582	(301)	135,281	146,604	(348)	146,256
1 – 30 days	-	-	-	338	(1)	337
31 – 60 days	28	-	28	-	-	-
Over 181 days	4	-	4	36	-	36
	<u>135,614</u>	<u>(301)</u>	<u>135,313</u>	<u>146,978</u>	<u>(349)</u>	<u>146,629</u>
Corporate						
No delinquency	3,244,014	(60,951)	3,183,063	3,051,525	(48,452)	3,003,073
1 – 30 days	19,592	(3,428)	16,164	18,857	(5,437)	13,420
31 – 60 days	5,059	(1,766)	3,293	8,411	(782)	7,629
61 – 90 days	1,789	(697)	1,092	269	(190)	79
91 – 180 days	20,770	(2,934)	17,836	1,899	(605)	1,294
Over 181 days	66,065	(45,333)	20,732	75,438	(53,206)	22,232
	<u>3,357,289</u>	<u>(115,109)</u>	<u>3,242,180</u>	<u>3,156,399</u>	<u>(108,672)</u>	<u>3,047,727</u>

3. Financial risk management (continued)

€ '000	September 2015			December 2014		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Retail						
No delinquency	4,657,755	(30,960)	4,626,795	4,325,260	(29,714)	4,295,546
1 – 30 days	145,961	(11,042)	134,919	135,925	(9,616)	126,309
31 – 60 days	38,322	(4,332)	33,990	38,701	(4,851)	33,850
61 – 90 days	24,116	(3,309)	20,807	26,826	(4,139)	22,687
91 – 180 days	25,672	(12,685)	12,987	32,064	(13,421)	18,643
Over 181 days	152,339	(96,264)	56,075	155,063	(94,265)	60,798
	<u>5,044,165</u>	<u>(158,592)</u>	<u>4,885,573</u>	<u>4,713,839</u>	<u>(156,006)</u>	<u>4,557,833</u>
Securities						
No delinquency	2,455,976	(574)	2,455,402	2,059,024	(574)	2,058,450
	<u>2,455,976</u>	<u>(574)</u>	<u>2,455,402</u>	<u>2,059,024</u>	<u>(574)</u>	<u>2,058,450</u>

Loans with renegotiated terms and the forbearance policy

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank has provided initially. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. The Bank implements forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, an exposure is identified as forbore if both of these two conditions are satisfied:

- The Bank must determine the financial difficulties that the debtor is facing or is about to face;
- The exposure must be subject to renegotiation or refinancing, granted in relation to the borrower's current financial difficulties or financial difficulties that would have occurred in the absence of the renegotiation or refinancing measures.

Both retail and corporate customers are subject to the forbearance policy:

30 September 2015 € '000	Performing forbore			Non-performing forbore		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Corporate	41,810	(1,967)	39,843	144,159	(57,880)	86,279
Retail	84,413	(2,198)	82,215	14,710	(5,704)	9,006
	<u>126,223</u>	<u>(4,165)</u>	<u>122,058</u>	<u>158,869</u>	<u>(63,584)</u>	<u>95,285</u>

31 December 2014 € '000	Performing forbore			Non-performing forbore		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Corporate	30,901	(925)	29,976	144,939	(53,765)	91,174
Retail	85,394	(2,445)	82,949	12,338	(3,785)	8,553
	<u>116,295</u>	<u>(3,370)</u>	<u>112,925</u>	<u>157,277</u>	<u>(57,550)</u>	<u>99,727</u>

3. Financial risk management (continued)

Write-off Policy

The Bank writes off a loan or security balance when it determines that the loans or securities are uncollectible. As the standard, the Bank considers the credit balances to be uncollectible based on the past due days (1,080 days past due). Credit balances may be written off only if the collateral has already been realized. Receivables are being collected by external collection agencies until they qualify for write-off.

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

Collateral Policy

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

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

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

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

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

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

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

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

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

3. Financial risk management (continued)

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

€ '000	September 2015			December 2014		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Europe						
Banks	162,656	(3)	162,653	602,243	(3)	602,240
Sovereigns	135,614	(301)	135,313	146,978	(349)	146,629
Corporate	3,356,846	(115,087)	3,241,759	3,156,399	(108,672)	3,047,727
Retail	5,042,328	(158,551)	4,883,777	4,712,008	(155,959)	4,556,049
Securities	2,455,976	(574)	2,455,402	2,059,024	(574)	2,058,450
	<u>11,153,420</u>	<u>(274,516)</u>	<u>10,878,904</u>	<u>10,676,652</u>	<u>(265,557)</u>	<u>10,411,095</u>
America						
Banks	8,679	(2)	8,677	8,275	(3)	8,272
Retail	169	(4)	165	169	(3)	166
	<u>8,848</u>	<u>(6)</u>	<u>8,842</u>	<u>8,444</u>	<u>(6)</u>	<u>8,438</u>
Asia						
Banks	126	-	126	320	-	320
Corporate	443	(22)	421	-	-	-
Retail	977	(22)	955	1,166	(25)	1,141
	<u>1,546</u>	<u>(44)</u>	<u>1,502</u>	<u>1,486</u>	<u>(25)</u>	<u>1,461</u>
Rest of the World						
Banks	-	-	-	33	-	33
Retail	691	(15)	676	496	(19)	477
	<u>691</u>	<u>(15)</u>	<u>676</u>	<u>529</u>	<u>(19)</u>	<u>510</u>

3. Financial risk management (continued)

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

30 September 2015
€ '000

	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	111,060	25,089	-
Construction	-	-	202,815	18,778	-
Consumers	-	-	-	4,668,995	-
Energy and water supply	-	236	494,148	2,459	-
Financial services	171,456	-	349,573	119	205,675
Government	-	127,399	10,007	-	2,249,727
Manufacturing	-	-	587,611	28,432	-
Professional services	-	-	130,620	12,418	-
Real estate	-	-	417,320	35,830	-
Retail & Wholesale	-	-	582,222	56,835	-
Services	-	-	133,382	13,146	-
Transportation	-	7,675	194,226	10,058	-
Other	-	3	29,196	13,414	-
	<u>171,456</u>	<u>135,313</u>	<u>3,242,180</u>	<u>4,885,573</u>	<u>2,455,402</u>

31 December 2014
€ '000

	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	-	-	67,169	20,561	-
Construction	-	-	111,042	13,650	-
Consumers	-	-	-	4,361,715	-
Energy and water supply	-	-	511,985	1,773	-
Financial services	610,865	-	273,167	144	210,699
Government	-	137,533	-	-	1,847,751
Manufacturing	-	-	560,615	25,628	-
Professional services	-	-	127,268	12,586	-
Real estate	-	-	447,839	26,944	-
Retail & Wholesale	-	-	545,085	59,993	-
Services	-	-	156,560	12,322	-
Transportation	-	9,096	213,831	10,646	-
Other	-	-	33,166	11,871	-
	<u>610,865</u>	<u>146,629</u>	<u>3,047,727</u>	<u>4,557,833</u>	<u>2,058,450</u>

3. Financial risk management (continued)

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

30 September 2015 € '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	171,461	(5)	171,456	-	-	-	-	-	-
Sovereigns									
Municipalities	135,583	(301)	135,282	31	-	31	-	-	-
Corporate									
Large Corporates	1,105,101	(5,441)	1,099,660	26,961	(15,148)	11,813	-	-	-
Specialized Lending	708,334	(13,519)	694,815	102,723	(25,607)	77,116	701	(33)	668
SME	880,358	(12,815)	867,543	66,882	(41,053)	25,829	11,380	(564)	10,816
Other Fin. Institutions	359,241	(397)	358,844	8	(2)	6	-	-	-
Public Sector Entities	3,543	(34)	3,509	8	-	8	1	-	1
Factoring	91,941	(488)	91,453	-	-	-	107	(8)	99
	<u>3,148,518</u>	<u>(32,694)</u>	<u>3,115,824</u>	<u>196,582</u>	<u>(81,810)</u>	<u>114,772</u>	<u>12,189</u>	<u>(605)</u>	<u>11,584</u>
Retail									
Small Business	187,450	(3,653)	183,797	14,372	(11,583)	2,789	5,467	(503)	4,964
Consumer Loans	875,856	(11,432)	864,424	82,875	(47,017)	35,858	65,349	(6,740)	58,609
Mortgages	3,309,220	(7,231)	3,301,989	77,159	(20,731)	56,428	76,910	(4,332)	72,578
Credit Cards	163,745	(3,739)	160,006	38,433	(26,866)	11,567	16,430	(2,515)	13,915
Overdrafts	69,359	(832)	68,527	13,769	(9,966)	3,803	18,043	(1,145)	16,898
Flat Owners Associations	23,498	(307)	23,191	-	-	-	-	-	-
Other	6,203	-	6,203	10	-	10	17	-	17
	<u>4,635,331</u>	<u>(27,194)</u>	<u>4,608,137</u>	<u>226,618</u>	<u>(116,163)</u>	<u>110,455</u>	<u>182,216</u>	<u>(15,235)</u>	<u>166,981</u>
Securities									
FVTPL	148,931	-	148,931	-	-	-	-	-	-
AFS	1,780,497	-	1,780,497	574	(574)	-	-	-	-
HTM	525,974	-	525,974	-	-	-	-	-	-
	<u>2,455,402</u>	<u>-</u>	<u>2,455,402</u>	<u>574</u>	<u>(574)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

3. Financial risk management (continued)

31 December 2014 € '000	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	<u>610,871</u>	<u>(6)</u>	<u>610,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sovereigns									
Municipalities	<u>146,603</u>	<u>(348)</u>	<u>146,255</u>	<u>37</u>	<u>-</u>	<u>37</u>	<u>338</u>	<u>(1)</u>	<u>337</u>
Corporate									
Large Corporates	1,108,045	(5,589)	1,102,456	22,863	(11,720)	11,143	-	-	-
Specialized Lending	753,016	(13,334)	739,682	82,716	(20,594)	62,122	7,027	(210)	6,817
SME	715,049	(11,310)	703,739	72,819	(44,564)	28,255	9,154	(457)	8,697
Other Fin. Institutions	245,078	(115)	244,963	7	(2)	5	4	-	4
Public Sector Entities	1,555	(15)	1,540	97	(18)	79	2	-	2
Factoring	<u>138,833</u>	<u>(732)</u>	<u>138,101</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134</u>	<u>(12)</u>	<u>122</u>
	<u>2,961,576</u>	<u>(31,095)</u>	<u>2,930,481</u>	<u>178,502</u>	<u>(76,898)</u>	<u>101,604</u>	<u>16,321</u>	<u>(679)</u>	<u>15,642</u>
Retail									
Small Business	168,408	(3,051)	165,357	14,176	(10,948)	3,228	4,752	(471)	4,281
Consumer Loans	820,112	(11,225)	808,887	75,225	(42,647)	32,578	60,731	(6,715)	54,016
Mortgages	3,047,566	(7,542)	3,040,024	80,509	(21,297)	59,212	79,710	(4,945)	74,765
Credit Cards	162,034	(3,316)	158,718	41,112	(28,152)	12,960	17,444	(3,204)	14,240
Overdrafts	80,382	(1,002)	79,380	13,679	(9,879)	3,800	18,136	(1,308)	16,828
Flat Owners Associations	23,195	(303)	22,892	-	-	-	-	-	-
Other	<u>6,625</u>	<u>-</u>	<u>6,625</u>	<u>43</u>	<u>(1)</u>	<u>42</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>4,308,322</u>	<u>(26,439)</u>	<u>4,281,883</u>	<u>224,744</u>	<u>(112,924)</u>	<u>111,820</u>	<u>180,773</u>	<u>(16,643)</u>	<u>164,130</u>
Securities									
FVTPL	1,055	-	1,055	-	-	-	-	-	-
AFS	1,523,939	-	1,523,939	574	(574)	-	-	-	-
HTM	<u>533,456</u>	<u>-</u>	<u>533,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,058,450</u>	<u>-</u>	<u>2,058,450</u>	<u>574</u>	<u>(574)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

3. Financial risk management (continued)

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

€ '000	September 2015			December 2014		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Sovereigns						
1 – 30 days	-	-	-	338	(1)	337
	-	-	-	338	(1)	337
Corporate						
1 – 30 days	12,071	(550)	11,521	9,901	(539)	9,362
31 – 60 days	22	(3)	19	6,418	(140)	6,278
61 – 90 days	96	(52)	44	2	-	2
	12,189	(605)	11,584	16,321	(679)	15,642
Retail						
1 – 30 days	130,762	(7,919)	122,843	122,766	(7,670)	115,096
31 – 60 days	29,882	(3,039)	26,843	29,072	(3,350)	25,722
61 – 90 days	15,912	(1,956)	13,956	19,217	(2,695)	16,522
91 – 180 days	5,474	(2,222)	3,252	9,428	(2,756)	6,672
Over 181 days	186	(99)	87	290	(172)	118
	182,216	(15,235)	166,981	180,773	(16,643)	164,130

3. Financial risk management (continued)

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

Large Corporates, SME	Retail Small Business and Flat Owners Associations	Risk Profile	Description
I1 - I4	I3 - 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.
D	D	Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: <ul style="list-style-type: none"> - the obligor is past due more than 90 days on any material credit obligation to the Bank, the parent undertaking or any of its subsidiaries; - the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

Specialized Lending comprises of rating segments Special Purpose Vehicles ('SPV') and Real Estate Development ('RED'); Project Finance portfolio ('PF'), which previously represented a separate rating segment of Specialized Lending, was merged into SPV in June 2015. For Specialized Lending the Slotting approach is used by the Bank. Clients are assigned into five slotting categories based on the qualitative valuation and information about the default. Risk weights and expected loss used for the capital requirement calculation is also defined for each category. Categories are predefined by the Regulation (EU) no. 575/2013 of the European Parliament and of the Council ('CRR regulation') and internally, the categories used are as follows:

Specialized Lending – SPV and RED

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

3. Financial risk management (continued)

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

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

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

30 September 2015 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	171,461	(5)	171,456
Sovereigns				
Municipalities	Unrated	135,614	(301)	135,313
		135,614	(301)	135,313
Corporate				
Large Corporates, SME	I1 - I6	811,411	(684)	810,727
	M1 - M4	869,970	(9,593)	860,377
	R1 - R5	339,030	(13,509)	325,521
	D (default)	70,271	(51,235)	19,036
Specialized Lending - SPV, RED	Strong	116,758	(357)	116,401
	Good	255,084	(1,384)	253,700
	Satisfactory	323,892	(18,124)	305,768
	Weak	109,317	(18,697)	90,620
	D (default)	6,707	(597)	6,110
Other Financial Institutions, Public Sector Entities	Unrated - PPU approach *	362,801	(433)	362,368
Factoring	Unrated	92,048	(496)	91,552
		<u>3,357,289</u>	<u>(115,109)</u>	<u>3,242,180</u>

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

3. Financial risk management (continued)
30 September 2015
€ '000

	Internal rating	Amortised cost	Impairment losses	Carrying amount
Retail				
Small Business, Flat Owners Associations				
	I3 - I6	24,280	(43)	24,237
	M1 - M4	107,340	(994)	106,346
	R1 - R5	62,256	(2,731)	59,525
	D (default)	13,383	(11,962)	1,421
	Unrated	23,528	(316)	23,212
Mortgages				
	L1 - L4	2,625,324	(480)	2,624,844
	N1 - N3	517,484	(1,008)	516,476
	W1 - W3	264,435	(9,913)	254,522
	D (default)	56,046	(20,893)	35,153
Unsecured Retail				
	U1	264,218	(177)	264,041
	U2 - U3	165,397	(322)	165,075
	U4 - U5	169,957	(746)	169,211
	U6 - U7	113,150	(1,186)	111,964
	U8 - U10	104,680	(3,079)	101,601
	U11 - U12	73,917	(9,936)	63,981
	D (default)	125,131	(86,188)	38,943
	Unrated	327,409	(8,618)	318,791
Other				
	Unrated	6,230	-	6,230
		<u>5,044,165</u>	<u>(158,592)</u>	<u>4,885,573</u>
Securities				
	Unrated	<u>2,455,976</u>	<u>(574)</u>	<u>2,455,402</u>

3. Financial risk management (continued)

31 December 2014 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	<u>610,871</u>	<u>(6)</u>	<u>610,865</u>
Sovereigns				
Municipalities	Unrated	<u>146,978</u>	<u>(349)</u>	<u>146,629</u>
		<u>146,978</u>	<u>(349)</u>	<u>146,629</u>
Corporate				
Large Corporates, SME	I1 - I6	837,751	(990)	836,761
	M1 - M4	681,386	(5,459)	675,927
	R1 - R5	333,695	(14,266)	319,429
	D (default)	75,098	(52,925)	22,173
Specialized Lending - SPV, RED	Strong	104,043	(211)	103,832
	Good	312,348	(2,145)	310,203
	Satisfactory	352,135	(22,342)	329,793
	Weak	70,769	(9,266)	61,503
	D (default)	3,464	(174)	3,290
Other Financial Institutions, Public Sector Entities	Unrated - PPU approach	246,743	(150)	246,593
Factoring	Unrated	<u>138,967</u>	<u>(744)</u>	<u>138,223</u>
		<u>3,156,399</u>	<u>(108,672)</u>	<u>3,047,727</u>
Retail				
Small Business, Flat Owners Associations	I3 - I6	23,136	(41)	23,095
	M1 - M4	96,520	(960)	95,560
	R1 - R5	54,744	(2,622)	52,122
	D (default)	12,893	(10,841)	2,052
	Unrated	23,238	(309)	22,929
Mortgages	L1 - L4	2,367,367	(420)	2,366,947
	N1 - N3	509,463	(1,008)	508,455
	W1 - W3	268,547	(10,601)	257,946
	D (default)	62,408	(21,755)	40,653
Unsecured Retail	U1	239,255	(180)	239,075
	U2 - U3	155,677	(332)	155,345
	U4 - U5	167,547	(801)	166,746
	U6 - U7	111,725	(1,276)	110,449
	U8 - U10	108,947	(3,512)	105,435
	U11 - U12	70,865	(10,118)	60,747
	D (default)	64,422	(46,610)	17,812
	Unrated	370,417	(44,619)	325,798
Other	Unrated	<u>6,668</u>	<u>(1)</u>	<u>6,667</u>
		<u>4,713,839</u>	<u>(156,006)</u>	<u>4,557,833</u>
Securities	Unrated	<u>2,059,024</u>	<u>(574)</u>	<u>2,058,450</u>

3. Financial risk management (continued)

(b) Market risk

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

Management of market risk

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

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

Exposure to market risk – trading portfolios

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

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

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

€ '000	September 2015				December 2014			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	31	32	118	2	16	82	148	6
Interest rate risk	89	94	248	10	10	88	300	10
Overall	83	99	264	16	19	135	313	12
sVaR	185	156	849	53	111	310	937	27

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

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

3. Financial risk management (continued)

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

Exposure to interest rate risk

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

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

Until the first half of 2015 the sensitivity of the interest margin was 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. The Bank is currently changing the methodology for interest margin sensitivity measurement. The new methodology should be implemented within following months.

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

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

Models applied for the interest rate risk calculation

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

Contractual

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

Behavioural

These are items for which it is not exactly known when the maturity or next re-pricing will take place (e.g. current accounts). There are also some items where maturity or re-pricing period is known but it can be assumed that they will behave differently (e.g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the most probable behaviour of these items. The assumptions are based on a detailed analysis of the Bank's historical data and statistical models.

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

3. Financial risk management (continued)

At 31 December 2014, interest margin sensitivity on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 11,041 thousand. Due to the development of a new methodology for interest margin sensitivity measurement, figures at 30 September 2015 are not available.

At 30 September 2015, interest rate risk generated by the banking book, measured through shift sensitivity analysis to 100 basis points, registered € - 33,847 thousand (31 December 2014: € - 33,317 thousand).

€ '000	Sep 2015	Dec 2014
EUR	(35,417)	(34,353)
Other	1,570	1,036
	<u>(33,847)</u>	<u>(33,317)</u>

At 30 September 2015, the sensitivity of the AFS reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € - 3,001 thousand (31 December 2014: € - 6,735 thousand). At 30 September 2015, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € 3,133 thousand (31 December 2014: € 4,368 thousand).

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

	Sep 2015 %	Dec 2014 %
Assets		
Cash and balances with central banks	0.00	0.20
Due from banks	0.41	0.68
Financial assets at fair value through profit or loss	4.28	2.04
Available-for-sale financial assets	1.84	2.24
Loans and advances to customers	4.35	4.84
Held-to-maturity investments	4.33	4.33
Liabilities		
Due to central and other banks	0.53	0.54
Due to customers	0.48	0.63
Debt securities in issue	2.02	2.43

3. 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 Bank to manage its exposure to fluctuations in exchange rates through the regular monitoring and reporting of open positions and the application of a matrix of exposure and position limits.

(c) Liquidity risk

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

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

The basic principles underpinning the Liquidity Policy of the Bank are:

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

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

The departments of the Bank that are responsible for ensuring the correct application of the Guidelines are the Treasury Department responsible for short term liquidity management, the Balance Sheet Management Department responsible for medium and long term liquidity management and the Enterprise Risk Management Department responsible for monitoring indicators and verifying the observation of limits.

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

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

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

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

3. Financial risk management (continued)

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

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

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

30 September 2015 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	93,729	74,170	167,899
Due from banks	135,539	35,917	171,456
Financial assets at fair value through profit or loss	47,190	101,741	148,931
Derivative financial instruments	10,011	27,669	37,680
Available-for-sale financial assets	573,906	1,206,591	1,780,497
Loans and advances to customers	1,873,664	6,389,402	8,263,066
Held-to-maturity investments	-	525,974	525,974
Subsidiaries, associates and joint ventures	-	95,566	95,566
Intangible assets	-	52,793	52,793
Property and equipment	-	92,676	92,676
Deferred income tax assets	-	39,531	39,531
Other assets	16,871	-	16,871
	<u>2,750,910</u>	<u>8,642,030</u>	<u>11,392,940</u>
Liabilities			
Due to central and other banks	(178,984)	(124,132)	(303,116)
Derivative financial instruments	(6,502)	(50,195)	(56,697)
Due to customers	(7,753,885)	(283,455)	(8,037,340)
Debt securities in issue	(208,518)	(1,388,419)	(1,596,937)
Current income tax liabilities	(10,794)	-	(10,794)
Provisions	(7,400)	(25,196)	(32,596)
Other liabilities	(66,638)	(3,196)	(69,834)
	<u>(8,232,721)</u>	<u>(1,874,593)</u>	<u>(10,107,314)</u>
	<u>(5,481,811)</u>	<u>6,767,437</u>	<u>1,285,626</u>

3. Financial risk management (continued)

31 December 2014 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	337,394	67,666	405,060
Due from banks	601,403	9,462	610,865
Financial assets at fair value through profit or loss	400	655	1,055
Derivative financial instruments	19,998	29,939	49,937
Available-for-sale financial assets	163,564	1,360,375	1,523,939
Loans and advances to customers	2,051,081	5,701,108	7,752,189
Held-to-maturity investments	16,359	517,097	533,456
Subsidiaries, associates and joint ventures	-	95,566	95,566
Intangible assets	-	55,032	55,032
Property and equipment	-	100,041	100,041
Deferred income tax assets	-	34,685	34,685
Other assets	13,190	-	13,190
	<u>3,203,389</u>	<u>7,971,626</u>	<u>11,175,015</u>
Liabilities			
Due to central and other banks	(258,068)	(121,970)	(380,038)
Derivative financial instruments	(9,481)	(52,578)	(62,059)
Due to customers	(7,451,732)	(412,666)	(7,864,398)
Debt securities in issue	(282,549)	(1,186,916)	(1,469,465)
Current income tax liabilities	(8,240)	-	(8,240)
Provisions	-	(27,608)	(27,608)
Other liabilities	(73,008)	(3,196)	(76,204)
	<u>(8,083,078)</u>	<u>(1,804,934)</u>	<u>(9,888,012)</u>
	<u>(4,879,689)</u>	<u>6,166,692</u>	<u>1,287,003</u>

3. Financial risk management (continued)

(d) Operational risk

Operational risk management strategies and processes

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

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

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

Organisational structure of the associated risk management function

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

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

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

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

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

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

Policies for hedging and mitigating risk

The Bank, in coordination with its parent company, has set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does include the benefit from this transfer of operational risk through insurance policies, which contributes to reducing the risk capital calculated through the internal models.

4. Estimated fair value of financial assets and liabilities

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

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

- Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the Bank as at the measurement date;
- Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and
- Level 3: inputs unobservable for the asset or liability.

The highest priority is attributed to effective market quotes (Level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (Level 2) and the lowest priority to unobservable inputs (Level 3). Following this hierarchy, where available, fair value estimates made by the Bank are based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate.

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

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

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

(a) Cash and balances with central banks

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

(b) Due from banks

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

(c) Loans and advances to customers

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

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

(d) Held-to-maturity investments

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

(e) Due to banks and customers

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

(f) Debt securities in issue

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

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

30 September 2015 € '000	Note	Carrying amount			Fair value			Total fair value
		At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	
Financial assets								
Cash and balances with central banks	7	167,899	-	167,899	-	167,899	-	167,899
Due from banks	8	171,456	-	171,456	-	171,456	-	171,456
Financial assets at fair value through profit or loss	9	-	148,931	148,931	148,291	640	-	148,931
Derivative financial instruments	10	-	37,680	37,680	-	37,680	-	37,680
Available-for-sale financial assets	11	-	1,780,497	1,780,497	718,010	1,062,487	-	1,780,497
Loans and advances to customers	12	8,263,066	-	8,263,066	-	-	9,460,831	9,460,831
Held-to-maturity investments	14	525,974	-	525,974	-	612,990	-	612,990
		<u>9,128,395</u>	<u>1,967,108</u>	<u>11,095,503</u>	<u>866,301</u>	<u>2,053,152</u>	<u>9,460,831</u>	<u>12,380,284</u>
Financial liabilities								
Due to central and other banks	20	(303,116)	-	(303,116)	-	(303,116)	-	(303,116)
Derivative financial instruments	10	-	(56,697)	(56,697)	-	(56,697)	-	(56,697)
Due to customers	21	(8,037,340)	-	(8,037,340)	-	(7,915,031)	-	(7,915,031)
Debt securities in issue	22	(1,596,937)	-	(1,596,937)	-	(1,733,190)	-	(1,733,190)
		<u>(9,937,393)</u>	<u>(56,697)</u>	<u>(9,994,090)</u>	<u>-</u>	<u>(10,008,034)</u>	<u>-</u>	<u>(10,008,034)</u>

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

31 December 2014 € '000	Note	Carrying amount			Fair value			Total fair value
		At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	
Financial assets								
Cash and balances with central banks	7	405,060	-	405,060	-	405,060	-	405,060
Due from banks	8	610,865	-	610,865	-	611,750	-	611,750
Financial assets at fair value through profit or loss	9	-	1,055	1,055	625	430	-	1,055
Derivative financial instruments	10	-	49,937	49,937	-	49,937	-	49,937
Available-for-sale financial assets	11	-	1,523,939	1,523,939	480,098	1,043,841	-	1,523,939
Loans and advances to customers	12	7,752,189	-	7,752,189	-	-	9,275,030	9,275,030
Held-to-maturity investments	14	533,456	-	533,456	-	622,803	-	622,803
		<u>9,301,570</u>	<u>1,574,931</u>	<u>10,876,501</u>	<u>480,723</u>	<u>2,733,821</u>	<u>9,275,030</u>	<u>12,489,574</u>
Financial liabilities								
Due to central and other banks	20	(380,038)	-	(380,038)	-	(380,038)	-	(380,038)
Derivative financial instruments	10	-	(62,059)	(62,059)	-	(62,059)	-	(62,059)
Due to customers	21	(7,864,398)	-	(7,864,398)	-	(7,844,489)	-	(7,844,489)
Debt securities in issue	22	<u>(1,469,465)</u>	<u>-</u>	<u>(1,469,465)</u>	<u>-</u>	<u>(1,540,516)</u>	<u>-</u>	<u>(1,540,516)</u>
		<u>(9,713,901)</u>	<u>(62,059)</u>	<u>(9,775,960)</u>	<u>-</u>	<u>(9,827,102)</u>	<u>-</u>	<u>(9,827,102)</u>

There were no transfers of financial instruments among the levels during the period ended 30 September 2015 (31 December 2014: no transfers).

5. Segment reporting

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

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

The Bank comprises the following main operating segments:

- Retail Banking,
- Corporate Banking,
- Central Treasury.

Retail Banking includes loans, deposits and other transactions and balances with households, sole traders 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 € 50 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 € 50 million).

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

In order to unify the disclosure of information on operating segments with the Intesa Sanpaolo methodology, the project of New Segmentation was launched in the Bank in the first quarter of 2015. The most significant change was related to the extension of Central Treasury segment by banking book transactions (previously they were reported within 'Other'). Comparative data for the prior period were restated accordingly to reflect this change.

5. Segment reporting (continued)
30 September 2015
€ '000

External revenue

 Interest and similar income
 Interest and similar expense

Inter-segment revenue

Net interest income

Net fee and commission income

Net trading result

Other operating income

Dividend income

Total segment operating income

Operating expenses

Operating profit before impairment

Impairment losses

Income tax expense

Net profit for 9 months

Segment assets

Segment liabilities and equity

	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest and similar income	200,743	58,780	45,553	6,008	311,084
Interest and similar expense	(27,201)	(4,559)	(21,460)	-	(53,220)
Inter-segment revenue	(25,453)	(8,871)	35,513	(1,189)	-
Net interest income	148,089	45,350	59,606	4,819	257,864
Net fee and commission income	47,024	19,178	2,554	(3,460)	65,296
Net trading result	2,557	3,652	1,581	(31)	7,759
Other operating income	2,180	917	(16)	437	3,518
Dividend income	-	-	-	5,913	5,913
Total segment operating income	199,850	69,097	63,725	7,678	340,350
Operating expenses					(170,513)
Operating profit before impairment					169,837
Impairment losses					(39,362)
Income tax expense					(30,670)
Net profit for 9 months					99,805
Segment assets	4,835,091	3,195,579	2,899,606	462,664	11,392,940
Segment liabilities and equity	5,139,519	2,177,515	2,721,011	1,354,895	11,392,940

5. Segment reporting (continued)

30 September 2014 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest and similar income	209,938	60,248	57,269	7,924	335,379
Interest and similar expense	(31,228)	(5,760)	(30,632)	56	(67,564)
Inter-segment revenue	(18,072)	(12,502)	36,176	(5,602)	-
Net interest income	160,638	41,986	62,813	2,378	267,815
Net fee and commission income	39,005	15,125	2,053	(3,069)	53,114
Net trading result	2,423	2,723	3,800	58	9,004
Other operating income	766	763	(9)	904	2,424
Dividend income	-	-	-	2,287	2,287
Total segment operating income	202,832	60,597	68,657	2,558	334,644
Operating expenses					(182,902)
Operating profit before impairment					151,742
Impairment losses					(37,124)
Income tax expense					(24,841)
Net profit for 9 months					89,777
Segment assets	4,409,380	3,174,894	3,306,846	314,080	11,205,200
Segment liabilities and equity	4,711,040	2,239,690	2,922,981	1,331,489	11,205,200

6. Cash and cash equivalents

€ '000	Note	Sep 2015	Dec 2014
Cash and balances with central banks	7	167,899	405,060
Current accounts in other banks	8	22,906	19,631
Term deposits with other banks	8	1,155	4,269
		<u>191,960</u>	<u>428,960</u>

7. Cash and balances with central banks

€ '000	Sep 2015	Dec 2014
Balances with central banks:		
Compulsory minimum reserves	46,211	190,294
Current accounts	2	-
Term deposits	14,790	119,892
	<u>61,003</u>	<u>310,186</u>
Cash in hand	106,896	94,874
	<u>167,899</u>	<u>405,060</u>

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

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

8. Due from banks

€ '000	Note	Sep 2015	Dec 2014
Current accounts	6	22,906	19,631
Term deposits			
with contractual maturity less than 90 days	6	1,155	4,269
with contractual maturity over 90 days		100,102	20,066
Loans and advances			
with contractual maturity over 90 days		20,245	516,885
Cash collateral		27,053	50,020
Impairment losses	13	(5)	(6)
		<u>171,456</u>	<u>610,865</u>

At 30 September 2015 the balance of 'Term deposits' includes one deposit with Intesa Sanpaolo S.p.A. in the nominal amount of € 100,000 thousand and one deposit with Bank Pekao in the nominal amount of € 1,154 thousand (31 December 2014: one deposit with Intesa Sanpaolo S.p.A. in the nominal amount of € 20,000 thousand and one deposit with CIB Bank in the nominal amount of € 4,269 thousand).

8. Due from banks (continued)

At 31 December 2014 the balance of 'Loans and advances' comprised of two reverse repo trades concluded with Intesa Sanpaolo S.p.A. in the total nominal amount of € 499,719 thousand. The repo trades were secured by state bonds and cash collateral. At 30 September 2015 there was no reverse repo trade concluded.

9. Financial assets at fair value through profit or loss

€ '000	Sep 2015	Dec 2014
Financial assets held for trading		
State bonds		
with contractual maturity over 90 days	147,950	50
Bank bonds		
with contractual maturity over 90 days	640	380
	<u>148,590</u>	<u>430</u>
Financial assets designated at fair value through profit or loss on initial recognition		
Equity shares	341	625
	<u>148,931</u>	<u>1,055</u>

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

At 30 September 2015 and 31 December 2014, no financial assets at fair value through profit or loss were pledged by the Bank to secure transactions with counterparties.

10. Derivative financial instruments

€ '000	Sep 2015 Assets	Dec 2014 Assets	Sep 2015 Liabilities	Dec 2014 Liabilities
Trading derivatives	19,142	29,576	15,979	18,160
Cash flow hedges of interest rate risk	-	-	1,408	1,134
Fair value hedges of interest rate and inflation risk	18,538	20,361	39,310	42,765
	<u>37,680</u>	<u>49,937</u>	<u>56,697</u>	<u>62,059</u>

Trading derivatives also include hedging instruments that are non-qualifying according to IAS 39, which are held for risk management purposes rather than for trading. These instruments currently consist of one cross-currency interest rate swap. At 30 September 2015, the negative fair value of this derivative was € 1,012 thousand (31 December 2014: € 1,627 thousand).

10. Derivative financial instruments (continued)

€ '000	Sep 2015 Assets	Dec 2014 Assets	Sep 2015 Liabilities	Dec 2014 Liabilities
Trading derivatives – Fair values				
Interest rate instruments				
Swaps	7,290	6,826	5,985	5,504
Options	978	1,674	993	1,711
	<u>8,268</u>	<u>8,500</u>	<u>6,978</u>	<u>7,215</u>
Foreign currency instruments				
Forwards and swaps	8,879	16,625	5,938	4,790
Cross currency swaps	-	-	1,012	1,627
Options	872	1,407	992	1,508
	<u>9,751</u>	<u>18,032</u>	<u>7,942</u>	<u>7,925</u>
Equity and commodity instruments				
Equity options	760	3,044	732	3,020
Commodity swaps	363	-	327	-
	<u>1,123</u>	<u>3,044</u>	<u>1,059</u>	<u>3,020</u>
	<u>19,142</u>	<u>29,576</u>	<u>15,979</u>	<u>18,160</u>
Trading derivatives – Notional values				
Interest rate instruments				
Swaps	374,358	418,784	374,358	418,784
Options	155,425	169,598	155,425	169,598
	<u>529,783</u>	<u>588,382</u>	<u>529,783</u>	<u>588,382</u>
Foreign currency instruments				
Forwards and swaps	1,214,356	426,957	1,210,646	414,849
Cross currency swaps	29,425	28,844	30,449	30,449
Options	82,058	68,644	82,058	68,606
	<u>1,325,839</u>	<u>524,445</u>	<u>1,323,153</u>	<u>513,904</u>
Equity and commodity instruments				
Equity options	17,978	23,398	17,982	23,402
Commodity swaps	4,225	-	4,176	-
	<u>22,203</u>	<u>23,398</u>	<u>22,158</u>	<u>23,402</u>
	<u>1,877,825</u>	<u>1,136,225</u>	<u>1,875,094</u>	<u>1,125,688</u>

10. Derivative financial instruments (continued)

Cash flow hedges of interest rate risk

At 30 September 2015 the Bank uses two interest rate swaps to hedge the interest rate risk arising from the issuance of two variable rate mortgage bonds. The cash flows on the floating legs of these interest rate swaps substantially match the cash flow profiles of the variable rate mortgage bonds.

Fair value hedges of interest rate and inflation risk

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

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

Furthermore, the Bank uses seventeen interest rate swaps to hedge the interest rate risk arising from the issuance of twelve 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.

11. Available-for-sale financial assets

€ '000	Note	Share Sep 2015	Share Dec 2014	Sep 2015	Dec 2014
State bonds				1,575,803	1,314,245
Bank bonds				204,643	209,646
Equity shares at cost					
RVS, a.s.		8.38%	8.38%	574	574
S.W.I.F.T.		0.01%	0.01%	51	48
Impairment losses to equity shares at cost	13			(574)	(574)
				<u>1,780,497</u>	<u>1,523,939</u>

At 30 September 2015, bonds in the total nominal amount of € 830,261 thousand from available-for-sale portfolio were pledged by the Bank to secure collateralized transactions (31 December 2014: € 830,261 thousand). These bonds were pledged in favour of the NBS within the pool of assets used as collateral for received funds needed for the liquidity management purposes. The whole pool of assets can be used for any ECB operation in the future.

12. Loans and advances to customers

30 September 2015 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	135,614	(301)	135,313
Corporate			
Large Corporates	1,132,062	(20,589)	1,111,473
Specialized Lending	811,758	(39,159)	772,599
Small and Medium Enterprises ('SME')	958,620	(54,432)	904,188
Other Financial Institutions	359,249	(399)	358,850
Public Sector Entities	3,552	(34)	3,518
Factoring	92,048	(496)	91,552
	<u>3,357,289</u>	<u>(115,109)</u>	<u>3,242,180</u>
Retail			
Small Business	207,289	(15,739)	191,550
Consumer Loans	1,024,080	(65,189)	958,891
Mortgages	3,463,289	(32,294)	3,430,995
Credit Cards	218,608	(33,120)	185,488
Overdrafts	101,171	(11,943)	89,228
Flat Owners Associations	23,498	(307)	23,191
Other	6,230	-	6,230
	<u>5,044,165</u>	<u>(158,592)</u>	<u>4,885,573</u>
	<u>8,537,068</u>	<u>(274,002)</u>	<u>8,263,066</u>
31 December 2014 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	146,978	(349)	146,629
Corporate			
Large Corporates	1,130,908	(17,309)	1,113,599
Specialized Lending	842,759	(34,138)	808,621
Small and Medium Enterprises ('SME')	797,022	(56,331)	740,691
Other Financial Institutions	245,089	(117)	244,972
Public Sector Entities	1,654	(33)	1,621
Factoring	138,967	(744)	138,223
	<u>3,156,399</u>	<u>(108,672)</u>	<u>3,047,727</u>
Retail			
Small Business	187,336	(14,470)	172,866
Consumer Loans	956,068	(60,587)	895,481
Mortgages	3,207,785	(33,784)	3,174,001
Credit Cards	220,590	(34,672)	185,918
Overdrafts	112,197	(12,189)	100,008
Flat Owners Associations	23,195	(303)	22,892
Other	6,668	(1)	6,667
	<u>4,713,839</u>	<u>(156,006)</u>	<u>4,557,833</u>
	<u>8,017,216</u>	<u>(265,027)</u>	<u>7,752,189</u>

13. Impairment losses on assets

€ '000	Note	1 Jan 2015	Creation (note 33)	Reversal (note 33)	Assets written-off/sold (note 33)	FX diff	Other *	30 Sep 2015
Due from banks	8	6	-	(1)	-	-	-	5
Available-for-sale financial assets	11	574	-	-	-	-	-	574
Loans and advances to customers	12	265,027	106,303	(62,179)	(29,957)	184	(5,376)	274,002
Subsidiaries, associates and JVs	15	37,914	-	-	-	-	-	37,914
Property and equipment	17	10,500	-	-	-	-	-	10,500
Other assets	19	1,614	810	(1,167)	-	-	-	1,257
		<u>315,635</u>	<u>107,113</u>	<u>(63,347)</u>	<u>(29,957)</u>	<u>184</u>	<u>(5,376)</u>	<u>324,252</u>

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

14. Held-to-maturity investments

€ '000	Sep 2015	Dec 2014
State bonds	525,974	533,456
	<u>525,974</u>	<u>533,456</u>

At 30 September 2015, no state bonds were pledged by the Bank to secure collateralized transactions. At 31 December 2014, state bonds in the nominal amount of € 39,023 thousand were pledged by the Bank. These bonds represented the substitute cover to mortgage bonds issued and were pledged in accordance with the requirements of the Act No. 530/1990 Collection on Bonds.

15. Subsidiaries, associates and joint ventures

All entities are incorporated in the Slovak Republic.

€ '000	Share %	Cost	Impairment losses (note 13)	Carrying amount
At 30 September 2015				
VÚB Factoring, a.s.	100.00	16,535	(10,533)	6,002
Consumer Finance Holding, a.s.	100.00	53,114	-	53,114
VÚB Leasing, a. s.	100.00	44,410	(27,381)	17,029
VÚB Generali DSS, a.s.	50.00	16,597	-	16,597
VÚB Asset Management, správ. spol., a.s.	40.55	2,821	-	2,821
Slovak Banking Credit Bureau, s.r.o.	33.33	3	-	3
		<u>133,480</u>	<u>(37,914)</u>	<u>95,566</u>
At 31 December 2014				
VÚB Factoring, a.s.	100.00	16,535	(10,533)	6,002
Consumer Finance Holding, a.s.	100.00	53,114	-	53,114
VÚB Leasing, a. s.	100.00	44,410	(27,381)	17,029
VÚB Generali DSS, a.s.	50.00	16,597	-	16,597
VÚB Asset Management, správ. spol., a.s.	40.55	2,821	-	2,821
Slovak Banking Credit Bureau, s.r.o.	33.33	3	-	3
		<u>133,480</u>	<u>(37,914)</u>	<u>95,566</u>

16. Intangible assets

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2015	192,676	9,580	10,725	212,981
Additions	-	98	6,939	7,037
Transfers	9,302	196	(9,498)	-
FX differences	7	1	-	8
At 30 September 2015	<u>201,985</u>	<u>9,875</u>	<u>8,166</u>	<u>220,026</u>
Accumulated amortisation				
At 1 January 2015	(149,761)	(8,188)	-	(157,949)
Amortisation for the period	(8,954)	(323)	-	(9,277)
FX differences	(7)	-	-	(7)
At 30 September 2015	<u>(158,722)</u>	<u>(8,511)</u>	<u>-</u>	<u>(167,233)</u>
Carrying amount				
At 1 January 2015	<u>42,915</u>	<u>1,392</u>	<u>10,725</u>	<u>55,032</u>
At 30 September 2015	<u>43,263</u>	<u>1,364</u>	<u>8,166</u>	<u>52,793</u>

17. Property and equipment

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost						
At 1 January 2015		199,222	68,434	30,097	3,397	301,150
Additions		-	-	49	1,141	1,190
Disposals		(69)	(6,424)	(97)	-	(6,590)
Transfers		663	3,175	28	(3,866)	-
FX differences		2	2	2	-	6
At 30 September 2015		199,818	65,187	30,079	672	295,756
Accumulated depreciation						
At 1 January 2015		(101,495)	(60,339)	(28,775)	-	(190,609)
Depreciation for the period		(4,341)	(3,819)	(342)	-	(8,502)
Disposals		21	6,419	96	-	6,536
FX differences		(2)	(2)	(1)	-	(5)
At 30 September 2015		(105,817)	(57,741)	(29,022)	-	(192,580)
Impairment losses						
At 1 January 2015	13	(10,500)	-	-	-	(10,500)
At 30 September 2015		(10,500)	-	-	-	(10,500)
Carrying amount						
At 1 January 2015		87,227	8,095	1,322	3,397	100,041
At 30 September 2015		83,501	7,446	1,057	672	92,676

18. Current and deferred income taxes

€ '000	Sep 2015	Dec 2014
Deferred income tax assets	39,531	34,685
€ '000	Sep 2015	Dec 2014
Current income tax liabilities	10,794	8,240

Deferred income taxes are calculated on all temporary differences using a tax rate of 22% (31 December 2014: 22%) as follows:

€ '000	Sep 2015	Profit/ (loss) (note 34)	Equity	Dec 2014
Due from banks	1	-	-	1
Derivative financial instruments designated as cash flow hedges	310	-	60	250
Available-for-sale financial assets	(5,501)	-	3,244	(8,745)
Loans and advances to customers	45,212	1,338	-	43,874
Property and equipment	(4,414)	(106)	-	(4,308)
Provisions	87	(42)	-	129
Other liabilities	3,692	165	-	3,527
Other	144	187	-	(43)
Deferred income tax assets	39,531	1,542	3,304	34,685

19. Other assets

€ '000	Note	Sep 2015	Dec 2014
Operating receivables and advances		10,941	7,015
Prepayments and accrued income		4,432	5,646
Other tax receivables		1,536	1,591
Inventories		1,210	543
Settlement of operations with financial instruments		7	7
Receivables from trading with securities		2	2
Impairment losses	13	18,128 (1,257)	14,804 (1,614)
		16,871	13,190

20. Due to central and other banks

€ '000	Sep 2015	Dec 2014
Due to central banks		
Current accounts	3,169	5,572
	<u>3,169</u>	<u>5,572</u>
Due to other banks		
Current accounts	19,060	13,415
Term deposits	130,952	204,924
Loans received	147,394	151,306
Cash collateral received	2,541	4,821
	<u>299,947</u>	<u>374,466</u>
	<u>303,116</u>	<u>380,038</u>

21. Due to customers

€ '000	Sep 2015	Dec 2014
Current accounts	4,600,094	4,195,351
Term deposits	2,575,339	3,077,205
Savings accounts	206,369	207,045
Government and municipal deposits	528,647	306,172
Other deposits	126,891	78,625
	<u>8,037,340</u>	<u>7,864,398</u>

22. Debt securities in issue

€ '000	Sep 2015	Dec 2014
Bonds	58	58
Mortgage bonds	1,036,569	999,543
Mortgage bonds subject to cash flow hedges	125,358	126,071
Mortgage bonds subject to fair value hedges	420,240	324,037
	<u>1,582,167</u>	<u>1,449,651</u>
Revaluation of fair value hedged mortgage bonds	14,053	18,593
Amortisation of revaluation related to terminated fair value hedges	659	1,163
	<u>1,596,937</u>	<u>1,469,465</u>

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

22. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 30 Sep 2015	Nominal value in CCY per piece	Issue date	Maturity date	Sep 2015 € '000	Dec 2014 € '000
Mortgage bonds VÚB, a.s. XVII.	0.08	EUR	1,678	33,194	28.11.2005	28.11.2015	55,703	55,709
Mortgage bonds VÚB, a.s. XX.	4.30	EUR	50	331,939	9.3.2006	9.3.2021	16,997	17,176
Mortgage bonds VÚB, a.s. XXX.	5.00	EUR	1,000	33,194	5.9.2007	5.9.2032	33,000	33,401
Mortgage bonds VÚB, a.s. XXXI.	4.90	EUR	600	33,194	29.11.2007	29.11.2037	20,424	19,680
Mortgage bonds VÚB, a.s. 32.	1.89	CZK	800	1,000,000	17.12.2007	17.12.2017	30,404	29,944
Mortgage bonds VÚB, a.s. 35.	4.40	EUR	630	33,194	19.3.2008	19.3.2016	21,365	21,528
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	18,809	18,993
Mortgage bonds VÚB, a.s. 39.	0.71	EUR	-	1,000,000	26.6.2008	26.6.2015	-	60,006
Mortgage bonds VÚB, a.s. 40.	0.73	EUR	-	1,000,000	28.8.2008	28.8.2015	-	70,053
Mortgage bonds VÚB, a.s. 43.	5.10	EUR	500	33,194	26.9.2008	26.9.2025	15,637	15,776
Mortgage bonds VÚB, a.s. 46.	4.61	EUR	49	1,000,000	19.5.2009	19.5.2016	49,828	50,393
Mortgage bonds VÚB, a.s. 53.	0.70	EUR	100	1,000,000	8.4.2010	8.4.2017	100,162	100,187
Mortgage bonds VÚB, a.s. 55.	2.85	EUR	14,000	1,000	1.10.2010	1.10.2015	14,399	14,100
Mortgage bonds VÚB, a.s. 57.	1.34	EUR	100	1,000,000	30.9.2010	30.9.2018	100,004	100,377
Mortgage bonds VÚB, a.s. 58.	1.85	EUR	80	1,000,000	10.12.2010	10.12.2019	80,456	80,092
Mortgage bonds VÚB, a.s. 59.	3.00	EUR	-	1,000	1.3.2011	1.3.2015	-	25,625
Mortgage bonds VÚB, a.s. 61.	1.08	EUR	-	10,000	7.6.2011	7.6.2015	-	4,671
Mortgage bonds VÚB, a.s. 62.	2.04	EUR	100	1,000,000	28.7.2011	28.7.2018	100,357	100,977
Mortgage bonds VÚB, a.s. 63.	3.75	EUR	35,000	1,000	16.9.2011	16.3.2016	35,055	35,383
Mortgage bonds VÚB, a.s. 64.	3.25	CZK	7,000	100,000	26.9.2011	26.9.2016	25,739	25,421
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,673	15,071
Mortgage bonds VÚB, a.s. 68.	4.00	EUR	-	1,000	16.1.2012	16.7.2015	-	36,342
Mortgage bonds VÚB, a.s. 69.	4.50	EUR	990	20,000	6.2.2012	6.2.2016	19,949	20,404
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	7.3.2012	7.3.2017	40,824	41,185

(Table continues on the next page)

22. Debt securities in issue (continued)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 30 Sep 2015	Nominal value in CCY per piece	Issue date	Maturity date	Sep 2015 € '000	Dec 2014 € '000
Mortgage bonds VÚB, a.s. 71.	3.90	EUR	750	20,000	2.5.2012	2.5.2017	15,366	15,276
Mortgage bonds VÚB, a.s. 72.	4.70	EUR	250	100,000	21.6.2012	21.6.2027	25,132	25,413
Mortgage bonds VÚB, a.s. 73.	4.20	EUR	500	100,000	11.7.2012	11.7.2022	50,173	50,666
Mortgage bonds VÚB, a.s. 74.	3.35	EUR	700	100,000	16.1.2013	15.12.2023	71,276	71,827
Mortgage bonds VÚB, a.s. 75.	2.00	EUR	300	100,000	5.4.2013	5.4.2019	30,329	30,486
Mortgage bonds VÚB, a.s. 76.	2.40	EUR	309	10,000	22.4.2013	22.4.2018	3,124	3,143
Mortgage bonds VÚB, a.s. 77.	1.80	CZK	5,000	100,000	20.6.2013	20.6.2018	18,437	18,141
Mortgage bonds VÚB, a.s. 78.	2.16	EUR	905	10,000	3.3.2014	3.3.2020	9,194	9,248
Mortgage bonds VÚB, a.s. 79.	2.00	EUR	10,000	1,000	24.3.2014	24.9.2020	10,104	10,154
Mortgage bonds VÚB, a.s. 80.	1.85	EUR	31	1,000,000	27.3.2014	27.3.2021	31,746	31,951
Mortgage bonds VÚB, a.s. 81.	2.55	EUR	38	1,000,000	27.3.2014	27.3.2024	39,608	39,949
Mortgage bonds VÚB, a.s. 82.	1.65	EUR	1,701	1,000	16.6.2014	16.12.2020	1,709	1,716
Mortgage bonds VÚB, a.s. 83.	0.90	EUR	500	100,000	28.7.2014	28.7.2019	49,829	49,893
Mortgage bonds VÚB, a.s. 84.	0.60	EUR	500	100,000	29.9.2014	30.9.2019	49,816	49,856
Mortgage bonds VÚB, a.s. 85.	2.25	EUR	500	100,000	14.11.2014	14.11.2029	50,317	49,438
Mortgage bonds VÚB, a.s. 86.	0.30	EUR	1,000	100,000	27.4.2015	27.4.2020	97,951	-
Mortgage bonds VÚB, a.s. 87.	1.25	EUR	1,000	100,000	9.6.2015	9.6.2025	96,768	-
Mortgage bonds VÚB, a.s. 88.	0.50	EUR	380	100,000	11.9.2015	11.9.2020	37,747	-
Mortgage bonds VÚB, a.s. 89.	1.20	EUR	1,000	100,000	29.9.2015	29.9.2025	98,756	-
							<u>1,582,167</u>	<u>1,449,651</u>

23. Provisions

€ '000	Sep 2015	Dec 2014
Litigation	24,791	27,017
Resolution fund	7,400	-
Restructuring provision	393	588
Other provisions	12	3
	<u>32,596</u>	<u>27,608</u>

Starting from 1 January 2015 the new Bank Recovery and Resolution Directive 2014/59/EU ('BRRD') is effective for all EU member states. The Directive was implemented to Slovak legislation by Act No. 371/2014 on Resolution. The Directive sets an obligation for the banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of the bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023. Since the exact amount of the contribution for 2015 shall be communicated by the resolution authority by 30 November 2015, the VUB Bank estimated and recognized the expected amount of 2015 contribution as provision in its financial statements prepared as at 30 September 2015. The related expense was recognized in the statement of profit or loss and other comprehensive income in 'Other operating expenses'.

The movements in provisions were as follows:

€ '000	Note	1 Jan 2015	Creation	Reversal	Use	30 Sep 2015
Litigation	26, 32	27,017	1,279	(2,493)	(1,012)	24,791
Resolution fund	32	-	7,400	-	-	7,400
Restructuring provision	31	588	140	-	(335)	393
Other provisions	32	3	9	-	-	12
		<u>27,608</u>	<u>8,828</u>	<u>(2,493)</u>	<u>(1,347)</u>	<u>32,596</u>

24. Other liabilities

€ '000	Sep 2015	Dec 2014
Various creditors	21,748	28,622
Financial guarantees and commitments	19,175	16,552
Settlement with employees	17,665	19,173
Accruals and deferred income	4,429	3,724
Severance and Jubilee benefits	3,196	3,196
Settlement with shareholders	1,366	1,187
VAT payable and other tax payables	1,269	2,869
Investment certificates	535	254
Share remuneration scheme	341	625
Settlement with securities	110	2
	<u>69,834</u>	<u>76,204</u>

24. Other liabilities (continued)

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

€ '000	Note	1 Jan 2015	Creation/ (Reversal)	FX diff	30 Sep 2015
Financial guarantees and commitments	33	16,552	2,607	16	19,175
Severance and Jubilee benefits		3,196	-	-	3,196
		<u>19,748</u>	<u>2,607</u>	<u>16</u>	<u>22,371</u>

25. Equity

€ '000	Sep 2015	Dec 2014
Share capital - authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	<u>430,819</u>	<u>430,819</u>
Share premium	13,636	13,636
Treasury shares	(88)	-
Reserves	106,357	118,045
Retained earnings (excluding net profit for the period)	635,097	612,846
	<u>1,185,821</u>	<u>1,175,346</u>
	Sep 2015	Sep 2014
Net profit for 9 months attributable to shareholders in € '000	99,805	89,777
Divided by the weighted average number of ordinary shares, calculated as follows:		
89 shares of € 3,319,391.89 each in €	295,425,878	295,425,878
4,078,108 shares of € 33.2 each in €	135,393,186	135,393,186
	<u>430,819,064</u>	<u>430,819,064</u>
Divided by the value of one ordinary share of € 33.2		
The weighted average number of ordinary shares of € 33.2 each	<u>12,976,478</u>	<u>12,976,478</u>
Basic and diluted earnings per € 33.2 share in €	<u>7.69</u>	<u>6.92</u>

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

25. Equity (continued)

The structure of shareholders is as follows:

	Sep 2015	Dec 2014
Intesa Sanpaolo Holding International S.A.	97.02%	97.02%
Domestic shareholders	2.21%	2.21%
Foreign shareholders	0.77%	0.77%
	<u>100.00%</u>	<u>100.00%</u>

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

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

The Bank's regulatory capital position at 30 September 2015 and 31 December 2014 was determined based on the rules for capital adequacy calculation set by the CRR regulation:

€ '000	Sep 2015	Dec 2014
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,636	13,636
Retained earnings without net profit for the period	635,097	612,846
Other reserves	87,493	87,493
Treasury shares	(88)	-
Revaluation of available-for-sale financial assets	22,746	(1,566)
Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities	(704)	(567)
Less intangible assets	(52,793)	(55,032)
Less IRB shortfall of credit risk adjustments to expected losses	(731)	-
	<u>1,135,475</u>	<u>1,087,629</u>
Tier 2 capital		
IRB excess of provisions over expected losses eligible	6,988	2,189
	<u>1,142,463</u>	<u>1,089,818</u>
€ '000	Sep 2015	Dec 2014
Tier 1 capital	1,135,475	1,087,629
Tier 2 capital	6,988	2,189
	<u>1,142,463</u>	<u>1,089,818</u>
Total regulatory capital	<u>1,142,463</u>	<u>1,089,818</u>
Total Risk Weighted Assets	<u>7,102,806</u>	<u>6,959,463</u>
Tier 1 capital ratio	15.99%	15.63%
Total capital ratio	16.08%	15.66%

25. 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 CRR regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and IRB excess of provisions over expected losses.

The Bank must maintain a capital adequacy ratio of at least 8% according to the Act on Banks. The capital adequacy ratio is the ratio between the Bank's capital and the risk weighted assets. Risk weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The Bank complied with the Act on Banks' requirement as at 30 September 2015 and 31 December 2014.

During 2014, the Comprehensive Assessment of the European Central Bank consisting of Asset Quality Review (AQR) and stress testing was conducted. According to the stress tests results, the VUB Group is meeting the capital requirements, including the ones of the adverse scenario. From November 2014, the Bank also fell under the supervision of the European Central Bank.

26. Financial commitments and contingencies

€ '000	Sep 2015	Dec 2014
Issued guarantees	820,490	733,162
Commitments and undrawn credit facilities	2,506,250	2,494,296
	<u>3,326,740</u>	<u>3,227,458</u>

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

The Bank enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 30 September 2015 and 31 December 2014 was as follows:

€ '000	Sep 2015	Dec 2014
Up to 1 year	1,078	1,245
1 to 5 years	904	1,472
Over 5 years	-	-
	<u>1,982</u>	<u>2,717</u>

26. Financial commitments and contingencies (continued)

(d) Legal proceedings

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 30 September 2015. Pursuant to this review, management has recorded total provisions of € 24,791 thousand (31 December 2014: € 27,017 thousand) in respect of such legal proceedings (see also note 23). The Bank will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 7,117 thousand, as at 30 September 2015 (31 December 2014: € 7,122 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

27. Net interest income

€ '000	9 months		3 months	
	Sep 2015	Sep 2014	Sep 2015	Sep 2014
Interest and similar income				
Due from banks	1,983	4,154	278	959
Loans and advances to customers	265,910	279,017	88,211	92,650
Bonds, treasury bills and other securities:				
Financial assets at fair value through profit or loss	2,746	4,032	1,776	1,238
Available-for-sale financial assets	23,344	28,715	7,714	8,983
Held-to-maturity investments	17,101	19,461	5,704	5,722
	<u>311,084</u>	<u>335,379</u>	<u>103,683</u>	<u>109,552</u>
Interest and similar expense				
Due to banks	(1,027)	(1,520)	(366)	(499)
Due to customers	(29,414)	(39,110)	(8,754)	(11,860)
Debt securities in issue	(22,779)	(26,934)	(7,585)	(8,157)
	<u>(53,220)</u>	<u>(67,564)</u>	<u>(16,705)</u>	<u>(20,516)</u>
	<u>257,864</u>	<u>267,815</u>	<u>86,978</u>	<u>89,036</u>

28. Net fee and commission income

€ '000	9 months		3 months	
	Sep 2015	Sep 2014	Sep 2015	Sep 2014
Fee and commission income				
Received from banks	6,612	6,061	2,455	2,149
Received from customers:				
Current accounts	41,227	38,283	14,249	13,924
Loans and guarantees	23,292	21,220	7,713	7,595
Transactions and payments	16,112	18,134	5,618	6,577
Insurance mediation	8,720	6,430	2,869	2,217
Securities	8,000	4,728	2,513	1,730
Overdrafts	3,152	3,082	945	905
Securities - Custody fee	1,274	838	417	271
Term deposits	391	507	113	152
Other	2,685	1,713	881	684
	<u>111,465</u>	<u>100,996</u>	<u>37,773</u>	<u>36,204</u>
Fee and commission expense				
Paid to banks	(11,624)	(11,746)	(4,367)	(4,094)
Paid to mediators:				
Credit cards	(30,361)	(31,700)	(10,754)	(10,168)
Securities	(407)	(374)	(130)	(126)
Services	(3,364)	(3,519)	(1,439)	(582)
Other	(413)	(543)	(109)	(185)
	<u>(46,169)</u>	<u>(47,882)</u>	<u>(16,799)</u>	<u>(15,155)</u>
	<u>65,296</u>	<u>53,114</u>	<u>20,974</u>	<u>21,049</u>

29. Net trading result

€ '000	9 months		3 months	
	Sep 2015	Sep 2014	Sep 2015	Sep 2014
Foreign currency derivatives and transactions	3,030	3,014	1,922	1,023
Customer FX margins	4,096	3,876	1,506	1,635
Cross currency swaps *	997	(72)	(130)	(51)
Equity derivatives	3	10	48	9
Other derivatives	59	-	12	-
Interest rate derivatives *	(221)	(11)	2,564	(1,986)
Dividends from equity shares held in FVTPL portfolio	7	16	-	-
Securities:				
Financial assets at fair value through profit or loss				
Held for trading	(1,776)	(1,054)	(687)	(157)
Designated at fair value through profit or loss on initial recognition	168	218	(22)	26
Available-for-sale financial assets *	(3,144)	7,380	2,283	(3,320)
Debt securities in issue *	4,540	(4,373)	(5,012)	5,695
	<u>7,759</u>	<u>9,004</u>	<u>2,484</u>	<u>2,874</u>

29. Net trading result (continued)

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

30. Other operating income

€ '000	9 months		3 months	
	Sep 2015	Sep 2014	Sep 2015	Sep 2014
Services	918	773	331	308
Rent	679	689	229	226
Financial revenues	44	122	10	11
Net profit/(loss) from sale of fixed assets	3	(1)	(1)	(2)
Other	1,874	841	1,564	194
	<u>3,518</u>	<u>2,424</u>	<u>2,133</u>	<u>737</u>

31. Salaries and employee benefits

€ '000	Note	9 months		3 months	
		Sep 2015	Sep 2014	Sep 2015	Sep 2014
Remuneration		(53,368)	(53,453)	(18,260)	(17,889)
Social security costs		(20,356)	(20,001)	(6,972)	(6,802)
Social fund		(1,198)	(1,011)	(366)	(311)
Retention program		-	433	-	-
Restructuring provision	23	195	93	15	66
		<u>(74,727)</u>	<u>(73,939)</u>	<u>(25,583)</u>	<u>(24,936)</u>

At 30 September 2015, the total number of employees of the Bank was 3,498 (31 December 2014: 3,508). The average number of employees of the Bank during the period ended 30 September 2015 was 3,505 (30 September 2014: 3,483).

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

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

€ '000	Note	9 months		3 months	
		Sep 2015	Sep 2014	Sep 2015	Sep 2014
IT systems maintenance		(13,753)	(14,528)	(3,678)	(5,353)
Property related expenses		(12,983)	(12,476)	(4,185)	(4,066)
Provisions for Resolution fund	23	(7,400)	-	(2,000)	-
Post and telecom		(7,379)	(7,796)	(2,454)	(2,741)
Equipment related expenses		(4,442)	(4,205)	(1,447)	(1,412)
Advertising and marketing		(4,431)	(4,549)	(1,266)	(1,198)
Stationery		(3,171)	(2,659)	(993)	(934)
Security		(2,439)	(2,573)	(655)	(864)
Litigations paid		(1,251)	(248)	(9)	(30)
Third parties' services		(1,056)	(926)	(286)	(159)
Contribution to the Deposit Protection Fund *		(1,041)	(5,050)	(341)	(463)
Insurance		(898)	(914)	(238)	(272)
Professional services		(834)	(622)	(201)	(252)
Travelling		(496)	(533)	(183)	(187)
Training		(481)	(498)	(144)	(127)
Audit **		(367)	(352)	(129)	(111)
Other damages		(325)	(456)	(77)	(126)
Transport		(315)	(334)	(105)	(110)
VAT and other taxes		(234)	(313)	(1)	(41)
Other provisions	23	(9)	-	(3)	-
Provisions for litigation	23	2,226	(551)	(282)	(255)
Other operating expenses		(1,987)	(1,942)	(1,661)	(161)
		<u>(63,066)</u>	<u>(61,525)</u>	<u>(20,338)</u>	<u>(18,862)</u>

* The quarterly contribution to the Deposit Protection Fund for 2015 was set to 0.0075% p.q. from the protected deposit base. The contribution for the first two quarters of 2014 was calculated as 0.05% p.q. from the base and for the third and fourth quarter of 2014 it was decreased to 0.01% p.q. from the protected deposit base.

** As at 30 September 2015 the audit expense consists of fees for the statutory audit in the amount of € 172 thousand (30 September 2014: € 167 thousand), group reporting in the amount of € 172 thousand (30 September 2014: € 167 thousand) and other audit (primarily security audit) in the amount of € 23 thousand (30 September 2014: € 18 thousand).

At 30 September 2015 and 30 September 2014, the special levy recognized by the Bank was as follows:

€ '000	9 months		3 months	
	Sep 2015	Sep 2014	Sep 2015	Sep 2014
Special levy of selected financial institutions	<u>(14,941)</u>	<u>(29,413)</u>	<u>(5,129)</u>	<u>(9,830)</u>

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

As at 25 July 2014, the total amount of the levy paid by the financial institutions subject to levy exceeded the threshold of € 500,000 thousand and therefore, based on the amendment to the Act on the Special levy of selected financial institutions, the Bank was not obliged to pay the levy for the last quarter of 2014 and effective from 2015, the levy rate has been decreased to 0.2% p.a.

33. Impairment losses

€ '000	Note	9 months		3 months	
		Sep 2015	Sep 2014	Sep 2015	Sep 2014
Creation of impairment losses	13	(107,113)	(98,339)	(23,816)	(28,256)
Reversal of impairment losses	13	63,347	50,658	9,471	7,168
Net creation of impairment losses		<u>(43,766)</u>	<u>(47,681)</u>	<u>(14,345)</u>	<u>(21,088)</u>
Creation of liabilities – financial guarantees and commitments		(11,164)	(8,424)	(1,914)	(1,156)
Reversal of liabilities – financial guarantees and commitments		8,557	6,765	2,136	1,021
Net (creation)/reversal of liabilities – financial guarantees and commitments	24	<u>(2,607)</u>	<u>(1,659)</u>	<u>222</u>	<u>(135)</u>
Nominal value of assets written-off/sold		(36,085)	(34,351)	(11,881)	(9,724)
Release of impairment losses to assets written-off/sold	13	29,957	31,795	9,291	10,143
		<u>(6,128)</u>	<u>(2,556)</u>	<u>(2,590)</u>	<u>419</u>
Proceeds from assets written-off		5,072	6,124	1,518	2,933
Proceeds from assets sold		8,067	8,648	1,715	3,524
		<u>13,139</u>	<u>14,772</u>	<u>3,233</u>	<u>6,457</u>
		<u>(39,362)</u>	<u>(37,124)</u>	<u>(13,480)</u>	<u>(14,347)</u>

34. Income tax expense

€ '000	Note	9 months		3 months	
		Sep 2015	Sep 2014	Sep 2015	Sep 2014
Current income tax		(32,212)	(27,028)	(11,514)	(11,432)
Deferred income tax	18	1,542	2,187	1,178	2,566
		<u>(30,670)</u>	<u>(24,841)</u>	<u>(10,336)</u>	<u>(8,866)</u>

35. Other comprehensive income

€ '000	Sep 2015	Sep 2014
Exchange differences on translating foreign operation	9	-
Available-for-sale financial assets:		
Revaluation (losses)/gains arising during the period	(14,092)	564
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	(651)	(2,857)
	(14,743)	(2,293)
Cash flow hedges:		
Revaluation (losses)/gains arising during the period	(273)	1,295
Total other comprehensive income	(15,007)	(998)
Income tax relating to components of other comprehensive income *	3,304	220
Other comprehensive income for 9 months	(11,703)	(778)

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

36. Income tax effects relating to other comprehensive income

€ '000	September 2015			September 2014		
	Before tax amount	Tax benefit	Net of tax amount	Before tax amount	Tax benefit/ (expense)	Net of tax amount
Exchange differences on translating foreign operations	9	-	9	-	-	-
Available-for-sale financial assets	(14,743)	3,244	(11,499)	(2,293)	505	(1,788)
Net movement on cash flow hedges	(273)	60	(213)	1,295	(285)	1,010
	(15,007)	3,304	(11,703)	(998)	220	(778)

37. Related parties

Related parties are those counterparties that represent:

- (a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;
- (b) Associates – enterprises in which the parent company has significant influence and which are neither a subsidiary nor a joint venture;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- (d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- (e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

37. Related parties (continued)

At 30 September 2015, the outstanding balances with related parties comprised:

€ '000	KMP *	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets							
Due from banks	-	-	-	-	104,111	10,693	114,804
Derivative financial instruments	-	-	-	-	1,446	896	2,342
Loans and advances to customers	350	193,774	-	-	-	-	194,124
Financial assets at fair value through profit or loss	-	-	-	-	341	-	341
Other assets	-	214	2,285	1,827	-	-	4,326
	<u>350</u>	<u>193,988</u>	<u>2,285</u>	<u>1,827</u>	<u>105,898</u>	<u>11,589</u>	<u>315,937</u>
Liabilities							
Due to central and other banks	-	-	-	-	77,314	11,738	89,052
Derivative financial instruments	-	-	-	-	-	3,583	3,583
Due to customers	2,718	503	-	2,349	-	114	5,684
Debt securities in issue	-	-	663	-	-	430,807	431,470
Mortgage bonds	-	-	-	-	-	4	4
Other liabilities	341	6,123	-	39	-	-	6,507
	<u>3,059</u>	<u>6,626</u>	<u>663</u>	<u>2,388</u>	<u>77,314</u>	<u>446,246</u>	<u>536,296</u>
Commitments and undrawn credit facilities							
	-	55,830	-	-	-	-	55,830
Issued guarantees							
	-	-	-	-	2,945	14,444	17,389
Received guarantees							
	-	-	-	-	138,745	49,557	188,302
Derivative transactions (notional amount – receivable)							
	-	-	-	-	48,451	281,639	330,090
Derivative transactions (notional amount – payable)							
	-	-	-	-	47,116	261,204	308,320

37. Related parties (continued)

€ '000	KMP *	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Income and expense items							
Interest and similar income	7	1,833	-	-	1,515	24	3,379
Interest and similar expense	(14)	67	(3)	(1)	(62)	(6,652)	(6,665)
Fee and commission income	1	78	-	7,983	48	11	8,121
Fee and commission expense	-	(24,049)	-	(17)	(1)	(5,397)	(29,464)
Net trading result	-	-	-	-	993	(4,271)	(3,278)
Dividend income	-	1,371	2,280	2,262	-	-	5,913
Other operating income	-	885	85	280	360	57	1,667
Other operating expenses	-	(915)	-	-	-	(1,058)	(1,973)
	<u>(6)</u>	<u>(20,730)</u>	<u>2,362</u>	<u>10,507</u>	<u>2,853</u>	<u>(17,286)</u>	<u>(22,300)</u>

* Key management personnel

37. Related parties (continued)

At 31 December 2014, the outstanding balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets							
Due from banks	-	-	-	-	549,238	5,857	555,095
Derivative financial instruments	-	-	-	-	-	4,324	4,324
Loans and advances to customers	448	162,104	-	-	-	-	162,552
Financial assets at fair value through profit or loss	-	-	-	-	625	-	625
Other assets	-	184	5	788	-	-	977
	<u>448</u>	<u>162,288</u>	<u>5</u>	<u>788</u>	<u>549,863</u>	<u>10,181</u>	<u>723,573</u>
Liabilities							
Due to central and other banks	-	-	-	-	111,285	8,616	119,901
Derivative financial instruments	-	-	-	-	114	4,843	4,957
Due to customers	3,056	5,226	-	1,319	-	110	9,711
Debt securities in issue	-	-	647	-	-	562,086	562,733
Mortgage bonds	-	-	-	-	-	491	491
Other liabilities	625	4,309	-	10	-	-	5,435
	<u>3,681</u>	<u>9,535</u>	<u>647</u>	<u>1,329</u>	<u>111,399</u>	<u>576,146</u>	<u>702,737</u>
Commitments and undrawn credit facilities							
	-	96,969	-	-	-	-	96,969
Issued guarantees							
	-	-	-	-	-	26,760	26,760
Received guarantees							
	-	-	-	-	135,000	67,096	202,096
Derivative transactions (notional amount – receivable)							
	-	-	-	-	-	67,642	67,642
Derivative transactions (notional amount – payable)							
	-	-	-	-	35,107	151,053	186,160

37. Related parties (continued)

For the period ended 30 September 2014, the outstanding balances with related parties comprised:

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

38. Profit distribution

On 27 March 2015, the Bank's shareholders approved the following profit distribution for 2014.

€ '000	
Dividends to shareholders (€ 6.90 per € 33.2 share)	89,538
Retained earnings	<u>22,119</u>
	<u>111,657</u>

39. Events after the end of the reporting period

From 30 September 2015, up to the date when these financial statements were authorized for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.