Všeobecná úverová banka, a.s.

BASE PROSPECTUS

June 6, 2018

Offering program for Bonds in the maximum volume of unpaid Bonds amounting to EUR 5 000 000 000 with program duration 10 years

This document is a base prospectus 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 – covered bonds (hereinafter "**CB**" or "**Bonds**") in any currency, on the basis of the information provided herein as later amended (hereinafter "**Program**"). The total nominal value of all unpaid Bonds issued within Program must not exceed EUR 5 000 000 000.00 or equivalent sum in other currency. Program duration, during which VÚB, a. s. may issue individual Bonds issues within Program, is 10 years until 6 May 2023. Program has been approved by Issuer's Supervisory Board on October 24, 2012. An increase of the amount from EUR 1.5 bln to EUR 5 bln has been approved by Issuer's Supervisory Board on December 1, 2016.
On May 14, 2018 the National Bank of Slovakia (hereinafter "**NBS**") granted with the ruling No. 100-000-105-179 to the file No.: NBS1-000-0204-409 to Issuer the prior consent to perform activities related to the covered bonds programme. On May 16, 2018 the Management Board of the Issuer approved the extension of this Program by the covered bonds.

The Program does not apply to conditions of other bond issues, issued by Issuer outside the scope of Program.

This Base Prospectus contains common information concerning Bonds and conditions of offer thereof, on the basis of which individual Bonds issues will be issued within Program.
Prior to the commencement of Bonds issue issued within Program, Issuer shall prepare and publish a separate document (hereinafter "**Final Terms**") for each Bonds issue, and enclose a Summary for each issue (hereinafter "**Summary**"). Final Terms and Summary will provide, together with the information indicated in Base Prospectus, all the information in terms of the valid legal regulations for the given Bonds issue. Final Terms will contain such parameters of issue and conditions of Bonds issue for individual issues, which are unknown at the time of preparation of Base Prospectus and/or few variants of which are indicated in Base Prospectus.

Base Prospectus was prepared on June 6, 2018 according to the situation to the date of preparation thereof, unless otherwise provided. Base Prospectus is valid for 12 months of the approval thereof by the NBS, provided that Base Prospectus will be updated in terms of Art. 121 Section 9 of Act on securities. Anytime during validity of Base Prospectus, a supplement to Base Prospectus (hereinafter "**Supplement**") may be prepared in relation to the updating of Base Prospectus and submitted to NBS for approval. Once approved, Supplement shall be published in the same way as Base Prospectus so that each public offer of Bonds or application for regulated market entry is executed on the basis of valid and current prospectus of a security. Prior to the expiry of Base Prospectus, Issuer shall require NBS to approve a new base prospectus, which shall be published in the same way as Base Prospectus. The validity of this base Prospectus will expire after 12 months from the date of its approval by the NBS

for the purpose of public offering or acceptance of Bonds for trading at a regulated market except the case, if before the expiry of the mentioned period a new base prospectus is approved by NBS and disclosed by the Issuer, when the validity of this Base Prospectus expires by the approval of a new base prospectus by NBS and its following disclosure by the Issuer. In such a case the new base prospectus will simultaneously cancel this Base Prospectus in full and will replace it. The new base prospectus regardless the fact whether it was approved by NBS and then disclosed by the Issuer before or after the expiry of validity period of this Base Prospectus, will equally apply to all new issues of Bonds, which will be carried out during its validity period as well as to all ongoing and unfinished Bonds issues, which started or continued during the validity of this Base Prospectus, i.e. in a manner that the possibility to invest in Bonds issue still carrying and not finished during the validity of this Base Prospectus remained also during the validity of new base prospectus. It simultaneously applies that this Base Prospectus applies to any Bonds issue carried out during its validity period as well as to any simultaneously carried out and not finished Bonds issue, which started or continued during the validity of the previous base prospectus, i.e. in a manner that the possibility to invest in Bonds issue still carrying out and not finished during the validity of the previous base prospectus remained also during the validity of this Base Prospectus. The purpose of aforementioned preliminary measures is to assure that in cases of public offering of Bonds or request for the admission of Bonds for trading on a regulated market each Bonds issue is always carried out on the basis of valid and current prospectus.
Once approved by NBS, Base Prospectus (and future Supplements thereto) will be published and available free of charge in written form at the registered office of Issuer: Mlynské nivy 1, 829 90 Bratislava, in department: Balance Sheet Management (hereinafter "**Issuer's Registered Office**") and on Issuer's website: https://www.vub.sk/sk/informacny-servis/prospekty-cennych-papierov/. A notification of availability will be published in daily national press. All Final Terms and Summaries of individual issues, issued within Program, will be accessible on Issuer's website: https://www.vub.sk/sk/informacny-servis/prospekty-cennych-papierov/ and in hard copy at Issuer's Registered Office. Issuer's financial reports and financial statements published after the issue date of Base Prospectus, as well as all documents referred to herein are available on Issuer's website: https://www.vub.sk/sk/financne-ukazovatele/informacie-cinnosti-banky/ in electronic form and in hard copy at Issuer's Registered Office upon request, free of charge, during working days from 9 AM to 4 PM.

Final Terms and Summaries which will be prepared by Issuer in the future for any Bonds issue shall be published in the same way as Base Prospectus, submitted to NBS, and constitute, together with Base Prospectus as amended by later Supplements and approved by NBS and published, the entire information about each individual Bonds issue, issued within Program.

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I. SUMMARY

This summary is an introduction to Bonds Base Prospectus. It contains basic information about Issuer, Bonds and Program, contained elsewhere in Base Prospectus.

This summary is not exhaustive and does not contain all the information which may be significant for potential investors. Any investor's decision to invest into Bonds should take the assessment of the entire Bonds prospectus, i.e. Base Prospectus including later Supplements thereto, together with Final Terms of the relevant issue for the basis. Investors should, in particular, take the factors provided in chapter "II. RISK FACTORS" into consideration.

Summary reading instructions:
The summary is prepared in compliance with Commission Regulation (EU) No 486/2012 of March 30, 2012, amending Regulation (EC) No 809/2004 of April 29, 2004. Summaries are prepared in terms of the disclosure *requirements, called "Elements". These Elements are numbered by sections A* – E (A.1 – E.7).

This summary contains all Elements, required for the given kind of security and type of Issuer. Since it is not necessary to answer all Elements, certain gaps in numbering may occur in the Elements part.

In spite of the fact that a certain Element is required in the summary with regard to the security kind and Issuer type, it is possible that no relevant information can be provided for the given Element. If it is so, a brief explanation of *Element is provided together with statement "does not apply".*

Section A – Introduction and notices		
Element	**Disclosure requirement**	
A.1	**Notice**	This summary should be perceived as introduction to prospectus. Each decision to invest into Bonds should be based on the investor's assessment of the entire prospectus. In the event a petition concerning information contained in the prospectus is filed to the court, the investor-plaintiff may be charged with the costs of prospectus translation prior to the commencement of judicial proceedings in terms of the internal legal regulations of member countries. Only the persons submitting the summary including the translation thereof have the civil liability, provided that the summary is misleading, inaccurate or in contradiction with other prospectus parts, or does not contain, in connection with the other prospectus parts, key information, which should help the investors upon decision making on investments to such securities. **Responsible persons and their representations:** Všeobecná úverová banka, a.s. as Issuer, represented by Roberto Vercelli, member of Management Board, and Antonio Bergalio, member of Management Board, represents that it is liable for the information contained in the entire summary. Issuer represents that it paid due care to the summary preparation, that it prepared the summary 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. Signatures of responsible persons are provided in chapter "IV. INFORMATION ABOUT SECURITIES" of Base Prospectus.
A.2	**Financial intermediation**	Not applicable; The Issuer does not give its consent to use the Base Prospectus by financial brokers in the secondary trading and no party shall act as the broker in the secondary trading.

Section B - Issuer		
Element	**Disclosure requirement**	
B.1	**Name of Issuer**	Všeobecná úverová banka, a.s.; name in short: VÚB, a.s.
B.2	**Domicile and legal form of Issuer**	Registered office: 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. Legal form: joint-stock company. LEI kód: 549300JB1P61FUTPEZ75
	Legal regulations under which Issuer carries out its activities	Issuer carries out its activities under the Slovak law and under the Commercial Code, Act on Banks, Act on Securities.
	Country of incorporation	Slovak Republic.
B.4b	**Description of all known trends influencing Issuer and its field of business**	The last global financial crisis has led to the increase of national and international regulation with the aim to adopt new and to toughen existing rules for financial sector, in which Issuer is active. This regulation could influence financial sector and new requirements and changes in the area of capital adequacy, liquidity and leverage effect could lead to the increase of requirements on capital and liquidity. Beside of impacts of regulation, macroeconomic conditions and market conditions the Issuer is not aware of any trends or uncertainty or eventually is not familiar with any entitlements, obligations or circumstances about which one can reasonably assume that they will have a significant impact on the prospects of Issuer during the current financial year.
B.5	**Group description and Issuer's position within the group**	VÚB, a. s., is a member of Intesa Sanpaolo group. The shareholder with decisive share in the mortgage bonds and voting rights of Issuer is Intesa Sanpaolo Holding International S.A. Dependence of VÚB, a. s. on other entities within the group is directly proportional to the share of those entities in Issuer's registered capital. Issuer has a direct equity interest in 3 entities.

Group	Trade name and CRN	% share	Registered office
Legal person controlling VÚB, a. s. (as of March 31, 2018)	Intesa Sanpaolo Holding International S.A., CRN: B 44318	97.03	35 Boulevard du Prince Henri, L-1724 Luxembourg, Luxembourg
Legal person controlling Intesa Sanpaolo Holding International S.A., Luxembourg (as of March 31, 2018)	Intesa Sanpaolo S.p.A., CRN: 00799960158	100.00	Piazza San Carlo 156, Turin, Italy
Significant direct equity interest of VÚB, a. s., in business companies (as of March 31, 2018) with 50% and higher share in the registered capital	VUB Foundation CRH:30,856,043	100.00	Mlynské nivy 1, 829 90 Bratislava, Slovak Republic
	VÚB Leasing a. s., CRN: 31,318,045	100.00	Mlynské nivy 1, 820 05 Bratislava, Slovak Republic
	VÚB Generali, Dôchodková správcovská spoločnosť, a. s., CRN: 35,903,058	50.00	Mlynské nivy 1, 820 04 Bratislava, Slovak Republic

B.9	**Prognosis or profit estimate**	Not applicable; Issuer decided not to include the profit prognosis and as of the date of Base Prospectus, it did not publish the profit prognosis.
B.10	**Reservations in auditor's report**	Not applicable; Auditor's opinion contained no reservations.

B.12	**Selected key historical financial information**
	The selected key historical financial information from consolidated financial statements verified by auditor, for the period ending on December 31, 2015, December 31, 2016, and December 31, 2017 prepared in accordance with the International Financial Reporting Standards (IFRS).

Consolidated Statement of Financial Position
(in thousands of EUR)

	2017	2016	2015
Assets			
Cash and balances with central banks	1,595,097	1,029,103	469,336
Due from banks	90,913	112,468	178,707
Financial assets at fair value through profit or loss	5 783	474	97,753
Derivative financial instruments	49,856	47,249	46,652
Available-for-sale financial assets	520,416	1,289,979	1,867,941
Loans and advances to customers	12,000,729	10,725,281	9,125,909
Held-to-maturity investments	376,472	530,019	531,742
Associates and joint ventures	8,972	8,788	17,635
Intangible assets	80,100	68,888	64,108
Goodwill	29,305	29,305	29,305
Property and equipment	126 848	104,853	105,925
Current income tax assets	9,478	1,464	-
Deferred income tax assets	53 779	64,002	58,804
Other assets	23 128	25,281	31,647
	14,970,876	14,037,154	12,625,464
Liabilities			
Due to central and other banks	768,781	855,244	774,354
Derivative financial instruments	52,184	65,354	62,559
Due to customers	9,939 121	9,564,560	8,552,684
Subordinated debt	200,164	200,165	-
Debt securities in issue	2,252,380	1,715,308	1,600,341
Current income tax liabilities	-	-	9,517
Provisions	9,962	26,001	25,313
Other liabilities	115,698	105,266	102,590
	13,338,290	12,531,898	11,127,358
Equity			
Equity (excluding net profit for the year)	1,457,589	1,348,486	1,334,223
Net profit for the year	174,997	156,770	163,883
	1,632,586	1,505,256	1,498,106
	14,970,876	14,037,154	12,625,464
Financial commitments and contingencies	3,562 979	3,658,239	3,351,373

Consolidated Statement of Profit or Loss and other Comprehensive Income
(in thousands of EUR)

	2017	2016	2015
Interest and similar income	434,187	449,361	485,379
Interest and similar expenses	(50,227)	(49,962)	(73,420)
Net interest income	383,960	399,399	411,959

Fee and commission income	151,028	146,311	159,084
Fee and commission expense	(37,379)	(38,364)	(41,597)
Net fee and commission income	113,649	107,947	117,487
Net trading result	40,344	38,783,	11,970
Other operating income	9,462	9,625	11,422
Operating income	547,415	555,754	552,838
Salaries and employee benefits	(126,659)	(119,710)	(114,447)
Other operating expenses	(90,789)	(103,759)	(101,865)
Special levy for selected financial institutions	(24,823)	(22,143)	(20,076)
Amortization	(12,635)	(14,539)	(13,664)
Depreciation	(12,134)	(13,207)	(14,367)
Operating expenses	(267,040)	(273,358)	(264,419)
Operating profit before impairment	280,375	282,396	288,419
Impairment losses	(59,205)	(75,764)	(79,278)
Profit from operations	221,170	206 632	209,141
Share of profit of associates and joint ventures	1,965	5,110	4,434
Profit before tax	223,135	211,742	213,575
Income tax expense	(48,138)	(54,972)	(49,692)
NET PROFIT FOR THE YEAR	174,997	156,770	163,883
Other comprehensive income for the year, after tax:			
Items that will not be reclassified to profit or loss in the future:			
Revaluation surplus from property and equipment	21,966	-	-
Items that may be reclassified to profit or loss in the future:			
Exchange difference on translating foreign operation	269	(19)	16
Available-for-sale financial assets	606	(23,137)	(4,266)
Cash flow hedges	1,378	410	(365)
Other comprehensive income for the year, after tax	24,219	(22,746)	(4,615)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	199,216	134,024	159,268

Selected key interim financial information

The selected key interim financial information from the Interim individual financial statements unverified by auditor, for the period ending on March 31, 2018 prepared in accordance with the International Accounting Standards IAS 34 Interim financial statements.

Individual Statement of Financial Position as of 31 March 2018
(in thousands of EUR)

	Mar 2018	Dec 2017
Assets		
Cash and balances with central banks	1,742,457	1,595,078
Financial assets at fair value through profit or loss:		
Financial assets held for trading	45,664	-
Non-trading financial assets mandatorily at fair value through profit or loss	900	-
Derivative – Hedge accounting	19,114	-
Financial assets at fair value through profit or loss	-	5,783
Derivate financial instruments	-	49,856
Financial assets at fair value through other comprehensive income	868,041	-
Available-for-sale financial assets	-	520,416
Held-to-maturity investments	-	376,472
Financial assets at amortised cost:		
Due from other banks	124,949	90,744
Due from customers	11,816,996	11,487,518
Fair value changes of the hedged items in portfolio hedge of interest rate risk	685	-
Investments in subsidiaries, joint ventures and associates	38,204	92,745
Property and equipment	110,934	111,5112
Intangible assets	77,075	74,882
Goodwill	18,871	-
Current income tax assets	13,735	5,813
Deferred income tax assets	44,402	38,626
Other assets	20,100	19,848
	14,942,127	14,469,293
Liabilities		
Financial liabilities at fair value through profit or loss:		
Financial liabilities held for trading	28,661	-
Derivatives – Hedge accounting	17,566	-
Derivative financial instruments	-	52,184
Financial liabilities at amortised cost:		
Due to banks	447,905	449,815
Due to customers	10,223,411	9,855,433
Subordinated debt	200,161	200,164
Debt securities in issue	2,246,469	2,252,380
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(459)	-
Current income tax liabilities	908	-
Provisions	21,771	27,083
Other liabilities	222,966	76,254
	13,409,359	12,913,313
Equity		
Equity (excluding net profit for the period)	1,475,041	1,395,959
Net profit for the period	57,727	160,021
	1,532,768	1,555,980
	14,942,127	14,469,293
Financial commitments and contingencies	3,766,930	3,642,125

	Individual Statement of Profit and Loss and Other Comprehensive Income for 3 months ending on 31 March 2018 (in thousands of EUR)		
		Mar 2018	**Mar 2017**
	Interest and similar income	99,567	91,646
	Interest and similar expense	(11,956)	(11,680)
	Net interest income	87,611	79,966
	Fee and commission income	36,612	35,774
	Fee and commission expense	(6,863)	(11,650)
	Net fee and commission income	29,749	24,124
	Net trading result	25,354	6,450
	Other operating income	1,272	1,041
	Dividend income	2,000	2,000
	Operating income	145,986	113,581
	Salaries and employee benefits	(30,754)	(26,218)
	Other operating expenses	(28,102)	(26,595)
	Special levy of selected financial institutions	(6,397)	(5,948)
	Amortisation	(2,754)	(2,186)
	Depreciation	(2,156)	(2,363)
	Operating expenses	(70,163)	(63,310)
	Operating profit before provisions and impairment	75,823	51,142
	Provisions	3,833	9,965
	Impairment losses	(6,588)	(9,094)
	Profit before tax	73,068	51,142
	Income tax expense	(15,341)	(10,802)
	NET PROFIT FOR 3 MONTHS	57,727	40,340
	Other comprehensive income for 3 months, after tax:		
	Items that may be reclassified to profit or loss in the future:		
	Net gain on cash flow hedges	72	71
	Net loss on financial assets at fair value through other comprehensive income	(16,633)	-
	Net loss on available-for-sale financial assets	-	(1,841)
	Exchange difference on translating of foreign operations	(211)	-
	Other comprehensive income for 3 months, net of tax	(16,772)	(1,770)
	TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS	40,955	38,570
	Basic and diluted earnings per € 33.2 share in €	3,91	3,11

	Significant unfavourable change of Issuer's prospects	Since the publication of the last Consolidated Economic Result, prepared in accordance with the International Financial Reporting Standards, no significant unfavourable change in the Issuer's prospects has occurred.
	Significant changes	Not applicable; After the period, for which the historical financial information is provided, no significant changes in the financial or business position of Issuer have occurred.
B.13	**Specific circumstances relating to Issuer's solvency**	Not applicable; Issuer is unaware of any specific circumstances, having an impact on Issuer's solvency, have occurred.

B.14	**Dependence on other entities within the group**	Dependence of VÚB, a. s. on other entities within the Group is proportional to the share of those entities in the registered capital of Issuer. Intesa Sanpaolo Holding International S.A., with the registered office at 35 Boulevard du Prince Henri, L-1724 Luxembourg, Luxembourg, CRN B 44318 is the shareholder with majority share, i.e. 97.03%, in Issuer's registered capital and voting rights. The legal person controlling Intesa Sanpaolo Holding International S.A., Luxembourg is Intesa Sanpaolo S.p.A., with the registered office at Piazza San Carlo 156, Turin, Italy, CRN 00799960158, with 100% share.
B.15	**Main Issuer's activities**	Issuer is a universal bank and its main activities are: credits providing, deposits receiving, bank services providing to the public, services providing on the capital and interbank markets.
B.16	**Direct or indirect owning or controlling of Issuer**	The legal person controlling Issuer is Intesa Sanpaolo Holding International S.A., with the registered office at 35 Boulevard du Prince Henri, L-1724 Luxembourg, Luxembourg, CRN B 44318, with 97.03% share. The legal person controlling Intesa Sanpaolo Holding International S.A., Luxembourg is Intesa Sanpaolo S.p.A., with the registered office at Piazza San Carlo 156, Turin, Italy, CRN 00799960158, with 100% share.
B.17	**Rating**	Moody's assigned the following rating: Issuer: Deposits A2/P- 1; stable outlook. Covered bonds issued by Issuer within the Offering Program were rated at the level Aa2.

Section C - Securities		
Element	**Disclosure requirement**	
C.1	**Kind and class of securities** **Identification number of securities**	Registered bearer bond - covered bond. Those information will be provided in Final Terms of a specific issue.
C.2	**Issue currency**	Those information will be provided in Final Terms of a specific issue.
C.5	**Restriction to free transferability**	Not applicable; Bonds are transferrable to a new owner without restrictions, no pre-emption or exchange rights are attached to Bonds.
C.8	**Description of rights attached to securities including assessment classification and restriction of those rights**	Rights attached to Bonds, restrictions of rights and procedures of the exercise thereof, as well as the obligations following from Bonds are contained in the valid legal regulations of the Slovak Republic, in particular in Act on Bonds and Act on Securities, in Base Prospectus and relevant Final Terms of individual issue. Except for restrictions explicitly set forth herein or in related documents and restrictions directly arising from legal regulations of the Slovak Republic, the Issuer has by no way whatsoever otherwise restricted or exercised its right to restrict rights of the Bondholders, even in cases, when the legal regulations of the Slovak Republic admit such restrictions of Bondholders' rights on side of the Issuer. The facts associated with exercising Bondholders' rights will be released in national periodicals publishing the stock exchange reports. No pre-emption or exchange rights are attached to Bonds. CB are direct, general, secured and unconditional pari passu obligations, ranking equally among each other and in relation to other current and future direct, general, secured and unconditional obligations of Bank, with the exception of obligations to which cogent provision of legal regulations will apply. A Bond owner is entitled to payment of earnings and repayment of nominal value in terms of the issue conditions.
C.9	**Interest rate, maturity of securities, earnings and representatives of securities holders**	Those information will be provided in Final Terms of a specific issue.
C.10	**Explanation of derivative component upon interest payment**	Not applicable; CB issues do not have a derivative component upon interest payment.
C.11	**Acceptance for trading**	Those information will be provided in Final Terms of a specific issue.

Section D - Risks		
Element	**Disclosure requirement**	
D.2	**Key information about the most important risks specific for Issuer**	Issuer's exposure to credit risk, liquidity, interest rate or operating risks arises from regular business activities with regard to Issuer's business purpose. In order to mitigate the mentioned risks, Issuer uses a number of instruments by which it controls the quality of its assets, financial operations and business deals carried out. The work processes to eliminate these risks are implemented under the supervision of the internal control. All the activities carried out by Issuer are regularly monitored and controlled by the National Bank of Slovakia. Issuer's performance and results may be negatively influenced also by external factors which are outside the Issuer's control, i.e. change of economic environment, phases of economic cycle, volatility on financial markets or increased competitiveness in the sector of financial services. Moreover, the current unfavourable situation on the world financial market increases the fluctuation of bonds prices, which may decrease, together with volatility of interest rates and exchange rates, the demand for products and services of Issuer. Issuer and its ability to perform its obligations may be influenced, apart from the risks mentioned above, also by the risks following from legislation changes and position of Issuer on the Slovak market, by the risk from changes or increase of regulatory requirements, from Slovak competitors, risks connected with the major shareholder of the Issuer. Another fact which should be taken into consideration is the rating of Issuer, which (rating) does not necessarily express all potential risks. In general, negative changes of the local and international economic environment, inflation, consumption of households and businesses, recession, unemployment, limited credit possibilities and other factors outside investor's control may have a negative impact on Issuer's performance, value of investment portfolio, as well as market value of securities issued by Issuer.
D.3	Key information about the most important risks specific for securities	A potential investor should responsibly consider the investment to Bonds issued by Issuer. It is particularly necessary for the investor to: 1) have enough knowledge and experience in order to reasonably assess Bonds, advantages and risks of investment to Bonds and information contained in Base Prospectus or information referred to in Base Prospectus or the relevant Supplement thereto; 2) have enough information concerning the investment, as well as the ability to assess the information in the context of his/her/its financial situation and impact of that investment on his/her/its existing portfolio; 3) have enough funds to withstand eventual negative development of risk factors concerning Issuer or Bonds; 4) fully understand the conditions of issue, know the relevant financial indicators and their possible development together with development of financial markets; 5) be able to assess the possible scenarios of economic development, development of interest rates and other factors which may have an impact on his/her/its investment and ability to bear the associated risks. Risk of potential conflict of interest –Issuer can use the whole volume or a part of funds obtained from selling of Bonds for hedging transactions, which should normally not influence the value of Bonds, however Issuer cannot guarantee, that it will not affect it. Issuer may in connection with Bonds from time to time act in other capacities, such as calculation agent, what allows Issuer to make calculations in respect of Bonds (e.g. amount of interest to be paid), which are binding for Bonds' holders. It is usual for employees of financial institutions such as Issuer to undertake deals on their own behalf subject to securities laws as well as statutory and internal compliance standards on personal transactions and market abuse. Employees and connected parties are permitted to take part in securities offerings of Issuer. Furthermore, when purchasing the Bonds, the employee receives a discount from the value of the market price. Sales employees of Issuer may be motivated to sell these Bonds, due to the value of incentives received by them (in case the sale is successful) subject to securities and banking laws applicable to any such incentives.

		Despite measures taken by the Issuer to ensure compliance with applicable laws and internal procedures, this could create a conflict with the duties owed to the Bondholders. Furthermore, members of the Issuer's Management and Supervisory Boards may serve on management or supervisory boards of various different companies including customers of and investors in Intesa Sanpaolo Group, which may also compete directly or indirectly with the Issuer. Directorships of that kind may expose such persons to potential conflicts of interest if the Issuer maintains active business relations with said companies, which could have a material adverse effect on the Issuer's business, financial position and results of operations. Low liquidity of the secondary market – the current situation on the capital market in the Slovak Republic is characterized by persistent low liquidity. If Issuer applies to the Bratislava Stock Exchange for the admission of a specific Bonds issue to its regulated market, Issuer cannot guarantee that Bonds will be actively traded, i.e. that there will be a demand for Bonds on the market and/or that this condition will remain the same after the starting of trading. Non-guaranteed price of Bonds on the secondary market - Issuer cannot guarantee the price for which Bonds will be purchased and/or sold on the secondary market. The price is influenced by the current market conditions, therefore it changes in the course of trading. Historical development of prices of Bond cannot be considered as indicator of future development of prices of Bonds. The Bondholder is therefore exposed to the risk of an unfavourable development of market prices of its Bonds which materialises if the Bondholder sells the Bonds prior to the final maturity of such Bonds. If the Bondholder decides to hold the Bonds until final maturity, the Bonds will be redeemed at the amount set out in the relevant Final Terms. Interest risk – the value of Bonds is influenced by changes in interest rates, which respond to economic, political or market estimates. Credit risk – the value of Bonds may change in dependence upon the market perception of Issuer's creditworthiness. Credit spread risk – the Bonds carry out the credit spread risk of the Issuer, which could during the life of Bonds widen resulting in a decrease in the market price of the Bonds. Factors influencing the credit spread include, among other things, the creditworthiness and credit rating of the Issuer, probability of default, recovery rate, remaining term to maturity of the Bonds. The overall economic situation, the liquidity of the market, the general level of interest rates, overall economic developments, and the currency, in which the relevant obligation is denominated may also have a negative effect and potential investors should consider all these mentioned factors. Influence of inflation – the obligation of Issuer to repay the debt in a certain currency has a lower real value than at the time of the investment due to higher inflation on that currency. Influence of regulation in respect of investment activities of some investors – each potential investor should consult its legal advisers to determine whether and to what extent are Bonds investments for it and to what extent are for it applicable the restrictions connected with the fact, that the investment activities for some investors may be regulated by special regulation and may be supervised or controlled by relevant public institutions. Impact of taxes and fees – the return on investment to Bonds is influenced by tax regime valid in the country of Issuer's registered office or in the country in which a security is transferred. A potential investor should also learn about the amount and kind of fees charged to him/her/it in relation to the acquisition, possession or sale of Bonds. Legal regime - Bonds are issued in compliance with the legal regulations valid in the Slovak Republic at the time of Bonds issue. Change of legal regulations during useful life of Bonds may have an impact on the value thereof and/or return on investment.

		The risk of early redemption of Bonds – the return on investment in Bonds may be lower than expected in case the Bondholder would sell these Bonds before their final maturity. In Final Terms of each issue of Bonds it will be determined, whether the Bondholder has the right for early repayment of Bonds or if Issuer may by occurrence of specific event defined in Final Terms of Bonds repay these Bonds before maturity. The Bondholders may be also exposed to the risk, that the return earned from an investments in the Bonds may not in the event of an early redemption of Bonds be able to reinvest in such a way that they earn the same rate as the redeemed Bonds. The risk of Bonds with fixed rate – the risk involve the situation that the market price of such Bonds falls. The nominal interest rate of Fixed Rate Bonds is fixed during the life of such Bonds, while the current interest rate on the capital market typically changes. As the market interest rate changes, the market price of fixed rate Bonds also changes, but in the opposite direction. If the market interest rate increases, the market price of fixed rate Bonds typically falls, until the yield of such Bonds is approximately equal to the market interest rate. If the market interest rate falls, the market price of fixed rate Bonds typically increases, until the yield of such Bonds is approximately equal to the market interest rate. The risk of Bonds with floating rate – it represents the risk of fluctuating interest rate levels which make it impossible to determine the yield of such Bonds in advance, and are exposed to the risk of uncertain interest income. The interest of Floating Rate Bonds will be linked to benchmark indices (for the purpose of this risk factor each one as a "Benchmark" and together, the "Benchmarks") such as the interbank interest rate in Euro (Euro Interbak Offered rate) ("EURIBOR"), the London Interbank Offered Rate ("LIBOR"), Prague Interbank Offered Rate ("PRIBOR) or another "Benchmark". EURIBOR, LIBOR and other "Benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such Benchmarks to perform differently than in the past or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Bonds linked to such a "Benchmark". Key international reforms of Benchmarks include: (i) Principles for Oil Price Reporting Agencies (October 2012) and Principles for Financial Benchmarks (July 2013) issued by IOSCO (International Organization of Securities commissions); (ii) Principles for the benchmark-setting process (June 2013) issued by ESMA (European Securities and Markets Authority) and EBA (European Banking Authority); and (iii) the Benchmark Regulation (EU) 2016/1011 of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the "**Benchmark Regulation**"). In addition to the aforementioned reforms, there are numerous other proposals, initiatives and investigations which may impact Benchmarks. Benchmark Regulation is effective from 1 January 2018. In principle, it applies to "administrators", and in certain respects, to "contributors" and regulated "users" of Benchmarks within the EU, and inter alia: (i) Benchmark administrators have to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and will have to comply with the extensive requirements related to the administration of Benchmarks, and (ii) will prevent uses of Benchmarks of administrators that are not authorised or registered. The scope of the Benchmark Regulation is broad and, apart from the so-called " "critical benchmark" indices may also potentially apply to (i) many interest indices when they refer to some of the financial instruments traded on a trading venue, or (ii) "systematic internalisers" (or in relation to with which they have been admitted to trading on a trading venue), financial contracts and investment funds. The Benchmark Regulation may have a significant impact on Bonds associated with the Benchmark or Index considered as the Benchmark, especially if the methodology or other benchmarking conditions are changed in order to meet the requirements of the Benchmark Regulation. Such changes could, among other things, result in a reduction, increase or other effect on the volatility of the published rate or the Benchmark level. Any changes to a Benchmark as a result of the Benchmark Regulation or other initiatives could have a material adverse effect on the costs of obtaining exposure to a Benchmark or the costs and risks of administering or otherwise participating in the

		setting of a Benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain Benchmarks, trigger changes in the rules or methodologies used in certain Benchmarks or lead to the disappearance of certain Benchmarks. Any such change or any subsequent change due to international, national or other reform proposals or other initiatives or findings could have a significant adverse effect on the value and return of all Bonds linked to a Benchmark. Although it is uncertain whether or to what extent any of the above-mentioned changes and/or any further changes in the administration or method for determining a Benchmark could have an effect on the value of any Bonds whose interest is linked to the relevant Benchmark, investors should be aware that: (i) any change to the relevant Benchmark could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be; (ii) if the applicable rate of interest on the Bonds is calculated with reference to a currency or tenor which is discontinued, such rate of interest will then be determined by the fallback provisions of the Bonds. This may cause the interest to be lower than it would otherwise be; (iii) the methodology or other terms of the relevant Benchmark could be changed, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of such Benchmark; and (iv) the administrator of the relevant Benchmark will not have any involvement in the Bonds and may take any actions in respect of the relevant Benchmark without regard to the effect of such actions on the Bonds. Investors thus face the risk that any changes to the relevant Benchmark may have a material adverse effect on the value of and the amount payable under Bonds whose rate of interest is linked to a Benchmark. The administrators of Benchmarks may publish and adhere to error policies (the "Error Policies"), which set out how such Benchmark administrators will deal with errors which occur during the fixing process of the relevant Benchmark. These Error Policies may include materiality thresholds, which means that an erroneously fixed Benchmark will not be refixed in case the relevant materiality threshold is not breached. In addition, Error Policies may differentiate between errors which are discovered during compliance checks prior to a cut-off time set out in the relevant Error Policy for a refix of the relevant Benchmark and errors which are discovered after such cut-off time. In case the error is discovered prior to the relevant cut-off time, the Error Policy may allow the Benchmark administrator to refix the relevant Benchmark. Any such refix may result in the relevant Benchmark being lower than originally fixed. Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms, investigations and licensing issues in making any investment decision with respect to the Bonds linked to a Benchmark. The risk of Zero Coupon Bonds - Zero Coupon Bonds do not pay current interest but are issued at a discount from their nominal value. The risk of Zero Coupon Bonds lies in the risk the market price of such Bonds falls as a result of changes in the market interest rate. Market prices of Zero Coupon Bonds are more volatile than market prices of Fixed Rate Bonds and are likely to respond to a greater degree to market interest rate changes than interest bearing instruments with a similar maturity. The risk that the trading with the Bonds will be suspended, interrupted or terminated – trading with the Bonds on relevant stock exchange may be upon occurrence of any reasons suspended, interrupted or terminated, while the Issuer has no influence on this fact. This event may have an adverse effect on the market price of Bonds. The risk of clearing system – the relevant clearing system may stay upon occurrence of any reasons dysfunctional, while the Issuer has no influence on this fact. This event may have an adverse effect on the market price of Bonds and may cause that the financial and securities settlement will be not realized. Exchange rate risks may occur, if a Bondholder's financial activities are denominated in a currency other than the currency in which Bonds are denominated – the currency, in which the Issuer will make principal and interest payments of Bonds is specified in Final Terms of each issue of Bonds. This risk includes the fact that exchange rates may significantly change (including changes due to devaluation of the currency

		specified in Final Terms or revaluation of the Bondholder's currency) and the risk that authorities with jurisdiction over the Bondholder's currency may impose or modify exchange controls, while the Issuer has no influence on it and cannot determinate the probability of occurrence of such event, however this event may cause that the Bondholders, who have trades mainly in currency other that it is specified in Final Terms, may receive less interest or principal than expected, or no interest or principal. Indicated maximum issue volume of Bonds may not be binding – the total amount of the issue specified in Final Terms represents the maximum volume of relevant Bonds issue, while the actual placed volume may be lower and may vary during the life of Bonds by the Maturity Date. The total volume depend on the demand for the Bonds, on buybacks of Bonds by Issuer or on their early repayment. No conclusion may therefore be drawn from the indicated aggregate principal amount of Bonds offered and issued with regard to the liquidity of the Bonds in the secondary market. The risk of using loan or credit to finance the acquisition of the Bonds – if a loan or credit is used to finance the acquisition of the Bonds, it may happen, that the cost of such a loan or credit may exceed the yield earned from Bonds. This could lead to selling of Bonds on secondary market for the lower than anticipated price, what may cause a loss to Bondholder. The loan or credit to finance the acquisition of the Bonds may significantly increase the amount of a potential loss. The Bondholders should not assess, that they will be able to repay loan or credit and relevant interest from the earning from investment in Bonds. The risk related to further issuing of debt instruments of Issuer – Bondholder are exposed to the risk, that Issuer in not limited in further issuing of debt securities or in the amount of debt that Issuer may issue or guarantee. Furthermore, the Issuer is not obliged to inform Bondholders about issuing, incurring or guaranteeing further debt. Issuing, incurring or guaranteeing further debt may have a negative impact on the market price of the Bonds and the Issuer's ability to meet all obligations under the issued Bonds and may also reduce the amount recoverable by Bondholders upon the Issuer's insolvency. If the Issuer's financial situation were to deteriorate, the - Bondholders could suffer direct and materially adverse consequences, including cancellation of interest payments and reduction of the principal amount of Bonds and, in case of the Issuer's liquidation, loss of their entire investment. The risk of unpredictable event “vis major” – the value of Bonds can be influenced by various unpredictable events, such as terrorist attack, nature disaster etc. These events may cause failures on financial markets and movement of exchange rates, what may influence the value of Bonds. The negative effect of such events may cause lower return on investments of Issuer and may threaten its ability to repay all due liabilities from Bonds. The value of Bonds and any revenues arising from Bonds may be influenced by global political, economic or other event, which may occur also outside the country, where the Bond are issued and traded.

Section E - Offer		
Element	**Disclosure requirement**	
E.2b	**Reasons of offer and earnings use**	Proceeds from issue of Bonds will be used to finance business activities of Issuer.
E.3	**Description of the offer conditions**	Bonds may be offered, within primary sale, to qualified or non-qualified investors or to all investor categories. The selected variant will be provided in Final Terms of the issue. The estimated price, for which Bonds will be offered, will be provided in Final Terms of a specific issue. In event of a public offer not dedicated to qualified investors in terms of Act on Securities, the issue rate will be determined as a specific percentage of the Bond par value (120% at the maximum), while in the event of a public offer dedicated to qualified investors and offer which is subject to Art. 120, Par. 3 Act on Securities, the issue rate will be defined as a spread. The Bonds may be offered below / over or at par value of the Bond while in relevant cases, in Bonds issued after the issue date the corresponding pro-rata portion of the

		interest income will be added to the issue rate. The price for investor will be determined as a multiple of issue rate, nominal value and number of Bonds. The investor will receive the Confirmation of Primary Purchase after the deal closing. Trading with Bonds cannot be commenced prior to the receipt of notification. The issue costs associated with the issue shall be borne by Issuer. Eventual fees charged by the subscribing party will be provided in Final Terms of a specific issue. Payment and deposit representatives will not be appointed. Payment of proceeds and repayment of nominal value will be provided for by Issuer. Other information concerning the conditions of offer will be provided in Final Terms of a specific issue.
E.4	**Important interests, including contradictory**	Those information will be provided in Final Terms of a specific issue.
E.7	**Estimated costs for the investor**	Those information will be provided in Final Terms of a specific issue.

II. RISK FACTORS

Investment in Bonds is associated with certain risks including those provided in Base prospectus. Issuer notifies of the fact that in the event of interest to invest in individual Bonds issue, which may be issued within Program, it is necessary that the potential investors make their own investment decision prior to investing in Bonds, taking the following risk factors and other investment considerations into careful consideration and deciding on the basis of the information provided herein, in Final Terms, Summaries and Supplements, which may be prepared in the future, during validity of Base Prospectus, as well as on the basis of information in documents referred to herein in chapter ”List of cross-references used“ as later amended by Supplement.

The occurrence of any of the mentioned risks is influenced by development of unpredictable events while it is impossible to determine whether an event will occur and/or what is the probability of the occurrence thereof. The mentioned events would have a significant impact on the financial result of Issuer and its ability to perform its obligations following from Bonds.

The following overview of risks cannot be regarded as a final one and Issuer does not guarantee that there are no other risks, apart from the mentioned risk factors, which may have an impact on Issuer and/or Bonds issued by Issuer. The future investors should therefore make their own independent assessment of all risk factors and consider all the other parts of this document. The purpose of this part of the document is not to list the risks according to their importance or occurrence probability.

The risk factors provided hereunder may have an impact on the ability of Issuer to perform its obligations following from Bonds.

2.1 RISKS OF IMPACT OF ISSUER'S MACROECONOMIC ENVIRONMENT

A very high degree of openness of the Slovak economy predestines it for high sensitivity to development of external environment. If the global development is favourable, the openness results in high growth potential; however on the other hand the relationship also applies vice versa. The foreign demand becomes the decisive factor of the performance of domestic economy, which the Issuer conducts business in. In recent years the European economy grew steadily. The period of continuous economic expansion has reached a historic maximum. The Slovak GDP also reached a decent growth dynamics over its potential. The growth was supported also by domestic consumption and investments before weakened long. Thus the growth of Slovak economy in post crisis period significantly exceeds the average of Eurozone and also the European Union. The fact that the Slovak fiscal deficit has been decreasing may be perceived as positive, as well. In 2017 the deficit of public finance decreased to the lowest level in the latter history of Slovakia. Apart from costs of interest on debt, Slovakia has for the first time reached so called primary surplus, in the amount of 0.4%ˇof GDP. This result was reached thanks to the significant increase of tax collection supported by growing phase of economic cycle. Solid growth of economy in the last years brought decent production of new jobs, when growing to a new historical maximum. Unemployment ratio therefore significantly decreased below the average of Eurozone at the new minimum.

Regarding financial markets, their direction is determined by monetary policy, which is still extremely loose, rather than by economic fundamentals. The recovery of global growth has brought on the horizon the expectation of its tightening. The question of the degree and timing of normalization of monetary policy is a source of uncertainty. However, the long-term approach of the ECB has clearly declared the willingness of monetary authority to support single euro zone economy by any available instruments. Critical factor of further development of interest rates will be ending of ongoing quantitative easing which represents a significant risk factor of interest rate predictions, primarily on a long end of interest curve.

Sensitive leaving of extremely loose monetary policy without negative impact on global growth as well as inflation is a big challenge. On the other side, there is the issue of financial stability in the Eurozone in contrast to the inflation target. One of the leading criteria for successful economic growth of Europe is clearly the political stability and the stability of the Eurozone itself. The current risks of banking are associated in this environment with the following circumstances:

The growth of the Slovak economy will keep being dependent on the economies of our main business partners. With regard to the traditional orientation of the Slovak banking sector (including VÚB, a.s.), the labour market development remains the most significant factor influencing services providing to public. Potential political instability of Eurozone may scratch the expected recovery of single economy with a negative impact on domestic labor market. It may result in reversal in decently growing trends of deposits and loans, as well as higher rate of bad loans, thus negatively influencing the Bank's financial performance.

The risk that the fiscal crisis will further shift to the countries on the periphery still remains. The termination of asset purchase programmes in Eurozone most likely will lead to the growth of yield curve, increasing costs of debt refinancing. That can lead to worsening of fiscal position of vulnerable countries, increase of volatility on financing markets and in the worst scenario disrupt stability of banking sector in EU.

Dynamically increasing regulation of banking sector together with additional special taxes increases the costs of banking sector. Further tightening of this trend can negatively influence financial performance of the Bank.

Household debt levels have risen sharply in recent years. Its dynamics have been faster than in neighbouring countries while the economic convergence toward EU level has been stagnating. This means that the household debt to income ratio has risen sharply while its nominal level is safely below EU average, along with the healthiest EU economies. Its potential further dynamic growth can however jeopardize the financial position of households and their ability to react to economic cycle downturn in the future.

Apart from the mentioned economic and political risks, resulting from the recent development of the Slovak economy and estimates of future development thereof, Issuer is exposed, during its business activities, in particular to credit, operating and market risks. In order to minimize the risks, Issuer implements various control mechanisms, internal banking procedures and internal measures. Bank is supervised by the NBS and Issuer must also comply with the regulations concerning tier capital and prudent business conducting. However, the occurrence of future risks cannot be excluded.

With regard to the current situation on the financial market and situation of the Slovak Republic as a whole, there are risks which may be significant for Bonds and market risks assessment associated therewith but Issuer cannot assess the impact or intensity of the risks. Issuer cannot guarantee that no other factors which may have a negative impact on Bonds and market risks related thereto will occur in addition to the mentioned risks.

2.2 Risks concerning Issuer

Issuer's exposure to credit risk, liquidity, interest rate or operating risks arises from regular business activities with regard to Issuer's business purpose.

Credit risk – risk of non-performance of obligations on the part of Issuer. The sector of banking and financial services may be negatively influenced by a number of factors such as the general market conditions, performance of financial markets, level of interest rates, fluctuations of exchange rates, legislative changes as well as regulation changes made by the central banks. Deterioration of the market situation may negatively influence the demand for products and services offered by Issuer. A negative development of those factors may also endanger the ability of clients to repay their obligations, which may have a negative impact on Issuer and may potentially represent a risk of non-performance of obligations by Issuer.

Liquidity risk - risk of inability of Issuer to perform its obligations duly and on time. To mitigate this risk, Issuer is focusing on the balance of maturity of assets and liabilities reaching. The substantial part of financing of Issuer comes from consumers' deposits, large portion of which are demand deposits. Fluctuation of these deposits are out of control of Issuer a therefore Issuer cannot guarantee, that in the short period there will be no outflow of deposits, what may negatively influence the liquidity of Issuer.

Interest risk – risk occurring due to imbalance between assets and liabilities sensitive to interest rates, i.e. risk of interest rate change, volatility thereof and change of the yield curve.

Operating risk – risk of occurrence of loss caused by unsuitable or inappropriately set internal processes, human error and external circumstances. Operating risks includes also the risk of loss due to breach of legal regulations, contractual liability or other lawsuits or administrative proceedings.

In order to mitigate the mentioned risks, Issuer uses a number of instruments by which it controls the quality of its assets, financial operations and business deals carried out. The work processes to eliminate these risks are implemented under the supervision of the internal control. All the activities carried out by Issuer are regularly monitored and controlled by the National Bank of Slovakia.

Issuer's performance and results may be negatively influenced also by external factors which are outside the Issuer's control, i.e. change of economic environment, phases of economic cycle, volatility on financial markets or increased competitiveness in the sector of financial services.

The major shareholder of Issuer is Intesa Holding International S.A., Luxembourg – business activities of major shareholder and markets, on which this shareholder is active, may have a significant negative impact on Issuer.

Issuer and its ability to perform its obligations may be influenced, apart from the risks mentioned above, also by the risks arising from legislative changes and position of Issuer on the Slovak bank market.

Legislative changes – it cannot be excluded, that potential legislative changes in the area of financial market will not have a significant negative impact on financial results of Issuer, as the majority of its revenues is generated in Slovakia.

Regulatory requirements - the last global financial crisis has led the increase of national and international regulation with the aim to adopt new and to toughen existing rules for financial sector, in which Issuer is active. This regulation could influence financial sector and new requirements and changes in the area of capital adequacy, liquidity and leverage effect could lead to the increase of requirements on capital and liquidity. The European Union has adopted several regulations for European banking sector. The important document is the regulation CRR/CRD IV (Capital requirements regulation and directive) adopting standards of Basel III. The Directive 2014/59/EU of European Parliament (Bank Recovery and Resolution Directive) governs the recovery and resolution of credit institutions and investment companies. The substantial impact on banking sector has also the stress testing of European Central Bank, first realized in year 2014. These and another potential new regulatory requirements, which could be implemented in the future, may lead to require an increase of capital of Issuer, what may increase financial cost of Issuer and have impact on its profitability.

Competiton on the Slovak market – Issuer has to cope with competition of another banking subjects offering similar products as Issuer. In case Issuer is not able to cope with this completion, it may have a negative impact on its business results.

Rating of Issuer – the rating assigned by Moody's rating agency as of date of Base Prospectus does not represents all risks and therefore such situation may happen, that may lead to losses of Issuer and consequently impact the financial results of Issuer, or its ability to fulfil its obligations arising from Bonds.
Assigned rating valuation represents the opinion of rating agency on creditworthiness of Issuer. It can not be regarded as recommendation to buy, hold or sell Bonds or any other securities issued by Issuer.
Rating of Issuer can be downgraded, interrupted or withdrawn, what may lead to limitation of access to financing resources of Issuer and consequently to higher refinancing costs.

In general, negative changes of local and international economic environment, inflation, consumption of households and businesses, recession, unemployment, limited credit possibilities and other factors outside investor's as well as Issuer's control may have a negative impact on Issuer's performance, value of investment portfolio, as well as market value of securities issued by Issuer.

2.3 Risks associated with Bonds

A potential investor should responsibly consider the investment to Bonds issued by Issuer. It is particularly necessary for the investor to:

1) have enough knowledge and experience in order to reasonably evaluate Bonds, advantages and risks of investment to Bonds and information contained in Base Prospectus or information referred to in Base Prospectus or the relevant Supplement thereto;
2) have enough information concerning the investment, as well as the ability to assess the information in context of his/her/its financial situation and impact of that investment on his/her/its existing portfolio;
3) have enough funds to withstand an eventual negative development of risk factors concerning Issuer or Bonds;
4) fully understand the conditions of issue, know the relevant financial indicators and their possible development together with the development of financial markets;
5) be able to assess the possible scenarios of economic development, development of interest rates and other factors which may have an impact on his/her/its investment and ability to bear the associated risks.

Risk of potential conflict of interest – Issuer can use the whole volume or a part of funds obtained from selling of Bonds for hedging transactions, which should normally not influence the value of Bonds, however Issuer cannot guarantee, that it will not affect it.
Issuer may in connection with Bonds from time to time act in other capacities, such as calculation agent, what allows Issuer to make calculations in respect of Bonds (e.g. amount of interest to be paid), which are binding for Bonds' holders.
It is usual for employees of financial institutions such as Issuer to undertake deals on their own behalf subject to securities laws as well as statutory and internal compliance standards on personal transactions and market abuse. Employees and connected parties are permitted to take part in securities offerings of Issuer. Furthermore, when purchasing the Bonds, the employee receives a discount from the value of the market price. Sales employees of Issuer may be motivated to sell these Bonds, due to the value of incentives received by them (in case the sale is successful) subject to securities and banking laws applicable to any such incentives. Despite measures taken by the Issuer to ensure compliance with applicable laws and internal procedures, this could create a conflict with the duties owed to the Holders.
Furthermore, members of the Issuer's Management and Supervisory Boards may serve on management or supervisory boards of various different companies including customers of and investors in Intesa Sanpaolo Group, which may also compete directly or indirectly with the Issuer. Directorships of that kind may expose such persons to potential conflicts of interest if the Issuer maintains active business relations with said companies, which could have a material adverse effect on the Issuer's business, financial position and results of operations.

The differences between Bonds and bank deposits are mainly in following areas:

1) yield – the investment into Bonds assumes an increase of value of investment in a longer period comparing to bank deposit, what is connected with a higher yield of Bonds on primary market. The price of Bonds on secondary market is not predictable, while the interest on bank deposit and conditions of pay out are clearly defined to clients in advance a therefore the owner of bank deposit knows its yield from bank deposit;
2) risks – there are risks associated with Bonds described in this sub-chapter "2.3. Risks associated with Bonds". Risks of bank deposit are closely connected with risks related to Issuer;
3) liquidity – the client of the bank, the owner of bank deposit may any time before its maturity ask bank for early repayment of deposit and the bank is obliged to repay this deposit subject to conditions defined in the contract on bank deposit or general business terms and conditions. On the contrary the liquidity of Bonds on secondary market is unpredictable and the Issuer cannot guarantee, that the Bondholder will be able to sell its Bond at any time. If Issuer did not declare in Final Terms of Bonds the commitment to early redemption, Issuer is not obliged to do so on requirement of Bondholder.
4) protection of investor arising from deposit protection system – bank deposit is included in the deposit protection system, while Bonds are not included in this system.

Low liquidity of the secondary market – the current situation on the capital market in the Slovak Republic is characterized by persistent low liquidity. If Issuer applies to the Bratislava Stock Exchange for the admission of a specific Bonds issue to its regulated market, Issuer cannot guarantee that Bonds will be actively traded, i.e. that there will be a demand for Bonds on the market and/or that this condition will remain the same after the starting of trading.

Non-guaranteed price of Bonds on the secondary market - Issuer cannot guarantee the price for which Bonds will be purchased and/or sold on the secondary market. The price is influenced by the current market conditions, therefore it changes in the course of trading. Historical development of prices of Bond cannot be considered as indicator of future development of prices of Bonds. The Bondholder is therefore exposed to the risk of an unfavourable development of market prices of its Bonds which materialises if the Bondholder sells the Bonds prior to the final maturity of such Bonds. If the Bondholder decides to hold the Bonds until final maturity, the Bonds will be redeemed at the amount set out in the relevant Final Terms.

Interest risk – the value of Bonds is influenced by changes in interest rates, which respond to economic, political or market estimates.

Credit risk – the value of Bonds may change in dependence on the market perception of Issuer's creditworthiness.

Risk of credit spread - the Bonds carry out the credit spread risk of the Issuer, which could during the life of Bonds widen resulting in a decrease in the market price of the Bonds. Factors influencing the credit spread include, among other things, the creditworthiness and credit rating of the Issuer, probability of default, recovery rate, remaining term to maturity of the Bonds. The overall economic situation, the liquidity of the market, the general level of interest rates, overall economic developments, and the currency, in which the relevant obligation is denominated may also have a negative effect and potential investors should consider all these mentioned factors.

Influence of inflation – the obligation of Issuer to repay the debt in a certain currency has a lower real value than at the time of the investment due to higher inflation on that currency.

Influence of regulation in respect of investment activities of some investors – each potential investor should consult its legal advisers to determine whether and to what extent are Bonds investments for it and to what extent are for it applicable the restrictions connected with the fact, that the investment activities for some investors may be regulated by special regulation and may be supervised or controlled by relevant public institutions.

Impact of taxes and fees – the return on investment to Bonds is influenced by tax regime valid in the country of Issuer's registered office or in the country in which a security is transferred. A potential investor should also learn about the amount and kind of fees charged to him/her/it in relation to the acquisition, possession or sale of Bonds (e.g. fee for keeping and managing of securities account).

Legal regime - Bonds are issued in compliance with the legal regulations valid in the Slovak Republic at the time of Bonds issue. Change of legal regulations during useful life of Bonds may have an impact on the value thereof and/or return on investment.

The risk of early redemption of Bonds – the return on investment in Bonds may be lower than expected in case the Bondholder would sell these Bonds before their final maturity. In Final Terms of each issue of Bonds it will be determined, whether the Bondholder has the right for early repayment of Bonds or if Issuer may by occurrence of specific event defined in Final Terms of Bonds repay these Bonds before maturity.
The Bondholders may be also exposed to the risk, that the return earned from an investments in the Bonds may not in the event of an early redemption of Bonds be able to reinvest in such a way that they earn the same rate as the redeemed Bonds.

The risk of Bonds with fixed rate – the risk involve the situation that the market price of such Bonds falls as a result of interest rate change. The nominal interest rate of Fixed Rate Bonds is fixed during the life of such Bonds, while the current interest rate on the capital market typically changes. As the market interest rate changes, the market price of fixed rate Bonds also changes, but in the opposite direction. If the market interest rate increases, the market price of fixed rate Bonds typically falls, until the yield of such Bonds is approximately equal to the market interest rate. If the market interest rate falls, the market price of fixed rate Bonds typically increases, until the yield of such Bonds is approximately equal to the market interest rate.

The risk of Bonds with floating rate - it represents the risk of fluctuating interest rate levels which make it impossible to determine the yield of such Bonds in advance, and are exposed to the risk of uncertain interest income. The interest of Floating Rate Bonds will be linked to benchmark indices (for the purpose of this risk factor each one as a "Benchmark" and together, the "Benchmarks") such as the interbank interest rate in Euro (Euro Interbak Offered rate) ("EURIBOR"), the London Interbank Offered Rate ("LIBOR"), Prague Interbank Offered Rate ("PRIBOR) or another "Benchmark".
EURIBOR, LIBOR and other "Benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be

implemented. These reforms may cause such Benchmarks to perform differently than in the past or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Bonds linked to such a "Benchmark".

Key international reforms of Benchmarks include: (i) Principles for Oil Price Reporting Agencies (October 2012) and Principles for Financial Benchmarks (July 2013) issued by IOSCO (International Organization of Securities commissions); (ii) Principles for the benchmark-setting process (June 2013) issued by ESMA (European Securities and Markets Authority) and EBA (European Banking Authority); and (iii) the Benchmark Regulation (EU) 2016/1011 of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the "**Benchmark Regulation**"). In addition to the aforementioned reforms, there are numerous other proposals, initiatives and investigations which may impact Benchmarks.

Benchmark Regulation is effective from 1 January 2018. In principle, it applies to "administrators", and in certain respects, to "contributors" and regulated "users" of Benchmarks within the EU, and inter alia: (i) Benchmark administrators have to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and will have to comply with the extensive requirements related to the administration of Benchmarks, and (ii) will prevent uses of Benchmarks of administrators that are not authorised or registered. The scope of the Benchmark Regulation is broad and, apart from the so-called " "critical benchmark" indices may also potentially apply to (i) many interest indices when they refer to some of the financial instruments traded on a trading venue, or (ii) "systematic internalisers" (or in relation to with which they have been admitted to trading on a trading venue), financial contracts and investment funds. The Benchmark Regulation may have a significant impact on Bonds associated with the Benchmark or Index considered as the Benchmark, especially if the methodology or other benchmarking conditions are changed in order to meet the requirements of the Benchmark Regulation. Such changes could, among other things, result in a reduction, increase or other effect on the volatility of the published rate or the Benchmark level.

Any changes to a Benchmark as a result of the Benchmark Regulation or other initiatives could have a material adverse effect on the costs of obtaining exposure to a Benchmark or the costs and risks of administering or otherwise participating in the setting of a Benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain Benchmarks, trigger changes in the rules or methodologies used in certain Benchmarks or lead to the disappearance of certain Benchmarks.

Any such change or any subsequent change due to international, national or other reform proposals or other initiatives or findings could have a significant adverse effect on the value and return of all Bonds linked to a Benchmark. Although it is uncertain whether or to what extent any of the above-mentioned changes and/or any further changes in the administration or method for determining a Benchmark could have an effect on the value of any Bonds whose interest is linked to the relevant Benchmark, investors should be aware that: (i) any change to the relevant Benchmark could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be; (ii) if the applicable rate of interest on the Bonds is calculated with reference to a currency or tenor which is discontinued, such rate of interest will then be determined by the fallback provisions of the Bonds. This may cause the interest to be lower than it would otherwise be; (iii) the methodology or other terms of the relevant Benchmark could be changed, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of such Benchmark; and (iv) the administrator of the relevant Benchmark will not have any involvement in the Bonds and may take any actions in respect of the relevant Benchmark without regard to the effect of such actions on the Bonds. Investors thus face the risk that any changes to the relevant Benchmark may have a material adverse effect on the value of and the amount payable under Bonds whose rate of interest is linked to a Benchmark.

The administrators of Benchmarks may publish and adhere to error policies (the "Error Policies"), which set out how such Benchmark administrators will deal with errors which occur during the fixing process of the relevant Benchmark. These Error Policies may include materiality thresholds, which means that an erroneously fixed Benchmark will not be refixed in case the relevant materiality threshold is not breached. In addition, Error Policies may differentiate between errors which are discovered during compliance checks prior to a cut-off time set out in the relevant Error Policy for a refix of the relevant Benchmark and errors which are discovered after such cut-off time. In case the error is discovered prior to the relevant cut-off time, the Error Policy may allow the Benchmark administrator to refix the relevant Benchmark. Any such refix may result in the relevant Benchmark being lower than originally fixed.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms, investigations and licensing issues in making any investment decision with respect to the Bonds linked to a Benchmark.

The risk of Zero Coupon Bonds - Zero Coupon Bonds do not pay current interest but are issued at a discount from their nominal value. Te risk of Zero Coupon Bonds lies in the risk the market price of such Bonds falls as a result of changes in the market interest rate. Market prices of Zero Coupon Bonds are more volatile than market prices of Fixed Rate Bonds and are likely to respond to a greater degree to market interest rate changes than interest bearing instruments with a similar maturity.

The risk that the trading with the Bonds will be suspended, interrupted or terminated – trading with the Bonds on relevant stock exchange may be upon occurrence of any reasons suspended, interrupted or terminated, while the Issuer has no influence on this fact. This event may have an adverse effect on the market price of Bonds.

The risk of clearing system – the relevant clearing system may stay upon occurrence of any reasons dysfunctional, while the Issuer has no influence on this fact. This event may have an adverse effect on the market price of Bonds and may cause that the financial and securities settlement will be not realized.

Exchange rate risks may occur, if a Bondholder's financial activities are denominated in a currency other than the currency in which Bonds are denominated – the currency, in which the Issuer will make principal and interest payments of Bonds is specified in Final Terms of each issue of Bonds. This risk includes the fact that exchange rates may significantly change (including changes due to devaluation of the currency specified in Final terms or revaluation of the Bondholder's currency) and the risk that authorities with jurisdiction over the Bondholder's currency may impose or modify exchange controls, while the Issuer has no influence on it and cannot determinate the probability of occurrence of such event, however this event may cause that the Bondholders, who have trades mainly in currency other that it is specified in Final Terms, may receive less interest or principal than expected, or no interest or principal.

Indicated maximum issue volume of Bonds may not be binding – the total amount of the issue specified in Final Terms represents the maximum volume of relevant Bonds issue, while the actual placed volume may be lower and may vary during the life of Bonds by the Maturity Date. The total volume depend on the demand for the Bonds, on buybacks of Bonds by Issuer or on their early repayment. No conclusion may therefore be drawn from the indicated aggregate principal amount of Bonds offered and issued with regard to the liquidity of the Bonds in the secondary market.

The risk of using loan or credit to finance the acquisition of the Bonds – if a loan or credit is used to finance the acquisition of the Bonds, it may happen, that the cost of such a loan or credit may exceed the yield earned from Bonds. This could lead to selling of Bonds on secondary market for the lower than anticipated price, what may cause a loss to Bondholder. The loan or credit to finance the acquisition of the Bonds may significantly increase the amount of a potential loss. The Bondholders should not assess, that they will be able to repay loan or credit and relevant interest from the earning from investment in Bonds.

The risk related to further issuing of debt instruments of Issuer – Bondholder are exposed to the risk, that Issuer in not limited in further issuing of debt securities or in the amount of debt that Issuer may issue or guarantee. Furthermore, the Issuer is not obliged to inform Bondholders about issuing, incurring or guaranteeing further debt. Issuing, incurring or guaranteeing further debt may have a negative impact on the market price of the Bonds and the Issuer's ability to meet all obligations under the issued Bonds and may also reduce the amount recoverable by Bondholders upon the Issuer's insolvency. If the Issuer's financial situation were to deteriorate, the Bondholders could suffer direct and materially adverse consequences, including cancellation of interest payments and reduction of the principal amount of Bonds and, in case of the Issuer's liquidation, loss of their entire investment.

The risk of unpredictable event "vis major" – the value of Bonds can be influenced by various unpredictable events, such as terrorist attack, nature disaster etc. These events may cause failures on financial markets and movement of exchange rates, what may influence the value of Bonds. The negative effect of such events may cause lower return on investments of Issuer and may threaten its ability to repay all due liabilities from Bonds.
The value of Bonds and any revenues arising from Bonds may be influenced by global political, economic or other event, which may occur also outside the country, where the Bond are issued and traded.

Any estimates or prospects concerning Issuer's future development, its financial situation, scope of business activities or market positions cannot be interpreted as a declaration or binding promise concerning the future events or results because these depend, entirely or partially, on circumstances and events Issuer cannot influence. The potential investors should make their own analyses of any development trends or prospects provided herein or eventually further conduct own surveys and base their investment decisions on the results of such analyses and surveys.

Information provided in this chapter are not exhaustive and are provided as general information only, based on the situation as at the date of Base Prospectus preparation. The potential buyers of Bonds should rely exclusively on their own analyses of facts provided in this chapter and on their own legal, tax and other professional advisors.

III. INFORMATION ABOUT ISSUER

3.1 Responsible persons

The declaration and the signatures of responsible persons are in chapter "IV. INFORMATION ABOUT SECURITIES" of this Base Prospectus.

3.2 Statutory auditors

The audit of the Consolidated Financial Statements for the year ending on December 31, 2016 was carried out according to the International Financial Reporting Standards by company KPMG Slovensko spol. s r.o., Dvořákovo nábrežie 10, P.O.Box 7, 820 04 Bratislava 24, which is a member of the Slovak Chamber of Auditors - SKAU (license SKAU no. 96).

The audit of the Consolidated Financial Statements for the year ending on December 31, 2017 was carried out according to the International Financial Reporting Standards by company KPMG Slovensko spol. s r.o., Dvořákovo nábrežie 10, P.O.Box 7, 820 04 Bratislava 24, which is a member of the Slovak Chamber of Auditors - SKAU (license SKAU no. 96).

3.3 Risk factors

The risk factors specific to Issuer are provided in chapter "II. RISK FACTORS" hereof.

3.4 Issuer's history and development

Trade name	Všeobecná úverová banka, a. s.; in short: VÚB, a. s. Registered in the Business Register of District Court Bratislava I, Section: Sa, file no.: 341/B
Date of incorporation	April 1, 1992
CRN	31 320 155
Registered office	Mlynské nivy 1, 829 90 Bratislava
Legal form	joint-stock company
Legal regulations under which Issuer carries out its business activities	Act No. 513/1991 Coll. Commercial Code as amended, Act on Banks and Act on Securities
Country of incorporation	Slovak Republic
Phone no.	02/5055 1111
Fax no.	02/5055 2507
Web site	www.vub.sk
LEI code	549300JB1P61FUTPEZ75

Všeobecná úverová banka was incorporated by Štátna banka československá in connection with the reform of the Czechoslovak bank system as of January 1, 1990 as a state financial institution (š.p.ú.) carrying out its activities in the Czechoslovak Federal Republic.
VÚB, š.p.ú. was included in the first wave of the voucher privatization. In compliance with the approved privatization project, VÚB, š.p.ú. was transformed to a joint-stock company on April 1, 1992. VÚB, a. s. was registered in the Business Register with the registered capital of 2 039 054 000 Czechoslovak crowns. VÚB, a. s., was incorporated under the Slovak law, Act No. 513/1991 Coll. Commercial Code, Act No. 92/1991 Coll. on the conditions of transfer of the state property to other persons and Act No. 253/1991 Coll. on the powers of authorities in the matter of transfer of the state property to other persons and National Property Fund of the Slovak Republic, in compliance with the resolution of the government of the Czechoslovak Federal Republic no. 1 of January 9, 1992 approving the privatization project, prepared for the privatization of Všeobecná úverová banka. VÚB, a. s. has been incorporated for an indefinite period of time.

In 2001 foreign shareholder Gruppo IntesaBci acquired a majority share – i.e. 94.46% share in VÚB, a.s. and Bank became a member of this important financial group. Financial group Banca Intesa (former Gruppo IntesaBci) was, in terms of the balance sheet amount and volume of equity, the biggest bank in Italy and one of the most prominent banks in Europe.
On January 1, 2007 Banca Intesa officially merged with another Italian bank Sanpaolo IMI, giving rise to financial group Intesa Sanpaolo with the headquarters in Turin. Financial group Intesa Sanpaolo is a leader in Italy and one of the leading banks offering financial products and services to households and companies in Europe, able to compete on the international level.

The intention of Intesa Sanpaolo Group in Slovakia is to further develop VÚB, a. s. as a universal financial institution, strengthen its services offered to corporate clients, extend the retail services on the franchise basis and promote sophisticated activities on capital markets. The emphasis is put on development of new products for clients, more intensive marketing communication to increase the client comfort upon the use of bank products and services. The objective is to build long-term, mutually advantageous and complex relationships with clients.

VÚB, a. s. continuously focuses on the improvement of service quality, increase of market share, decrease of costs and increase of efficiency.
The strategic intention of VÚB, a. s. as universal financial institution in the upcoming years is to strengthen its position on the Slovak banking market, extend the services offered to the corporate clients and retail services.

During the last period, Issuer has not recorded any circumstances which would be significant for the assessment of its solvency. Bank meets all the limits of prudent enterprise set by the regulators and publishes information about its economic activities in terms of the valid legal regulations.

3.5 Overview of business activities

3.5.1 Main activities

Všeobecná úverová banka, a. s. is a modern universal bank which offers a wide range of products and services to corporate, retail and institutional clients within domestic and foreign market. VÚB, a. s. puts the emphasis on stability, loyalty and trust in regard to clients.

The business purpose of VÚB, a. s. are activities conducted on the basis of banking approval granted to Issuer in accordance with Act on banks, stated in Statutes of Issuer. The business purpose is incorporated in Commercial Registry and is provided in accordance with relevant generally binding legislation. Among main products and services of Issuer are current accounts, fixed-term deposits, mortgage loans, consumer loans, investment loans and internetbanking services.

The main business areas of Issuer are:
Retail banking – it is a key area, with the strong focus of Issuer among provided product and services. To the main products and services of this area belong products and services for residents, self-employees and client of free enterprise. The main products of this group are current accounts, saving accounts, fixed-term accounts, investment products, payment cards, mortgage and consumer loans.

Corporate banking – it is an important area of providing products and services to corporate clients, financial institutions, public sector as well as to clients and investors in the area of financing of construction, selling or renting of properties.

Balance sheet management and Treasury – provides activities in connection with balance sheet, setting of fund transfer pricing, management of securities investment portfolio, debt securities issuance as well as trading on interbank market.

In order to satisfy the growing client needs, Bank launches new products and services for corporate and retail clients on the market. In practice that represents a wide range of products and services, from classic bank products to sophisticated activities on financial markets. Bank concentrates on development of new attractive products for clients, marketing communication and higher comfort of accessibility of bank products and services. Among new products and services can be classified a new Internet banking or Combi product, interconnecting conditions of fixed-term deposit with advantages of investment in funds.

3.5.2 Main markets

VÚB, a. s. operates on the Slovak market and through one branch in Prague also on the Czech market.
VÚB, a. s. is the second largest bank according to the balance sheet amount and it is among the first three banks as to the comparison of other main indicators, as well – as at the end of 2017, the market share of VÚB, a. s. in the total primary deposits was 17.6%, the loan share increased to 20.5%.
Issuer at present provides banking services to corporate, retail and institutional clients via its wide network of 236 sales points within Slovakia, what represents the second highest number of branches among the Slovak commercial banks with market share over 19 %.

Operating income of VÚB Group decrease on year to year basis by -1.5 % to EUR 547.4 million. Operating profit of the Group decreased by - 0.7 % to EUR 280.4 million, while its net profit increased by 11.6 % to EUR 175.0 million. The capital adequacy ratio of the VÚB Group reached at the end of last year the level of 17.98 %, representing the level well above the limit required by the National Bank of Slovakia.

Rating

Moody's (May 2018)	
Long-term rating	A2
Short-term rating	P-1
Outlook	stable

Company Moody's Investors Service Ltd. with the registered office at One Canada Square, Canary Wharf, London, United Kingdom E14 5FA, in terms of section 40 of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of September 16, 2009 on credit rating agencies submitted an application for registration in terms of that Regulation on August 12, 2010 and it was registered on October 31, 2011.

3.6 Organizational structure

VÚB, a. s. is a member of Intesa Sanpaolo Group.

Intesa Sanpaolo Holding International S.A. is the shareholder with decisive share in the registered capital and voting rights of Issuer.
Dependence of VÚB, a. s. on other entities within the Group is proportional to the share of those entities in the registered capital of Issuer.

Legal person controlling VÚB, a. s. as of March 31, 2018

Trade name	% share	Registered office	CRN
Intesa Sanpaolo Holding International S.A.	97.03	35 Boulevard du Prince Henri, L-1724 Luxembourg, Luxembourg	B 44318

Legal persons under the control of shareholder controlling VÚB, a. s. as of March 31, 2018

Trade name	% share	Registered office	CRN
Intesa Sanpaolo Bank Luxembourg	100.00	19-21 Boulevard du Prince Henri, L-1724 Luxembourg, Luxembourg	B 13859
Banca Intesa ad Beograd	100.00	Milentija Popovica 7b, 11070 Belgrade, Serbia and Montenegro	07759231
Privredna Bank Zagreb d.d.	97.47	Rackoga 6, HR-10000 Zagreb, Croatia	MBS 080002817

Banca Intesa (Russia)	53.02	2 Petroverigski, 101000 Moscow, Russia	7708022300
Intesa Sanpaolo Servitia S.A.	100.00	12, Avenue de la Liberté, L-1930 Luxembourg, Luxembourg	B 14241
Exelia S.r.l	100.00	Regione Brasov, Ionescu Crum 1, Corp C2 Tower 2, Et. 1, Brasov, Romania	J08/821/2009 (25586445) CUI
Intesa Sanpaolo Immobilière S.A	100.00	9, rue Goethe, L-1637 Luxembourg, Luxembourg	B 55753
Intesa Sanpaolo Real Estate S.A	100.00	8, Avenue de la Liberté, L-1930 Luxembourg, Luxembourg	B 62762
Intesa Sanpaolo House Immo S.A	100.00	12, Avenue de la Liberté, L-1931 Luxembourg, Luxembourg	B 154021
Intesa Sanpaolo Harbourmaster III S.A	100.00	8, Avenue de la Liberté, L-1930 Luxembourg, Luxembourg	B210947

Legal person controlling Intesa Sanpaolo Holding International S.A., Luxembourg

Trade name	**% share**	**Registered office**	**CRN**
Intesa Sanpaolo S.p.A.	100.00	Piazza San Carlo 156, Turin, Italy	00799960158

Overview of direct equity interest of VÚB, a.s. in business companies as of March 31, 2017

Trade name	**Main purpose**	**Registered capital (in EUR)**	**Share of VÚB, a.s. in the registered capital (in %)**
Nadácia VÚB Mlynské nivy 1, 829 90 Bratislava CRN: 30,856,043	Charity organization	7,000 (capital of the foundation)	100.00
VÚB Leasing, a.s. (former B.O.F., a.s.) Mlynské nivy 1, 820 05 Bratislava CRN: 31,318,045	Financial and operating lease	16,600,000	100.00
VÚB Generali, Dôchodková správcovská spoločnosť (DSS), a.s. Mlynské nivy 1, 820 04 Bratislava CRN: 35,903,058	Management of pension funds	10,090,976	50.00
Slovak Banking Credit Bureau, s.r.o. Malý trh 2/A, 811 08 Bratislava CRN: 35,869,810	Automated data processing in the field of credits providing	9,958.17 (contribution of members)	33.33
S.W.I.F.T. Belgium Avenue Adèle I, B-1310, La Hulpe Belgium	International clearing and messages sending	13,746,625	0.01
VISA EUROPE Ltd. P.O.Box 39662, London W2 6WH, UK	Services of electronic payment methods and card business deals	150,000	0.01

No other company than provided enters the closely related group due to more than 20% share in voting rights.
As of March 31, 2018, VÚB, a. s. has no indirect equity interest.

3.7 Information about the trend

Issuer declares that no decisive unfavourable change in the prospects of Issuer has occurred since the last published financial statements verified by the auditor.

Issuer is unaware of any trends or uncertainty or eventually is not familiar with any entitlements, obligations or circumstances about which one can reasonably assume that they will have a significant impact on the prospects of Issuer during the current financial year.

3.8 Prognoses or profit estimates

Issuer decided not to include the profit prognosis and as of the date of Base Prospectus, it did not publish the profit prognosis.

3.9 Administrative, managing and supervising bodies

3.9.1 Information on the members of statutory body and Supervisory Board

The supreme deciding body of VÚB, a. s. is the general meeting of shareholders. The Supervisory Board is the supreme supervisory body of VÚB, a. s., supervising the Management Board and business activities of Bank. The Management Board is a statutory body managing the activities of Bank and it is authorized to act on behalf of Bank in all matters and represents Bank against third parties.
As of date of Base Prospectus the composition of Management and Supervisory Board is as follows:

Management Board

Name and surname	**Position**
RESCH Alexander	Chairman
Vercelli Roberto	Member
BERGALIO Antonio	Member
VICENIK Andrej, Ing.	Member
MAGALA Peter, Ing.	Member
NOVÁK Peter, Ing.	Member
TECHMAN Martin, MBA	Member

Supervisory Board

Name and surname	**Position**
JAQUOTOT Ignacio	Chairman
KOHÚTIKOVÁ Elena, Ing.	Vice Chairman
STRAKA Andrej, Ing.	Member
SZABO Róbert, Ing.	Member
FINAZZI Luca	Member
SARCINELLI Paolo	Member
SCHAACK Christian	Member

Bank registers no activities carried out by the members of the Management Board and Supervisory Board outside VÚB, a. s., which would be significant for Issuer.
The official contact address of all members of Supervisory Board and Management Board is Mlynské nivy 1, 829 90 Bratislava, the Slovak Republic.

As of April 30, 2018, Bank had 3,814 employees.

3.9.2 Conflicts of interest

Issuer declares that it is unaware of any potential conflicts of interest between the obligations of persons mentioned above vis-à-vis Issuer and their private interests and/or other obligations.

3.10 Main shareholders

Issuer's registered capital

The registered capital of VÚB, a. s. amounts to EUR 430 819 063.81 and is divided into:

- 4 078 108 non-bearer shares, with the nominal value of EUR 33.20 per share, publicly traded, registered, ISIN: SK1110001437 series 01, 02, 03, 04, 05, 06;
- 89 non-bearer shares, with the nominal value of EUR 3 319 391.89 per share, publicly non-traded, registered, ISIN: SK1110003573 series 01.

Rights of shareholders to participate in the management of VÚB, a. s. and to profit and bankrupt's estate upon dissolution are associated with non-bearer shares in terms of the generally binding regulations and bylaws of Bank. Shares are freely transferable. VÚB, a. s. has the entire registered capital paid up.

Shareholder structure of VÚB, a. s. as of March 31, 2018

According to the type of owner	Share in the registered capital VÚB, a. s. (in %)
Intesa Holding International S.A. – majority owner	97.03
Other legal persons	1.35
Natural persons	1.62
TOTAL	**100.00**

According to the nationality of owner	Share in the registered capital VÚB, a. s. (in %)
Intesa Holding International S.A. – majority owner	97.03
Domestic shareholders	2.14
Other foreign shareholders	0.83
TOTAL	**100.00**

As of March 31, 2018, 28 507 shareholders owned shares of VÚB, a. s.
The number of shareholder's votes is determined by the ratio of nominal value of his/her/its shares and amount of the registered capital.
The nature of control of the majority shareholder of VÚB, a. s. results directly from its share in the registered capital of Bank. Issuer is unaware of any actions from side of this shareholder, which would lead to abuse of control. The majority shareholder and owner of Issuer, controlling Issuer, is Intesa Sanpaolo Holding International S.A., with its registered office at 35 Boulevard du Prince Henri, L-1724 Luxembourg, which owns, as of March 31, 2018, 97.03% of the registered capital of Issuer. The Supervisory Board of the Issuer has 7 members and is the supreme supervisory body. Two thirds of members of the Supervisory Board are elected by general meeting and employees elect one third.

Issuer is unaware of any mechanisms, implementation of which would result in change in the control over Issuer.
Upon the assessment of relationships with any related parties, the emphasis is put on the nature of relationship, not only on the legal form. Transactions carried out with those parties are made under usual and standard business conditions, usually applied to transactions among independent, unrelated parties.

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

3.11.1 Historical financial information

Consolidated Financial Statements prepared in accordance with the IFRS as of December 31, 2016

The data specified below for year 2016 have been assumed from the audited Consolidated Closing Financial Statements for the year ended December 31, 2016. The statements, prepared according to the International Financial Reporting Standards as amended by the European Union, which including the Auditor's Report were submitted as a part of VUB Annual Financial Report for 2016 to the National Bank of Slovakia on April 28, 2017. The Annual Financial Report is available at the registered office of the Issuer and the Release Note was published in Hospodárske Noviny on April 28, 2017.
The audited Consolidated Closing Financial Statements for the year ended December 31, 2016 prepared according to the International Financial Reporting Standards as amended by the European Union are specified by the Issuer in this Base Prospectus in form of reference to the VUB Annual Report for 2016, which these closing financial statements are attached to (see part "List of used cross references" on page 42 of this Base Prospectus) and are available on the website of the Issuer (www.vub.sk).

Consolidated Statement of Financial Position as of December 31, 2016
(in thousands of EUR)

	2016	2015
Assets		
Cash and balances with central banks	1,029,103	405,149
Due from banks	112,468	611,003
Financial assets at fair value through profit or loss	474	1,055
Derivative financial instruments	47,249	49,937
Available-for-sale financial assets	1,289,979	1,523,939
Loans and advances to customers	10,725,281	8,282,781
Held-to-maturity investments	530,019	533,456
Associates and joint ventures	8,788	17,635
Intangible assets	68,888	64,108
Goodwill	29,305	29,305
Property and equipment	104,853	105,925
Current income fixed assets	1,464	-
Deferred income tax assets	64,002	58,804
Other assets	25,281	31,647
	14,037,154	12,625,464
Liabilities		
Deposits to central and other banks	855,244	774,354
Derivative financial instruments	65,354	62,559
Deposits to customers	9,564,560	8,552,684
Subordinated debt	200,165	-
Debt securities in issue	1,715,308	1,600,341
Current income tax liabilities	-	9,517
Provisions	26,001	25,313
Other liabilities	105,266	102,590
	12,531,898	11,127,358
Equity		
Equity (excluding net profit for the year)	1,348,486	1,334,223
Net profit for the year	156,770	163,883
	1 505,256	1,498,106
	14,037,154	12,625,464
Financial commitments and contingencies	3,658,239	3,351,373

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ending December 31, 2016 (in thousands of EUR)

	2016	2015
Interest and similar income	449,361	485,379
Interest and similar expenses	(49,962)	(73,420)
Net interest income	399,399	411,959
Fee and commission income	146,311	159,084
Fee and commission expense	(38,364)	(41,597)
Net fee and commission income	107,947	117,487
Net trading result	38,783	11,970
Other operating income	9,625	11,422
Operating income	555,754	552,838
Salaries and employee benefits	(119,710)	(114,447)
Other operating expenses	(103,759)	(101,865)
Special levy for selected financial institutions	(22,143)	(20,076)
Amortization	(14,539)	(13,664)
Depreciation	(13,207)	(14,367)
Operating expenses	(273,358)	(264,419)
Operating profit before impairment	282,396	288,419
Impairment losses	(75,764)	(79,278)
Profit from operations	206,632	209,141
Share of profit of associates and joint ventures	5,110	4,434
Profit before tax	211,742	213,575
Income tax expense	(54,972)	(49,692)
NET PROFIT FOR THE YEAR	156,770	163,883
Other comprehensive income for the year, after tax:		
Items that may be reclassified to profit or loss in the future:		
Exchange difference on translating foreign operation	(19)	16
Available-for-sale financial assets	(23,137)	(4,266)
Cash flow hedges	410	(365)
Other comprehensive income for the year, after tax	(22,746)	(4,615)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	134,024	159,268

Consolidated Statement of Cash Flow For the year ending December 31, 2016 (in thousands of EUR)

	2016	2015
Cash flow from operating activities		
Profit before tax	211,742	213,575
Adjustments for:		
Amortization	14,539	13,664
Depreciation	13,207	14,367
Securities at fair value through profit or loss, debt securities in issue and FX differences	17 043	(2,855)
Items related to share of profit of associates and joint ventures	873	120
Interest income	(449,361)	(485,379)
Interest expense	49,962	73,420

Sale of property and equipment	(566)	(83)
Impairment losses and similar charges	110,231	100,065
Interest received	472,978	496,878
Interest paid	(56,958)	(88,617)
Paid tax	(71,151)	(57,294)
Due from banks	80,421	428,913
Financial assets at fair value through profit or loss	97,923	(97,451)
Derivative financial instruments (assets)	(187)	2,920,
Available-for-sale financial assets	532,265	(355,063)
Loans to customers	(1,707,240)	(943,285)
Other assets	6,607	(6,437)
Due to central and other banks	81,521	30,111
Derivative financial instruments (liabilities)	2,795	500
Due to customers	1,215,625	698,485
Other liabilities	3,098	(2,609)
Net cash (used in)/from operating activities	625,367	33,945
Cash flows from investing activities		
Repayments of held-to-maturity investments	-	1
Purchase of intangible assets and property and equipment	(37,711)	(30,598)
Sale of property and equipment	6,859	2,775
Increase resulting from the disposal of the associate	10,851	-
Net cash from investing activities	(20,001)	(27,822)
Cash flows from financing activities		
Proceeds from issue of debt securities	249,848	410,300
Repayments of debt securities	(150,618)	(264,569)
Sales of treasury shares	-	83
Paid dividends	(130,334)	(89,538)
Net cash used in financing activities	(31,104)	56,276
Net change in cash and cash equivalents	574,262	62,399
Cash and cash equivalents at beginning of the year	491,586	429,187
Cash and cash equivalents at end of the year	1,065,848	491,586

Consolidated Statement of Changes in Equity For the year ending December 31, 2016 (in thousands of EUR)

	Share capital	**Share premium**	**Legal reserve fund**	**Retained earnings**	**Exchange difference on translating foreign operation**	**Financial assets to sale**	Cash flow hedges	**Total**
January 1, 2015	430,819	13,636	99,633	853,415	(9)	31,537	(885)	1,428,146
Total comprehensive income for the year, net of tax	-	-	-	163,883	16	(4,266)	(365)	159,268
Other	-	-	-	(15)	15	-	-	-
Transaction with owners, recorded directly in equity								
Dividends to shareholders	-		(89,538)	-	-	-	(89,538)	
Reversal of dividends	-	-	-	147	-	-	-	147

distributed but not collected								
Legal reserve fund	-	-	270	(270)	-	-	-	-
Sale of treasury shares	-	83	-	-	-	-	-	83
Total transactions with owners	-	83	270	(89,661)	-	-	-	
December 31, 2015	430,819	13,719	99,903	927,622	22	27,271	(1,250)	1,498,106
January 1, 2016	430,819	13,719	99,903	927,622	22	27,271	(1,250)	1,498,106
Total comprehensive income for the year, net of tax	-	-	-	156,770	(19)	(23,137)	410	134,024
Other	-	-	-	22	(22)	-	-	-
Gain on disposal of an investment in associate under common control	-	-	(333)	3,643	-	-	-	3,310
Transaction with owners, recorded directly in equity								
Dividends to shareholders	-	-	-	(130,334)	-	-	-	(130,334)
Reversal of dividends distributed but not collected	-	-	-	149	-	-	-	149
Legal reserve fund	-	-	484	(483)	-	-	-	1
Total transacions with owners	-	-	484	(130,668)	-	-	-	(130,184)
December 31, 2016	430,819	13,719	100,054	957,389	(19)	4,134	(840)	1,505,256

Consolidated Financial Statements prepared in accordance with the IFRS as of December 31, 2017

The data specified below for year 2017 have been assumed from the audited Consolidated Closing Financial Statements for the year ended December 31, 2017. The statements, prepared according to the International Financial Reporting Standards as amended by the European Union, which including the Auditor's Report were submitted as a part of VUB Annual Financial Report for 2017 to the National Bank of Slovakia on April 27, 2018. The Annual Financial Report is available at the registered office of the Issuer and the Release Note was published in Hospodárske Noviny on April 27, 2018.
The audited Consolidated Closing Financial Statements for the year ended December 31, 2017 prepared according to the International Financial Reporting Standards as amended by the European Union are specified by the Issuer in this Base Prospectus in form of reference to the VUB Annual Report for 2017, which these closing financial statements are attached to (see part "List of used cross references" on page 42 of this Base Prospectus) and are available on the website of the Issuer (www.vub.sk).

Consolidated Statement of Financial Position as of December 31, 2017
(in thousands of EUR)

	2017	2016
Assets		
Cash and balances with central banks	1,595,097	1,029,103
Due from banks	90,913	112,468
Financial assets at fair value through profit or loss	5,783	474
Derivative financial instruments	49,856	47,249
Available-for-sale financial assets	520,416	1,289,979
Loans and advances to customers	12,000,729	10,725,281
Held-to-maturity investments	376,472	530,019
Associates and joint ventures	8,972	8,788
Intangible assets	80,100	68,888
Goodwill	29,305	29,305
Property and equipment	126,848	104,853
Current income tax assets	9,478	1,464
Deferred income tax assets	53,779	64,002
Other assets	23,128	25 281
	14 970,876	14,037,154
Liabilities		
Due to central and other banks	768,781	855,244
Derivative financial instruments	52,184	65,354
Due to customers	9,939,121	9,564,560
Subordinated debt	200,164	200,165
Debt securities in issue	2,252,380	1,715,308
Provisions	9,962	26,001
Other liabilities	115,698	105,266
	13,338,290	12,531,898
Equity		
Equity (excluding net profit for the period)		
Net profit for the period	1,457,589	1,348,486
	174,997	156,770
	1,632,586	1,505,256
	14,970,876	14,037,154
Financial commitments and contingencies	3,562,979	3,658,239

Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the year ending December 31, 2017
(in thousands of EUR)

	2017	2016
Interest and similar income	434,187	449,361
Interest and similar expenses	(50,227)	(49,962)
Net interest income	383,960	399,399
Fee and commission income	151,028	146,311
Fee and commission expense	(37,379)	(38,364)
Net fee and commission income	113,649	107,947
Net trading result	40,344	38,783
Other operating income	9,462	9,625
Operating income	547,415	555,754
Salaries and employee benefits	(126,659)	(119,710)

Other operating expenses	(90,789)	(103,759)
Special levy for selected financial institutions	(24,823)	(22,143)
Amortization	(12,635)	(14,539)
Depreciation	(12,134)	(13,207)
Operating expenses	(267,040)	(273,358)
Operating profit before impairment	280,375	282,396
Impairment losses	(59,205)	(75,764)
Profit from operations	221,170	206,632
Share of profit of associates and joint ventures	1,965	5,110
Profit before tax	223,135	211,742
Income tax expense	(48,138)	(54,972)
NET PROFIT FOR THE YEAR	174,997	156,770
Other comprehensive income for the year, after tax:		
Items that will not be reclassified to profit or loss in the future:		
Revaluation surplus from property and equipment	21,966	-
Items that may be reclassified to profit or loss in the future		
Cash flow hedges	1,378	410
Available-for-sale financial assets	606	(23,137)
Exchange difference on translating foreign operation	269	(19)
Other comprehensive income for the year, after tax	24,219	(22,746)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	199,216	134,024

Consolidated Statement of Cash Flow For the year ending December 31, 2017 (in thousands of EUR)

	2017	**2016**
Cash flow from operating activities		
Profit before tax	223,135	211,742
Adjustments for:		
Amortisation	12,635	14,539
Depreciation	12,134	13,207
Securities at fair value through profit or loss, debt securities in issue and FX differences	(25,018)	17,043
Items related to share of profit of associates and joint ventures	(184)	873
Interest income	(434,187)	(449,361)
Interest expense	50,227	49,962
Sale of property and equipment	(751)	(566)
Impairment losses and similar charges	68,352	110,231
Interest received	442,580	472,978,
Interest paid	(53,684)	(56,958)
Paid tax	(45,929)	(71,151)
Decrease Due from banks	11,023	80,421
(Increase)/decrease in Financial assets at fair value through profit or loss	(5,310)	97,923
Increase in Derivative financial instruments (assets)	(1,229)	(187)
Decrease in Available-for-sale financial assets	776,154	532,265
Increase in Loans and advances to customers	(1,370,396)	(1,707,240)
Decrease in Other assets	1,966	6,607
(Decrease)/increase in Due to central and other banks	(85,615)	81,521
(Decrease)/increase in Derivative financial instruments (liabilities)	(13,170)	2,795
Increase in Due to customers	375,416	1,215,625
Increase in Other liabilities	10,966	3,098
Net cash (used in)/used from operating activities	(50,885)	625,367

Cash flows from investing activities		
Repayments of held-to-maturity investments	147,282	-
Purchase of intangible assets and property and equipment	(45,381)	(37,711)
Disposal of property and equipment	11,620	6,859
Increase resulting from disposal of the associate	-	10,851
Net cash(used in)/from investing activities	113,521	(20,001)
Cash flows from financing activities		
Proceeds from issue of debt securities	750,000	249,848
Repayments of debt securities	(186,155)	(150,618)
Paid dividends	(72,020)	(130 334)
Net cash from/(used in) financing activities	491,825	(31,104)
Net change in cash and cash equivalents	554,461	574,262
Cash and cash equivalents at beginning of the year	1,065,848	491,586
Cash and cash equivalents at end of the year	1,620,309	1,065,848

Consolidated Statement of Changes in Equity For the year ending December 31, 2017 (in thousands of EUR)

	Share capital	**Share premium**	**Legal reserve fund**	**Retained earnings**	**Revaluation surplus from property and equipment**	**Available for-sale financial assets**	**Cash flow hedge s**	**Translation of foreign operation**	**Spolu**
1. január 2016	430,819	13,719	99,903	927,622	-	27,271	(1,250)	22	498,106
Total comprehensive income for the year, net of tax	-	-	-	156,770	-	(23,137)	410	(19)	134,024
Gain on disposal of an investment in associate under common control	-	-	(333)	3,643		-	-		3,310
Exchange difference	-	-	-	22	-	-	-	(22)	-
Transactions with owners, recorded directly in equity									
Legal reserve fund	-	-	484	(483)	-	-	-	-	1
Dividends to shareholders	-	-	-	(130,334)		-	-		(130,334)
Reversal of dividends distributed but not collected	-	-	-	149	-	-	-	-	149
Total transactions with owners	-	-	484	(130,668)	-	-	-	-	(130,184)
31. december 2016	430,819	13,719	100,054	957,389	-	4,134	(840)	(19)	505,256
1. január 2017	430,819	13,719	100,054	957,389	-	4,134	(840)	(19)	505,256
Total comprehensive income for the year, net of tax	-	-	-	174,997	21,966	606	1,378	269,	199,216
Exchange difference	-	-	-	5	-	(22)	-	22	5
Transactions with owners, recorded directly in equity									
Dividends to shareholders	-	-	-	(72,020)	-	-	-	-	(72,020)
Reversal of dividends distributed but not collected	-	-	-	130	-	-	-	-	130
Total transactions with owners	-	-	-	(71,890)	-	-	-	-	(71,890)
31. december 2017	430,819	13,719	100,054	1,060,501	21,966	4,718	538	272	632,587

3.11.2 Audit of historical annual financial statements

The Issuer declares that the historical annual financial statements have been audited. No other sections of the Base Prospectus, apart from the historical financial statements, have been subject to audit.

3.11.3 Age of the newest financial information

The audited financial statements selected from the consolidated closing financial statements for the year ended December 31, 2017 prepared according to the International Financial Reporting Standards, attached to the Base Prospectus, are not older than 18 months from the preparation date of the Base Prospectus.

3.11.4 Interim and other financial information

The financial information, disclosed by the Issuer since the last audited financial statements for the year ended December 31, 2017 were released, have not been verified by audit.

Interim Financial Statement prepared in compliance with the IAS 34 as of 31 March 2018

Data for the first quarter of 2018 have been assumed from the Interim individual financial statements unverified by auditor, for the period ending on March 31, 2018 prepared in compliance with the International Accounting Standards IAS 34 Interim financial statements. The financial statements are attached herein.

Individual Statement of Financial Position as of 31 March 2018
(in thousands of EUR)

	Mar 2018	Dec 2017
Assets		
Cash, balances at central banks	1,742,457	1,595,078
Financial assets at fair value through profit or loss:		
Financial assets held for trading	45,664	-
Non-trading financial assets mandatorily at fair value through profit or loss	900	-
Derivatives – Hedge accounting	19,114	-
Financial assets at fair value through profit or loss	-	5,783
Derivative financial instruments	-	49,856
Financial assets at fair value through other comprehensive income	868,041	-
Available-for-sale financial assets	-	520,416
Held-to-maturity investments	-	376,472
Financial assets at amortised cost:		
Due from other banks	124,949	90,744
Due from customers	11,816,996	11,487,518
Fair value changes of the hedged items in portfolio hedge of interest rate risk	685	-
Investments in subsidiaries, joint ventures and associates	38,204	92,745
Property and equipment	110,934	111,512
Intangible assets	77,075	74,882
Goodwill	18,871	-
Current income tax assets	13,735	5,813
Deferred income tax assets	44,402	38,626
Other assets	20,100	19,848
	14,942,127	14,469,293
Liabilities		
Financial liabilities at fair value through profit or loss:		
Financial liabilities held for trading	28,661	-
Derivatives – Hedge accounting	17,566	-
Derivative financial instruments	-	52,184
Financial liabilities at amortised cost:		
Due to banks	447,905	449,815
Due to customers	10,223,411	9,855,433
Subordinated debt	200,161	200,164
Debt securities in issue	2,246,469	2,252,380
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(459)	-
Current income tax liabilities	908	-
Provisions	21,771	27,083
Other liabilities	222,966	76,254

	13,409,359	12,913,313
Equity		
Equity (excluding net profit for the period)	1,475,041	1,395,959
Net profit for the period	57,727	160,021
	1,532,768	1,555,980
	14,942,127	14,469,293
Financial commitments and contingencies	3,766,930	3,642,125

Individual Statement of Profit and Loss and Other Comprehensive Income for 3 months ending on 31 March 2018 (in thousands of EUR)

	Mar 2018	**Mar 2017**
Interest and similar income	99,567	91,646
Interest and similar expenses	(11,956)	(11,680)
Net interest income	87,611	79,966
Fee and commission income	36,612	35,774
Fee and commission expense	(6,863)	(11,650)
Net fee and commission income	29,749	24,124
Net trading result	25,354	6,450
Other operating income	1,272	1,041
Dividend income	2,000	2,000
Operating income	145,986	113,581
Salaries and employee benefits	(30,754)	(26,218)
Other operating expenses	(28,102)	(26,595)
Special levy for selected financial institutions	(6,397)	(5,948)
Amortisation	(2,754)	(2,186)
Depreciation	(2,156)	(2,363)
Operating expenses	(70,163)	(63,310)
Operating profit before impairment	75,823	50,271
Provisions	3,833	9,965
Impairment losses	(6,588)	(9,094)
Profit before tax	73,068	51,142
Income tax expense	(15,341)	(10,802)
NET PROFIT FOR 3 MONTHS	57,727	40,340
Other comprehensive income for 3 months, after tax:		
Items that may be reclassified to profit or loss in the future:		
Net gain on cash flow hedges	72	71
Net loss on financial assets at fair value through other comprehensive income	(16,633)	-
Net loss on available-for-sale financial assets	-	(1,841)
Exchange difference on translating of foreign operations	(211)	-
Other comprehensive income for 3 months, net of tax	(16,772)	(1,770)
TOTAL COMPREHENSIVE INCOME FOR 3 MONTHS	40,955	38,570

Base and diluted earnings per € 33.2 share in €	3.91	3.11

Individual Statement of Cash Flows for 3 months ended March 31, 2018
(in thousands of EUR)

	Mar 2018	Mar 2017
Cash flow from operating activities		
Profit before tax	73,068	51,142
Adjustments for:		
Amortisation	2,754	2,186
Depreciation	2,156	2,363
Unrealised (profit)/loss from trading	(5,674)	(8,026)
Interest income	(99,567)	(91,646)
Interest expense	11,956	11,680
Dividend income	(2,000)	(2,000)
Sale of intangible assets and property and equipment	35	-
Impairment losses and similar charges	10,139	1,528
Interest received	106,066	100,002
Interest paid	(12,550)	(16,890)
Dividends received	2,000	2,000
Tax paid	(28,131)	(11,266)
Increase in financial assets at fair value through profit or loss	(12,249)	-
Decrease in derivatives – hedge accounting (assets)	2,781	-
Increase in financial assets at fair value through profit or loss	-	(1)
Decrease in derivative financial instruments (assets)	-	797
Decrease in financial assets at fair value through other comprehensive income	45,807	-
Decrease in available-for-sale financial assets	-	496,439
Financial assets at amortised cost:		
(Increase)/Decrease in due from other banks	(10,062)	25,825
Increase in due from customers	(250,776)	(270,029)
Decrease in other assets	1,761	2,315
Decrease in financial liabilities at fair value through profit or loss	(8,881)	-
Increase in derivatives – hedge accounting (liabilities)	2,924	-
Decrease in derivative financial instruments (liabilities)	-	(30,199)
Financial liabilities measured at amortised cost:		
(Decrease)/Increase in due to banks	(12,000)	28,738
Increase in due to customers	367,153	335,247
Decrease in other liabilities	(14,155)	(4,478)
Net cash (used in)/used from operating activities	172,555	625,727
Cash flows from investing activities		
Repayments of held-to-maturity investments	-	147,281
Purchase of intangible assets and property and equipment	(348)	(1,288)
Disposal of intangible assets and property and equipment	8	-
Net cash used i from/ (used in) investing activities	(340)	145,993
Cash flows from financing activities		
Proceeds from issue of debt securities	-	250,000
Repayments of debt securities in issue	-	(40,000)
Net cash from/(used in) financing activities	-	210,000
Net change in cash and cash equivalents	172,215	981,720
Cash and cash equivalents at beginning of the year	1,620,121	1,065,653
Cash and cash equivalents at 31 March	1,792,336	2,047,373

Individual Statement of Changes in Equity for 3 months ended 31 March 2018
(in thousands of EUR)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Property and equipment	Financial assets at fair value through other comprehensive income	Available-for-sale financial assets	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2017	430,819	13,719	87,493	908,926	-	-	4,055	(840)	2	1,444,174
Total comprehensive income for three months, net of tax	-	-	-	40,340	-	-	(1,841)	71	-	38,570
Exchange difference	-	-	-	2	-	-	-	-	(2)	-
Transactions with owners, recorded directly in equity										
Dividends to shareholders	-	-	-	(72,020)	-	-	-	-	-	(72,020)
At 31 March 2017	430,819	13,719	87,493	877,248	-	-	2,214	(769)	-	1,410,724
At 31 December 2017	430,819	13,719	87,493	997,059	21,700	-	4,442	538	210	1,555,980
Impact of adopting IFRS 9	-	-	-	(30,078)	-	-	(4,442)	-	-	9,996
At 1 January 2018	430,819	13,719	87,493	966,981	21,700	-	-	538	210	1,565,976
Total comprehensive income for three months, net of tax	-	-	-	57,727	-	(16,633)	-	72	(211)	40,955
Business combinations (note 2.2)	-	-	-	69,449	210	-	-	-	-	69,659
Exchange difference	-	-	-	203	-	-	-	-	-	203
Transactions with owners, recorded directly in equity										
Dividends to shareholders	-	-	-	(144,025)	-	-	-	-	-	(144,025)
At 31 March 2018	430,819	13,719	87,493	950,335	21,910	27,883	-	610	(1)	1,532,768

3.11.5 Judicial and arbitration proceedings

No administrative, judicial or arbitration proceedings, which have impact or may have impact on financial situation and profitability of the Issuer/ Issuer's Group in the future had been conducted over the period of 12 calendar months prior to date the Base Prospectus was prepared.

3.11.6 Material change to Issuer's financial or business situation

No material changes have occurred since the Consolidated financial statements as of December 31, 2017 prepared under the International Financial Reporting Standards were submitted to the NBS.

3.12 Important contracts

The Issuer does not keep in its records any contracts which were signed otherwise than within regular business of the Issuer and which may cause that a member of the Group may bear liability or title which is crucial for ability of the Issuer to satisfy its liability due to security holders. With respect to its core business, the Issuer does not provide any research and development.

3.13 Third Party Information

The Issuer declares hereby that the information received from third parties and specified in chapter "II. RISK FACTORS" in section "Main Markets" of this Base Prospectus has been acquired from the public sources and has been correctly interpreted to the extent the Issuer is aware of and able to assess such an information. No facts that may cause incorrect or misleading interpretation have been omitted. The Issuer has not examined accuracy of statistical data.

Information sources used in this Base Prospectus:
1. web page of the National Bank of Slovakia (information in section: "II. RISK FACTORS" and in section "3.5.2 Main Markets");
2. web page of the Statistical Office of the Slovak Republic and Eurostat (information in section "II. RISK FACTORS");
3. web page of the Slovak Banking association (information in section "3.5.2 Main Markets").

3.14 Documents for inspection

During the validity of the Base Prospectus, the documents (or their copies) specified below are physically available at the registered office of VÚB, a. s., Mlynské nivy 1, 829 90 Bratislava:
1. Issuer's Deed of Foundation and Articles of Association;
2. Historical consolidated financial statements about liabilities of the Issuer and its subsidiaries, consolidated closing financial statements prepared under the International Financial Reporting Standards including Auditor's reports for 2016 and 2017;
3. Interim individual financial statements for three months ended 31 March 2018 prepared in compliance with the International Accounting Standard IAS 34 Interim Financial Reporting.

3.15 List of used cross-references

This Base Prospectus includes the following information in form of references:

1. The audited Consolidated Financial Statements for the year ended December 31, 2016, prepared under the International Financial Reporting Standards, (see the information on p. 31 of this Base Prospectus), which is attached to the VUB Annual Report for 2016 under the Act on Securities (2016 Annual Report). This Base Prospectus shall be read along with the above mentioned part of 2016 Annual Report, which is considered integrated to and forming a part of this Base Prospectus. Other parts of 2016 Annual Report, which are not integrated to the Base Prospectus in form of references, are not relevant to investors;
2. The audited Consolidated Financial Statements for the year ended December 31, 2017, prepared under the International Financial Reporting Standards, (see the information on p. 34 of this Base Prospectus), which is attached to the VUB Annual Report for 2017 under the Act on Securities (2017 Annual Report). This Base Prospectus shall be read along with the above mentioned part of 2017 Annual Report, which is considered integrated to and forming a part of this Base Prospectus. Other parts of 2017 Annual Report, which are not integrated to the Base Prospectus in form of references, are not relevant to investors.

IV. INFORMATION ABOUT SECURITIES

This section of the Base Prospectus up to section "V. INFORMATION ABOUT THE PROGRAM" provides description of securities related to all Bonds issues issued within the Program as well as the information, which will be specified in the Final Terms of individual issue.

4.1 Responsible persons

Responsible persons: Všeobecná úverová banka, a.s., represented by Roberto Vercelli, member of the Management Board, and Antonio Bergalio, member of the Management Board, declares that as Issuer, it bears liability for the information contained in the whole of Base Prospectus.

Declaration of responsible persons: Issuer declares that due care was paid during preparation of this Base Prospectus to the best knowledge of the responsible persons, that the information and data provided in it are up-to-date, complete, true and reflect the reality as of the date of preparation of the Base Prospectus and no data which may significantly influence the meaning of this Base Prospectus, exact and correct assessment of the Issuer and Bonds issued by the Issuer, were omitted.

Bratislava, June 6, 2018

Roberto Vercelli	Antonio Bergalio
Member of the VÚB, a. s. Management Board	Member of the VÚB, a. s. Management Board

4.2 Risk factors

Key risk factors inherent to Bonds for assessment of the related market risk: This information is specified in section "II. RISK FACTORS" of the Base Prospectus.

4.3 Basic Information

Interest of the natural persons and legal entities participating in issue/offer: This information will be specified in the Final Terms of a specific issue.

Rationale of the offer and use of proceeds:

- **Rationale**: Objective of the Covered Bonds issues is to to finance business activities of Issuer.
- **Estimated costs and use of proceeds:** This information will be specified in the Final Terms of a specific issue.

4.4 Information on securities to be offered / admitted to trading

Name of Bond: This information will be specified in the Final Terms of a specific issue.

Nominal (par) value: This information will be specified in the Final Terms of a specific issue.

Aggregate principal amount: This information will be specified in the Final Terms of a specific issue.

Type of security: Bond – covered bond.

ISIN: This information will be specified in the Final Terms of a specific issue.

Legal regulations, based on which the securities are issued: The Bonds are issued by VÚB, a. s., in line with legal order of the Slovak Republic and pursuant to Act on bonds, Act on Securities and Banking Act.

Form: The Bonds will be issued in the book-entered bearer form.

Name and address of entity in charge of recordkeeping: This information will be specified in the Final Terms of a specific issue.

Issue currency: The relevant information will be indicated in the Final Terms of the specific issue.
The Issuer shall pay the yield and repay the par value of Bonds strictly in currency of an issue, which will be determined in the Final Terms.

Classification of the securities: The Bonds represent direct, general, secured and unconditional pari passu (equal) liabilities with respect to each other and with respect to other existing and future direct, general, secured and unconditional liabilities of the Bank except for those defined by cogent provision of the legal regulation.

Rights associated with securities: Rights associated with Bonds, restrictions on rights and exercising procedures, as well as liabilities arising from Bonds are specified in applicable legal regulations of the Slovak Republic, especially in the Act on Bonds, Act on Banks, Securities Act, this Base Prospectus and relevant Final Terms of a specific issue. Except for restrictions explicitly set forth herein or in related documents and restrictions directly arising from legal regulations of the Slovak Republic, the Issuer has by no way whatsoever otherwise restricted or exercised its right to restrict rights of the Bondholders, even in cases, when the legal regulations of the Slovak Republic admit such restrictions of Bondholders' rights on side of the Issuer. The facts associated with exercising Bondholders' rights will be released in national periodicals publishing the stock exchange reports. No pre-emption or exchangeable rights are connected with the Bonds.

Nominal interest rate: An alternative applied to a specific issue will be defined in the Final Terms. Yield of Bonds may be specified as follows:

1. Bond yield defined by fixed coupon – based on Final Terms of the relevant issues, the Bond yield determined this way will bear a fixed rate over the whole lifetime of the Bond or over the pre-defined period. The coupon rate and the period will be defined in the Final Terms.
2. Bond yield determined by floating coupon - based on Final Terms of the relevant issues, the Bond yield determined this way will bear a floating rate equal to reference rate increased /decreased by relevant margin (if applicable) always over specific, successive interest rate periods. The specific composition of the coupon will be defined in the Final Terms. The relevant coupon will be set for the next period on the second business day preceding the date of yield payout for the current coupon period. The rate for the first period will be defined on the second business day prior to issue date.
3. Bond yield determined as difference between Bond's par value and its lower issue price – the yield defined this way in the Final Terms will not bear an interest. The coupon on these Bonds represents difference between issue price and par value of each Bond.
4. The yield determined by combination of the above methods - The yield defined this way in the Final Terms will bear a coupon which is a combination of several or all items 1-3 herein for a specific coupon period. The specific composition of the coupon will be defined in the Final Terms.

The coupon rate defined in the Final Terms may be either identical for all coupon periods or may vary from period to period.

Provisions related to due yield: The yield for each interest rate (coupon) period will be due on the payment day of the yield. The yield will be paid out in time interval and on dates as defined in the Final Terms. Should the payment day be non-business day, the payout date will be understood as the next business day immediately following non-business day. In such a case no titles to additional yield, coupon or any other appreciation will arise. With respect to specific Bond, the Issuer will define the yield for each coupon period. The amount shall be rounded based on mathematical rules to two decimal places according to a figure on the third decimal place.

The yield on a Bond will be determined as a multiple of the Bond's par value (possibly its outstanding portion if the amount is not due as one-off payment), relevant interest (indicated as decimal figure) and relevant fraction of days based on applicable convention.

The coupon period is understood as a time between two payment dates of yields, starting from a day of yield payment (including) until the next payment date, while the first coupon period is a period starting with issue date (including) until the first payout date of the yield.

The ex-coupon date is the 30th calendar day prior to due date of yield. The yield for the relevant period will be paid out only to the a Bondholder, who had been owner of the Bond as of the end of business day immediately preceding the ex-coupon date (hereinafter referred to as the "**authorized party**") as indicated in the list of security holders prepared by an entity licensed and permitted to establish and perform activities of the Central Depository, which has been keeping for the Issuer an issuer's securities register.

The Bondholder is a party, whose Bond is registered in the Central Securities Register kept by CSD / or by other party who has been authorized to keep register of the book-entered securities pursuant to legal regulations of the Slovak Republic or another state within European Union.

Date from which the yield becomes payable: This information will be specified in the Final Terms of a specific issue.

The due dates of yield: This information will be specified in the Final Terms of a specific issue.

Validity of rights related to yield and principal payment period: Pursuant to the Act on Bonds the rights stemming from Bonds shall be limited for 10 years after their maturity.

For non-fixed rates, type of the underlying base from which a specific rate is derived: Interbank rate for the given currency displayed on the page of Thomson Reuter's financial and information platform shall be taken as underlying rate.

For non-fixed rates, description of underlying base from which the rate is derived: This information will be specified in the Final Terms of a specific issue.

For non-fixed rates, method upon which the type and description of the underlying base were correlated: This information will be specified in the Final Terms of a specific issue.
The method of yield calculation will consist of interbank interest rate, which can be increased /decreased by margin.

If the nominal rate has not been fixed, sites on which the details about the performance history / future performance of the underlying base and about its volatility can be found: The details about the performance history / current performance and volatility of the interbank rate (e.g. EURIBOR, PRIBOR, LIBOR) are displayed on the page of Thomson Reuter's financial and information platform. This information may be used as a part of several information sources for determining the expected performance of the underlying rate.

If the nominal rate has not been fixed, events that may cause market disruption / imbalance which affect the underlying base: A number of factors such as collapse on stock exchange, failure of information systems, failure to fix the coupon rate, economic crisis etc. may impact the underlying base used for setting the nominal rate by which the value is determined. The Issuer cannot guarantee, that any other factors except for those mentioned above which may affect the underlying base will not occur.

If the nominal rate has not been fixed, modification rules with respect to events related to underlying base: If the current interbank rate, from which the Bonds issue rate is derived, is not available on the date the nominal rate is defined, the most recent value published on the financial and information platform of Thomson Reuters (or any other alternative page on which this information is displayed) will apply for purposes of setting the nominal rate.

If the nominal rate has not been fixed, name of the person in charge of calculations: Representative in charge of calculations will not be appointed, the Issuer is responsible for this activity.

If the nominal rate has not been fixed and the security bears a derivative component within coupon payout, specify how does the value of underlying instrument(s) impacts the investment value in terms of the most obvious risks of the investment: Bonds issued within the Program will not bear a derivative component at coupon payout.

Maturity date: Maturity date of Bonds' par value will be specified in the Final Terms of a specific issue (hereinafter referred to as the "**maturity date**"). The Bond does not bear any interest after the maturity date. Should the maturity date of the Bond par value fall on non-business day, the business day immediately following non-business day shall be deemed the payout date. In such a case no titles to additional yield, coupon or any other appreciation will arise.

Repayment procedures, redemption and early repayment options: An alternative applicable to specific issue shall be defined in the Final Terms.

1. The Issuer shall settle par value of Bonds in full on the maturity date. The Issuer shall not be committed to early repayment of Bonds on request of the Bondholder and the Bondholder shall not be entitled to request the early repayment; or
2. The par value of Bonds is repaid in several installments, i.e. not as balloon payment at the end of maturity. The relevant installment of par value plus yield for the given coupon period will be paid on the maturity day of the yield. Repayment of the par value will be split into installments the number of which will correspond to that of coupon periods, unless otherwise stated in the Final Terms. Repayment amount relevant to par value and yield with payout date will be specified in Payment Schedule of the Final Terms. The Issuer shall not be committed to early repayment of Bonds on request of the Bondholder and the Bondholder shall not be entitled to request the early repayment; or
3. The Issuer will repay the par value of Bonds in full on the maturity date of Bonds with option of early repayment initiated by Bondholders. All Bondholders may request the early repayment of Bonds under the conditions specified in the Final Terms. The early repayment of the Bonds par value will be executed strictly upon written request of the Bondholder addressed to Treasury Back Office of the Issuer, in the period and under conditions as specified in the Final Terms The request for early repayment of Bonds is irrevocable and the Investor shall provide to the Issuer full assistance as the Issuer may require in event of early repayment of Bonds. The Bondholder is entitled to receive a proportional amount of yield on Bonds due as of the early repayment date as specified in the Final Terms. By effect of early repayment of Bonds' par value, any other claims of the former Bondholder regarding yields payout and repayment of par value of Bonds will expire. The Issuer's liabilities arising from section "IV. INFORMATION ABOUT SECURITIES" of the Base Prospectus along with Final Terms continue to be applicable to Bonds, in which the Bondholders did not exercise their option of early repayment; or
4. The Issuer will pay the par value of Bonds in full on the maturity date of Bonds with option of early repayment initiated by Issuer. The Issuer, upon its decision, will be entitled to repay the Bonds before their maturity under the conditions as specified in the Final Terms. The Issuer, upon its decision, will be entitled to repay a portion of Bonds or all Bonds at any time and repeatedly provided it has notified its decision to the selected / all Bondholders not before 60 days and no later than 5 days prior to early repayment. The Notice of early repayment shall be published in national papers. Issuer's Notice of Early Repayment shall be irrevocable. By this effect the Issuer shall repay the Bonds in compliance with the Final Terms of the issue. In such a case the Issuer will pay an outstanding amount of par value of Bonds or all Bonds together with yield which has not been paid so far.

The Issuer shall be entitled to purchase the Bonds at any time in the market or to acquire the Bonds otherwise at any price. Purchase of own Bonds by the Issuer in the secondary market shall not be deemed the early repayment, unless the Issuer will not decide on their expiration. Furthermore, the early repayment shall not be deemed the event when the Bonds have been amortized in line with relevant Final Terms (the principal is not paid in balloon payment, but gradually). In accordance with the Act on Banks effective from January 1, 2018, mortgage bonds, acquired before maturity date by issuer and which are deemed to be covered bonds with regard to Act on Banks, Section 122ya, par. 3 and 4, do not expire, unless issuer decides on their expiration.

The ex-principal date was set on the 30th calendar day prior to maturity date. The par value of Bond shall be paid out only to a Bondholder, who had been owner of the Bond as of the end of business day immediately preceding the ex-principal date as indicated in the List of Security holders prepared by the CSD.

Payout of yields and / or repayment of par value of Bonds will be effected by non-cash transfer on account of the entitled party (hereinafter referred to as the “**account**”) as specified by the entitled beneficiary in the Request for Yield Payment and /or for Repayment of the Par Value, delivered to the Issuer, Sub-department Treasury Back Office at the Head office (hereinafter referred to as the “**request**”), no later than on the 20th day before yield payment date and / or maturity day of Bond’s par value. If the request has not been delivered to the Issuer within the period indicated above, the Issuer shall pay out the yields and / or repay the par value of Bonds within five business days following the day the request with account number indicated thereon has been delivered (however not before the yield payment date and /or repayment date of the nominal value under this general Information on Bonds) to the Issuer. At the same time, the eligible beneficiary shall not be entitled to obtain any additional yield or interest or any other appreciation, for the period starting the yield payout date and /or Bond maturity date under this General Information on Bonds ending the effective payment date and/or repayment date.

The Issuer shall not be obliged to accept the documents and written instruments presented by authorized parties / or persons acting on behalf of the authorized parties, if executed in other than Slovak or Czech language. In other instances the Issuer shall be entitled to request translation into the Slovak language with attestation clause of the translator attached thereto. The Issuer will be entitled to relay on translation of the document / instrument. The issuer shall not be obliged to examine accuracy of the translated document /instrument against original text. In event of documents prepared abroad, the Issuer will be entitled to request that these documents be authenticated and superleglized and furnished with “Apostille“ based on Hague Convention abolishing the requirement of legalisation for foreign public documents of October 5, 1961. The Issuer shall not be obliged to execute any acts, namely, to payout the yields without limitation, and repay the par value of Bonds based on the application form, unless the following documents have been presented: (i) originals or officially certified documents confirming existence and mode of acting of the authorized party and/or Bondholder and/or persons acting for and on behalf of the parties; and (ii) originals or officially certified documents confirming authorization to act for and on behalf of the parties specified in item (i) above. The Issuer shall not be obliged to accept any documents or instruments unless the signatures affixed thereto have been verified by the Issuer’s employees in charge or officially certified.

The yield will be paid out and par value of Bonds repaid at VÚB, a. s., Mlynské nivy 1, 829 90 Bratislava, the Slovak Republic.

The Issuer declares that it owes Bond’s par value to the Bondholder.

The Issuer shall pay the yield on Bond and par value of Bond to the Bondholder in line with Final Terms of the given issue. The Issuer shall provide the funds for payment of yield and par value of Bonds from revenues from its business activities.

An indication of yield: This information will be specified in the Final Terms of a specific issue.

Method of yield calculation (convention): The variant applied to the particular issue shall set forth in its Final Terms.
For purposes of calculation of the Bond yield, one of the conventions specified below shall apply:

1. “Act/Act“ as a ratio of actual number of days in the period for which the yield has been determined to 365 (or in case that any of the specified period falls in leap year, then sum of (i) actual number of days of the period for which the yield has been determined and which falls in leap year divided by 366 and (ii) actual number of days of the period for which the yield has been determined and which does not fall in leap year divided by 365); or
2. “Act/365“as a ratio “actual number of days in the period for which the yield has been determined to 365; or
3. “Act/360“ as a ratio “actual number of days in the period for which the yield has been determined to 360; or
4. “30/360“ as a ratio “number of days in the period for which the yield has been determined to 360 (in this case the year is deemed to have 360 days,12 months and a month has 30 days, whereas in event that (i) the last day of the period for which the yield has been determined falls on the 31st day of a month and concurrently the first day of this period is not the 30th or 31st day in a month, that month shall have 31 days or (ii) the last day of the period for which the yield has been determined, is the last day in February, than the months shall not be extended onto 30 days; or

5. “30E/360“, number of days in the period for which the yield has been determined to 360 (in this case the year is deemed to have 360 days,12 months and a month has 30 days).

Acting on behalf of the holders of debt securities: The Bondholder will not be granted any other benefits and no common representative of the Bondholders with respect to satisfaction of receivables will be appointed. The Issuer has not entered into any fixed agreement on representing Bondholders with any entity.

Representations on resolutions, permits and approvals: This information will be specified in the Final Terms of a specific issue.

Date of Bonds issue (hereinafter referred to “**Issue Date**”)**:** This information will be specified in the Final Terms of a specific issue.

Restriction on free transferability: The Bonds are transferable onto a new owner without restrictions.

Taxation: The yield on Bond will be taxed at its payment date in line with Act No. 595/2003 Coll. on Income Tax as amended hereinafter (referred to as the **Income Tax Act**).
In compliance with the Income Tax Act since 1 January 2016 the yield on Mortgage bonds is subject to withholding tax (tax rate is 19%) if it is flows to a resident – natural person, tax payer not founded or established to conduct business and the National Bank of Slovakia. In case of the income generated to a natural person the taxpayer is the Issuer and in case of custodianship the taxpayer is the securities broker. A taxable party not founded or established to conduct business and the National Bank of Slovakia are in this case concurrently the taxpayers of withholding tax. Residents – legal entities will pay tax from the yield on MB, which is included in their tax base via submitting their tax return (tax rate is 22%). The yield on MB generated to non-residents is not considered the income generated from the source in the territory of the Slovak Republic and hence it will be not subject to tax in the territory of the Slovak Republic.
The aforementioned information represents general information on taxation of MB originated from the source in the territory of the Slovak Republic effective as of the date of the Base Prospectus and is not a complete description of all its aspects. Potential investors, before making an investment decision, should consult tax and FX consequences of such decision with their legal and tax advisors.
Since the legal regulations may change over the lifetime of the Bonds, the yield on Bond shall be always taxed upon legal regulations valid at the payment period.

Information on Bond collateral: Bonds represent a specific type of covered bond under sec. 20b of the Act on Bonds, which nominal value and aliquot interest income is fully covered by assets or asset values in a covered pool under sec. 68 para 1 of Act on Banks. These assets and assets values correspond to the value of assets which, for the whole period of validity of the covered bond, are preferentially intended to satisfy claims arising from this covered bond and these assets, in case the bank issuing these bonds, is not able to properly and timely pay its liabilities arising from them, will be preferentially used to pay the nominal value of the covered bond and aliquot interest income. In the event of bankruptcy over the assets of the Issuer a Bondholder has a status of covered creditor with the right for preferential satisfaction of his/her/its covered receivable for the payment of nominal value and aliquote interest income related to Bonds out of that part of assets of Issuer subject to bankruptcy, which forms a separate part within the bankruptcy in the scope of assets and assets values under sec. 195a para 1 of the Act on Bankruptcy.

4.5 Terms and conditions of the offer

Conditions, which the offer is subject to: This information will be specified in the Final Terms of a specific issue.

Total amount of the issue / offer; if the amount is not fixed, indicate method and date of its announcement to public: This information will be specified in the Final Terms of a specific issue.

Period during which the offer will be open and anticipated issue period: This information will be specified in the Final Terms of a specific issue.
If the Issuer has not issued all the Bonds which make up the relevant issue as of the date of issue, it may issue the residual amount of Bonds at any time during the expected period of Bonds issue. In event that the Bonds are sold

up earlier, the primary sale will end before the final date of sale, i.e. as of the date the issue has been sold out. Further investors' demand will not be accepted after expiry of the primary sale period / earlier sale out of the issue.

Application procedure: The Investor is obliged, based on the firm demand confirmed by the Issuer, to pay the price for subscribed Bonds at the latest by the date of issue. The Issuer enters an order to assign the relevant number of Bond units on securities account of the investor kept with the CSD, with CSD member or with another entity, which under legislation of the Slovak Republic or another state of the European Union is authorized and entitled to keep the evidence of registered securities, at the latest in 5 days from the date of issue.

Options for reducing the subscription, methods of refunds of overpayments: This information will be specified in the Final Terms of a specific issue.

Details on minimal and / or maximal investment amount: This information will be specified in the Final Terms of a specific issue.

Method and date of disbursement and crediting the securities: This information will be specified in the Final Terms of a specific issue.

Method and date of publishing the offer results: This information will be specified in the Final Terms of a specific issue.

Execution of each pre-emption right, tradability of the subscription rights and management of non-exercised pre-emption rights: No pre-emption or exchangeable rights are connected with the Bonds.

The various categories of potential investors to which the securities are offered: An alternative applied to a specific issue shall be defined in the Final Terms. The Bonds shall be always offered within the primary sale to:

1. qualified investors; or
2. non-qualified investors; or
3. all categories of investors.

Identification of the issue, which has been concurrently traded in the markets of two or more countries and the issue has been / or is reserved for one of them: This information will be specified in the Final Terms of a specific issue.

Notification of the allocated amount and event under which the trading may be launched before notification: the Investor will receive Confirmation of the primary purchase after the deal is contracted. The trading cannot be commenced before notification.

Expected price at which the securities will be offered: This information will be specified in the Final Terms of a specific issue. In event of public offer under the Act on Securities not dedicated to qualified investors, the issue rate shall be determined as a specific percentage of the Bond par value (no higher than 120%) while in public offers dedicated to qualified investors and in offers subject to Act on Securities sec. 120 para 3, the issue rate will be defined as a spread.
The Issuer shall always determine the issue rate of any Bonds issued during the issue period so that the rate reflect the existing conditions in the market. The Bonds may be offered below / over or at par value of the Bond while in relevant cases, in Bonds issued after the issue date the corresponding pro-rata portion of the interest income will be added to the issue rate. The price for the beneficiary will be determined as a multiple of issue rate, Bond par value and number of Bond units. The Issue rate will be indicated in the Confirmation of the primary purchase.

Total costs and taxes separately charged to the subscriber: The Issuer shall bear costs associated with issue to full extent. Potential fees charged by Issuer to the subscriber will be indicated in the Final Terms of a specific issue. The subscriber may bear other various fess of third parties in connection with investment to Bonds, e.g. fees for operating and management of securities account.

Name and address of the coordinator(s) of the overall offer and of its individual parts, possibly parties arranging placements in different countries: This information will be specified in the Final Terms of a specific issue.

Name and address of the payment and depository agents in each country: The payment and depository agents will not be appointed. The Issuer shall arrange payout of the yield and repayment of par value.

Name and address of entities with whom the subscription of the issue has been agreed on upon firm commitment or without it or on "best effort basis". The basic details of agreements, including quotas. Declaration regarding non-covered part, commission amount: This information will be specified in the Final Terms of a specific issue.

Date when the underwriting agreement has been or will be achieved: This information will be specified in the Final Terms of a specific issue.

4.6 Admission to trading and dealing contracts

Trading on Stock Exchange: The trading details and possibly those regarding the regulated market will be specified in the "Final Terms" of a specific issue. The Issuer may commit itself to the following acts:

1. Request the Bratislava Stock Exchange registered office: Vysoká 17, 811 06 Bratislava (hereinafter „**BSSE**"), possibly its legal representative to admit the Bonds issue issued within Program in its regulated market and/or
2. Request other than BSSE regulated market organizer for admission of the Bonds issue issued within Program in its regulated market; or
3. Not to request any securities regulated market organizer, for admission of the Bonds issue issued within Program for trading.

Date on which the securities will be admitted for trading: If the Issuer has committed itself to request the stock exchange to admit the issue for trading, the expected date for filing such request will be specified in the Final Terms of this issue.

All regulated or alike markets, on which Issuer's securities of the identical category have been taken for trading: The relevant information will be indicated in the Final Terms of the specific issue.

Name and address of entities committed to act as brokers in the secondary trading, detailed conditions of their commitments: The Issuer gives not its consent to use the Base Prospectus by financial brokers in the secondary trading and no party shall act as the broker in the secondary trading.

4.7 Additional information

Bond issue consultants and their role: The relevant information will be indicated in the Final Terms of the specific issue.

The audited information: Section "IV. INFORMATION ABOUT SECURITIES" of this Base Prospectus does not involve audited information / information on which auditor's report has been prepared.

Expert's statement /report: Section "IV. INFORMATION ABOUT SECURITIES" of this Base Prospectus does not involve any statements / reports that might be attributed to a specific person such as an expert.

Information obtained from the third party: Section "IV. INFORMATION ABOUT SECURITIES" of this Base Prospectus does not involve information obtained from the third party.

Rating assigned to the Issuer: Information on Issuer's rating is specified in sub-section "3.5.2 Main Markets" of this Base Prospectus.

Rating assigned to securities issued by the Issuer: Bonds issued by Issuer within the Program were rated at the level Aa2 by Moody's .

4.8 Definitions

"Account" bears the meaning as attributed to this term in section IV. of the Base Prospectus.

“Act on Bankruptcy” means the act no. 7/2005 coll. on bankruptcy and restructuring as amended.

“Act on Securities” means the act no. 566/2001 coll. on securities and investment services as amended.

“Act on Bonds” means the act no. 530/1990 coll. on bonds as amended.

“Act on Banks” means the act no. 483/2001 coll. on banks as amended.

“Act on housing loans“ means the act no. 90/2016 Coll. concerning housing loans and amending certain laws.

“Anticipated issue period“ means the expected period during which the Bonds can be issued within specific issue, which starts as of the date of issue. Duration of the anticipated issue period will be defined in the Final Terms of the specific issue.

“Authorized party“ bears the meaning as specified in section “IV. INFORMATION ABOUT SECURITIES “ of the Base Prospectus.

“Bratislava Stock Exchange” means the company Bratislava Stock Exchange, registered office Vysoká 17, 811 06 Bratislava, CRN: 00 604 054, registered in the Register of Companies of District Court Bratislava I, section: Sa, file no.: 117/B.

“Bonds“ is understood debt securities – covered bonds (CB) as well as re-registered mortgage bonds deemed to be covered bonds. Bonds are securities involving a right of the holder to claim payment of the owned amount in par value and yields as of specified date and Issuer’s obligation to satisfy these liabilities.

“Bond’s issue rate” is a price at which the Bond is sold by the Issuer at its issue.

“Business day“ for purposes of this Base Prospectus means a day which is not a holiday under Act No. 241/1993 Coll. on Public Holiday, non-business days and memorial days and Act No. 311/2001 Coll. Labor Code as amended and also a day which is the TARGET day (a day on which the „Trans-European Automated Real-time Gross settlement Express Transfer system” operates and clears the payments denominated in Euro currency).

“CB” means the covered bond under sec 20b of Act on Bonds, the nominal value and aliquot interest income of which are fully covered by assets or asset values in a covered pool under sec 68 para. 1 of Act on Banks and correspond to the value of assets which, for the whole period of validity of the covered bond, are preferentially intended to satisfy claims arising from this covered bond and these assets, in case the bank issuing these bonds, is not able to properly and timely pay its liabilities arising from them, will be preferentially used to pay the nominal value of the covered bond and aliquot interest income. The covered bond can be issued only by a bank under the provisions of this Act and the title must include the words “covered bond”.

“Central Securities Depository” is understood an entity holding a licence to establish and provide business of the central securities depository – the Central Securities Depository of the SR a.s., registered office: Ulica 29. augusta 1/A, 814 80 Bratislava, CRN: 31 338 976, registered in the Register of Companies of District Court Bratislava I, section: Sa, file no. 493/B, which keeps for the Issuer the Securities Register.

“Commercial Code” means the act no. 513/1991 coll. Commercial Code as amended

“Date for determining the yield on Bonds with floating rate“ means the second business day prior to payout date of yield for the current interest rate period. The interest rate for the first period will be determined on the second business day before the issue date.

“Date of issue“ is understood a date when the Bonds issue is commenced. The issue date is specified in the Final Terms.

"Directive on the Prospectus" – means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus published when securities are offered to the public or admitted to trading, and on amending Directive 2001/34/EC, as amended.

"Due date of yield" means a date indicated in the Final Terms of the issue on which the yield is paid. Should the payment day fall on the non-business day, the payment date will be understood the next business day immediately following non-business day. In such case no titles to additional yield, interest or any other appreciation will arise.

"EURIBOR" is a reference rate in the interbank market of the European Monetary Union, which is displayed on web page of the financial informative platform of the company Thomson Reuters: EURIBOR01 (or any other alternative page on which this information may be displayed). For calculation of the yield EURIBOR fixed on the second business day before the interest rate period is commenced will be applied. Should the EURIBOR rate be not fixed 2 business days before the start of the interest rate period, the closest preceding fixed rate for the relevant EURIBOR will be applied.
European Money Market Institute is the administrator of reference rate EURIBOR and as of the date of this Base prospectus it is not registered in registry of ESMA in accordance with the Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds. When the European Money Market Institute will be registered in registry of ESMA, this information will be announced in the next Supplement to this Base prospectus.

"ESMA" - European Securities and Markets Authority.

"Ex-principal date" has been set on 30th day prior to maturity. Par value of the Bond will be paid out only to the Bondholder, who was holder of the Bond as at the end of the business day immediately preceding a date of ex-principal as specified in the List of Bondholders prepared by the CSD.

"Ex-coupon date" has been set on 30th day prior to date the coupon paid. The coupon will be paid out only to the Bondholder who was holder of the Bond as at the end of the business day immediately preceding the ex-coupon date as specified in the List of Bondholders prepared by the CSD.

"LIBOR" is a reference rate in the London interbank market, which is displayed on the web page of financial informative platform of the company Thomson Reuters: LIBOR01 (or any other alternative web site, on which this information is displayed). For calculation of the yield LIBOR fixed on the second business day before the interest rate period is commenced will be applied. Should the LIBOR rate be not fixed 2 business days before the start of the interest rate period, the closest preceding fixed rate for the relevant LIBOR will be applied.
ICE Benchmark Administration Limited is the administrator of reference rate LIBOR and as of date of this Base prospectus it is registered in ESMA registry in accordance with the Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

"Maturity date" is a date when the par value of the Bond will be paid out.

"Margin" means one of the floating rate components, the amount of which has been defined in the Final Terms of the relevant issue.

"MB" is a bond – mortgage bond, of which the par value including yields is duly covered by Bank's receivables from mortgage loans backed by pledge over the property or those with substitute coverage and which carries in its name "mortgage bond".

"Nominal (par) value" is a nominal value of the Bond**.**

"NBS" is the National Bank of Slovakia. The Bank was established on January 1, 1993 based on Act of the NC SR No. 566/1992 Coll. on the National Bank of Slovakia as an independent central bank of the Slovak Republic. The head Office address: Imricha Karvaša 1, 813 25 Bratislava.

“Offering program“ means an offering program of the Issuer with the maximal total amount not higher than EUR 5,000,000,000 of all unpaid Bonds issued within the Program, or equivalent sum in other currency. Program duration, during which VÚB, a.s. may issue individual Bonds issues within Program, is 10 years, until 6 May 2023.

“Period during which the offer will be open“ means a period during which the Issuer or a party appointed by the Issuer may offer the Bonds to potential investors. In compliance with applicable legislation, the offering process may start before the date of issue and end no later than on the last date of the anticipated period of Bond issue.

“PRIBOR“ is a reference rate in the Czech interbank market displayed on the web page of the financial informative platform of the company Thomson Reuters: PRIBOR= (or any other alternative page on which this information may be displayed on the day when the relevant interest rate is determined). For calculation the yields, PRIBOR fixed on the second business day before interest rate period is commenced will be applied. Should the PRIBOR rate be not fixed 2 business days before the start of the interest rate period, the closest preceding fixed rate for the relevant PRIBOR will be applied.
Czech Financial Benchmark Facility, s.r.o. is the administrator of reference rate PRIBOR and as of date of this Base prospectus it is not registered in ESMA registry in accordance with the Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds. When the Czech Financial Benchmark Facility, s.r.o. will be registered in registry of ESMA, this information will be announced in the next Supplement to this Base prospectus.

"Qualified investor" - the meaning of the term is consistent with the meaning attached to it by (i) Section 120 Paragraph 6 of the Act on Securities, for the purpose of the offer in the Slovak Republic and (ii) the relevant national legislation of other member states of the European Union, by which Article 2 Paragraph 1 Clause (e) of the Directive on the Prospectus has been transposed, for the purpose of the offer in another member state of the European Union.

“Reference rate” means an interest rate defined for calculation of the interest income on Bonds bearing the floating rate. If the relevant reference rate has not been determined in the Final Terms, then in Bonds bearing the floating rate and par value denominated euro, the reference rate EURIBOR will apply. In Bonds with floating rate and par value denominated in the Czech koruna, PRIBOR will be applied as a reference rate. In Bonds with floating rate and par value denominated in the US Dollars, LIBOR will be applied as a reference rate Should the issue be denominated in other currency, the reference rate will be indicated in the Final Terms of the issue together with the information on registration of the administrator of reference rate to the registry of ESMA in accordance with the Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

Information specified in this chapter IV. along with the Final Terms will form issue conditions of each individual issue of Bonds, issued within the Program.

V. INFORMATION ABOUT THE PROGRAM

The Bonds will be issued within the Program, the maximal total amount of nominal values of all unpaid Bonds issued within the Program is set at EUR 5,000,000,000 or equivalent sum in other currency. Duration of the Program is 10 years. Program has been approved by Issuer's Supervisory Board on October 24, 2012 and on December 1, 2016 the total amount of the Program was increased from EUR 1,500,000,000 to EUR 5,000,000,000.

The Issuer, adhering to this Base Prospectus shall issue the individual Bonds issues, which are described in Section "IV. INFORMATION ABOUT SECURITIES" herein.

As from the effective date of January 1, 2018, the mortgage banking regime that existed in the Slovak republic until that date has been repealed and replaced by new legislative Act No. 279 dated as of October 12, 2017 which has amended the Act on Banks (hereinafter the „**Amending Act**"). The amending legislation has brought about, among others, the following changes:

- cancelling the obligation for the bank granting mortgage loans to have the license issued from NBS for carrying out mortgage transactions;
- cancelling the obligation for the banks to fund granting of mortgage loans through the issuance and sale of MB;
- new definition of mortgage loan has been launched that includes all loans granted by the banks which are secured by a lien or other security right to residential real estate;
- further issuance of MB as a special type of bonds has been abolished and CB as a new special type of secured bond has been introduced.

Until December 31, 2017 the Bank issued MB within the Program. By adopting the Amending Act the prohibition has been introduced into legislation according to which it is no longer possible to issue MB as a special type of bonds as of January 1, 2018. As from January 1, 2018, only CBs can be issued by the Bank within the Program, while, the Bank must, within the boundaries set forth by the Amending Act, resolve the situation regarding MBs that have been issued but not yet repaid. By using all available means and options set forth in the Amending Act in relation to the existing MB issuances the Bank can fully and thoroughly preserve continuity and inner coherence of activities and processes that are being carried out within the Program during the entire period of its duration. One of the most essential steps for achieving this result is to reconcile and integrate old records of MBs that have been issued and not yet repaid with new records of CBs that would lead to the formation of one universal source of records about all existing and future issuances issued within the Program as well as about all property values that serve as their coverage.

In order to achieve the result mentioned above, the Bank has utilised mechanism regulated under Section 122ya(3) of the Act on Bank which has enabled it to carry out transfer of entries from the register of mortgages to the register of CBs regarding all MBs that were issued prior to January 1, 2018 as well as the mortgage loans provided under the mortgage loan agreements entered into prior to 1 January 2018, including the mortgage loans under Section 72(2) of the Act on Banks (in the wording effective until 31 December 2017), security rights and claims of that Bank arising from the mortgage loans provided under the mortgage loan agreements entered into prior to January 1, 2018 and other property values serving for due coverage of mortgage bonds issued prior to January 1, 2018, provided that the Bank ensures such assets and other property values meet the eligibility criteria for constituting a part of the cover pool pursuant to legal regulations effective after 31 December 2017. After having performed the transfer according to the first sentence, the Bank has carried out deregistration from the register of mortgages and registration to the register of covered bonds to the same date.

After having completed the transfer of entries from the register of mortgages to the register of CBs within the scope of all MBs and all relevant assets and other property values as mentioned above, the Bank has ensured that the Program, despite the essential changes in the present legislation that have been introduced by the Amending Act, still has preserved its inner unity and coherence as far as it concerns the eligible type of securities being issued as well as the ongoing processes and activities related to issuing of such securities and creation of their coverage. Namely, in accordance with Section 122ya(4) of the Act on Banks, all MBs shall be deemed to be CBs pursuant to legal regulations effective after December 31, 2017 as from the date of registration in the register of CBs and the designation „hypotekárny záložný list" as well as the rights and obligations related to the MBs shall remain and not be affected by it. As a consequence of transfer of entries from the register of mortgages to the register of CBs the legal effects anticipated by the Amending Act have been activated in a manner causing reclassification of MBs to CBs without any additional requirements for formal modification of MBs designation as well as without any implications on the rights and obligations related to MBs and related need for the change of Final Terms of issued MBs. By having ensured fulfilment of condition for activating legal effects of reclassification of MBs to CBs the Bank makes it possible to continue in processes and activities related to MBs that have been so reclassified within the framework of the existing Program, in particular, when it comes to creation of their coverage. The Bank has ensured fulfilment of this condition in compliance with the legislative requirements so that it has transferred all entries to new register of CBs that relate to all such assets and other property values which were eligible to constitute coverage of issued MBs prior to the date the Amending Act came into effect and which concurrently meet eligibility criteria for constituting a part of the cover pool under currently applicable Act on Banks. At the same time, in accordance with the requirements set forth by the Amending Act, the Bank publishes on its web domain https://www.vub.sk/sk/informacny-servis/prospekty-cennych-papierov/ data regarding each issuance of MBs that are deemed CBs, including the date as of which they are deemed CBs.

Having regard to all abovementioned facts that give evidence of completion of re-registration process and related activation of legal effects of reclassification of MBs to CBs, all MBs being so re-registered by the Bank, which have been issued within the Program by now on the basis of each previous base prospectus and final terms and which have not yet fallen due, shall, for the purposes of this Base Prospectus, be considered Bonds issued within the Program and they shall be subject to and all rights and obligations arising under the Program shall relate to them to the extent of the provisions set forth in this Base Prospectus. The aggregate notional values of all such re-registered MBs that are considered Bonds shall be counted towards the total volume of the Program. For avoidance of any doubts, a defined term Bond/(s) and any reference thereto in this Base Prospectus shall, concurrently, include also reference to all re-registered MBs in relation to which the effects of reclassification to CBs have occurred, while this rule shall apply for the purposes of all parts and individual provisions of the Base Prospectus in which such term is to be found and which, at the same time, having considered their content, nature, purpose or meaning as used in the context, are, directly or indirectly or expressly or implicitly, related to or connected with the re-registered MBs.

CB as a special type of secured bonds is regulated by the Act on Bonds under Section 20b, the Act on Banks in part 12, the Act on Bankruptcy in part 6 and by five regulations of NBS. According to the Act on Banks CB is a bond the nominal value and aliquot interest income of which are fully covered by assets or other property values in a covered pool under Section 68(1) of the Act on Banks and correspond to the value of assets which, for the whole period of validity of CB, are preferentially intended to satisfy claims arising from this CB and these assets, in case the bank issuing these CBs, is not able to properly and timely pay its liabilities arising from them, will be preferentially used to pay the nominal value of the CB and aliquot interest income. CB can be issued only by a bank and the title must include the words “covered bond”.

CBs can be issued only by the bank that has obtained a prior approval from NBS to carry out activities related to CB programme. With regard to its definition under the Act on Banks, CB programme represents an aggregate of all rights and obligations of the bank issuing CBs that relate to issuing of such bonds and the cover pool, whereas, all individual issuances of CBs with the same type of underlying assets used for covering the obligations of the bank arising under such issuances shall be deemed to constitute one CB programme. CB Programme forms a part of the Program since it is possible to carry out all activities, exercise all rights and fulfil all obligations within the framework of the Program to the same extent as it is possible within the framework of the CB programme.

According to the Act on Banks the cover pool used for covering the obligations related to CBs consists of the following assets and other property values:

- underlying assets,
- additional assets,
- hedging derivatives,
- liquid assets.

The underlying assets consist of the receivables of the bank issuing CBs from mortgage loans with a maturity period not longer than 30 years granted to consumers which are secured by liens to real estate (LTV max. 80 per cent.) and which are registered by the bank in the register of CBs. The underlying assets include, in addition to the receivables of the bank issuing CBs also the liens to real estate used to cover these receivables.

Additional assets consist of assets that meet conditions under Article 129 (1)(c) of Regulation (EU) No. 575/2013 and they can account for not more than 10 % of the total value of the cover pool.

Hedging derivatives registered in the cover pool consist of derivatives, the purpose of which is to manage and mitigate currency risk or interest rate risk connected with issued CBs.

If the bank issuing CBs has not aligned the maturities of positive cash flows and negative cash flows within the CB programme in every moment during the following 180 days then, in order to cover all expected negative cash flows from the CB programme, it is obligated to cover them from a buffer of liquid assets at least in the value of uncovered negative cash flows. The buffer of liquid assets consists of assets of Tier 1 and assets of Tier 2A under Articles 10 and 11 of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions.

The bank issuing CBs shall enter the cover pool, the issued CBs, the related liabilities and costs in the register of CBs. Assets and other property values become a part of the cover pool when registered in a register of CBs and are a part of the cover pool until they are deleted from the register of CBs. Assets and other property values constituting a part of the cover pool are used by the bank issuing CBs preferentially to cover the bank's liabilities registered in the register of CBs and the bank must not dispose of them or use them to secure other liabilities until they are deleted from the register of CBs. The Bank is responsible for the correctness, completeness and timeliness of the data registered in the register of CBs.

When the bank issuing CBs is not able to pay its liabilities from CBs properly and on time, the assets and other property values registered in the register of CBs, including their securities or income from their transfer, shall be preferentially used to pay liabilities from the issued CBs, the estimated liabilities or costs connected with the management of the issued CBs and the liabilities which arise from the hedging derivatives registered in the register of CBs.

The Act on Banks sets out a minimum level of 5 per cent. of over-collateralisation. Coverage ratio is a ratio of the value of the cover pool and the total of the values of related liabilities and costs incurred by the bank issuing CBs. The bank is obligated to calculate the coverage ratio as of the last day of the relevant month and it must keep it continuously at the minimum level of 105 per cent. In individual terms and conditions of the issuance of CBs, the bank can determine a higher coverage ratio than 105 per cent. Then the bank is obligated to maintain such a higher coverage ratio until the full repayment of the relevant issuance of CBs for the entire relevant CB programme. If the bank determines several higher coverage ratios for different issuances of CBs, it is obligated to maintain the highest coverage ratio for the entire relevant CB programme until the full repayment of the issuance of CBs with such highest coverage ratio, while the bank is also obligated to immediately replenish and continuously replenish the cover pool to the extent corresponding to such highest coverage ratio.

The bank shall, at least once per year, carry out stress tests as part of its CB programme in order to identify potential change in compliance with coverage ratio resulting from potential changes in market conditions that might have adverse effect on the coverage ratio. The bank shall perform stress test for a period of the preceding calendar year on or before March 31 of the subsequent calendar year. The bank shall set the stress test parameters in line with the stress test performed to evaluate the appropriateness of the internal capital. The objective of stress tests is to prove that the bank is able to keep the coverage ratio at the minimum level or at the higher level if it has committed to maintain such a higher level in the terms and conditions of the issuance of CBs.

The owners of the Bonds have a preferred security right to assets and other property values constituting the covered pool. The CB programme administrator verifies whether the bank issuing CBs discharges the obligations associated with the CB programme in accordance with legislation currently in place. NBS shall appoint the CB programme administrator and his deputy. Prior to any issue of CBs, the CB programme administrator is required to prepare a written certificate evidencing that coverage of those CBs is secured in accordance with the Act on Banks and that an entry in the register of CBs has been made. NBS supervises the issuer of CBs.

The issuer of CBs shall disclose information regarding:
- the structure of CBs, maturity thereof, the number and volume of the issuances of CBs, the currency thereof and the interest rates thereof,
- the value, type and asset ratio in the cover pool and important changes in it,

- the volume according to the currency of the monetary nominal value, weighted average residual maturity, weighted average interest rate and weighted average value of underlying asset security indicator in the cover pool,
- the proportional geographical distribution of the underlying assets and real estate which secure them and constitute the cover pool,
- other documents and information related to the CB programme.

In order to secure higher protection of claims of owners of CBs arising from CBs, a special legal institution of the transfer of CB programme has been incorporated into the Act on Banks by adoption of the Amending Act which is presumed to be used mostly in special circumstances where the bank issuing CBs is subject to various reorganisation measures taken by competent public authorities in form of initiating forced administration or instigating and maintaining resolution proceedings as well as in case bankruptcy has been declared over the issuing bank's estate. The purpose of using the institution represented by the transfer of CB programme is to secure that owners of CBs, when such special circumstances occur, have preserved, to the highest possible degree, their claims arising from CBs, which they would otherwise have, had none of the named special circumstances occur.

In order to be able to utilise fully the potential of exercising the institution represented by the transfer of CB programme, it is necessary, at first, to inform NBS in writing about the intention to transfer the CB programme. This notification duty must be fulfilled by a receiver appointed to carry out forced administration over the bank issuing CBs or by the bankruptcy trustee considering whether the intention to transfer the CB programme is instigated during the phase of forced administration or after declaration of bankruptcy. Prior to his decision about notification of the intention to transfer the CB programme, a receiver/trustee must assess with due professional care whether or not the further management of the CB programme would result in an overall decrease of satisfaction of the owners of CBs. When carrying out the assessment, a receiver/trustee takes into account the interests and fair satisfaction of all owners of CBs, including creditors under those receivables that fall due on the latest date(s).

If a receiver/trustee assesses that the further management of the CB programme would result in an overall decrease of satisfaction of the owners of CBs, he is obligated to proceed in collaboration with the administrator of CB programme and to inform NBS on the intention to transfer the CB programme to a third party. Only one or more banks authorized to perform activities related to the CB programme may acquire the CB programme. A prior approval from NBS is required for the transfer of CB programme, including the conclusion of a contract of the transfer of CB programme between the relevant transferor and transferee. The CB program shall be transferred for an adequate consideration within one year of the date of delivery of the notice of a receiver/trustee to NBS on the intention to transfer the CB programme. NBS, at the request of a receiver/trustee, can issue a decision on the extension of this period by not more than one year within one month before such period expires, where it can be reasonably assumed that a later transfer of CB programme will lead to achievement of a higher level of satisfaction of debts owed to the owners of CBs.

The validity and effect of the transfer of CB programme is subject neither to the consent of the owners of CBs under the Act on Bonds concerning the change of the terms and conditions of issuance of CBs represented by the change in a person of an issuer of CBs resulting from the transfer of CB programme nor to the consent of the debtors from liabilities corresponding to the receivables constituting underlying assets in the cover pool of the issued CBs. The exception to this rule is represented by the case where the transfer of CB programme is carried out outside the forced administration or bankruptcy proceedings; in such case only the consent of the owners of CBs with the change of the terms and conditions of issuance of CBs is required in relation to the validity and effect of the transfer of CB programme. The provisions on the sale of an enterprise or a part of it as set forth in the Commercial Code shall apply to the transfer of CB programme, however, in order to transfer the CB programme, it is not required to transfer whole or a part of personal element of business (i.e. employees of a transferor bank) and after the transfer of CB programme the creditor of the transferor bank (i.e. any owner of CBs) shall not request a judicial ruling that the transfer of an obligation from the seller to the buyer be ineffective if such obligation against the creditor constitutes a part of the transfer of CB programme. The transfer of CB programme is registered in a commercial register as other fact on the basis of an application submitted by a receiver/trustee immediately after the transfer of CB programme.

The most essential feature of the mechanism introduced through the application of an institution represented by the transfer of CB programme is that there is no suspension in relation to satisfaction of the claims of owners of CBs to be paid interest income from CBs within the original maturities during the whole (maximum 2 years) period for the transfer of CB programme, regardless of the fact whether the transfer is being carried out as part of the forced administration or bankruptcy. Apart from that, in relation to each individual issuance of CBs where its original maturity expires during the period for the transfer of CB programme, the owners of CBs take advantage of additional income that is generated from payment of interest income for the whole period by which the original maturity of such issuance is extended. This mechanism seeks to partially compensate the owners of CBs for being restricted to exercise their rights related to CBs due to suspension in payment of the principal amount of CBs resulting from the extension of original maturities of issuances that expire during the period for the transfer of CB programme.

The original maturity shall be extended by a period of twelve months in relation to the issuances of CBs the residual maturity of which is shorter than eleven months during the period from the second until the twelfth month since the day of the delivery of a notice of a receiver/trustee to NBS on the intention to transfer the CB programme. In relation to the issuances mentioned in the preceding sentence the original maturity is extended by another twelve months if a receiver/trustee delivers a notice to NBS on the extension of the period for the transfer of CB programme for another twelve months and NBS approves such extension. If the residual maturity of the issuance of CBs is shorter than twelve months during the additional twelve months period for the transfer of CB programme, the original maturity of such issuance shall be extended by a period of twelve months. The payments of interest income from CBs are being continuously paid in full amount to the owners of CBs during all extended maturity periods of individual issuances mentioned above, while, original terms of payment of yield, including the method of its calculation, shall equally apply during the relevant extended maturity period. The only exception as to the suspension of payment of the principal amount of CBs during the period for the transfer of CB programme applies in case where the original maturity of a relevant issuance of CBs expires on any day within the first month since the day of the delivery of a notice of a receiver/trustee to NBS on the intention to transfer the CB programme. In such case, all debts owed under CBs are paid to the owners of CBs within original maturities, including the debts in full amount corresponding to the payment of the principal amount of CBs as well as those corresponding to the payment of interest income from CBs.

Another important feature of the institution represented by the transfer of CB programme is that neither acceleration and early repayment of debts owed by the bank towards the owners of CBs nor acceleration of any other liabilities of the bank related to the CB programme are being triggered at the moment bankruptcy is declared over the estate of a bankrupt bank issuing CBs nor during the whole (maximum 2 years) period for the transfer of CB programme. Instead of immediate acceleration, time delay for fulfilment of liabilities applies to the debts owed by the bank towards the owners of CBs in respect of payment of the principal amount of CBs in accordance with the rules set forth in the preceding paragraph. As regards the debts owed by the bank towards the owners of CBs in respect of payment of interest income from CBs, such debts are discharged with immediate effect within their original maturities in compliance with the abovementioned rules. Acceleration and early repayment of debts owed by the bank towards the owners of CBs are triggered as of the date the trustee terminates the operation of the bankrupt bank's business after declaration of bankruptcy which generally follows immediately after the trustee has failed to ensure realisation of the bankrupt bank's assets via transfer of CB programme.

As an alternative to the transfer of CB programme, the trustee of the bank issuing CBs can utilise other options for realisation of assets. If the trustee fails to manage realisation of assets via transfer of CB programme, he is entitled, in the course of the operation of the bankrupt bank's business, to realise the receivables arising under mortgage loans included in the assets of the cover pool via transfer of such receivables for remuneration. These receivables may be realised only via transfer of such receivables for remuneration to a third party as a transferee that may be only a bank, foreign bank, branch of a foreign bank or other creditor under the Act on Residential Loans. Similarly, these receivables become immediately due as of the date the trustee terminates the operation of the bankrupt bank's business after declaration of bankruptcy.

If the bankrupt entity is a bank issuing CBs, the owners of CBs issued by that bank represent the group of secured creditors. These secured creditors shall have a preferred right to have their claims arising under CBs satisfied via realisation of the assets belonging to a separate part of the bankrupt bank's estate. The separate part of the bankrupt bank's estate for these secured creditors shall be comprised of assets and other property values serving for the coverage of issued CBs and, at the same time, also for securing the claims of owners of CBs against such bank. All these assets and other property values are part of the cover pool of issued CBs, including also receivables from mortgage loans and liens to real estate securing the claims under mortgage loans serving for the coverage of the issued CBs.

The Issuer may, within the framework of the Program, issue the Bonds upon public offer or exception from public offer assigned under the Act on Securities to one or several investors with registered office in the Slovak Republic or abroad. The terms of each specific issue will be specified in the Final Terms.

The Bonds will be issued in book-entered bearer form. The Bonds will be issued repeatedly, in form of independent issues. Each issue will consist of securities which are identical in all aspects, i.e. the Bonds making up one issue will be mutually substitutable.

VÚB, a. s., will issue the Bonds to those beneficiaries, who have paid as of the date of purchase the issue price and aliquot portion of interest income on the Bond (proportional pro-rate amount of interest income). The price for the beneficiary will be set as multiple of the issue price, number of Bonds units and nominal value of Bonds, including pro rata amount of the interest income (AUV), calculated over the entire period of the primary sale, starting as at the date of issue, unless otherwise stipulated in the Final Terms.

If the issue is not executed via public offer, the Issuer will not determine method and time for publishing the results of the Bonds offer. If the issue is executed via public offer the date and method of publishing the results will be indicated in the Final Terms of specific issue.

The yields or nominal value repaid will be always taxed pursuant to legal regulations applicable of the payment date.

A reference whether the Issuer will /will not file request for admission of the Bonds issue on the regulated BSSE market or other regulated market with indication of the market shall be specified in the Final Terms of a specific issue.

VI. FORM OF FINAL TERMS

The specimen of "Final Terms" of Bonds issue will be prepared and published for each specific Bond issue issued within the Program before the issue date.

Specific conditions for each issue issued within the Program will be inserted in the Final Terms form. In addition to details specified below, other information as indicated in Attachment XXI to the Directive may be included in the *Final Terms. Should any of the information in the specimen be irrelevant for a specific issue, the note "Non applicable" shall be inserted. The text in this section stated in Italics does not form part of the Final Terms and has* only supplem*entary and clarifying function. The symbol (●) indicates the sections of the Final Terms to be* completed. The words in the Final Terms starting with capital letter shall have the meaning as defined in the Base Prospectus. *The note "Selected alternative specified in the Base Prospectus"* attached to the informative item, *means that the given detail is specified in the Base Prospectus, Section "IV. INFORMATION ABOUT SECURITIES"* with respect to specific item in several alternatives and the alternative(s) relevant for the given issue will be specified in the Final Terms either by repeating the selected alternative or by effect of reference made to relevant part of the Base Prospectus with indication to the selected alternative.

Všeobecná úverová banka, a.s.

FINAL TERMS

date (●)

Issue (name of issue)
ISIN (ISIN code)
Aggregate principal amount (issue amount)
Maturity (date)

issued within Offering program for Bonds in the maximum volume of unpaid bonds amounting to EUR 5 000 000 000 with program duration 10 years

The National Bank of Slovakia, by its resolution (●) dated (●) approved to the Issuer, Všeobecná úverová banka, a.s., registered office: Mlynské nivy 1, 829 90 Bratislava, CRN: 31 320 155, registered in the Register of Companies of District Court Bratislava I, section: Sa, file no. 341/B (hereinafter "VÚB, a.s.", "Issuer" or "Bank"), the Base Prospectus of June 6, 2018, which contains common information about the Bonds, and highlights information to be supplemented in Final Terms of specific issues, issued by the Issuer within the Program.

Final Terms have been prepared for purposes of Directive 2003/71/EC, art. 5 para. 4 and shall be interpreted in connection with the Base Prospectus including Supplements as may be later attached to, which is published and made available free of charge in writing at Issuer's registered office: Mlynské nivy 1, 829 90 Bratislava, Department: Balance Sheet Management and on Issuer's website: http://www.vub.sk/informacny-servis/prospekty-cennych-papierov/. Summary of a specific issue is attached to the Final Terms. This document covers key information for investors. To acquire complete information about the Issuer and Bonds offer, the Final Terms should be read together with the Base Prospectus including Supplements as later attached to. Potential investors should pay attention to section „II. RISK FACTORS" of the Base Prospectus. The potential investors should thoroughly consider risk factors indicated in the above section and other investment aspects before taking decision on investment in Bonds.

In event of any conflict in interpreting between the Base Prospectus and Final Terms, the provisions of Final Terms will prevail, however, without prejudice to wording of the Base Prospectus related to any other Bond issue issued within the Program.

Neither Final Terms nor issue of Bonds have been approved or registered by any administration or self-governance body of any jurisdiction. The above documents have been executed in compliance with legal regulations of the Slovak Republic. With respect to some jurisdictions, distribution of the Final Terms and sale, purchase or offer of the Bonds may be limited by legal regulations. Potential investors, who have obtained these Final Terms, should seek the information about the restrictions and follow them.

1. Basic Information

1.1. Interest of natural persons and legal entities in the issue / offer

Interest of natural persons and legal entities in the issue / offer	(●)

1.2. Reason of Offer and use of proceeds

Estimated costs and use of proceeds	(●)

2. INFORMATION ON SECURITIES TO BE OFFERED / ADMITTED TO TRADING

Name of Bond	(●)
Nominal value	(●)
Aggregate principal amount	(●)
ISIN	(●)
Depository	(●)
Issue currency	
Nominal interest rate	(●) Selected alternative specified in the Base Prospectus
Date, from which the yield becomes payable	(●)
The due dates of yield	(●)
Where the rate is not fixed	
Description of the underlying base from which the rate is derived	(●) / Not applicable
Method upon which the type and description of the underlying base were correlated	(●) / Not applicable
Maturity date	(●)

Payments, redemption and early repayment options	(●) Selected alternative specified in the Base Prospectus
An indication of yield	(●)
Method of yield calculation (convention)	(●) Selected alternative specified in the Base Prospectus
Declaration regarding resolutions, permits and approvals	(●)
Issue Date	(●)

3. TERMS AND Conditions of THE Offer

3.1. Conditions, offer statistics, expected schedule and action required to apply for the offer

Conditions, which the offer is subject to	(●)
Total amount of the issue /offer if not fixed, indication of a method and date of its announcement to public	(●)
Period during which the offer will be open and anticipated issue period	(●)
Description of options to reduce the subscription and method of refunds of overpayments	(●) / Not applicable
Details on minimal and / or maximal investment amount	(●)
Method and date of disbursement and crediting the securities	(●)
Method and date of publishing the offer results	(●)

3.2. Plan of distribution and allotment

The various categories of potential investors to which the securities are offered	(●) Selected alternative specified in the Base Prospectus
Indication of the issue, which has been concurrently traded in the markets of two or more countries and the issue has been / or is reserved for one of them	(●) / Not applicable

3.3. Pricing

Expected price at which the securities will be offered	(●)
Total costs and taxes separately charged to the subscriber	(●) / Not applicable

3.4. Placing and underwriting

Name and address of the coordinator(s) of the overall offer and of its individual parts / possibly parties arranging placements in different countries	(●) / Not applicable
Name and address of entities with whom the subscription of issue has been agreed on upon firm commitment or without it or on “best effort basis“. Basic details of agreements, including quotas. Declaration regarding non-covered part, commission amount	(●) / Not applicable
Date when the underwriting agreement has been or will be achieved	(●) / Not applicable

4. ADMISSION TO TRADING AND DEALING CONTRACTS

Trading on Stock Exchange	(●) Selected alternative(s) indicated in the Base Prospectus with specified market, if relevant
Date on which the securities will be admitted for trading	(●) / Not applicable
Markets, on which the Bonds are already admitted for trading	(●)

5. ADDITIONAL INFORMATION

Consultants related to issue and their roles	(●) / Not applicable

VII. IMPORTANT NOTICE

The Base Prospectus is prepared in compliance with the relevant provisions of Act No. 566/2001 Coll. on securities and investment services as amended (hereinafter "**Act on Securities**"), Act No. 530/1990 Coll. on bonds as amended (hereinafter "**Act on Bonds**") and Act No. 483/2001 Coll. on banks as amended by later legal regulations (hereinafter "**Act on Banks**"), in compliance with Commission Regulation (EC) No 809/2004, implementing Directive 2003/71/ES of the European Parliament and the Council (hereinafter "**Directive on the Prospectus**") as regards information contained in prospectus as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (hereinafter "**Regulation**").

This Base Prospectus alone or in connection with any Final Terms and/or eventual Supplement to the Base Prospectus must not be used in relation to offer for purchase of any bonds other than Bonds of individual issues issued within Program.

The Base Prospectus alone or in connection with any Final Terms and/or eventual Supplement to the Base Prospectus must not be used in relation to offer for purchase of any bonds other than Bonds of individual issues issued within Program or any other Bonds, where such offer is prohibited under the law or other generally binding legal regulation. The Base Prospectus spreading and offer, sale or purchase of Bonds of individual issues issued within Program are restricted by the law in certain countries. Bonds will not be registered, upon Issuer's request, elsewhere than in the Central Securities Depository of the Slovak Republic (hereinafter "**CSD**") and the Base Prospectus will not be subject to approval by any administrative or other authority of any legal order other than NBS in the Slovak Republic. Bonds of individual issues issued within Program will particularly not be registered in compliance with Act on Securities of the United States of America as of 1933 and must not be offered or distributed in the United States of America or to persons residing in the United States of America. Persons who receive this Base Prospectus are responsible for the observance of restrictions which apply in individual countries to the offer, purchase or sale of Bonds or possession and distribution of any material relating to Bonds.

Issuer has not approved any other declaration or information about Program, Issuer or Bonds than information provided herein, Supplements hereto or Final Terms. No other declaration or information can be relied on as on declaration or information approved by Issuer. Unless otherwise provided, all the information provided herein are provided to the date of preparation hereof. Submitting or other form of making Base Prospectus available after the date of preparation thereof does not mean that information and declarations made therein are correct as of any moment after the date of preparation thereof. The indicated information may be amended or supplemented in the future by Supplements.

Only Issuer is liable for obligations following from Bonds, no third person is liable for or guarantees the performance of obligations following from Bonds.

The Base Prospectus including later Supplements thereto, as well as Final Terms and Summary of a specific issue may be translated to English or other languages. In the event any interpretation disputes arise between different language versions, the Slovak version shall prevail.

In compliance with MiFID II legislation, and in continuity with MiFID I, VÚB, a.s. when executing orders on behalf of their clients is doing its utmost to ensure that a client order in relation to financial instruments is executed in the best possible manner. The aim of the Bank is to carry out activities related to the reception, transmission and execution of a client order efficiently, taking into account the preferences and profile of the client with the aim to achieve the best possible result for him/her.

In accordance with sec 73o and onwards of the Act on Securities and in accordance with Commision Delegated Regulation (EU) 2017/565, the Bank has adopted the Best Execution Policy under MiFID II (hereinafter referred to as "the Policy"). The Bank continuously monitor and control the efficiency of the adopted Policy and the subsequent quality of the execution of orders with the aim to identify and eliminate any imperfections. At least once a year the Bank reviews the efficiency of the Policy, including questions as to whether the execution venues listed in the Policy allow the Bank to achieve the best possible result for the client and whether it is necessary to make changes in its measures related to the execution of orders.

For The Policy currently valid please visit our webpage www.vub.sk, section About Bank, part Mission and values – Investor protection.

VIII. ANNEXES

Interim individual financial statements for three months ended 31 March 2018 prepared in compliance with the International Accounting Standard IAS 34 Interim Financial Reporting.

VÚB BANKA

Interim separate financial statements
for 3 months ended 31 March 2018

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

Contents

VÚB BANKA

Separate statement of financial position as at 31 March 2018
(In thousands of euro)

	Note	Mar 2018	Dec 2017
Assets			
Cash, balances at central banks	7	1,742,457	1,595,078
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		45,664	-
Non-trading financial assets mandatorily at fair value through profit or loss		900	-
Derivatives – Hedge accounting	9	19,114	-
Financial assets at fair value through profit or loss	8	-	5,783
Derivative financial instruments	8, 9	-	49,856
Financial assets at fair value through other comprehensive income	10	868,041	-
Available-for-sale financial assets	10	-	520,416
Held-to-maturity investments	10	-	376,472
Financial assets at amortised cost:	11		
Due from other banks		124,949	90,744
Due from customers		11,816,996	11,487,518
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	685	-
Investments in subsidiaries, joint ventures and associates	13	38,204	92,745
Property and equipment	14	110,934	111,512
Intangible assets	15	77,075	74,882
Goodwill	16	18,871	-
Current income tax assets	17	13,735	5,813
Deferred income tax assets	17	44,402	38,626
Other assets	18	20,100	19,848
		14,942,127	14,469,293
Liabilities			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		28,661	-
Derivatives – Hedge accounting	9	17,566	-
Derivative financial instruments	8, 9	-	52,184
Financial liabilities at amortised cost:	11		
Due to banks		447,905	449,815
Due to customers		10,223,411	9,855,433
Subordinated debt		200,161	200,164
Debt securities in issue		2,246,469	2,252,380
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	(459)	-
Current income tax liabilities	17	908	-
Provisions	19	21,771	27,083
Other liabilities	20	222,966	76,254
		13,409,359	12,913,313
Equity			
Equity (excluding net profit for the period)	23	1,475,041	1,395,959
Net profit for the period		57,727	160,021
		1,532,768	1,555,980
		14,942,127	14,469,293
Financial commitments and contingencies	24	3,766,930	3,642,125

The accompanying notes on pages 7 to 87 form an integral part of these financial statements.

VÚB BANKA

Separate statement of profit or loss and other comprehensive income for three months ended 31 March 2018 (In thousands of euro)

	Note	Mar 2018	Mar 2017
Interest and similar income		99,567	91,646
Interest and similar expense		(11,956)	(11,680)
Net interest income	25	87,611	79,966
Fee and commission income		36,612	35,774
Fee and commission expense		(6,863)	(11,650)
Net fee and commission income	26	29,749	24,124
Net trading result	27	25,354	6,450
Other operating income	28	1,272	1,041
Dividend income		2,000	2,000
Operating income		145,986	113,581
Salaries and employee benefits	29	(30,754)	(26,218)
Other operating expenses	30	(28,102)	(26,595)
Special levy of selected financial institutions	31	(6,397)	(5,948)
Amortisation	15	(2,754)	(2,186)
Depreciation	14	(2,156)	(2,363)
Operating expenses		(70,163)	(63,310)
Operating profit before provisions and impairment		75,823	50,271
Provisions	32	3,833	9,965
Impairment losses	33	(6,588)	(9,094)
Profit before tax		73,068	51,142
Income tax expense	34	(15,341)	(10,802)
NET PROFIT FOR THREE MONTHS		57,727	40,340
Other comprehensive income for three months, after tax:	35		
Items that may be reclassified to profit or loss in the future:			
Net gain on cash flow hedges		72	71
Net loss on financial assets at fair value through other comprehensive income		(16,633)	-
Net loss on available-for-sale financial assets		-	(1,841)
Exchange difference on translating of foreign operations		(211)	-
Other comprehensive income for three months, net of tax		(16,772)	(1,770)
TOTAL COMPREHENSIVE INCOME FOR THREE MONTHS		40,955	38,570
Basic and diluted earnings per € 33.2 share in €		3.91	3.11

The accompanying notes on pages 7 to 87 form an integral part of these financial statements.

Separate statement of changes in equity for three months ended 31 March 2018
(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Property and equipment	Financial assets at fair value through other compre-hensive income	Available-for-sale financial assets	Cash flow hedges	Trans-lation of foreign operation	Total
At 1 January 2017	430,819	13,719	87,493	908,926	-	-	4,055	(840)	2	1,444,174
Total comprehensive income for three months, net of tax	-	-	-	40,340	-	-	(1,841)	71	-	38,570
Exchange difference	-	-	-	2	-	-	-	-	(2)	-
Transactions with owners, recorded directly in equity										
Dividends to shareholders	-	-	-	(72,020)	-	-	-	-	-	(72,020)
At 31 March 2017	430,819	13,719	87,493	877,248	-	-	2,214	(769)	-	1,410,724
At 31 December 2017	430,819	13,719	87,493	997 059	21,700	-	4,442	538	210	1,555,980
Impact of adopting IFRS 9	-	-	-	(30,078)	-	44,516	(4,442)	-	-	9,996
At 1 January 2018	430,819	13,719	87,493	966,981	21,700	44,516	-	538	210	1,565,976
Total comprehensive income for three months, net of tax	-	-	-	57,727	-	(16,633)	-	72	(211)	40,955
Business combinations (note 2.2)	-	-	-	69,449	210	-	-	-	-	69,659
Exchange difference	-	-	-	203	-	-	-	-	-	203
Transactions with owners, recorded directly in equity										
Dividends to shareholders	-	-	-	(144,025)	-	-	-	-	-	(144,025)
At 31 March 2018	430,819	13,719	87,493	950,335	21,910	27,883	-	610	(1)	1,532,768

The accompanying notes on pages 7 to 87 form an integral part of these financial statements.

VÚB BANKA

Separate statement of cash flows for three months ended 31 March 2018
(In thousands of euro)

	Note	Mar 2018	Mar 2017
Cash flows from operating activities			
Profit before tax		73,068	51,142
Adjustments for:			
Amortisation		2,754	2,186
Depreciation		2,156	2,363
Unrealised (profit)/loss from trading		(5,674)	(8,026)
Interest income		(99,567)	(91,646)
Interest expense		11,956	11,680
Dividend income		(2,000)	(2,000)
Sale of intangible assets and property and equipment		35	-
Impairment losses and similar charges		10,139	1,528
Interest received		106,066	100,002
Interest paid		(12,550)	(16,890)
Dividends received		2,000	2,000
Tax paid		(28,131)	(11,266)
Increase in financial assets at fair value through profit or loss		(12,249)	-
Decrease in derivatives – hedge accounting (assets)		2,781	-
Increase in financial assets at fair value through profit or loss		-	(1)
Decrease in derivative financial instruments (assets)		-	797
Decrease in financial assets at fair value through other comprehensive income		45,807	-
Decrease in available-for-sale financial assets		-	496,439
Financial assets at amortised cost:			
(Increase)/Decrease in due from other banks		(10,062)	25,825
Increase in due from customers		(250,776)	(270,029)
Decrease in other assets		1,761	2,315
Decrease in financial liabilities at fair value through profit or loss		(8,881)	-
Increase in derivatives – hedge accounting (liabilities)		2,924	-
Decrease in derivative financial instruments (liabilities)		-	(30,199)
Financial liabilities measured at amortised cost:			
(Decrease)/Increase in due to banks		(12,000)	28,738
Increase in due to customers		367,153	335,247
Decrease in other liabilities		(14,155)	(4,478)
Net cash (used in)/used from operating activities		172,555	625,727
Cash flows from investing activities			
Repayments of held-to-maturity investments		-	147,281
Purchase of intangible assets and property and equipment		(348)	(1,288)
Disposal of intangible assets and property and equipment		8	-
Net cash used from/ (used in) investing activities		(340)	145,993
Cash flows from financing activities			
Proceeds from issue of debt securities		-	250,000
Repayments of debt securities in issue		-	(40,000)
Net cash used from/ (used in) financing activities		-	210,000
Net change in cash and cash equivalents		172,215	981,720
Cash and cash equivalents at the beginning of the period	6	1,620,121	1,065,653
Cash and cash equivalents at 31 March	6	1,792,336	2,047,373

The accompanying notes on pages 7 to 87 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 31 March 2018, the Bank had a network of 229 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2017: 236). The Bank also has one branch in the Czech Republic (31 December 2017: 1).

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 31 March 2018, the members of the Management Board are Alexander Resch (Chairman), Antonio Bergalio, Peter Magala, Peter Novák, Martin Techman, Roberto Vercelli and Andrej Viceník.

At 31 March 2018, the members of the Supervisory Board are Ezio Salvai (Chairman), Ignacio Jaquotot (Vice Chairman), Luca Finazzi, Paolo Sarcinelli, Christian Schaack, Andrej Straka and Róbert Szabo.

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 financial assets held for trading, non-trading financial assets mandatorily at fair value through profit or loss, financial assets designated at fair value through profit or loss, financial assets at fair value through other comprehensive income derivatives – hedge accounting, property and equipment under revaluation model, financial liabilities held for trading (31 December 2017: available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial instruments and buildings and land in property and equipment) 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. Summary of significant accounting policies (continued)

2.2 Business Combinations

On 11 December 2017, VUB as the sole shareholder of VÚB Factoring, a. s. decided to merge VÚB Factoring, a. s. without liquidation into itself as the successor company as at 1 January 2018.

As of the acquisition date, the Bank recognised these identifiable assets acquired and the liabilities assumed from merge with the subsidiary VÚB Factoring, a. s.:

€ '000	**1 January 2018**
Assets	
Financial assets at amortised cost:	
Due from customers	75,397
Intangible assets	13
Current income tax assets	35
Deferred income tax assets	39
Other assets	140
	75,624
Liabilities	
Other liabilities	10,077

On 11 December 2017, VUB as the sole shareholder of Consumer Finance Holding, a. s. and VÚB Leasing, a. s. decided to merge Consumer Finance Holding, a. s. without liquidation and to divide it into VUB and VÚB Leasing, a. s. as successor companies as at 1 January 2018.

As of the acquisition date, the Bank recognised these identifiable assets acquired and the liabilities assumed from merge with the subsidiary Consumer Finance Holding, a. s.:

€ '000	**1 January 2018**
Assets	
Cash, balances at central banks	9
Financial assets at amortised cost:	
Due from other banks	157
Due from customers	264,238
Investments in subsidiaries, joint ventures and associates	4,575
Property and equipment	1,590
Intangible assets	4,574
Goodwill	18,871
Current income tax assets	3,063
Deferred income tax assets	13,809
Other assets	1,831
	312,716
Liabilities	
Financial liabilities at amortised cost:	
Due to banks	10,345
Provisions	38
Other liabilities	6,765
	17,226

2. Summary of significant accounting policies (continued)

2.3 Changes in accounting policies and presentation

In these financial statements, the Bank has applied IFRS 9 Financial Instruments, effective for annual periods beginning on or after 1 January 2018, for the first time (note 2.3.1,).

The Bank changed the presentation of net creation of provisions for financial guarantees and commitments from ‘Impairment losses’ and provisions for litigations and other provisions from ‘Other operating expenses’ to the separate line ‘Provisions’ in the statement of profit or loss and other comprehensive income. Also presentation of provisions to financial guarantees and commitments in the statement of financial position was changed. These are presented in ‘Provisions’, before were presented in ‘Other liabilities’. The comparatives were restated.

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

2.3.1 IFRS 9 Financial Instruments

This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting until the standard resulting from the International Accounting Standards Board’s project in macro hedge accounting is effective.

Although the permissible measurement bases for financial assets – amortised cost (‘AC’), fair value through other comprehensive income (‘FVOCI’) and fair value through profit or loss (‘FVTPL’) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in other comprehensive income (‘OCI’). These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking expected credit loss (‘ECL’) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Definition of default

Under IFRS 9, the Bank consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligations to the Bank.

The Bank consider both quantitative and qualitative indicators when assessing whether a borrower is in default.

2. Summary of significant accounting policies (continued)

Significant increase in credit risk

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default as at the reporting date with the remaining lifetime probability of default for this point in time that was estimated on initial recognition of the exposure.

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) 2017/2395 amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms ('CRR') as regard transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, integrating the CRR with Article 473 "Introduction of IFRS 9". The new Article allows Banks to re-introduce in their Common Equity Tier 1 ('CET 1') a decreasing quota of the impact of IFRS 9 in a five year transitional period (2018 – 2022). That amount shall be determined using the static approach which will be adopted by the Bank. It refers only to the impact of First Time Adoption ('FTA') resulting from the comparison of IAS 39 impairments as at 31 December 2017 and IFRS 9 impairments as at 1 January 2018 – including both performing loans classified in Stages 1 and 2 and adjustments to non-performing loans (Stage 3) – to which is applied a decreasing factor (95% for 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022) to set the amount to be included in CET 1. The static transitional approach is not applicable to the changes in valuation reserves deriving from re-classification of financial instruments during FTA (impact resulting from classification and measurement).

Furthermore, under paragraph 7 of Article 473 of the CRR regulation, Group companies adopting the transitional approach shall update calculation of the following components relevant to the determination of supervisory capital requirements, so as to avoid inappropriate benefits:

- deferred tax assets deducted from CET 1 relating to Standard and Internal ratings-based ('IRB') exposures;
- determination of Exposure At Default ('EAD') using the scaling factor to assess the Risk Weighted Assets of Standard exposures;
- Tier 2 elements relating to IRB weighted exposures.

When initially applying IFRS 9, the Bank chose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of those of IFRS 9.

IFRS 7 does not require disclosure of the line item amounts that would have been reported in accordance with the classification and measurement requirements of IFRS 9 for prior periods and IAS 39 for current period. Accounting policies for comparative period were disclosed within last period financial statements. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are described below.

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Loans and advances to banks and customers that were measured under amortized cost under IAS 39, are also generally measured at amortized cost under IFRS 9;
- Debt securities that were classified as available-for-sale under IAS 39 are generally measured at FVOCI;
- Held to maturity investments that were measured under amortized cost under IAS 39 are reclassified and measured at FVOCI;
- Trading portfolio and hedging derivatives, which are measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.

2. Summary of significant accounting policies (continued)

This table shows the impact of the application IFRS 9 to the separate statement of financial position assets part as at 1 January 2018:

€ '000				Remeasurement		
IAS 39 classification	IFRS 9 classification	IAS 39 measu-rement	Reclas-sification	Expected credit losses	Other	IFRS 9 measu-rement
Assets	**Assets**					
Cash and balances with central banks	Cash, balances at central banks	1,595,078	-	-	-	1,595,078
Due from banks	Financial assets at amortised cost: due from banks	90,744	-	(482)	-	90,262
Financial assets at fair value through profit or loss		5,783	(5,783)	-	-	-
	Financial assets at fair value through profit or loss: Financial assets held for trading	-	4,933	-	-	4,933
	Financial assets at fair value through profit or loss: Non-trading financial assets mandatorily at fair value through profit or loss	-	850	-	-	850
Derivative financial instruments		49,856	(49,856)	-	-	-
	Financial assets at fair value through profit or loss: Financial assets held for trading	-	25,491	-	-	25,491
	Derivatives – Hedge accounting	-	24,365	-	-	24,365
Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	520,416	-	(178)	178	520,416
Loans and advances to customers	Financial assets at amortised cost: due from customers	11,487,518	2,433	(38,831)	-	11,451,120
	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	(2,433)	-	-	(2,433)
Held-to-maturity investments	Financial assets at fair value through other comprehensive income	376,472	-	(49)	50,548	426,971
Subsidiaries, associates and joint ventures	Investments in subsidiaries, joint ventures and associates	92,745	-	-	-	92,745
Intangible assets	Intangible assets	74,882	-	-	-	74,882
Property and equipment	Property and equipment	111,512	-	-	-	111,512
Current income tax assets	Current income tax assets	5,813	-	-	-	5,813
Deferred income tax assets	Deferred income tax assets	38,626	-	7,996	(10,652)	35,970
Other assets	Other assets	19,848	-	(32)	-	19,816
		14,469,293	-	(31,576)	40,074	14,477,791

2. Summary of significant accounting policies (continued)

This table shows the impact of the application IFRS 9 to the separate statement of financial position the liabilities and equity part as at 1 January 2018:

€ '000 IAS 39 categories	IFRS 9 categories	IAS 39 measu-rement	Reclas-sification	Remeasurement Expected credit losses	Remeasurement Other	IFRS 9 measu-rement
Liabilities	**Liabilities**					
Due to central and other banks	Financial liabilities measured at amortised cost: due to banks	449,815	-	-	-	449,815
Derivative financial instruments	Financial liabilities held for trading	52,184	-	-	-	52,184
Due to customers	Financial liabilities measured at amortised cost: due to customers	9,855,433	(30)	-	-	9,855,403
	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	30	-	-	30
Subordinated debt	Financial liabilities measured at amortised cost: subordinated debt	200,164	-	-	-	200,164
Debt securities in issue	Financial liabilities measured at amortised cost: debt securities in issue	2,252,380	-	-	-	2,252,380
Provisions	Provisions	7,302	19,781	(1,498)	-	25,585
Other liabilities	Other liabilities	96,035	(19,781)	-	-	76,254
		12,913,313	-	(1,498)	-	12,911,815
Equity	**Equity**					
Equity (excluding net profit for the year)	Equity (excluding net profit for the year)	1,395,959	-	(30,078)	40,074	1,405,955
Net profit for the year	Net profit for the year	160,021	-	-	-	160,021
		1,555,980	-	(30,078)	40,074	1,565,976
		14,469,293	-	(31,576)	40,074	14,477,791

2. Summary of significant accounting policies (continued)

2.4 Segment reporting

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

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

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

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.

2.5 Foreign currency transactions

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

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

2.6 Foreign operations

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

2.7 Cash and cash equivalents

For the purpose of the statement of cash flow, 'Cash and cash equivalents' comprise 'Cash, balances at central banks' and due from banks with contractual maturity of less than 90 days reported under 'Financial assets at amortised cost: due from banks'.

2.8 Cash, balances at central banks

'Cash, balances at 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. Summary of significant accounting policies (continued)

2.9 Financial instruments

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are recognised in off balance sheet on the trade date, i. e. the date when the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets and liabilities are recognised on value date when funds are transferred.

Classification of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms into measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the Solely Payments of Principal and Interest test ('SPPI test'). 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured mandatorily at fair value through profit or loss.

Financial liabilities are measured at amortised cost or at fair value through profit or loss. The Bank classifies and measures derivative financial instruments and trading portfolio at fair value through profit or loss. The Bank may designate financial instruments not held for trading as at fair value through profit or loss, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Initial and subsequent measurement of financial instruments

Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price .

After initial recognition, Bank measures a financial assets and financial liabilities in accordance to the classification at fair value through profit or loss (note 2.9.1), fair value through other comprehensive income (note 2.8.2) or at amortised cost (note 2.9.3).

Reclassification of financial instruments

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

2. Summary of significant accounting policies (continued)

Derecognition of financial instruments due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the factors such as change in currency of the loan, introduction of an equity feature, change in counterparty, whether the modification is such that the instrument would no longer meet the SPPI criterion.

Derecognition other than due to substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

If expectations regarding the cash flows on the financial asset are revised due to credit risk of the borrower the adjustment is booked as negative adjustment to the carrying amount of the asset in the balance sheet with a reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement to compensate decreased interest income.

Renegotiations due to commercial reasons are treated as derecognition, without booking any modification gain or loss.

2.9.1 Financial assets and liabilities at fair value through profit or loss

'Financial assets and liabilities at fair value through profit or loss' comprise financial assets held for trading, including derivative financial instruments and financial assets measured mandatorily at fair value through profit or loss.

2.9.1.1 Financial assets held for trading

The Bank classifies trading portfolio as financial assets or financial liabilities measured at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Financial assets and liabilities held for trading are recorded and measured in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the 'Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities' and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

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'.

2. Summary of significant accounting policies (continued)

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 forward rate agreements, foreign exchange and commodity forwards, interest rate, foreign exchange and commodity swaps, interest rate, foreign exchange, equity and commodity options, cross currency swaps and futures. 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 not used for hedge accounting purposes are initially recognised and subsequently re-measured in the statement of financial position at fair value as part of 'Financial assets held for trading'. 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.

Embedded derivatives

An embedded derivative is a component of a hybrid 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. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVTPL. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

From 1 January 2018, with the introduction of IFRS 9, the Bank elects the option to continues to account for derivatives embedded in financial liabilities and non-financial host contracts applying IAS 39.

2.9.1.2 Financial assets mandatorily measured at fair value through profit or loss

Financial assets in this category are those that are not held for trading and are mandatorily required to be measured at fair value under IFRS 9, as they do not meet requirements of SPPI test.

Financial assets mandatorily measured at fair value also comprises Equity instruments not held for trading where the Bank did not elect option to classify investments at FVOCI. Financial assets measured mandatorily at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

2.9.2 Financial assets at fair value through other comprehensive income

2.9.2.1 Debt instruments measured at fair value through other comprehensive income

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

2. Summary of significant accounting policies (continued)

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in equity. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. An entity shall apply the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position.

Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in equity are reclassified from equity to profit or loss.

The fair value of debt instruments, 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.

In the case of debt instruments measured at fair value through other comprehensive income, 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.

2.9.2.2 Equity instruments measured at fair value through other comprehensive income

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2.9.3 Financial assets and liabilities at amortised costs

Financial assets at amortised costs comprise balances due from banks and due from customers including debt securities. Financial liabilities at amortised costs comprise balances due to banks, due to customers, subordinated debt and debt securities in issue.

2.9.3.1. Financial assets at amortised costs: Due from banks and Due from customers

From 1 January 2018, the Bank only measures 'Due from banks' and 'Due from customers' at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Due from banks

Due from banks include receivables from current accounts in other than central banks, term deposits, loans provided and securities purchased from commercial banks. Balances are presented at amortised cost including interest accruals less any impairment losses.

Due from customers

Due from customers balances comprise loans and advances and securities 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.

2. Summary of significant accounting policies (continued)

IMPAIRMENT

The Bank writes off 'Due from banks' and 'Due from customers' 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.

2.9.3.2 Financial liabilities at amortised costs : Due to banks, Due to customers, Subordinated debt and Debt securities in issue

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of debt funding.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

2.10 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 'Financial assets at amortised cost: Due to banks' or 'Financial assets at amortised cost: Due to customers'.

Securities purchased under agreements to purchase and resell ('reverse repo transactions') are recorded only in the off-balance sheet and the loan provided is reported in the statement of financial position in 'Cash, cash balances at central banks', 'Financial assets at amortised cost: Due to banks' or 'Financial assets at amortised cost: Due 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.

2.11 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 of master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

2.12 Derivatives – Hedge accounting

When initially applying IFRS 9, the Bank may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of those of IFRS 9. The Bank has elected to continue to apply IAS 39.

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.

2. Summary of significant accounting policies (continued)

Cash flow hedges

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

on the hedging instrument is recognised immediately as gain or loss in the statement of profit or loss and other comprehensive income in 'Net trading result'.

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

Fair value hedges

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

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

2.13 Investments in subsidiaries joint ventures and associates

'Investments in subsidiaries, joint ventures and associates' 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 five 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 five years are determined by the present value of the perpetuity with the particular estimated growth rate, determined at ISP Group level specifically for the Slovak market.

Transactions under common control

Transactions 'under common control' refer to business combinations involving entities belonging to the same group. The Bank follows the accounting treatment of such transactions according to group accounting policies, i.e. gains and losses are recorded to the retained earnings. In the case of disposals made on a cash basis any difference between the sale price and carrying amount of the net assets disposed is recorded directly in shareholder's equity net of the tax effect.

2.14 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. Summary of significant accounting policies (continued)

2.15 Property and equipment

At initial recognition, the items of property and equipment are measured at cost. At 31 December 2017, the Bank changed the accounting policy for buildings and land, before evaluated by the cost model to the revaluation model for subsequent measurement, following the Intesa Sanpaolo Group ('ISP Group') policy.
2. Summary of significant accounting policies (continued)

This was a voluntary change in accounting policy under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. IAS 8 paragraph 17 states that the initial application of a policy to revalue assets within the scope of IAS 16 is a change in an accounting policy to be dealt with as a revaluation in accordance with IAS 16. Therefore in case of a change in accounting policy, with the transition from the amortised cost to the revaluation model, any change shall be reflected only prospectively.

The assets subject to the revaluation model are depreciated based on their revalued value. Since the change in the accounting policy took place at the end of the year, the assets were depreciated based on the cost model until the end of the year 2017. A new depreciation schedule will be implemented starting from January 2018.

After determining the 2017 depreciation charges and testing for impairment, the assets value was adjusted to their new fair value. The fair value of individual buildings and land was determined using independent external expert reports (appraisals) provided by specialised companies. If the fair value was higher than the carrying amount the value of the asset on the balance sheet was increased through other comprehensive income and accumulated in equity under the heading 'Revaluation surplus from property and equipment'. In case that an impairment loss was recorded in the income statement previously, the reversal of this impairment was recorded in the income statement up to the amount previously recognised in the income statement. If the fair value was lower than the carrying amount, the decrease was recognized in profit or loss. The ISP Group chose to apply the elimination approach which means that the accumulated depreciation was eliminated against the gross carrying amount of the asset and therefore, the asset cost was equal to its fair value as at 31 December 2017.

Other components of '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.

2.16 Provisions

Provisions comprise litigations and claims and financial guarantees.

Provisions for litigations and claims 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.

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.

2. Summary of significant accounting policies (continued)

Financial guarantee liabilities are initially recognised in off-balance sheet at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Income from financial guarantees is recognised in the statement of profit or loss and other comprehensive income in 'Fee and commission income' on a straight line basis.

Provision for financial guarantees are recognised based on stage of financial instrument (three-stage approach) which affects expected loss calculation for the financial guarantee. Any increase or decrease in the provision relating to financial guarantees is recorded in the statement of profit or loss and other comprehensive income in 'Provisions'. In case of conversion of financial guarantee into Financial assets at amortised cost, the Provision is converted into Impairment losses on Financial Assets in amortised cost along with movement, if any, in 'Impairment losses'.

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

2.18 Equity reserves

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

'Property and equipment' reserve which consists of the revaluation surplus of buildings and land measured at fair value using a revaluation model from 31 December 2017.

'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.

'Financial assets at fair value through other comprehensive income' reserve which comprises changes in the fair value of Financial assets at FVOCI.

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

2.19 Net 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.

2.20 Net 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 and expense is recognised when the corresponding service is provided.

2.21 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.

2.22 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. Summary of significant accounting policies (continued)

2.23 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 income 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’.

2.24 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.

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 the 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, fair value of buildings and land under the revaluation model, impairment losses on loans and advances to customers, impairment losses for off-balance sheet risks, useful 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 (note 4)

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.

2. Summary of significant accounting policies (continued)

The individual assessment of exposures is based on the detailed review and analysis of the borrower's situation, including the critical review of the following sources of information, without limitation to:

- the latest financial statements available (including consolidated ones, if any) accompanied by the report on operations and audit report, if any, as well as previous years' financial statements;
- information on specific corporate events (e.g. extraordinary transactions);
- the current and forecast financial position and results, analysis of variances between forecasts and actuals;
- for borrowers belonging to economic groups, information on their internal and external relationships (to assess the risk of contamination or its deterioration);
- the list of bank relationships (credit lines/utilisation/transaction status);
- the customer's short- and medium-term plans and strategies supplemented by financial projections (at least three-year), the statement of expected cash flows, product analysis, sector and market studies, etc.;
- any documentation by third-party experts on the reasons for the borrower's deterioration, and potential actions to reorganise the company and exit from the crisis;
- updated business profiles from the Chamber of Commerce / Corporate Registry or equivalent, cadastral surveys concerning all debtors and guarantors;
- nature and validity of the collaterals, appraisal for each asset, presence of mortgage/pledge registrations other than the Banks;
- latest and historical Credit Bureau reports.

The individual assessment, formulated analytically for each exposure, shall be based on the detailed and comprehensive review of all elements that are available.

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.

Calculation of expected loss on collective basis is based on particular regulatory segment, exposure at default (EAD), probability of default ('PD'), loss given default ('LGD'), credit conversion factor ('CCF')For each segment were developed models for such risk parameters. These models are regularly under review.

According to the IFRS 9, paragraph 5.5.9 „At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument".

IFRS 9 proposed the three-stage approach based on changes in credit quality since initial recognition:

- Stage 1 includes financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date.
- Stage 2 include financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event.
- Stage 3 includes financial assets that have objective evidence of impairment at the reporting date.

Bank implemented internal rules using significant days past due, significant increase of PD, forbearance measures, early warning system, watchlist process, non-performing categories to assess correct Stage for Expected loss calculation.

2. Summary of significant accounting policies (continued)

Expected loss calculation:

Stage 1:

$$EL_{12m} = PD_{12m} \times LGD_{12m} \times EAD_{12m}$$

where:

- PD_{12m} = 1 year prediction PD estimated at time 0 (time 0 is the reporting date);
- LGD_{12m} = percentage of loss in case of default, estimated at time 0;
- EAD_{12m} = exposure at default, estimated at the beginning of the observation period.

Stage 2:

The formula of Lifetime Expected Loss, calculated considering the residual maturity with respect to the reporting date, is summarized as follows:

$$EL_{lifetime} = \sum_{t=1}^{M} \frac{EAD_t \times (PD_t - PD_{t-1}) \times LGD_t}{(1 + \mathrm{EIR})^{t-1}}$$

where:

- PD_t is cumulative PD estimated between time 0 and time *t* (time 0 is the reporting date, time *t* is the single year of residual maturity);
- LGD_t is percentage of loss in case of default, estimated at time *t*;
- EAD_t is exposure at default, estimated at the beginning of the year *t*;
- EIR is Effective Interest Rate;
- M is residual maturity in years.

Stage 3:

The calculation of provision on Stage 3 exposures is based on the following formula:

$$EL_{Stage3} = IAS39_{Provision} * \left(1 + Add\ on_{Performing}\right)$$

- Add-onPerforming is the average of Add-ons calculated for Lifetime LGD Performing models for each year of conditioning.

3. Financial and operational risk management

Introduction and overview

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

- Credit risk,
- Market risk,
- Liquidity risk,
- 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 Governance Committee ('CRGC'),
- Operational Risk Committee ('ORC').

The Management Board delegates its risk authority to these governance bodies through 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 analyse 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.

3.1 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.

The 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 and operational 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 the Management Board and the CRC on the credit quality of the Bank's portfolios;
- Development, maintenance and validation of scoring and rating models – both application and behavioural;
- Development, maintenance and back-testing of impairment loss models.

Impairment losses

The Bank establishes an allowance for impairment losses, which represents its expected 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 includes such a client to management of the Recovery Department for pursuing collection activities. Such clients exceeding significant thresholds 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 the clients.

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

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

		March 2018	
€ '000	**Gross amount**	**Impairment losses**	**Net amount**
Portfolio assessed			
Financial assets at AC:			
Due from banks	125,706	(757)	124,949
Due from customers:			
Sovereigns	127,707	(2,472)	125,235
Corporate	4,265,708	(33,877)	4,231,831
Retail	7,690,255	(271,560)	7,418,695
	12,209,376	(308,666)	11,900,710
Financial assets at FVTPL – debt securities	15,619	-	15,619
Financial assets at FVTOCI – debt securities	859,569	(173)	859,396
Individually assessed			
Financial assets at amortised cost:			
Due from customers:			
Corporate	101,883	(61,292)	40,591
Retail	4,319	(3,675)	644
	106,202	(64,967)	41,235

3. Financial and operational risk management (continued)

€ '000	December 2017 Amortised cost	Impairment losses	Carrying amount
Portfolio assessed			
Banks	90,817	(73)	90,744
Customers			
Sovereigns	128,144	(97)	128,047
Corporate	4,339,142	(37,491)	4,301,651
Retail	7,178,152	(162,187)	7,015,965
	11,645,438	(199,775)	11,445,663
Securities			
FVTPL	5,783	-	5,783
AFS	520,416	-	520,416
HTM	376,472	-	376,472
	902,671	-	902,671
Individually assessed			
Customers			
Corporate	110,253	(69,136)	41,117
Retail	4,332	(3,594)	738
	114,585	(72,730)	41,855

The Bank uses the definitions of non-performing loans derived from the Harmonisation project. The Harmonisation project is driven by Intesa Sanpaolo in order to unify the definitions and categories of non-performing loans across the foreign subsidiaries of the Intesa Sanpaolo Group. The definition of non-performing loans, which comprise three classification categories (past due, unlikely to pay, doubtful), is based on delinquency (days past due, 'DPD') and judgemental criteria for the categories doubtful and unlikely to pay. In case of the past due category, DPD and materiality thresholds of client are taken into account.

The description of the 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 the 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 or past due.

Capital requirement calculation

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

3. Financial and operational risk management (continued)

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

€ '000	Category	Gross amount	March 2018 Impairment losses	Net amount
Financial assets at AC:				
Due from banks				
	Performing	125,706	(757)	124,949
Due from customers:				
Sovereigns				
	Performing	127,706	(2,472)	125,234
	Doubtful	1	-	1
		127,707	(2,472)	125,235
Corporate				
	Performing	4,258,963	(29,475)	4,229,488
	Past due	240	(5)	235
	Unlikely to pay	67,173	(31,621)	35,552
	Doubtful	41,215	(34,068)	7,147
		4,367,591	(95,169)	4,272,422
Retail				
	Performing	7,348,466	(74,167)	7,274,299
	Past due	15,045	(8,301)	6,744
	Unlikely to pay	69,784	(37,154)	32,630
	Doubtful	261,279	(155,613)	105,666
		7,694,574	(275,235)	7,419,339
Financial assets at FVTPL – debt securities				
	Performing	15,619	-	15,619
Financial assets at FVOCI – debt securities				
	Performing	859,569	(173)	859,396

3. Financial and operational risk management (continued)

€ '000	Category	Amortised cost	December 2017 Impairment losses	Carrying amount
Banks				
	Performing	90,817	(73)	90,744
Sovereigns				
	Performing	128,143	(97)	128,046
	Doubtful	1	-	1
		128,144	(97)	128,047
Corporate				
	Performing	4,323,654	(33,392)	4,290,262
	Past due	2	-	2
	Unlikely to pay	73,411	(27,269)	46,142
	Doubtful	52,328	(45,966)	6,362
		4,449,395	(106,627)	4,342,768
Retail				
	Performing	6,922,721	(33,080)	6,889,641
	Past due	5,635	(1,878)	3,757
	Unlikely to pay	45,748	(20,147)	25,601
	Doubtful	208,380	(110,676)	97,704
		7,182,484	(165,781)	7,016,703
Securities				
	Performing	902,671	-	902,671

3. Financial and operational risk management (continued)

Split of the credit portfolio according to the three-stage approach based on changes in credit quality:

		March 2018		
€ '000	**Stage**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from banks				
	Stage 1	121,467	(405)	121,062
	Stage 2	4,239	(352)	3,887
		125,706	(757)	124,949
Due from customers:				
Sovereigns	Stage 1	110,366	(1,328)	109,038
	Stage 2	17,340	(1,144)	16,196
	Stage 3	1	-	1
		127,707	(2,472)	125,235
Corporate				
	Stage 1	4,127,004	(26,430)	4,100,574
	Stage 2	131,959	(3,045)	128,914
	Stage 3	108,628	(65,694)	42,934
		4,367,591	(95,169)	4,272,422
Retail				
	Stage 1	6,730,160	(16,650)	6,713,510
	Stage 2	618,305	(57,516)	560,789
	Stage 3	346,109	(201,069)	145,040
		7,694,574	(275,235)	7,419,339
Financial assets at FVTPL – debt securities				
	Stage 1	15,619	-	15,619
Financial assets at FVOCI – debt securities				
	Stage 1	859,569	(173)	859,396

3. Financial and operational risk management (continued)

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 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 ratings 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'):

- 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,
- 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.

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	**March 2018**
Financial assets	
Financial assets at fair value through profit or loss:	
Financial assets held for trading:	
Derivative financial instruments	78,507
Derivatives – Hedge accounting	52,016
	130,523
Financial commitments and contingencies	
Issued guarantees	794,314
Commitments and undrawn credit facilities	2,972,616
	3,766,930

€ '000	**December 2017**
Financial assets	
Derivative financial instruments	121,142
Financial commitments and contingencies	
Issued guarantees	783,667
Commitments and undrawn credit facilities	2,858,458
	3,642,125

3. Financial and operational risk management (continued)

The payment discipline of each client is monitored regularly via days past due (DPD).

DPD = Banking Date – Due Date for repayment

When the client fail to pay more than one agreed instalment, the date of the first unpaid instalment is considered as Due date for repayment.

The following table shows the Bank's credit portfolio in terms of delinquency of payments:

€ '000	Gross amount	March 2018 Impairment losses	Net amount
Financial assets at AC:			
Due from banks			
No delinquency	82,870	(534)	82,336
1 – 30 days	42,836	(223)	42,613
	125,706	(757)	124,949
Due from customers:			
Sovereigns			
No delinquency	126,625	(2,469)	124,156
1 – 30 days	1,081	(3)	1,078
Over 181 days	1	-	1
	127,707	(2,472)	125,235
Corporate			
No delinquency	4,240,968	(55,624)	4,185,344
1 – 30 days	69,105	(4,373)	64,732
31 – 60 days	5,327	(18)	5,309
61 – 90 days	2,837	(1,967)	870
91 – 180 days	2,239	(1,577)	662
Over 181 days	47,115	(31,610)	15,505
	4,367,591	(95,169)	4,272,422
Retail			
No delinquency	7,094,905	(54,248)	7,040,657
1 – 30 days	250,245	(27,707)	222,538
31 – 60 days	43,851	(9,721)	34,130
61 – 90 days	27,844	(7,760)	20,084
91 – 180 days	42,944	(19,680)	23,264
Over 181 days	234,785	(156,119)	78,666
	7,694,574	(275,235)	7,419,339
Financial assets at FVTPL - debt securities			
No delinquency	15,619	-	15,619
Financial assets at FVOCI - debt securities			
No delinquency	859,569	(173)	859,396

3. Financial and operational risk management (continued)

€ '000	December 2017 Amortised cost	Impairment losses	Carrying amount
Banks			
No delinquency	112,313	(18)	112,295
Sovereigns			
No delinquency	131,712	(100)	131,612
1 – 30 days	47	-	47
Over 181 days	1	-	1
	131,760	(100)	131,660
Corporate			
No delinquency	4,026,775	(50,791)	3,975,984
1 – 30 days	18,799	(3,789)	15,010
31 – 60 days	2,028	(437)	1,591
61 – 90 days	1	-	1
91 – 180 days	608	(418)	190
Over 181 days	69,684	(57,020)	12,664
	4,117,895	(112,455)	4,005,440
Retail			
No delinquency	5,778,467	(31,365)	5,747,102
1 – 30 days	194,975	(13,231)	181,744
31 – 60 days	35,237	(4,304)	30,933
61 – 90 days	22,659	(3,710)	18,949
91 – 180 days	39,020	(17,532)	21,488
Over 181 days	151,606	(100,437)	51,169
	6,221,964	(170,579)	6,051,385
Securities			
No delinquency	1,820,472	-	1,820,472

Loans with renegotiated terms and 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 had 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 a 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 forborne if both of these two conditions are satisfied:

- The Bank has determined the financial difficulties that the debtor is facing or is about to face;
- The exposure has been 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:

	Performing forborne			Non-performing forborne		
March 2018 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	23,919	(462)	23,457	76,562	(38,074)	38,488
Retail	48,658	(2,720)	45,938	23,002	(12,784)	10,218
	72,577	(3,182)	69,395	99,564	(50,858)	48,706

3. Financial and operational risk management (continued)

December 2017 € '000	Performing forborne Amortised cost	Performing forborne Impairment losses	Performing forborne Carrying amount	Non-performing forborne Amortised cost	Non-performing forborne Impairment losses	Non-performing forborne Carrying amount
Corporate	13,865	(438)	13,427	98,075	(48,316)	49,759
Retail	45,586	(1,247)	44,339	21,700	(10,997)	10,703
	59,451	(1,685)	57,766	119,775	(59,313)	60,462

Write-off Policy

The Bank writes off a loan or security balance when it determines that the loans or securities are uncollectible. In principle, 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 subject to write-off 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 principal objective of the policy 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 specific 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 a policy defining the 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 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.

The 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 the Bank updates the fair value on a regular basis.

3. Financial and operational risk management (continued)

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. Under ISDA master netting agreements in certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

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

		March 2018	
€ '000	**Gross amount**	**Impairment losses**	**Net amount**
Europe			
Financial assets at AC:			
Due from other banks	75,188	(527)	74,661
Due from customers:			
Sovereigns	127,707	(2,472)	125,235
Corporate	4,342,454	(95,043)	4,247,411
Retail	7,691,141	(275,081)	7,416,060
Financial assets at FVTPL - debt securities	15,619	-	15,619
Financial assets at FVOCI - debt securities	859,569	(173)	859,396
	13,111,678	(373,296)	12,738,382
America			
Financial assets at AC:			
Due from other banks	49,950	(230)	49,720
Due from customers:			
Corporate	23,916	(126)	23,790
Retail	803	(4)	799
	74,669	(360)	74,309
Asia			
Financial assets at AC:			
Due from other banks	486	-	486
Due from customers:			
Corporate	1,221	-	1,221
Retail	2,105	(128)	1,977
	3,812	(128)	3,684
Rest of the World			
Financial assets at AC:			
Due from other banks	82	-	82
Due from customers:			
Retail	525	(22)	503
	607	(22)	585

3. Financial and operational risk management (continued)

€ '000	Amortised cost	December 2017 Impairment losses	Carrying amount
Europe			
Banks	59,773	(15)	59,758
Sovereigns	128,144	(97)	128,047
Corporate	4,405,575	(106,335)	4,299,240
Retail	7,179,147	(165,609)	7,013,538
Securities	896,362	-	896,362
	12,669,001	(272,056)	12,396,945
America			
Banks	30,370	(57)	30,313
Corporate	42,577	(127)	42,450
Retail	495	(3)	492
Securities	6,309	-	6,309
	79,751	(187)	79,564
Asia			
Banks	607	(1)	606
Corporate	1,243	(165)	1,078
Retail	2,305	(148)	2,157
	4,155	(314)	3,841
Rest of the World			
Banks	67	-	67
Retail	537	(21)	516
	604	(21)	583

3. Financial and operational risk management (continued)

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

March 2018 € '000	Financial assets at AC **Banks**	**Sovereigns**	**Corporate**	**Retail***	**Financial assets at FVTPL - debt securities**	**Financial assets at FVOCI - debt securities**
Agriculture	-	-	135,623	17,211	-	-
Automotive	-	-	84,672	6	-	-
Commodity Traders	-	-	112,400	3,828	-	-
Construction	-	-	69,364	25,717	-	-
Retail Customers	-	-	90	7,161,935	-	-
Financial institutions**	124,949	-	665,212	24	-	72,170
Government	-	120,555	-	18	15,619	787,226
Manufacturing	-	-	625,164	23,735	-	-
Real estate	-	-	516,857	4,088	-	-
Retail and Wholesale Trade	-	-	535,785	71,301	-	-
Services	-	261	561,625	101,340	-	-
Transportation	-	393	160,088	11,272	-	-
Utilities	-	3,953	735,416	4,503	-	-
Other	-	73	70,126	(5,639)	-	-
	124,949	125,235	4,272,422	7,419,339	15,619	859,396

December 2017 € '000	**Banks**	**Sovereigns**	**Corporate**	**Retail***	**Securities**
Agriculture	-	-	139,027	18,678	-
Automotive	-	-	83,703	8	-
Commodity Traders	-	-	107,687	3,927	-
Construction	-	-	58,161	23,776	-
Retail Customers	-	-	-	6,751,931	-
Financial institutions**	88,473	-	757,773	23	81,523
Government	-	122,850	-	24	821,148
Manufacturing	-	-	594,279	23,493	-
Real estate	-	-	527,596	6,023	-
Retail and Wholesale Trade	-	-	505,194	71,660	-
Services	-	-	527,243	100,457	-
Transportation	-	397	176,014	11,168	-
Utilities	-	4,430	805,429	4,445	-
Other	2,271	370	60,662	1,090	-
	90,744	128,047	4,342,768	7,016,703	902,671

* 'Retail' includes Small Business and Flat Owners Associations among other things.

** 'Financial institutions' involves financial services, leasing and insurance.

3. Financial and operational risk management (continued)

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk. Past due but not impaired financial assets are more than one day overdue. Financial assets at FVTPL and Financial assets at FVOCI are neither impaired nor past-due.

March 2018	**Neither past due nor impaired**			**Impaired (non-performing)**			**Past due but not impaired**		
€ '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:									
Due from other banks	82,870	(534)	82,336	-	-	-	42,836	(223)	42,613
Due from customers:									
Sovereigns									
Municipalities	126,625	(2,469)	124,156	1	-	1	1,081	(3)	1,078
Corporate									
Large Corporates	1,584,203	(3,112)	1,581,091	2,879	(1,953)	926	2,428	(69)	2,359
Large Corporates – debt securities	53,727	(601)	53,126	-	-	-	-	-	-
Specialized Lending	681,380	(22,696)	658,684	64,508	(28,923)	35,585	725	(48)	677
SME	1,233,108	(2,420)	1,230,688	36,000	(31,736)	4,264	25,856	(71)	25,785
Other Fin. Institutions	556,029	(364)	555,665	2	(2)	-	3	-	3
Other Fin. Institutions – debt securities	10,033	(2)	10,031	-	-	-	-	-	-
Public Sector Entities	1,211	(32)	1,179	6	(1)	5	71	(2)	69
Factoring	69,802	(23)	69,779	5,233	(3,079)	2,154	40,387	(35)	40,352
	4,189,493	(29,250)	4,160,243	108,628	(65,694)	42,934	69,470	(225)	69,245
Retail									
Small Business	204,461	(2,849)	201,612	10,991	(8,613)	2,378	28,870	(795)	28,075
Consumer Loans	1,222,050	(29,123)	1,192,927	210,728	(132,961)	77,767	150,144	(22,059)	128,085
Mortgages	5,375,880	(6,364)	5,369,516	75,141	(25,093)	50,048	76,029	(3,739)	72,290
Credit Cards	144,572	(4,797)	139,775	38,882	(26,769)	12,113	10,964	(2,317)	8,647
Overdrafts	77,231	(942)	76,289	10,366	(7,632)	2,734	14,794	(936)	13,858
Flat Owners Associations	27,865	(208)	27,657	-	-	-	-	-	-
Other	15,593	(37)	15,556	-	-	-	13	(1)	12
	7,067,652	(44,320)	7,023,332	346,108	(201,068)	145,040	280,814	(29,847)	250,967

3. Financial and operational risk management (continued)

December 2017 € '000	Neither past due nor impaired Amortised cost	Impairment losses	Carrying amount	Impaired (non-performing) Amortised cost	Impairment losses	Carrying amount	Past due but not impaired Amortised cost	Impairment losses	Carrying amount
Banks	90,817	(73)	90,744	-	-	-	-	-	-
Sovereigns									
Municipalities	127,441	(97)	127,344	1	-	1	702	-	702
Corporate									
Large Corporates	1,706,107	(3,602)	1,702,505	2,956	(1,962)	994	11,064	(113)	10,951
Specialized Lending	674,115	(12,449)	661,666	73,934	(27,872)	46,062	50	(1)	49
SME	1,233,566	(14,662)	1,218,904	48,843	(43,401)	5,442	16,019	(806)	15,213
Other Fin. Institutions	659,982	(1,386)	658,596	3	-	3	-	-	-
Public Sector Entities	1,070	(3)	1,067	5	-	5	83	-	83
Factoring	21,598	(370)	21,228	-	-	-	-	-	-
	4,296,438	(32,472)	4,263,966	125,741	(73,235)	52,506	27,216	(920)	26,296
Retail									
Small Business	202,501	(3,056)	199,445	10,981	(9,068)	1,913	29,569	(698)	28,871
Consumer Loans	1,014,587	(9,937)	1,004,650	124,580	(69,129)	55,451	112,934	(6,521)	106,413
Mortgages	5,192,697	(4,852)	5,187,845	73,776	(17,858)	55,918	75,486	(2,692)	72,794
Credit Cards	152,820	(2,131)	150,689	39,549	(28,939)	10,610	11,240	(1,195)	10,045
Overdrafts	77,347	(993)	76,354	10,876	(7,707)	3,169	13,487	(646)	12,841
Flat Owners Associations	27,651	(358)	27,293	-	-	-	-	-	-
Other	12,393	-	12,393	1	-	1	9	(1)	8
	6,679,996	(21,327)	6,658,669	259,763	(132,701)	127,062	242,725	(11,753)	230,972
Securities									
FVTPL	5,784	-	5,784	-	-	-	-	-	-
AFS	520,415	-	520,415	-	-	-	-	-	-
HTM	376,472	-	376,472	-	-	-	-	-	-
	902,671	-	902,671	-	-	-	-	-	-

3. Financial and operational 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	March 2018 Gross amount	March 2018 Impairment losses	March 2018 Net amount
Financial assets at AC:			
Due from other banks			
1 – 30 days	42,836	(223)	42,613
Due from customers:			
Sovereigns			
1 – 30 days	1,081	(3)	1,078
Corporate			
1 – 30 days	64,372	(207)	64,165
31 – 60 days	5,068	(18)	5,050
61 – 90 days	30	-	30
	69,470	(225)	69,245
Retail			
1 – 30 days	223,193	(18,195)	204,998
31 – 60 days	34,231	(6,484)	27,747
61 – 90 days	16,717	(3,823)	12,894
91 – 180 days	6,642	(1,333)	5,309
Over 181 days	31	(12)	19
	280,814	(29,847)	250,967

€ '000	December 2017 Amortised cost	December 2017 Impairment losses	December 2017 Carrying amount
Sovereigns			
1 – 30 days	702	-	702
Corporate			
1 – 30 days	27,138	(910)	26,228
31 – 60 days	1	-	1
61 – 90 days	77	(10)	67
	27,216	(920)	26,296
Retail			
1 – 30 days	199,036	(7,193)	191,843
31 – 60 days	25,574	(2,062)	23,512
61 – 90 days	12,295	(1,295)	11,000
91 – 180 days	5,789	(1,192)	4,597
Over 181 days	31	(11)	20
	242,725	(11,753)	230,972

3. Financial and operational risk management (continued)

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

Large Corporates above € 500 million turnover	Large Corporates below € 500 million turnover and SME	Retail Small Business ('SB') and Flat Owners Associations ('FOA')	Risk Profile	Description
LC_I1 – LC_I4	I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
LC_I5 – LC_I6	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.
LC_M1 – LC_M2	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.
LC_M3 – LC_M4	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.
LC_R1 – LC_R3	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.
LC_R4 – LC_R5	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	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: • 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 (absolute threshold is set according to NBS directive); • 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'). For Specialized Lending the Slotting approach is used by the Bank. Clients are assigned into five slotting categories based on a qualitative valuation and information about the risk of default. Risk weights and expected loss used for the capital requirement calculation are also defined for each category. Categories are predefined by the CRR regulation and internally, the categories used are as follows:

Specialized Lending – SPV and RED

- Strong
- Good
- Satisfactory
- Weak
- Default

3. Financial and operational 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	Description
L1a – L4	U01a – U02	Very Low	High level of client's socio-demographic information and financial discipline.
N1	U03	Low	Above average level of client's socio-demographic information and financial discipline.
N2 – W1	U04 – U07	Lower – Intermediate	Acceptable level of client's socio-demographic information and financial discipline.
W2	U08 – U09	Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there are some signals of worsening credit quality.
-	U10 – U11	Upper – Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there is worsening credit quality.
W3	U12	High	Acceptable level of client's socio-demographic information and financial discipline, but there is negative credit behaviour.
D	D	Default	A default is considered to have occurred with regard to a particular mortgage/obligor when either or both of the two following events have taken place: • the obligor is past due more than 90 days on any material credit obligation to the Bank (absolute threshold is set according to NBS directive); • 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).

3. Financial and operational risk management (continued)

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

March 2018 € '000	Internal rating ('IR')	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Unrated	125,706	(757)	124,949
Due from customers:				
Sovereigns				
Municipalities				
	Unrated	127,707	(2,472)	125,235
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	566,582	(449)	566,133
	LC_M1 – LC_M4	446,958	(1,063)	445,895
	LC_R1 – LC_R5	10,125	(530)	9,595
	I1 – I6	677,275	(75)	677,200
	M1 – M4	887,488	(2,528)	884,960
	R1 – R5	290,544	(6,294)	284,250
	D (default)	32,357	(29,023)	3,334
	Unrated	90	-	90
Specialized Lending - SPV, RED				
	Strong	182,633	(1,232)	181,401
	Good	229,367	(3,039)	226,328
	Satisfactory	240,448	(11,716)	228,732
	Weak	96,857	(16,319)	80,538
	D (default)	24,089	(19,361)	4,728
Other Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	28,527	(11)	28,516
	LC_M1 – LC_M4	14,087	(90)	13,997
	I1 – I6	65,440	(10)	65,430
	M1 – M4	247,546	(105)	247,441
	R1 – R5	-	-	-
	D (default)	-	-	-
	Unrated	211,756	(187)	211,569
Factoring				
	Unrated	21,598	(370)	21,228
		4,367,591	(95,169)	4,272,422

3. Financial and operational risk management (continued)

March 2018 € '000	Internal rating ('IR')	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	33,276	(31)	33,245
	M1 – M4	164,773	(1,011)	163,762
	R1 – R5	63,097	(3,518)	59,579
	D (default)	10,101	(7,895)	2,206
	Unrated	940	(9)	931
Mortgages				
	L1 – L4	4,717,690	(942)	4,716,748
	N1	256,340	(349)	255,991
	N2 – W1	346,843	(2,591)	344,252
	W2	69,068	(2,499)	66,569
	W3	91,402	(11,402)	80,000
	D (default)	41,873	(17,412)	24,461
Unsecured Retail				
	U01a – U02	295,210	(404)	294,806
	U3	89,252	(256)	88,996
	U04 – U07	458,338	(4,370)	453,968
	U08 – U09	130,846	(5,136)	125,710
	U10 – U11	82,864	(8,327)	74,537
	U12	72,756	(19,170)	53,586
	D (default)	156,198	(100,720)	55,478
	Unrated	598,101	(89,155)	508,946
Other				
	Unrated	15,606	(38)	15,568
		7,694,574	(275,235)	7,419,339
Financial assets at FVTPL - debt securities				
	Unrated	15,620	-	15,620
Financial assets at FVOCI - debt securities				
	Unrated	859,568	(173)	859,395

3. Financial and operational risk management (continued)

December 2017 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	90,817	(73)	90,744
Sovereigns				
Municipalities	Unrated	128,144	(97)	128,047
Corporate				
Large Corporates, SME	I1 – I6	883,885	(690)	883,195
	M1 – M4	826,418	(6,202)	820,216
	R1 – R5	352,900	(13,746)	339,154
	LC_I1 – LC_I6	370,753	(258)	370,495
	LC_M1 – LC_M4	538,790	(1,405)	537,385
	LC_R1 – LCR5	-	-	-
	D (default)	45,810	(42,245)	3,565
Specialized Lending – SPV, RED	Strong	129,220	(335)	128,885
	Good	292,373	(3,792)	288,581
	Satisfactory	199,231	(5,576)	193,655
	Weak	103,183	(13,213)	89,970
	D (default)	24,091	(17,406)	6,685
Other Financial Institutions, Public Sector Entities	I1 – I6	289,143	(89)	289,054
	M1 – M4	182,957	(763)	182,194
	D (default)	-	-	-
	Unrated	189,043	(537)	188,506
Factoring	Unrated	21,598	(370)	21,228
		4,449,395	(106,627)	4,342,768

3. Financial and operational risk management (continued)

December 2017 **€ '000**	**Internal rating**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Retail				
Small Business, Flat Owners Associations	I3 – I6	35,561	(61)	35,500
	M1 – M4	157,489	(1,540)	155,949
	R1 – R5	66,201	(2,564)	63,637
	D (default)	10,454	(9,012)	1,442
	Unrated	997	(3)	994
Mortgages	L1 – L4	4,554,342	(1,073)	4,553,269
	N1	248,515	(357)	248,158
	N2 – W1	342,472	(1,342)	341,130
	W2	69,460	(1,035)	68,425
	W3	84,550	(4,338)	80,212
	D (default)	42,620	(17,257)	25,363
Unsecured Retail	U01a – U02	291,765	(170)	291,595
	U3	91,421	(126)	91,295
	U04 – U07	448,510	(2,088)	446,422
	U08 – U09	135,207	(2,185)	133,022
	U10 – U11	85,543	(3,319)	82,224
	U12	73,025	(8,294)	64,731
	D (default)	154,947	(105,842)	49,105
	Unrated	277,002	(5,174)	271,828
Other	Unrated	12,403	(1)	12,402
		7,182,484	(165,781)	7,016,703
Securities	Unrated	902,671	-	902,671

3.2 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 Department Treasury and ALM, 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.

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.

3. Financial and operational risk management (continued)

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'). 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 model used are based on historical simulations. Taking into account market data from the previous year and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements evaluated in the model. 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 limits is subject to review and approval by ALCO and Intesa Sanpaolo. VaR is measured on a daily basis. Daily reports of utilisation of VaR limits are submitted to the trading unit, the head of the Division Risk Management and the head of the Department Treasury and ALM. Regular summaries are submitted to Intesa Sanpaolo and ALCO.

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

	March 2018				December 2017			
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	34	48	121	12	13	32	102	4
Interest rate risk	2,771	2,833	3,942	1,396	1,492	2,122	4,094	41
Overall	2,806	2,844	3,926	1,388	1,493	2,123	4,102	43

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

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

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.

Exposure to interest rate risk

Interest rate risk comprises of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and of 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 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 maturity, i.e. fixed rate instruments, or by 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 ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and uniform shift of +/- 100 basis points of the rate curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and uniform shift of +/-200 basis points, and additionally non-parallel steeper and flatter scenarios. These standard scenarios are applied on a monthly basis. Furthermore, six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision Guidelines, have been introduced in 2017, calculated on a quarterly basis.

3. Financial and operational risk management (continued)

The sensitivity of the interest margin is also measured with a set of scenarios similar to shift sensitivity analysis – baseline, internal stress and regulatory scenarios. The baseline scenario is calculated on the basis of parallel and instantaneous shocks in the interest rate curve of +/-50 basis points, in a period of 12 months. Furthermore, additional internal stress and regulatory scenarios are applied: +/-100, +/-200 and six stress scenarios according to the Basel Committee on Banking Supervision Guidelines. The interest margin sensitivity methodology, specifically sight models repricing structure used for products with no contractual maturity, has been reviewed during 2017.

Overall banking book interest rate risk positions are managed by the Treasury and ALM Department, which uses different balance and off balance sheet instruments to manage the overall positions arising from the banking book activities.

Models applied for the interest rate risk calculation

Each financial and non-financial instrument is mapped to a gap based on its 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 the 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.

At 31 March 2018, 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 € - 3,195 thousand (31 December 2017: € -673 thousand).

At 31 March 2018, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € 9,122 thousand (31 December 2017: € 10,568 thousand).

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

	March 2018
Assets	
Cash, balances at central banks	0.00%
Financial assets at FVTPL	-0.75%
Financial assets at FVOCI	1.88%
Financial assets at AC:	
Due from other banks	0.76%
Due from customers	3.15%
Liabilities	
Financial liabilities at AC:	
Due to banks	0.49%
Due to customers	0.18%
Debt securities in issue	1.23%

3. Financial and operational risk management (continued)

	December 2017
Assets	
Cash, balances at central banks	0.00%
Financial assets at fair value through profit or loss	1.45%
Available-for-sale financial assets	0.47%
Held-to-maturity investments	4.46%
Financial assets at AC:	
Due from other banks	0.45%
Due from customers	3.07%
Liabilities	
Financial liabilities at AC:	
Due to banks	0.24%
Due to customers	0.20%
Debt securities in issue	1.23%

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

3.3 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.

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 Bank to develop prudent approaches to liquidity management, making it possible to maintain the overall risk profile at 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 departments of the Bank responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department responsible for 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', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process ('ILAAP').

3. Financial and operational risk management (continued)

The Short term Liquidity Policy includes a set of parameters, limits and observation thresholds that enable the 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. Main regulatory indicator used for monitoring and managing short term liquidity is Liquidity coverage ratio. It is required by CRR regulation, more precisely defined in Delegated Regulation (EU) 2015/61. Main content of the LCR: Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows.

The Structural Liquidity Policy of the Bank incorporates a 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.

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 is regularly presented by Enterprise Risk Management Department and discussed during the ALCO meetings.

3. Financial and operational risk management (continued)

The table below shows an analysis of assets and liabilities (discounted cash flow basis) according to when they are expected to be recovered or settled:

March 2018 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash, balances at central banks	1,649,156	93,301	1,742,457
Financial assets at FVTPL:			
Financial assets held for trading	6,848	38,816	45,664
Non-trading financial assets mandatorily at FVTPL	-	900	900
Derivatives – Hedge accounting	538	18,576	19,114
Financial assets at FVOCI	251,937	616,104	868,041
Financial assets at AC:			-
Due from banks	78,998	45,951	124,949
Due from customers	2,226,973	9,590,023	11,816,996
Fair value changes of the hedged items in portfolio hedge of IRR	-	685	685
Investments in subsidiaries, joint ventures and associates	-	38,204	38,204
Property and equipment	-	110,934	110,934
Intangible assets	-	77,075	77,075
Goodwill	-	18,871	18,871
Current income tax assets	13,735	-	13,735
Deferred income tax assets	-	44,402	44,402
Other assets	20,100	-	20,100
	4,248,285	10,693,842	14,942,127
Liabilities			
Financial liabilities at FVTPL:			
Financial liabilities held for trading	(8,414)	(20,247)	(28,661)
Derivatives – Hedge accounting	(7,260)	(10,306)	(17,566)
Financial liabilities measured at AC:			
Due to banks	(71,101)	(376,804)	(447,905)
Due to customers	(1,253,218)	(8,970,193)	(10,223,411)
Subordinated debt	(161)	(200,000)	(200,161)
Debt securities in issue	(236,899)	(2,009,570)	(2,246,469)
Fair value changes of the hedged items in portfolio hedge of IRR	-	459	459
Current income tax liabilities	(908)	-	(908)
Provisions	-	(21,771)	(21,771)
Other liabilities	(218,238)	(4,728)	(222,966)
	(1,796,199)	(11,613,160)	(13,409,359)
	2,452,086	(919,318)	1,532,768

3. Financial and operational risk management (continued)

December 2017 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash, balances at central banks	1,595,078	-	1,595,078
Financial assets at fair value through profit or loss	-	5,783	5,783
Derivative financial instruments	5,902	43,954	49,856
Available-for-sale financial assets	262,952	257,464	520,416
Held-to-maturity investments	11,750	364,722	376,472
Financial assets at AC:			
Due from other banks	36,936	53,808	90,744
Due from customers	2,148,102	9,339,416	11,487,518
Investments in subsidiaries, joint ventures and associates	-	92,745	92,745
Intangible assets	-	74,882	74,882
Property and equipment	-	111,512	111,512
Deferred income tax assets	5,813	-	5,813
Other assets	-	38,626	38,626
	19,848	-	19,848
	4,086,381	10,382,912	14,469,293
Liabilities			
Derivative financial instruments	(50,297)	(399,518)	(449,815)
Financial liabilities at AC:			
Due to banks	(24,278)	(27,906)	(52,184)
Due to customers	(1,750,104)	(8,105,329)	(9,855,433)
Subordinated debt	(164)	(200,000)	(200,164)
Debt securities in issue	(238,066)	(2,014,314)	(2,252,380)
Provisions	-	(27,083)	(27,083)
Other liabilities	(71,563)	(4,691)	(76,254)
	(2,134,472)	(10,778,841)	(12,913,313)
	1,951,909	(395,929)	1,555,980

3. Financial and operational risk management (continued)

3.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and from non-compliance with generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

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 Boards of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of AML Department, Head of Corporate & SME Division, Head of Retail Division, Head of Enterprise Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Internal Audit Department, Head of Security and Business Continuity 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

In February 2010 upon a VUB Group request, the Bank as part of the VUB Group received, from the relevant Supervisory authorities an 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 received an approval for usage and thus adopted the AMA for subsidiaries Consumer Finance Holding and VUB Leasing. 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 an 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.

3. Financial and operational risk management (continued)

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, 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 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 credit spreads applied to the bonds' yield and representing the risk premium the investor claims against a risk free investment. In the case of derivative financial instruments the Bank uses 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 hierarchy. For determining the timing of the transfers between the levels, the Bank uses the end of the reporting period as the 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, balances at central banks

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

(b) Due from other 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. For shorter maturities and not significant balances, the carrying amounts of amounts due from banks approximates their estimated fair value. Impairment losses are taken into consideration when calculating fair values.

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

(c) Due from 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 and risk reflecting credit-worthiness of the counterparty. Impairment losses are taken into consideration when calculating fair values.

(d) Due to banks and Due to customers

The carrying amounts of due to banks approximates their estimated fair value. 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.

(e) Subordinated debt

The fair value of subordinated debt is discounted using the risk free interest rate curve.

(f) Debt securities in issue

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

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

		Carrying amount			Fair value			
March 2018 **€ '000**	**Note**	**At amortised cost**	**At fair value**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Cash, balances at central banks	7	1,742,457	-	1,742,457	-	1,742,457	-	1,742,457
Financial assets at FVTPL:	8			-				
Financial assets held for trading		-	45,664	45,664	-	45,664	-	45,664
Non-trading financial assets mandatorily at FVTPL		-	900	900	900	-	-	900
Derivatives – Hedge accounting	9	-	19,114	19,114	-	19,114	-	19,114
Financial assets at FVOCI	10	-	868,041	868,041	265,814	595,759	6,468	868,041
Financial assets at AC:	11			-				
Due from other banks		124,949	-	124,949	-	124,949	-	124,949
Due from customers		11,816,996	-	11,816,996	-	-	12,871,782	12,871,782
		13,684,402	933,719	14,618,121	266,714	2,527,943	12,878,250	15,672,907
Financial liabilities								
Financial liabilities at FVTPL:	8							
Financial liabilities held for trading		-	(28,661)	(28,661)	-	(28,661)	-	(28,661)
Derivatives – Hedge accounting	9	-	(17,566)	(17,566)	-	(17,566)	-	(17,566)
Financial liabilities at AC:								
Due to banks	11	(447,905)	-	(447,905)	-	(447,905)	-	(447,905)
Due to customers		(10,223,411)	-	(10,223,411)	-	(10,230,808)	-	(10,230,808)
Subordinated debt		(200,161)	-	(200,161)	-	(200,048)	-	(200,048)
Debt securities in issue		(2,246,469)	-	(2,246,469)	-	(2,315,345)	-	(2,315,345)
		(13,117,946)	(46,227)	(13,164,173)	-	(13,240,333)	-	(13,240,333)

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

December 2017 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash, balances at central banks	7	1,595,078	-	1,595,078	-	1,595,078	-	1,595,078
Financial assets at fair value through profit or loss	8	-	5,783	5,783	850	4,933	-	5,783
Derivative financial instruments	8, 9	-	49,856	49,856	-	49,856	-	49,856
Available-for-sale financial assets	10	-	520,416	520,416	265,742	248,365	6,309	520,416
Held-to-maturity investments	10	376,472	-	376,472	-	426,970	-	426,970
Financial assets at AC:	11							
Due from other banks		90,744	-	90,744	-	90,744	-	90,744
Due from customers		11,487,518	-	11,487,518	-	-	12,552,785	12,552,785
		13,549,812	576,055	14,125,867	266,592	2,415,946	12,559,094	15,241,632
Financial liabilities								
Derivative financial instruments	8, 9	-	(52,184)	(52,184)	-	(52,184)	-	(52,184)
Financial liabilities at AC:	11							
Due to banks		(449,815)	-	(449,815)	-	(449,815)	-	(449,815)
Due to customers		(9,855,433)	-	(9,855,433)	-	(9,863,989)	-	(9,863,989)
Subordinated debt		(200,164)	-	(200,164)	-	(199,693)	-	(199,693)
Debt securities in issue		(2,252,380)	-	(2,252,380)	-	(2,336,806)	-	(2,336,806)
		(12,757,792)	(52,184)	(12,809,976)	-	(12,902,487)	-	(12,902,487)

There were no transfers of financial instruments among the levels during 2018 and 2017.

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. The Bank also has a central Governance Centre (included within 'Other' in the table below) that manages the Bank's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

March 2018 € '000	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
External revenue:					
Interest and similar income	71,639	20,960	4,419	2,549	99,567
Interest and similar expense	(2,363)	(1,336)	(6,436)	(1,821)	(11,956)
Inter-segment revenue	(4,911)	(3,578)	7,392	1,097	-
Net interest income	64,365	16,046	5,375	1,825	87,611
Net fee and commission income	23,717	6,248	275	(491)	29,749
Net trading result	795	1,441	23,122	(4)	25,354
Other operating income	(276)	713	8	827	1,272
Dividend income	-	-	2,000	-	2,000
Total segment operating income for three months	88,601	24,448	30,780	2,157	145,986
Segment assets as at 31 March 2018	7,364,412	4,476,356	2,623,469	477,890	14,942,127
Segment liabilities and equity as at 31 March 2018	5,968,493	4,424,821	2,608,098	1,940,715	14,942,127

5. Segment reporting (continued)

March 2017 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	63,390	20,396	5,286	2,574	91,646
Interest and similar expense	(2,748)	(1,284)	(5,752)	(1,896)	(11,680)
Inter-segment revenue	(3,752)	(2,316)	4,547	1,521	-
Net interest income	56,890	16,796	4,081	2,199	79,966
Net fee and commission income	17,936	6,026	653	(491)	24,124
Net trading result	686	1,231	4,529	4	6,450
Other operating income	(293)	718	1	615	1,041
Dividend income	-	-	-	2,000	2,000
Total segment operating income for three months	75,219	24,771	9,264	4,327	113,581
Segment assets as at 31 December 2017	6,978,913	4,149,354	2,844,700	496,326	14,469,293
Segment liabilities and equity as at 31 December 2017	5,864,057	3,959,208	2,829,933	1,816,095	14,469,293

6. Cash and cash equivalents

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

€ '000	Note	March 2018	December 2017
Cash, balances at central banks	7	1,742,457	1,595,078
Current accounts in other banks	11.1	34,880	25,043
Term deposits with other banks	11.1	14,999	-
		1,792,336	1,620,121

'Cash, balances at central banks' responds to 'Cash and balances with central banks' in the last annual financial statements.

7. Cash, balances at central banks

€ '000	March 2018	December 2017
Cash in hand	118,220	125,531
Balances at central banks:		
Compulsory minimum reserves	1,095,433	7,264
Current accounts	1,754	1,753
Term deposits	49,155	736,103
Loans and advances	477,895	724,427
	1,624,237	1,469,547
	1,742,457	1,595,078

'Balances at central banks' responds to 'Balances with central banks' in the last annual financial statements.

7. Cash, balances at central banks (continued)

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and Česká národní banka ('ČNB '). 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 two 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 ČNB. 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. Financial assets and liabilities at fair value through profit or loss

€ '000	**March 2018**	**December 2017**
Financial assets held for trading:		
Government debt securities of EU countries with contractual maturity over 90 days	15,619	4,933
Trading derivatives	30,045	27,961
Non-trading financial assets mandatorily at fair value through profit or loss:		
Equities	900	850
	46,564	33,744
Financial liabilities held for trading:		
Trading derivatives	28,661	37,542

Equities in the 'Non-trading financial assets mandatorily at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and they form the part of the incentive plan introduced by the parent company. The Bank did not elect the option to present these at FVOCI. In the last annual financial statements these were presented as 'Financial assets designated at fair value through profit or loss on initial recognition'.

'Trading derivatives' were presented under 'Derivative financial instruments' in the last annual financial statements.

€ '000	**March 2018 Assets**	**December 2017 Assets**	**March 2018 Liabilities**	**December 2017 Liabilities**
Trading derivatives – Fair values				
Interest rate instruments:				
Swaps	21,131	21,385	18,139	18,403
Options	27	51	24	51
	21,158	21,436	18,163	18,454
Foreign currency instruments:				
Forwards and swaps	6,245	4,296	7,838	16,896
Cross currency swaps	-	26	36	-
Options	311	42	325	42
	6,556	4,364	8,199	16,938
Equity and commodity instruments:				
Equity options	2,147	2,146	2,147	2,137
Commodity swaps	13	-	12	-
Commodity forwards	171	15	140	13
	2,331	2,161	2,299	2,150
	30,045	27,961	28,661	37,542

8. Financial assets and liabilities at fair value through profit or loss (continued)

€ '000	March 2018 Assets	December 2017 Assets	March 2018 Liabilities	December 2017 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Swaps	2,124,319	1,974,174	2,124,319	1,974,174
Options	48,343	49,014	48,343	49,014
Futures	15,948	3,431	15,948	3,431
	2,188,610	2,026,619	2,188,610	2,026,619
Foreign currency instruments:				
Forwards and swaps	2,244,501	1,832,019	2,242,223	1,842,027
Cross currency swaps	6,409	5,917	5,572	5,917
Options	60,873	7,201	61,016	7,201
	2,311,783	1,845,137	2,308,811	1,855,145
Equity and commodity instruments:				
Equity options	7,087	7,087	7,087	7,087
Commodity swaps	418	-	418	-
Commodity forwards	13,837	7,407	13,837	7,407
	21,342	14,494	21,342	14,494
	4,521,735	3,886,250	4,518,763	3,896,258

9. Derivatives – Hedge accounting

€ '000	March 2018 Assets	December 2017 Assets	March 2018 Liabilities	December 2017 Liabilities
Cash flow hedges of interest rate risk	1,193	1,312	420	631
Fair value hedges of interest rate and inflation risk	17,921	20,583	17,146	14,011
	19,114	21,895	17,566	14,642

'Derivatives – Hedge accounting' were presented under 'Derivative financial instruments' in the last annual financial statements.

Cash flow hedges of interest rate risk

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

The Bank used one interest rate swap to hedge the interest rate risk of a subordinated loan denominated in EUR. The cash flows on the floating leg of this interest rate swap substantially match the cash flow profiles of the variable rate of the subordinated loan.

Fair value hedges of interest rate and inflation risk

At 31 March 2018 the Bank used twenty one interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans, both in relation to changes of interest rates.

The Bank used forty two interest rate swaps to hedge the interest rate risk of a pool of current accounts. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts, both in relation to changes of interest rates.

The Bank used ten interest rate swaps to hedge the interest rate risk of four 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.

9. Derivatives – Hedge accounting (continued)

The Bank also used two 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 used thirty nine interest rate swaps to hedge the interest rate risk arising from the issuance of twenty three fixed rate mortgage bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage bonds, both in relation to changes of interest rates.

The Bank used six interest rate swaps to hedge interest rate of six corporate loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the loans, both in relation to changes of interest rates.

The Bank used two cross currency swaps to hedge interest rate of two corporate loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the loans, both in relation to changes of interest rates.

10. Financial assets at fair value through other comprehensive income

€ '000	**March 2018**
Government debt securities of EU countries	787,384
Bank debt securities	72,185
Equities	8,472
	868,041

€ '000	**December 2017**
Available-for-sale financial assets	
Government debt securities of EU countries	439,744
Bank debt securities	72,467
Equities	8,205
	520,416
Held-to-maturity investments	
Government debt securities of EU countries	376,472

The Bank assessed the business model of its debt securities previously classified as ‘Available-for-sale financial assets’ and ‘Held-to-maturity investments’ as held to collect and sell and all of these securities passed through SPPI test, therefore the Bank classified them as ‘Financial assets at fair value through other comprehensive income’

The Bank designated its equities previously classified as ‘Available-for-sale financial assets’ as ‘Financial assets at fair value through other comprehensive income’ on the basis that these are not held for trading.

At 31 March 2018, bonds in the total nominal amount of € 649,935 thousand from FVOCI portfolio were pledged by the Bank to secure collateralized transactions (31 December 2017: € 306,371 thousand from available-for-sale portfolio and € 362,147 thousand from held-to-maturity portfolio). 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.

11. Financial assets and liabilities at amortised cost

11.1. Due from other banks

€ '000	Note	March 2018	December 2017
Current accounts	6	34,879	25,043
Term deposits:			
with contractual maturity less than 90 days	6	14,999	-
Loans and advances:			
with contractual maturity over 90 days		47,682	34,028
Cash collateral		28,146	31,746
Impairment losses	21	(757)	(73)
		124,949	90,744

At 31 March 2018 the balance of 'Term deposits' includes one deposit with Raiffeisenbank, a. s. based in the Czech Republic in the nominal amount of € 15,000 thousand.

11.2 Due from customers

March 2018 € '000	Gross amount	Impairment losses (note 21, 33)	Net amount
Sovereigns			
Municipalities	127,707	(2,472)	125,235
Corporate			
Large Corporates	1,589,510	(5,134)	1,584,376
Large Corporates – debt securities	53,727	(601)	53,126
Specialized Lending	746,613	(51,667)	694,946
Small and Medium Enterprises ('SME')	1,294,964	(34,227)	1,260,737
Other Financial Institutions	556,034	(366)	555,668
Other Financial Institutions - debt securities	10,033	(2)	10,031
Public Sector Entities	1,288	(35)	1,253
Factoring	115,422	(3,137)	112,285
	4,367,591	(95,169)	4,272,422
Retail			
Small Business	244,322	(12,257)	232,065
Consumer Loans	1,582,922	(184,142)	1,398,779
Mortgages	5,527,050	(35,196)	5,491,854
Credit Cards	194,418	(33,883)	160,535
Overdrafts	102,391	(9,510)	92,881
Flat Owners Associations	27,865	(208)	27,657
Other	15,606	(38)	15,568
	7,694,574	(275,234)	7,419,339
	12,189,872	(372,875)	11,816,996

11. Financial assets and liabilities at amortised cost (continued)

December 2017 € '000	Amortised cost	Impairment losses (note 21, 33)	Carrying amount
Sovereigns			
Municipalities	128,144	(97)	128,047
Corporate			
Large Corporates	1,720,127	(5,677)	1,714,450
Specialized Lending	748,099	(40,322)	707,777
Small and Medium Enterprises ('SME')	1,298,428	(58,869)	1,239,559
Other Financial Institutions	659,985	(1,386)	658,599
Public Sector Entities	1,158	(3)	1,155
Factoring	21,598	(370)	21,228
	4,449,395	(106,627)	4,342,768
Retail			
Small Business	243,051	(12,822)	230,229
Consumer Loans	1,252,101	(85,587)	1,166,514
Mortgages	5,341,959	(25,402)	5,316,557
Credit Cards	203,609	(32,265)	171,344
Overdrafts	101,710	(9,346)	92,364
Flat Owners Associations	27,651	(358)	27,293
Other	12,403	(1)	12,402
	7,182,484	(165,781)	7,016,703
	11,760,023	(272,505)	11,487,518

11.3 Due to banks

€ '000	March 2018	December 2017
Due to central banks		
Current accounts	1,179	1,147
Loans received from central banks	248,624	248,874
	249,803	250,021
Due to other banks		
Current accounts	13,381	37,991
Term deposits	49,653	16,137
Loans received from other banks	130,130	134,037
Cash collateral received	4,938	11,629
	198,102	199,794
	447,905	449,815

11.4 Due to customers

€ '000	March 2018	December 2017
Current accounts	6,836,182	6,410,272
Term deposits	2,607,254	2,576,930
Government and municipal deposits	376,538	513,664
Savings accounts	241,279	238,263
Other deposits	162,158	116,304
	10,223,411	9,855,433

11. Financial assets and liabilities at amortised cost (continued)

11.5 Subordinated debt

€ '000	**March 2018**	**December 2017**
Subordinated debt	200,161	200,164

At 31 March 2018, the balance of subordinated debt comprised of one 3M euribor ten-year loan drawn on 22 December 2016, in the nominal amount of € 200,000 thousand (31 December 2017: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

11.6 Debt securities in issue

€ '000	**March 2018**	**December 2017**
Covered bonds	418,538	262,037
Covered bonds subject to cash flow hedges	280,680	281,063
Covered bonds subject to fair value hedges	1,538,343	1,696,454
	2,237,561	2,239,554
Revaluation of fair value hedged covered bonds	4,729	8,465
Amortisation of revaluation related to terminated fair value hedges	4,179	4,361
	2,246,469	2,252,380

The repayment of covered bonds is funded by the mortgage loans provided to customers of the Bank (note 11.2).

11. Financial assets and liabilities at amortised cost (continued)

Name	Interest rate %	Currency	Number of bonds in circulation at 31 March 2018	Nominal value in original currency per piece	Issue date	Maturity date	March 2018 € '000	December 2017 € '000
Mortgage bonds VÚB, a. s. XX.	4.300	EUR	50	331,939	9.3.2006	9.3.2021	16,641	17,176
Mortgage bonds VÚB, a. s. XXX.	5.000	EUR	1,000	33,194	5.9.2007	5.9.2032	33,877	33,457
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,971	19,724
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	560	33,194	31.3.2008	31.3.2020	18,490	19,140
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,303	16,067
Mortgage bonds VÚB, a. s. 57.	1.037	EUR	100	1,000,000	30.9.2010	30.9.2018	100,003	100,262
Mortgage bonds VÚB, a. s. 58.	1.529	EUR	80	1,000,000	10.12.2010	10.12.2019	80,377	80,071
Mortgage bonds VÚB, a. s. 62.	1.718	EUR	100	1,000,000	28.7.2011	28.7.2018	100,300	100,730
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50,000	29.11.2011	29.11.2030	15,272	15,071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,761	25,463
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	51,330	50,795
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	70,220	71,967
Mortgage bonds VÚB, a. s. 75.	2.000	EUR	300	100,000	5.4.2013	5.4.2019	30,604	30,456
Mortgage bonds VÚB, a. s. 76.	2.400	EUR	309	10,000	22.4.2013	22.4.2018	3,160	3,141
Mortgage bonds VÚB, a. s. 77.	1.800	CZK	5,000	100,000	20.6.2013	20.6.2018	19,937	19,759
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	905	10,000	3.3.2014	3.3.2020	9,079	9,227
Mortgage bonds VÚB, a. s. 79.	2.000	EUR	10,000	1,000	24.3.2014	24.9.2020	10,004	10,154
Mortgage bonds VÚB, a. s. 80.	1.850	EUR	31	1,000,000	27.3.2014	27.3.2021	31,253	31,704
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	38,796	39,556
Mortgage bonds VÚB, a. s. 82.	1.650	EUR	1,701	1,000	16.6.2014	16.12.2020	1,723	1,716
Mortgage bonds VÚB, a. s. 83.	0.900	EUR	500	100,000	28.7.2014	28.7.2019	50,217	50,088
Mortgage bonds VÚB, a. s. 84.	0.600	EUR	500	100,000	29.9.2014	30.9.2019	50,082	49,996
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,874	49,581
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	1,000	100,000	27.4.2015	27.4.2020	99,328	99,135
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	98,322	97,916
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	965	100,000	11.9.2015	11.9.2020	96,846	96,733
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,669	99,338
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,455	98,011
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	99,546	99,972

(Table continues on the next page)

11. Financial assets and liabilities at amortised cost (continued)

Name	Interest rate %	Currency	Number of bonds in circulation at 31 March 2018	Nominal value in original currency per piece	Issue date	Maturity date	March 2018 € '000	December 2017 € '000
Mortgage bonds VÚB, a. s. 92.	1.700	USD	700	100,000	27.6.2016	27.6.2019	57,471	58,779
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	247,327	248,139
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	248,592	247,830
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	248,731	248,401
							2,237,561	2,239,555

12. Fair value changes of the hedged items in portfolio hedge of interest rate risk

€ '000	March 2018
Financial assets at AC:	
Due from customers	
Retail	
Mortgages	685
Financial liabilities at AC:	
Due to customers	(459)

13. Investments in subsidiaries, joint ventures and associates

March 2018 € '000	Share	Cost	Impairment losses (note 21)	Carrying amount
VÚB Leasing, a. s.	100.00%	44,410	(27,381)	17,029
Consumer Finance Holding ČR, a. s.	100.00%	4,575	-	4,575
VÚB Generali d. s. s., a. s.	50.00%	16,597	-	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	-	3
		65,585	(27,381)	38,204

December 2017 € '000	Share (%)	Cost	Impairment losses (note 21)	Carrying amount
Consumer Finance Holding, a. s.	100.00%	53,114	-	53,114
VÚB Leasing, a. s.	100.00%	44,410	(27,381)	17,029
VÚB Factoring, a. s.	100.00%	16,535	(10,533)	6,002
VÚB Generali d. s. s., a. s.	50.00%	16,597	-	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	-	3
		130,659	(37,914)	92,745

VÚB Leasing, a. s., VÚB Generali d. s. s., a. s. and Slovak Banking Credit Bureau, s. r. o. are incorporated in the Slovak Republic.

Consumer Finance Holding ČR, a. s. is incorporated in the Czech Republic.

14. Property and equipment

€ '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January 2018	102,617	60,026	28,931	3,432	195,006
Additions from merger	983	1,673	618	42	3,315
Disposals	-	(5)	(2)	(12)	(19)
Exchange differences	1	-	-	-	1
At 31 March 2018	103,601	61,694	29,547	3,462	198,303
Accumulated depreciation					
At 1 January 2018	-	(55,703)	(27,791)	-	(83,494)
Additions from merger	-	(1,251)	(475)	-	(1,725)
Depreciation for the period	(1,449)	(619)	(88)	-	(2,156)
Disposals	-	5	2	-	7
Exchange differences	-	(1)	-	-	(1)
At 31 March 2018	(1,449)	(57,569)	(28,352)	-	(87,369)
Carrying amount					
at 1 January 2018	102,617	4,323	1,140	3,432	111,512
at 31 March 2018	102,152	4,126	1,195	3,462	110,934

15. Intangible assets

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2018	225,628	10,500	23,633	259,761
Additions	12,657	-	247	12,904
Disposals	-	-	360	360
Transfers	-	-	-	-
Exchange differences	2	1	-	3
At 31 March 2018	238,287	10,501	24,240	273,028
Accumulated amortisation				
At 1 January 2018	(175,341)	(9,538)	-	(184,879)
Additions from merge	(8,317)	-	-	(8,317)
Amortisation for the period	(2,661)	(93)	-	(2,754)
Exchange differences	(2)	(1)	-	(3)
At 31 March 2018	(186,321)	(9,632)	-	(195,953)
Carrying amount				
At 1 January 2018	50,287	962	23,633	74,882
At 31 March 2018	51,966	869	24,240	77,075

16. Goodwill

€ '000	March 2018	December 2017
Goodwill	18,871	-

The Bank obtained by merger of Consumer Finance Holding, a. s. the goodwill of companies TatraCredit, a. s., Quatro, a. s., Q-CAR, a. s., Q-BROKER, a. s., SLOVENSKÁ POŽIČOVŇA, a. s. and Slovenské kreditné karty, a. s., which were previously merged into this company.

Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses on goodwill were recognized during 2018.

The Company uses capital asset pricing model calculation for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period with additional forecasted five-year period. Both discount rates and growth rates are determined by the parent company.

17. Current and deferred income taxes

€ '000	Note	March 2018	December 2017
Current income tax assets	34	13,735	5,813

€ '000		March 2018	December 2017
Deferred income tax assets	34	44,402	38,626

€ '000		March 2018	December 2017
Current income tax liabilities	34	908	-

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2017: 21%) as follows:

€ '000	March 2018	Profit/ (loss) (note 33)	Equity	Merger	December 2017
Derivative financial instruments designated as cash flow hedges	(162)	-	(19)	-	(143)
Financial assets at FVOCI	(7,365)	-	(7,365)	-	-
Available-for-sale financial assets	-		1,181	-	(1,181)
Financial assets at AC:					
Due from other banks	134	16	101	-	16
Due from customers	53,286	(10,461)	8,725	13,006	42,016
Property and equipment	(9,704)	136	(56)	(8)	(9,776)
Other assets	7	-	7	-	-
Provisions	854	92	(315)	-	1,077
Other liabilities	8,726	(55)	-	810	7,971
Other	(1,374)	(60)	-	40	(1,354)
Deferred income tax assets	44,402	(10,331)	2,260	13,848	38,626

18. Other assets

€ '000	Note	March 2018	December 2017
Operating receivables and advances		16,654	13,856
Prepayments and accrued income		3,194	6,046
Other tax receivables		1,199	1,200
Inventories		1,031	731
Settlement of operations with financial instruments		7	7
		22,085	21,840
Impairment losses	21	(1,985)	(1,992)
		20,100	19,848

19. Provisions

€ '000	Note	March 2018	December 2017
Financial guarantees and commitments	22, 32	14,384	19,781
Litigation	22, 24, 32	6,423	6,331
Restructuring provision	22, 32	924	924
Other provisions	22, 32	40	47
		21,771	27,083

20. Other liabilities

€ '000	March 2018	December 2017
Settlement with shareholders	145,468	1,508
Settlement with employees	32,570	26,527
Various creditors	30,722	37,839
Severance and Jubilee benefits	4,728	4,691
Accruals and deferred income	4,717	2,684
Payables from issue of covered bonds	1,402	-
Settlement with securities	1,056	25
VAT payable and other tax payables	932	1,681
Share remuneration scheme	900	850
Investment certificates	449	449
Other	22	-
	222,966	76,254

At 31 March 2018 and 31 December 2017 there were no overdue balances within ‘Other liabilities’.

20. Other liabilities (continued)

Severance and Jubilee benefits are discounted to determine its present value. The discount rate is determined by reference to current rates of return on Slovak government bonds with a 15 years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the projected unit credit method. All employees of the Bank are covered by the retirement and jubilee employee benefits program.

The calculation for the respective program takes into account the following parameters at 31 March 2018 and 31 December 2017:

	Jubilee benefits	**Retirement benefits**
Discount rate	-0.35%	0.94%
Growth of wages in 2018/2017*	-	3.50%
Future growth of wages after 2019/2018*	-	3.50%
Fluctuation of employees (based on age)	5.7% – 36.8%	5.7% – 36.8%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

* Growth of wages and Future growth of wages is not part of calculation for Jubilee benefits.

21. Movements in impairment losses

€ '000	Note	31 Dec. 2017	FTA	1 January 2018	Merger	Creation (note 33)	Reversal (note 33)	Assets written-off/sold (note 33)	Exchange difference	Other*	31 March 2018
Financial assets at FVOCI		-	227	227	-	1	(53)	-	-	-	174
Financial assets at AC:	11										
Due from other banks		73	482	555	-	206	(4)	-	-	-	757
Due from customers		272,505	38,831	311,336	77,141	49,646	(40,286)	(21,972)	(134)	(2,855)	372,876
Investments in subsidiaries, joint ventures and associates	13	37,914	-	37,914	(10,533)	-	-	-	-	-	27,381
Property and equipment	14	-	-	-	43	-	(43)	-	-	-	-
Other assets	18	1,992	32	2,024	3	91	(133)	-	-	-	1,985
		312,484	39,572	352,056	66,654	49,943	(40,520)	(21,972)	(134)	(2,855)	403,173

* 'Other' represents:

- the interest portion (unwinding of interest).

22. Movements in provisions

€ '000	Note	31. Dec. 2017	FTA	1 January 2018	Merger	Creation	Reversal	Other	31 March 2018
Financial guarantees and commitments	19, 31	19,781	(1,498)	18,283	-	5,158	(9,039)	(18)	14,384
Litigation	19, 24, 31	6,331	-	6,331	38	55	(1)	-	6,423
Restructuring provision	19, 31	924	-	924	-	-	-	-	924
Other provisions	19, 31	47	-	47	-	-	(6)	(1)	40
		27,083	5,213	25,585	38	5,213	(9,046)	(19)	21,771

23. Equity

€ '000	March 2018	December 2017
Share capital - authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,719	13,719
Reserves	137,895	114,383
Retained earnings (excluding net profit for the year)	892,608	837,038
	1,475,041	1,395,959

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.

	March 2018	March 2017
Net profit for the year attributable to shareholders in € '000	57,727	40,340
Divided by the weighted average number of ordinary shares, calculated as follows:		
89 shares of € 3,319,391.89 each in €	295,425,878	295,425,878
4,078,108 shares of € 33.2 each in €	135,393,186	135,393,186
	430,819,064	430,819,064
Divided by the value of one ordinary share of € 33.2		
The weighted average number of ordinary shares of € 33.2 each	12,976,478	12,976,478
Basic and diluted earnings per € 33.2 share in €	3.91	3.11

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

The structure of shareholders is as follows:

€ '000	March 2018	December 2017
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.14%	2.08%
Foreign shareholders	0.83%	0.89%
	100.00%	100.00%

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

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

23. Equity (continued)

The Bank's regulatory capital position at 31 March 2018 and 31 December 2017 was determined based on the rules for capital adequacy calculation set by the CRR regulation:

€ '000	March 2018	December 2017
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings without net profit for the period	869,940	828,574
Other reserves	95,957	95,957
Accumulated other comprehensive income	49,791	25,575
Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities	611	531
Other transitional adjustments to CET1 Capital	39,281	-
CET1 capital elements or deductions — other	(2,628)	-
Less goodwill and intangible assets	(95,946)	(74,882)
	1,401,544	1,320,293
Tier 2 capital		
IRB excess of provisions over expected losses eligible	20,974	10,736
Subordinated debt	200,000	200,000
Other transitional adjustments to T2 Capital	(9,767)	-
	211,207	210,736
Total regulatory capital	1,612,751	1,531,029

€ '000	March 2018	December 2017	March 2018 Required	December 2017 Required
Tier 1 capital	1,401,545	1,320,293	678,941	662,260
Tier 2 capital	211,206	210,736	211,206	210,736
Total regulatory capital	1,612,751	1,531,029	678,941	662,260
Total Risk Weighted Assets	8,486,762	8,278,248	8,486,762	8,278,248
Tier 1 capital ratio	16.51%	15.95%	12.25%	11.00%
Total capital ratio	19.00%	18.49%	14.25%	13.00%

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.

Own Funds, risk-weighted assets and the capital ratios as at 31 March 2018 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU ('CRD IV') and in CRR regulation of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that VÚB must comply with on consolidated level. Starting from 1 January 2017, the overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 10.25%. This is the result of: a) the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.25%, entirely of Common Equity Tier 1 ratio; b) additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an O-SII Buffer (Other Systemically Important Institutions Buffer) of 1% and SRB (Systemic Risk Buffer) of 1%.

23. Equity (continued)

For the sake of completeness, please note that Directive 2013/36/EU ('CRD IV') establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer ('CCyB') starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Slovakia by National Bank of Slovakia in relevant regulation, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the National Bank of Slovakia decided to set the countercyclical ratio (relating to the exposures towards Slovak counterparties) for period starting 1 August 2017 at 0.5% (bringing the total CET1 capital requirement to 10.75%).

The Overall Capital Requirement was as of 1 January 2017 set at 13.75% (14.25% from 1 August 2018).

Since November 2014, the Bank has been under the supervision of the European Central Bank.

24. Financial commitments and contingencies

€ '000	March 2018	December 2017
Issued guarantees	794,314	783,667
Commitments and undrawn credit facilities	2,972,616	2,858,458
	3,766,930	3,642,125

(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 31 March 2018 and 31 December 2017 was as follows:

€ '000	March 2018	December 2017
Up to 1 year	1,028	741
1 to 5 years	1,831	1,224
	2,859	1,965

(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 31 March 2018. Pursuant to this review, management has recorded total provisions of € 6,423 thousand (31 December 2017: € 6,331 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 € 28,083 thousand, as at 31 March 2018 (31 December 2017: € 27,909 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

25. Net interest income

€ '000	March 2018
Interest and similar income	
Financial assets held for trading	(17)
Financial assets at fair value through other comprehensive income	5,219
Financial assets at amortised cost:	
Due from banks	1,459
Due from customers	94,478
Derivatives - Hedge accounting	(1,866)
Interest income on liabilities	294
	99,567
Interest and similar expense	
Financial liabilities measured at amortised cost:	
Due to banks	(175)
Due to customers	(3,112)
Subordinated debt	(1,454)
Debt securities in issue	(8,412)
Derivatives - Hedge accounting	1,593
Interest expense on assets	(396)
	(11,956)
	87,611

€ '000	March 2017
Interest and similar income	
Due from banks	35
Loans and advances to customers	86,276
Bonds, treasury bills and other securities:	
Financial assets at fair value through profit or loss	16
Available-for-sale financial assets	3,009
Held-to-maturity investments	4,626
Interest expense from hedging instruments	(2,646)
Interest income on liabilities	330
	91,646
Interest and similar expense	
Due to banks	(193)
Due to customers	(5,138)
Debt securities in issue	(7,967)
Interest income from hedging instruments	1,772
Interest expense on assets	(154)
	(11,680)
	79,966

26. Net fee and commission income

€ '000	March 2018	March 2017
Fee and commission income		
Received from banks	1,592	1,833
Received from customers:		
Current accounts	14,585	13,738
Transactions and payments	5,596	4,828
Loans and guarantees	5,430	6,607
Securities	3,403	2,973
Insurance mediation	2,904	3,182
Overdrafts	996	1,037
Securities - Custody fee	528	501
Term deposits	13	53
Other	1,565	1,022
	36,612	35,774
Fee and commission expense		
Paid to banks	(3,602)	(3,358)
Paid to mediators:		
Credit cards	(2,225)	(7,279)
Services	(499)	(211)
Securities	(175)	(663)
Other	(362)	(139)
	(6,863)	(11,650)
	29,749	24,124

27. Net trading result

€ '000	March 2018	March 2017
Foreign currency derivatives and transactions	2,619	1,561
Customer foreign exchange margins	1,619	1,170
Cross currency swaps	946	1,265
Interest rate derivatives	(308)	501
Equity derivatives	(10)	1
Other derivatives	29	(10)
Net result from hedging transactions	107	234
Financial assets held for trading - debt securities	476	24
Non-trading financial assets mandatorily at FVTPL	50	22
Dividends from equity shares held in FVOCI	11	9
Financial assets at FVOCI	19,815	-
Available-for-sale financial assets	-	465
Held-to-maturity investments	-	1,208
	25,354	6,450

28. Other operating income

€ '000	March 2018	March 2017
Services	713	320
Rent	184	226
Financial revenues	38	18
Net profit from sale of fixed assets	(35)	-
Other	372	477
	1,272	1,041

29. Salaries and employee benefits

€ '000	March 2018	March 2017
Remuneration	(21,994)	(18,604)
Social security costs	(8,355)	(7,270)
Social fund	(405)	(344)
	(30,754)	(26,218)

At 31 March 2018, the total number of employees of the Bank was 3,827 (31 December 2017: 3,329). The average number of employees of the Bank during the period ended 31 March 2018 was 3,796 (31 December 2017: 3,331).

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.

30. Other operating expenses

€ '000	March 2018	March 2017
Resolution fund*	(5,483)	(5,438)
IT systems maintenance	(4,942)	(5,728)
Property related expenses	(4,439)	(4,064)
Post and telecom	(2,922)	(2,374)
Advertising and marketing	(2,206)	(1,808)
Equipment related expenses	(1,544)	(1,271)
Stationery	(1,030)	(980)
Third parties' services	(938)	(355)
Professional services	(704)	(601)
Security	(631)	(690)
Contribution to the Deposit Protection Fund**	(541)	(488)
Insurance	(303)	(293)
Travelling	(217)	(211)
Audit***	(177)	(134)
VAT and other taxes	(170)	(50)
Transport	(112)	(91)
Training	(108)	(147)
Litigations paid	(82)	(149)
Other damages	(38)	-
Other operating expenses	(1,515)	(1,723)
	(28,102)	(26,595)

* 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.

30. Other operating expenses (continued)

** The annual contribution for 2018 was determined by the Deposit Protection Fund under the valid methodology. As at 31 March 2018, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2018 was set at 0.0075% p. q. of the amount of protected deposits.

*** The fee for the statutory audit was € 71 thousand (March 2017: € 67 thousand). Other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the Bank's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h- 71k of the Act No. 566/2001 Coll on securities, audit of receivables towards a client of the bank for bankruptcy procedure purposes and agreed-upon procedures on the merger of a Bank's subsidiary with the Bank amounted to € 63 thousand (March 2017: € 67 thousand). Other audit not conducted by statutory auditor in the amount of € 43 thousand (March 2017: € zero thousand).

31. Special levy of selected financial institutions

At 31 March 2018 and 31 December 2017, the special levy recognized by the Bank was as follows:

€ '000	**March 2018**	**March 2017**
Special levy of selected financial institutions	(6,397)	(5,948)

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 effective from 2015, the levy rate has been decreased to 0.2% p.a.

32. Provisions

€ '000	**Note**	**March 2018**	**March 2017**
Financial guarantees and commitments	19, 22	3,881	449
Net Provisions for Litigations	19, 22, 24	(54)	9,520
Net Provisions for Other provisions	19, 22	6	(4)
		3,833	9,965

33. Impairment losses

€ '000	**Note**	**March 2018**	**March 2017**
Creation of impairment losses	21	(49,943)	(65,718)
Reversal of impairment losses	21	40,520	56,963
Net creation of impairment losses		(9,424)	(8,755)
Nominal value of assets written-off/sold		(26,521)	(11,291)
Release of impairment losses to assets written-off/sold	21	21,972	8,553
		(4,549)	(2,738)
Proceeds from receivables written-off		1,106	1,097
Proceeds from receivables sold		6,278	1,302
		7,384	2,399
		(6,588)	(9,094)

34. Income tax expense

€ '000	Note	March 2018	March 2017
Current income tax	17	(5,010)	(9,600)
Deferred income tax	17	(10,331)	(1,202)
		(15,341)	(10,802)

35. Other comprehensive income

€ '000	March 2018	March 2017
Items that may be reclassified to profit or loss in the future		
Net gain on cash flow hedges:		
Revaluation gains arising during the period	91	87
Net loss on financial assets at FVOCI:		
Losses arising during the period	(1,128)	-
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(18,998)	-
	(20,126)	-
Net loss on available-for-sale financial assets:		
Losses arising during the period	-	(1,729)
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	-	(612)
	-	(2,341)
Exchange differences on translating foreign operation	(211)	-
Total other comprehensive income	(20,246)	(2,254)
Income tax relating to components of other comprehensive income (note 36)	3,474	484
Other comprehensive income for the period	(16,772)	(1,770)

36. Income tax effects relating to other comprehensive income

	March 2018			March 2017		
€ '000	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Items that may be reclassified to profit or loss in the future						
Net movement on cash flow hedges	91	(19)	72	87	(16)	71
Financial assets at FVOCI	(20,126)	3,493	(16,633)	-	-	-
Available-for-sale financial assets	-	-	-	(2,341)	500	(1,841)
Exchange differences on transl. foreign operations	(211)	-	(211)	-	-	-
	(20,246)	3,474	(16,772)	(2,254)	484	(1,770)

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.

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37. Related parties (continued)

As at 31 March 2018, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Financial assets at FVTPL:							
Financial assets held for trading	-	-	-	-	1,257	20,428	21,685
Non-trading financial assets mandatorily at FVTPL	-	-	-	-	900	-	900
Derivatives - Hedge accounting	-	-	-	-	-	18,808	18,808
Financial assets at FVOCI	-	-	-	-	1,939	-	1,939
Financial assets at AC:							
Due from other banks	-	-	-	-	9,013	32,648	41,661
Due from customers	247	265,582	2	-	-	-	265,831
Other assets	-	581	-	-	-	2,264	2,845
	247	266,163	2	-	13,109	74,148	353,669
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	-	-	-	-	1,033	16,220	17,253
Derivatives - Hedge accounting	-	-	-	-	-	8,424	8,424
Financial liabilities at AC:							
Due to banks	-	-	-	-	66,112	3,156	69,268
Due to customers	2,464	2,417	-	227	-	3,948	9,056
Subordinated debt	-	-	-	-	-	200,161	200,161
Debt securities in issue	-	-	-	-	-	280,680	280,680
Other liabilities	900	300	-	-	-	2,382	3,582
	3,364	2,717	-	227	66,112	490,327	562,747

37. Related parties (continued)

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	-	130,046	-	-	3,855	-	133,901
Issued guarantees	-	-	-	-	13,979	865	14,844
Received guarantees	-	-	-	-	52,313	15,106	67,419
Derivative transactions (notional amount – receivable)	-	-	-	-	1,050,797	44,714	1,095,511
Derivative transactions (notional amount – payable)	-	-	-	-	1,050,928	39,727	1,090,655

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	-	341	-	-	1	2	344
Interest and similar expense	-	-	-	-	(7)	(2,468)	(2,475)
Fee and commission income	-	15	-	-	12	3,422	3,449
Fee and commission expense	-	-	-	-	(98)	(6)	(104)
Net trading result	-	-	-	-	(1,693)	(17,855)	(19,548)
Dividend income	-	-	2,000	-	-	-	2,000
Other operating income	-	642	10	-	-	85	737
Other operating expenses	-	(340)	-	-	30	(2,546)	(2,856)
	-	658	2,010	-	(1,755)	(19,366)	(18,453)

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37. Related parties (continued)

As at 31 December 2017, the outstanding balances with related parties comprised:

31 December 2017 **€ '000**	**KMP**	**Sub-sidiaries**	**Joint ventures**	**Associates**	**Intesa Sanpaolo**	**ISP Group companies**	**Total**
Assets							
Financial assets at fair value through profit or loss	-	-	-	-	850	-	850
Derivative financial instruments	-	-	-	-	995	41,937	42,932
Available-for-sale financial assets	-	-	-	-	1,832	-	1,832
Financial assets at AC:							
Due from other banks	-	-	-	-	9,978	32,659	42,637
Due from customers	251	366,835	1	-	-	-	367,087
Other assets	-	1,514	7	-	6	1,503	3,030
	251	368,349	8	-	13,661	76,099	458,368
Liabilities							
Derivative financial instruments	-	-	-	-	1,130	20,855	21,985
Financial liabilities at AC:							
Due to banks	-	-	-	-	56,917	12,263	69,180
Due to customers	2,651	2,501	-	214	-	1,998	7,364
Subordinated debt	-	-	-	-	-	200,164	200,164
Debt securities in issue	-	-	-	-	-	281,064	281,064
Other liabilities	850	4,542	-	-	-	2,644	8,036
	3,501	7,043	-	214	58,047	518,988	587,793
Commitments and undrawn credit facilities	-	79,147	-	-	3,460	-	82,607
Issued guarantees	-	-	-	-	9,629	861	10,490
Received guarantees	-	-	-	-	52,499	15,213	67,712
Derivative transactions (notional amount – receivable)	-	-	-	-	427,675	5,685,464	6,113,139
Derivative transactions (notional amount – payable)	-	-	-	-	427,589	5,680,478	6,108,067

37. Related parties (continued)

For the period ended 31 March 2017, the outstanding balances with related parties comprised:

March 2017 **€ '000**	**KMP**	**Sub-sidiaries**	**Joint ventures**	**Associates**	**Intesa Sanpaolo**	**ISP Group companies**	**Total**
Income and expense items							
Interest and similar income	2	579	-	-	93	-	674
Interest and similar expense	(2)	-	-	-	(13)	(1,889)	(1,904)
Fee and commission income	-	18	-	2,310	17	26	2,371
Fee and commission expense	-	(5,780)	-	(6)	(81)	(1,802)	(7,669)
Net trading result	-	-	-	-	117	32,217	32,334
Dividend income	-	-	1,605	2,822	-	-	4,427
Other operating income	-	332	-	93	123	5	553
Other operating expenses	-	(305)	-	-	(43)	(829)	(1,177)
	-	(5,156)	1,605	5,219	(207)	(4,976)	(3,515)

38. Profit distribution

On 23 March 2018, the Bank's shareholders approved the following profit distribution for 2017.

€ '000	
Dividends to shareholders (€ 11.10 per € 33.2 share)	144,025
Retained earnings	15,996
	160,021

39. Events after the end of the reporting period

From 31 March 2018, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue on 27 April 2018.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
Member of the Management Board