**Všeobecná úverová banka, a.s.**

# BASE PROSPECTUS

**dated 28 February 2019**

## Offering programme for Covered Bonds in the maximum volume of unpaid Bonds amounting to EUR 5,000,000,000

This document is a base prospectus for debt securities issued pursuant to the offering programme (the "**Base Prospectus**"), on the basis of which Všeobecná úverová banka, a.s., with the registered office at Mlynské nivy 1, 829 90 Bratislava, Identification number: 31 320 155, registered in the Commercial Register of District Court Bratislava I, section: Sa, file no. 341/B ("**VÚB, a.s.**", or the "**Issuer**") is authorised to issue, in compliance with the generally binding legal regulations, individual bond issues – covered bonds (the "**CB**" or "**Bonds**") in any currency, on the basis of the information provided herein as may subsequently be amended from time to time (the "**Programme**"). The total nominal value of all unpaid Bonds issued under the Programme must not exceed EUR 5,000,000,000 or the equivalent sum in any other currency. The Programme duration is 10 years, until 6 May 2023. The Programme has been approved by the Supervisory Board of the Issuer on 24 October 2012. An increase of the original size of the Programme from EUR 1,500,000,000 to EUR 5,000,000,000 was approved by the Supervisory Board of the Issuer on 1 December 2016.

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

This Base Prospectus contains common information concerning the Bonds and conditions of the offer thereof, on the basis of which individual Bonds will be issued under the Programme. Prior to the commencement of Bonds issued under the Programme, the Issuer shall prepare and publish a separate document (the "**Final Terms**") for each Bonds issue and enclose a summary for each issue (the "**Summary**"), if the Summary is required pursuant to applicable law. The Final Terms and (if relevant) the Summary will provide, together with the information indicated in the Base Prospectus, all the information pursuant to valid legal regulations for such Bonds issue. The 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 the Base Prospectus and/or several variants of which are indicated in the Base Prospectus.

The Base Prospectus was prepared on 28 February 2019 according to the situation at the date of preparation thereof, unless specified otherwise. The Base Prospectus is valid for 12 months of the approval thereof by the National Bank of Slovakia (the "**NBS**") for the purpose of a public offering or acceptance of the Bonds for trading on a regulated market, provided that the Base Prospectus will be updated in accordance with Section 121 (9) of Act No. 566/2001 Coll., on securities and investment services, as amended (the "**Act on Securities**"). Anytime during the validity of the Base Prospectus, a supplement to the Base Prospectus (each, a "**Supplement**") may be prepared in relation to the updating of the Base Prospectus and submitted to the NBS for approval. Once approved, the Supplement shall be published in the same way as the Base Prospectus. Prior to the expiry of the Base Prospectus, the Issuer shall require the NBS to approve a new base prospectus, which shall be published in the same way as this Base Prospectus. The validity of this Base Prospectus will expire also when a new base prospectus is approved by the NBS and disclosed by the Issuer. In such a case the new base prospectus will simultaneously cancel this Base Prospectus in full and will replace it. The purpose of the aforementioned measures is to assure that in cases of a public offering of the Bonds or request for the admission of the Bonds for trading on a regulated market, each Bonds issue is always carried out on the basis of a valid and current prospectus.

The Final Terms and (if relevant) the Summaries, which will be prepared by the Issuer in the future for any Bonds issue, shall be published in the same way as the Base Prospectus, and will constitute, together with the Base Prospectus, as amended by later Supplements, the entire information about each issuance of the Bonds within the Programme.

Banca IMI S.p.A., a bank organised as a joint stock company under the laws of the Republic of Italy, with the registered office at Largo Mattioli, 3, 20121 Milan, Italy ("**Banca IMI**") will act as arranger and initial dealer for the Programme. Additional Dealers may be appointed under the Programme from time to time either on a permanent basis or in relation to a single issuance or issuances of Bonds. However, the Issuer is solely responsible for the information in the Base Prospectus and Banca IMI, or any other Dealers so appointed, have not verified and will not be responsible for any information in the Base Prospectus.

The Bonds issued under the Programme are expected to be rated by Moody's Investors Service Ltd ("**Moody's**"). A credit rating is not a recommendation to buy, sell or hold the Bonds and may be subject to revision or withdrawal.

For a discussion of certain risks and other factors that should be considered in connection with an investment in the Bonds, see the section headed "Risk Factors" of this Base Prospectus.

| Sole Arranger | Dealer |
|---|---|
| **Banca IMI** | **Banca IMI** |

CONTENTS

# I. SUMMARY

This summary (the "**Summary**") is an introduction to a base prospectus for debt securities issued under the offering programme (the "**Base Prospectus**"), on the basis of which Všeobecná úverová banka, a.s., with the registered office at Mlynské nivy 1, 829 90 Bratislava, Identification number: 31 320 155, registered in the Commercial Register of District Court Bratislava I, section: Sa, file no. 341/B ("**VÚB, a.s.**", or the "**Issuer**") is authorised to issue, in compliance with the generally binding legal regulations, individual bond issues – covered bonds (the "**CB**", "**CBs**" or "**Bonds**") in any currency, on the basis of the information provided herein as may subsequently be amended from time to time (the "**Programme**"). The Summary contains basic information about the Issuer, Bonds and the Programme contained elsewhere in the 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 the Bonds should take into consideration the entire Base Prospectus including later supplements to the Base Prospectus (the "**Supplement**"), together with final terms of the relevant issue (the "**Final Terms**"). 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 (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (the **"Regulation**"). This Summary of the Base Prospectus consists of the individual parts known as the elements (the "**Elements**"). The 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 the 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 the Element is provided together with statement "does not apply".

This Summary of the Base Prospectus contains some information given in square brackets that do not include specific information regarding the Bonds that will be issued under the Programme or which contain only a general description (or their general principles or alternatives). The Summary of an issue prepared in compliance with Article 24(3) of the Regulation will contain the information regarding a particular issue of the Bonds which will be determined and inserted in the relevant Final Terms.

The Issuer will prepare a Summary of an issue if (i) it is obliged to do so pursuant to the applicable Slovak legal regulations; or (ii) if the Bonds are offered in another Member State of the European Union, and it is obliged to do so pursuant to the applicable national legislation of the relevant Member State of the European Union which has transposed the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the "**Prospectus Directive**"). If the Issuer is not obliged to prepare a Summary of an issue with regard to a particular issue of the Bonds, it reserves the right to do so at its own discretion.

| Section A – Introduction and warnings | | |
|---|---|---|
| **Element** | **Disclosure requirement** | |
| **A.1** | **Warnings** | This Summary should be perceived as an introduction to the Base Prospectus.<br>Any decision to invest in the Bonds should be based on the consideration of the Base Prospectus as a whole by the investor.<br>In the event where a claim relating to the information contained in the Base Prospectus is brought before a court, the plaintiff investor might, under the national legislation of an EU Member State, have to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.<br>Civil liability attaches only to those persons who have prepared the Summary including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Base Prospectus or it does not provide, when read together with the other parts of the Base Prospectus, key information in order to aid investors when considering whether to invest in such securities.<br>**Responsible persons and their representations:** Všeobecná úverová banka, a.s. as Issuer, represented by Alexander Resch, a Chairman of the Management Board, and Antonio Bergalio, a member of the Management Board, represents that it is liable for the information contained in the entire Summary.<br>The 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 the Issuer and the Bonds issued by the Issuer were omitted.<br>Signatures of responsible persons are provided in chapter "IV. INFORMATION ABOUT SECURITIES" of the Base Prospectus. |
| **A.2** | **Consent of the Issuer with the use of the Base Prospectus by financial intermediaries** | Not applicable; The Issuer does not give its consent to use the Base Prospectus by financial intermediaries for the secondary trading and no party shall act as the intermediary in the secondary trading. |

| Section B - Issuer | | |
|---|---|---|
| **Element** | **Disclosure requirement** | |
| **B.1** | **The legal and commercial name of the Issuer** | Všeobecná úverová banka, a.s.; name in short: VÚB, a.s. |

<table>
<tr><td>B.2</td><td>The domicile and the legal form of the Issuer</td><td>Registered office: Mlynské nivy 1, 829 90 Bratislava, Identification number: 31 320 155, registered in the Commercial Register of District Court Bratislava I, section: Sa, file no. 341/B.<br>Legal form: joint-stock company.<br>LEI code: 549300JB1P61FUTPEZ75.</td></tr>
<tr><td></td><td>Legal regulations under which the Issuer carries out its activities</td><td>The Issuer carries out its activities under Slovak law, namely under Act No. 513/1991 Coll., the Commercial Code, as amended (the "Commercial Code"), Act No. 483/2001 Coll., on Banks, as amended (the "Act on Banks") and Act No. 566/2001 Coll., on securities and investment services (the "Act on Securities"), as amended.</td></tr>
<tr><td></td><td>Country of incorporation</td><td>Slovak Republic.</td></tr>
<tr><td>B.4b</td><td>A description of any known trends affecting the Issuer and the industries in which it operates</td><td>The last global financial crisis has led to the increase in national and international regulation with the aim of imposing new, and to toughen existing, rules for the financial sector, in which the Issuer is active. This regulation could influence the 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 the 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 Base Prospects of the Issuer during the current financial year.</td></tr>
<tr><td>B.5</td><td>Description of the group and the Issuer's position within the group</td><td>VÚB, a. s., is a member of the Intesa Sanpaolo group, consisting of Intesa Sanpaolo S.p.A., a bank organised as a joint stock company under the laws of the Republic of Italy, with the registered office at Piazza San Carlo 156, 10121, Turin, Italy and secondary office at Via Monte di Pietà 8, 20121, Milan, Italy, incorporated with Fiscal Code number and registration number with the Turin Register of Enterprises 00799960158, VAT number 10810700152, and registered with the Bank of Italy pursuant to Article 13 of the Banking Law under number 5361 and its subsidiaries ("Intesa Sanpaolo Group").<br><br>The shareholder with decisive share in the mortgage bonds and voting rights of the Issuer is Intesa Sanpaolo Holding International S.A.<br><br>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. The Issuer has a direct equity interest in 3 entities.<br><br>
<table>
<tr><th>Group</th><th>Trade name and CRN (identification number)</th><th>% share</th><th>Registered office</th></tr>
<tr><td>Legal person controlling VÚB, a. s.<br>(as of 31 December 2018)</td><td>Intesa Sanpaolo Holding International S.A.,<br>CRN: B 44318</td><td>97.03</td><td>35 Boulevard du Prince Henri,<br>L-1724<br>Luxembourg,<br>Luxembourg</td></tr>
</table>
</td></tr>
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| | | | | | |
|---|---|---|---|---|---|
| | | Legal person controlling Intesa Sanpaolo Holding International S.A., Luxembourg (as of 31 December 2018) | Intesa Sanpaolo S.p.A., CRN: 799960158 | 100.00 | Piazza San Carlo 156, Torino, Italy |
| | | Significant direct equity interest of VÚB, a. s., in business companies (as of 31 December 2018) with 50% and higher share in the registered capital | VÚB Leasing a. s., Identification number: 31 318 045 | 100.00 | Mlynské nivy 1, 820 05 Bratislava, Slovak Republic |
| | | | VÚB Generali, Dôchodková správcovská spoločnosť, a. s., Identification number: 35 903 058 | 50.00 | Mlynské nivy 1, 820 04 Bratislava, Slovak Republic |
| | | | Consumer Finance Holding Czech Republic, a. s. | 100.00 | Pobřežní 620/3, 186 00 Praha – Karlín Czech Republic |
| **B.9** | **Profit forecast or estimate** | Not applicable; The Issuer has decided not to include the profit forecast and as of the date of the Base Prospectus, it did not publish the profit forecast. | | | |
| **B.10** | **A description of the nature of any qualifications in the audit report on the historical financial information** | Not applicable; No qualifications have been made by the auditor in the audit report on the historical financial information. | | | |

**B.12**

**Selected key historical financial information**

The selected key historical financial information from consolidated financial statements verified by an auditor, for the period ending 31 December 2017, and 31 December 2018 prepared in accordance with the International Financial Reporting Standards (the "**IFRS**").

**Consolidated statement of financial position**
**(in thousands of EUR)**

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash, balances at central banks | 1,747,562 | 1,595,097 |
| Financial assets at fair value through profit or loss: | | |
| Financial assets held for trading | 39,548 | - |
| Non-trading financial assets at fair value through profit or loss | 440 | - |
| Derivatives – Hedge accounting | 26,765 | - |

| | | |
|---|---|---|
| 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 | 749,974 | - |
| of which pledged as collateral | 620,922 | - |
| Available-for-sale financial assets | - | 520,416 |
| of which pledged as collateral | - | 300,043 |
| Held-to-maturity investments | - | 376,472 |
| of which pledged as collateral | - | 376,472 |
| Financial assets at amortised cost: | | |
| Due from other banks | 126,896 | 90,913 |
| Due from customers | 13,614,377 | 12,000,729 |
| of which pledged as collateral | 199,170 | 207,661 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 9,183 | - |
| Investments in subsidiaries, joint ventures and associates | 8,758 | 8,972 |
| Property and equipment | 91,683 | 126,848 |
| Intangible assets | 92,863 | 80,100 |
| Goodwill | 29,305 | 29,305 |
| Current income tax assets | 1,181 | 9,478 |
| Deferred income tax assets | 70,731 | 53,779 |
| Other assets | 23,747 | 23,128 |
| Non-current assets classified as held for sale | 26,922 | - |
| | 16,659,935 | 14,970,876 |
| **Liabilities** | | |
| Financial liabilities at fair value through profit or loss: | | |
| Financial liabilities held for trading | 39,335 | - |
| Derivatives – Hedge accounting | 15,226 | - |
| Derivative financial instruments | - | 52,184 |
| Financial liabilities at amortised cost: | | |
| Due to banks | 1,192,015 | 768,781 |
| Due to customers | 11,130,637 | 9,939,121 |
| Subordinated debt | 200,181 | 200,164 |
| Debt securities in issue | 2,332,253 | 2,252,380 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 1,499 | - |
| Current income tax liabilities | 10,724 | - |
| Provisions | 24,723 | 29,743 |
| Other liabilities | 99,389 | 95,916 |
| | 15,045,982 | 13,338,289 |
| **Equity** | | |
| Share capital | 430,819 | 430,819 |
| Share premium | 13,719 | 13,719 |
| Legal reserve fund | 88,986 | 100,054 |
| Retained earnings | 1,052,943 | 1,060,501 |
| Equity reserves | 27,486 | 27,494 |
| | 1,613,953 | 1,632,587 |
| | 16,659,935 | 14,970,876 |

## Consolidated statement of profit or loss and other comprehensive income (in thousands of EUR)

| | **2018** | **2017** |
|---|---|---|
| Interest and similar income | 416,398 | 434,140 |
| Interest and similar expense | (49,699) | (50,227) |
| **Net interest income** | 366,699 | 383,913 |
| Fee and commission income | 157,689 | 151,028 |
| Fee and commission expense | (29,751) | (37,379) |
| **Net fee and commission income** | 127,938 | 113,649 |

| | | |
|---|---|---|
| Net trading result | 39,888 | 40,391 |
| Other operating income | 6,359 | 8,506 |
| Other operating expenses | (16,092) | (15,518) |
| Special levy of selected financial institutions | (26,286) | (24,823) |
| Salaries and employee benefits | (129,223) | (126,659) |
| Other administrative expenses | (85,793) | (90,826) |
| Amortisation | (12,448) | (12,635) |
| Depreciation | (10,808) | (12,134) |
| **Profit before provisions, impairment and tax** | 260,234 | 263,864 |
| Provisions | (340) | 16,511 |
| Impairment losses | (61,397) | (59,205) |
| Net gains arising from the derecognition of financial assets measured at amortised cost | 3,525 | - |
| | 202,022 | 221,170 |
| Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method | 2,131 | 1,965 |
| **Profit before tax** | 204,153 | 223,135 |
| Income tax expense | (43,835) | (48,138) |
| **NET PROFIT FOR THE YEAR** | 160,318 | 174,997 |
| **Other comprehensive income for the year, after tax:** | | |
| Items that shall not be reclassified to profit or loss in the future: | | |
| Net revaluation gain from property and equipment | 2 | 21,966 |
| Change in value of financial assets at fair value through other comprehensive income (equity instruments) | 537 | - |
| | 539 | 21,966 |
| Items that may be reclassified to profit or loss in the future: | | |
| Change in value of cash flow hedges | (544) | 1,378 |
| Change in value of financial assets at fair value through other comprehensive income (debt securities) | (39,760) | - |
| Change in value of available-for-sale financial assets | - | 606 |
| Exchange difference on translating of foreign operations | (316) | 269 |
| | (40,620) | 2,253 |
| **Other comprehensive income for the year, net of tax** | (40,081) | 24,219 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | 120,237 | 199,216 |

| | | |
|---|---|---|
| | **Statement with regard to no material adverse change in the prospects of the Issuer or a description of any material adverse change** | Since the publication of the last consolidated financial statements prepared in accordance with IFRS, no material adverse change in the Issuer's prospects has occurred. |
| | **Description of any recent events specific** | |

| | | |
|---|---|---|
| | **for the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency** | Not applicable; After the period for which the historical financial information is provided, no significant changes in the financial or business position of the Issuer have occurred. |
| **B.13** | **Specific circumstances relevant to the evaluation of the Issuer's solvency** | Not applicable; The Issuer is unaware of any specific circumstances having an impact on Issuer's solvency. |
| **B.14** | **Dependence on other entities within the group** | Dependence of the Issuer on other entities within the group is proportional to the share of those entities in the registered capital of the 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 a majority share, i.e. 97.03%, in Issuer's registered capital and voting rights. The legal entity 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** | **Principal activities of the Issuer** | The 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 ownership or controlling of the Issuer** | The legal entity controlling the 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 entity 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** | **Ratings** | Moody's Investors Service Ltd has assigned the following rating:<br><br>The Issuer: Deposits A2/P- 1; stable outlook.<br><br>The Bonds issued by the Issuer under the Programme were rated at the level Aa2. |

| **Section C - Securities** | | |
|---|---|---|
| **Element** | **Disclosure requirement** | |
| **C.1** | **Type and class of securities** | The Bonds are covered bonds (in Slovak *kryté* dlhopisy) issued as book-entered securities (in Slovak *zaknihované cenné papiere*) in bearer form (in Slovak *vo forme na doručiteľa*). |
| | **Identification number of securities** | That information will be provided in the Final Terms of a specific issue. |

| | | |
|---|---|---|
| **C.2** | **Currency of the securities issue** | Such information will be provided in the Final Terms of a specific issue. |
| **C.5** | **Restriction to free transferability** | Not applicable; The Bonds are freely transferrable; no pre-emption or exchange rights are attached to the Bonds. |
| **C.8** | **Description of rights attached to securities including ranking and limitations to those rights** | Rights attached to the Bonds, restrictions of rights and procedures of the exercise thereof, as well as the obligations following from the Bonds are contained in the valid legal regulations of the Slovak Republic, in particular in Act No. 530/1990 Coll., on Bonds, as amended and the Act on Securities, in the Base Prospectus and relevant Final Terms of individual issuances. 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 to otherwise restrict or exercise 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. No pre-emption or exchange rights are attached to the Bonds.<br><br>The Bonds 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 the Issuer, with the exception of obligations to which cogent provision of legal regulations will apply.<br><br>A bondholder is entitled to payment of interest and repayment of nominal value in accordance with the terms of specific Bonds issue. |
| **C.9** | **Nominal interest rate, date from which interest becomes payable, due dates for the interest, maturity of securities, earnings and representatives of securities holders** | Such information will be provided in the Final Terms of a specific issue. |
| **C.10** | **Explanation of derivative component in the interest payment** | Not applicable; the Bonds have no derivative component in the interest payment. |
| **C.11** | **Admission to trading** | Such information will be provided in the Final Terms of a specific issue. |
| **C.21** | **Indication of the market where the securities will be traded and for which the Base Prospectus has been published** | Such information will be provided in the Final Terms of a specific issue. |

| Section D - Risks | | |
|---|---|---|
| **Element** | **Disclosure requirement** | |
| **D.2** | **Key information about the most important risks specific for the Issuer** | • Legal investment considerations in terms of restrictions of investments<br>• Change of law<br>• Risks of impact of Issuer's macroeconomic environment<br>• Credit risk (risk of non-performance of obligations on the part of the Issuer)<br>• Liquidity risk<br>• Interest risk<br>• Operating risk<br>• Membership in the Intesa Sanpaolo Group<br>• Regulatory requirements<br>• Competition on the Slovak market<br>• Rating of the Issuer<br>• U.S. Foreign Account Tax Compliance Act (FATCA)<br>• Enforcement of claims under Slovak law<br>• Compliance with anti-money laundering, anti-corruption and anti-terrorism financing rules<br>• Bankruptcy and other laws and regulations governing creditors' rights |
| **D.3** | **Key information about the most important risks specific for securities** | • Risk of potential conflict of interest<br>• The secondary market generally<br>• Rating of the Bonds<br>• Interest risk<br>• Credit risk (impact of the creditworthiness of the Issuer on the value of the Bonds)<br>• Risk of credit spread<br>• Influence of inflation<br>• Impact of taxes and fees<br>• Legal regime<br>• The risk of early redemption of the Bonds<br>• No acceleration upon Issuer's default and no joint representative<br>• Subordination risk<br>• The risk of the Bonds with fixed rate<br>• The risk of the Bonds with floating rate |

| | | |
|---|---|---|
| | | • The risk that the trading with the Bonds will be suspended, interrupted or terminated<br>• The risk of clearing system<br>• Exchange rate risks and exchange controls<br>• In exceptionally adverse bankruptcy situations the cover pool assets may not be sufficient to fully cover all liabilities under the Bonds<br>• Risk of extension of final maturity of the Bonds and risk of change of the Issuer of the Bonds<br>• Indicated maximum issue volume of the Bonds may not be binding<br>• The risk of using loan or credit to finance the acquisition of the Bonds<br>• The risk related to further issuing of debt instruments of the Issuer<br>• The risk of unpredictable event (vis major)<br>• No independent calculation agent and paying agent |

| **Section E - Offer** | | |
|---|---|---|
| **Element** | **Disclosure requirement** | |
| **E.2b** | **Reasons for the offer and use of proceeds when different from making profit and/or hedging certain risks** | Proceeds from issue of the Bonds will be used to finance general business activities of the Issuer. |
| **E.3** | **A description of the terms and conditions of the offer** | The Bonds may be offered, within primary sales, to qualified or non-qualified investors or to all investor categories. The selected variant will be provided in the Final Terms of the issue.<br><br>The estimated price, for which Bonds will be offered, will be provided in the Final Terms of a specific issue. In event of a public offer not dedicated to qualified investors in terms (i) Section 120 (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 (1) (e) of the Prospectus Directive has been transposed, for the purpose of the offer in another member state of the European Union (the **"Qualified Investors"**), the issue price will be determined as a specific percentage of the Bond's nominal value (120% at the maximum), while in the event of a public offer dedicated to Qualified Investors and offer which is subject to Section 120 (3) of the Act on Securities, the issue price will be defined as a spread.<br><br>The Bonds may be offered below, above or at the nominal value of the Bond while, if relevant, the corresponding pro-rata portion of the interest income will be added to the issue price for the Bonds issued after the issue date.<br><br>The investor will receive the confirmation of primary purchase after the deal closing. |

| | | |
|---|---|---|
| | | Trading of the Bonds cannot be commenced prior to notification.<br><br>The issue costs associated with the issue shall be borne by the Issuer. Eventual fees charged by the subscribing party will be provided in the Final Terms of a specific issue.<br><br>Payment and deposit representatives will not be appointed. Payment of proceeds and repayment of nominal value will be provided for by the Issuer.<br><br>Other information concerning the conditions of offer will be provided in the Final Terms of a specific issue. |
| **E.4** | **A description of any interest that is material to the issue/offer including conflicting interests** | Such information will be provided in the Final Terms of a specific issue. |
| **E.7** | **Estimated expenses charged to the investor by the Issuer or the offeror** | Such information will be provided in the Final Terms of a specific issue. |

# II. RISK FACTORS

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

The occurrence of any of the risks mentioned below is influenced by the 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 events mentioned would have a significant impact on the financial results of the Issuer and/or its ability to perform its obligations pursuant to the Bonds.

The following overview of risks cannot be regarded as a final one and the Issuer does not guarantee that there are no other risks, apart from the following risk factors, which may have an impact on the Issuer and/or the Bonds issued by the Issuer. Future investors should therefore make their own independent assessment of all risk factors and consider all the other parts of this Base Prospectus. 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 the Issuer to perform its obligations pursuant to the Bonds.

**Legal investment considerations may restrict certain investments** - The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal and/or tax advisers to determine whether and to what extent (1) the Bonds are legal investments for such investor, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

**Change of law** - The structure and key features of the Programme and, inter alia, the issue of the Bonds, rights in respect of the cover pool and the rating assigned to the Bonds (if any) are based on the relevant law, tax and administrative practice in effect at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to the law (including any change in regulation which may occur without a change in primary legislation), tax or administrative practice or its interpretation will not change after the issue or that such change will not adversely impact the structure of the Programme and the treatment of the Bonds. This Base Prospectus will not be updated to reflect any such changes in relevant laws, tax or regulatory treatment, unless such event will trigger a requirement to produce and publish a Supplement.

## 2.1 Risks of impact of Issuer's macroeconomic environment

A very high degree of openness of the Slovak economy predisposes it to have a high sensitivity to development of the external macroeconomic environment. If the global development is favourable, the openness results in high growth potential; however, conversely the openness may affect the economy negatively in case of external macroeconomic adversity. The foreign demand becomes the decisive factor for the performance of the domestic economy where the Issuer conducts its business. In recent years, the European economy has grown steadily, providing a positive backdrop for Slovak exports. Growth was also supported by the increase in domestic consumption and investments. Consumption growth is owed primarily to improvement of consumer confidence amidst historically low unemployment. The Investment upturn meanwhile is owed both to private enterprises responding to the need to address tight production capacities, and public infrastructure projects, largely funded by EU subsidies. Growth of the Slovak economy in recent years has significantly exceeded the average of the Eurozone and as well as the European Union.

On the fiscal front, the positive economic developments led to a reduction in Slovakia of the fiscal deficit and of the debt-to-GDP ratio, which have been well within the Maastricht limits for many years. From 2017, Slovak public finances post a primary surplus, that is, a positive balance of public finances excluding the costs of debt service. In 2019, the government projects that the overall public finances, that is including the costs of debt servicing, will be balanced, for the first time in the country's history.

As for the financial markets, the Slovak Republic has only a nascent and shallow capital market. Prices of local assets, including bonds are thus determined mainly by long-term institutional investors, including banks, often holding a majority of the assets until maturity. Assets available for trading are small in volume and liquidity, which is one of the reasons why the asset purchase program (APP) of the European Central Bank has had such a dramatic impact on the spread compression in recent years. In fact, at the height of the APP purchases, yields of the Slovak bonds were occasionally pulled even below German benchmarks. As the APP program has been gradually unwinding during 2018, spread of the Slovak bonds vs German bonds gradually stabilized, to around 50-60 bps in 10-year maturity. While this spread may represent a fair assessment of current Slovak sovereign risk, the projected path of monetary policy in the Eurozone is subject to greater uncertainty than usual. The European Central Bank on the one hand has terminated the APP program in December 2018 and indicated that, after the summer of 2019, it may proceed with the normalization of its policy rates. At the same time, however, the European Central Bank also acknowledges that the economic and inflation cycle in the Eurozone economy may be weaker than recently predicted and thus the projected rate normalization may well be pushed back.

There are a number of risks to operators in the banking industry in the Slovak Republic such as the Issuer, associated with any downturn in the Eurozone economy. The low interest environment may be further prolonged. The associated pressure on margins may thus continue undermining profitability of the local banking industry, which is still largely dependent on the net interest income.

Weaker prospects for the Eurozone economy pose downside risks for the Slovak economy more widely, as explained in the opening paragraph above. One particular risk relates to the automotive industry, which is a key sector for the Slovak economy and an important part of the Eurozone automotive supply chain. Besides slowing car sales globally, additional risk factors stem from potential car tariffs of US and the UK leaving the European Union without a deal (a so-called "Hard" Brexit), with Britain being a market where the Slovak car industry exports the most from among Eurozone countries.

Risks of economic moderation also affects the banking industry in the Slovak Republic through the retail clientele. Any potential halt to the positive development of the labour market may result in a reversal in decently growing trends of deposits and loans, as well as higher rate of bad loans, thus negatively influencing the Issuer's financial performance. We note that the sensitivity of the Issuers' clientele to the possible downturn in the labour market is higher than during the crisis of 2008-2009 as the household indebtedness has increased significantly since then. Relative to income, household debt in Slovakia is now the highest in Central Europe, although it still falls short of the relative indebtedness of Austria and Germany and its nominal level is safely below the EU average, along with the healthiest EU economies. Its potential further dynamic growth could nonetheless jeopardize the financial position of households and their ability to react to any economic cycle downturn in the future.

Apart from the abovementioned economic and political risks, resulting from the recent development of the Slovak economy and estimates of future development thereof, the Issuer is particularly exposed, during its business activities, to credit, operating and market risks. In order to minimize the risks, the Issuer implements various control mechanisms, internal banking procedures and internal measures. The Issuer is supervised by the NBS and the Issuer must also comply with the regulations concerning tier capital and conducting prudent business. 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 the Bonds and market risks assessment associated therewith but the Issuer cannot assess the impact or intensity of the risks. The Issuer cannot guarantee that no other factors which may have a negative impact on the Bonds and market risks related thereto will occur in addition to the abovementioned risks.

On 29 March 2017, the United Kingdom ("**UK**") invoked Article 50 of the Lisbon Treaty and officially notified the European Union ("**EU**") of its decision to withdraw from the EU. This commenced the formal two-year process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the UK and the EU (the "**Article 50 Withdrawal Agreement**"). As part of those negotiations, a transitional period has been agreed in principle which would extend the application of EU law and provide for continuing access to the EU single market, until the end of 2020.

It remains uncertain whether the Article 50 Withdrawal Agreement will be finalised and ratified by the UK and the EU ahead of the 29 March 2019 deadline. If it is not ratified, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply to the UK from that date. Whilst continuing to negotiate the Article 50 Withdrawal Agreement, the UK Government has therefore commenced preparations for a 'hard' Brexit or 'no-deal' Brexit to minimise the risks for firms and businesses associated with an exit with no transitional agreement. This has included publishing draft secondary legislation under powers provided in the EU (Withdrawal) Act 2018 to ensure that there is a functioning statute book on 30 March 2019. The European authorities have not provided UK firms and businesses with similar assurances in preparation for a 'hard' Brexit.

Due to the on-going political uncertainty as regards the terms of the UK's withdrawal from the EU and the structure of the future relationship, the precise impact on the business of the Issuer is difficult to determine. As such, no assurance can be given that such matters would not adversely affect the ability of the Issuer to satisfy its obligations under the Bonds and/or the market value and/or the liquidity of the Bonds in the secondary market.

## 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 the Issuer's business purpose.

**Credit risk** – risk of non-performance of obligations on the part of the 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 the 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 the Issuer and may potentially represent a risk of non-performance of obligations by the Issuer.

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

The 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 the Issuer are regularly monitored and controlled by the NBS. However, there is no assurance that such instruments will be successful in reducing or eliminating all such risks.

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

**Membership in the Intesa Sanpaolo Group** – The Issuer is a member of the Intesa Sanpaolo Group. Risks related to the business of Intesa Sanpaolo Group and the markets on which it operates may have a material adverse effect on the Issuer; they include, inter alia, the following:

Difficult macroeconomic and financial market conditions may have a material adverse effect on the Intesa Sanpaolo Group's business, financial condition, results of operations and prospects; the Intesa Sanpaolo Group has been and may continue to be affected by the European sovereign debt crisis, and it may be required to take impairments on its exposures to the sovereign debt of certain countries.

The Intesa Sanpaolo Group is subject to significant counterparty risk, and defaults by counterparties may lead to losses that exceed Intesa Sanpaolo Group's provisions.

The Intesa Sanpaolo Group's hedging strategies may prove to be ineffective.

The Intesa Sanpaolo Group is generally exposed to market volatility when it comes to loans covered by real estate collateral.

Market fluctuations and volatility may adversely affect the value of the Intesa Sanpaolo Group's assets, reduce profitability and make it more difficult to assess the fair value of certain of its assets.

The Intesa Sanpaolo Group is subject to the risk that liquidity may not be readily available.

Rating agencies may suspend, downgrade or withdraw a credit rating of the Intesa Sanpaolo Group and/or a local entity that is part of the Intesa Sanpaolo Group or a country where the Intesa Sanpaolo Group is active, and such action might negatively affect the refinancing conditions for the Intesa Sanpaolo Group, in particular its access to debt capital markets.

New governmental or regulatory requirements and changes in perceived levels of adequate capitalisation and leverage could subject the Intesa Sanpaolo Group to increased capital requirements or standards and require it to obtain additional capital or liquidity in the future.

The Intesa Sanpaolo Group is subject to the risk of changes to the tax framework, in particular regarding bank tax and the introduction of a financial transaction tax.

The Intesa Sanpaolo Group may not be able to meet the minimum requirement for own funds and eligible liabilities; the Intesa Sanpaolo Group's risk management strategies, techniques and internal control procedures may leave it exposed to unidentified or unanticipated risks.

The Intesa Sanpaolo Group's business entails operational risks.

Any failure or interruption in or breach of the Intesa Sanpaolo Group's information systems, and any failure to update such systems, may result in lost business and other losses.

Changes in interest rates are caused by many factors beyond the Intesa Sanpaolo Group's control, and such changes can have significantly adverse effects on its financial results, including net interest income.

Since a large part of the Intesa Sanpaolo Group's operations, assets and customers are located in CEE countries that are not part of the Eurozone, the Intesa Sanpaolo Group is exposed to currency risks.

A change of the European Central Bank's collateral standards could have an adverse effect on the funding of the Intesa Sanpaolo Group and access to liquidity.

The Intesa Sanpaolo Group operates in highly competitive markets and competes against large international financial institutions as well as established local competitors.

Compliance with applicable rules and regulations, in particular on anti-money laundering and anti-terrorism financing, anti-corruption and fraud prevention, economic sanctions and tax as well as capital markets (securities and stock exchange related) involve significant costs and efforts and non-compliance may have severe legal and reputational consequences for the Intesa Sanpaolo Group.

Changes in consumer protection laws as well as the application or interpretation of such laws might limit the fees and other pricing terms that the Intesa Sanpaolo Group may charge for certain banking transactions and might allow consumers to claim back certain of those fees and interest already paid in the past.

The departure of any one or more countries from the Eurozone could have unpredictable consequences for the financial system and the wider economy, potentially leading to declines in business levels, write-downs of assets and losses across the Intesa Sanpaolo Group's business.

The Intesa Sanpaolo Group operates in emerging markets that may experience rapid economic or political changes, either of which may adversely impact its financial performance and results of operations.

Committed EU funds may not be released, or further aid programmes may not be adopted by the EU and/or international credit institutions.

Loss of customer confidence in the Intesa Sanpaolo Group's business or in banking businesses generally could result in unexpectedly high levels of customer deposit withdrawals, which could have a material adverse effect on the Intesa Sanpaolo Group's results, financial condition and liquidity.

Liquidity problems experienced by certain CEE countries may adversely affect the broader CEE region and could negatively impact the Intesa Sanpaolo Group's business results and financial condition.

Governments in countries in which Intesa Sanpaolo Group operates may react to financial and economic crises with increased protectionism, nationalisations or similar measures.

The Intesa Sanpaolo Group may be adversely affected by slower growth or recession in the banking sector in which it operates as well as slower expansion of the growth in the economies of the Eurozone and the EU.

Applicable bankruptcy laws and other laws and regulations governing creditors' rights in various CEE countries may limit the Intesa Sanpaolo Group's ability to obtain payments on defaulted loans and advances.

The Intesa Sanpaolo Group may be required to participate in or finance governmental support programs for credit institutions or finance governmental budget consolidation programmes, through the introduction of banking taxes and other levies.

**Regulatory requirements -** 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 the Issuer is active. This regulation could influence the 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 applicable to the European banking sector. The important legislative framework includes Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms ("**CRR**") / Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on Access to the Activity of Credit Institutions and the Prudential Supervision of Credit Institutions and Investment Firms ("**CRC IV**") adopting standards of Basel III. The CRD IV regulates the capital requirements of banks and introduced the maintenance of "capital buffers" and new requirements regarding liquidity, leverage and other risks of banks. Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 Establishing a Framework for the Recovery and Resolution of Credit Institutions and Investment Firms (Bank Recovery and Resolution Directive) ("**BRRD**") should also contribute to the stability of the banking sector. The regulatory framework for investment services and regulated markets is updated by Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments, as amended ("**MiFID II**") and related European and national legislation and applies since 3 January

2018. Due to increased regulatory requirements, there are also increased costs for the Issuer. As many issues with regard to the application of these changes currently remain unclear in practice, the full impact of MiFID II remains uncertain for the Issuer.

The substantial impact on the banking sector has also been the stress testing of the European Central Bank, first realised in 2014. These and any other potential new regulatory requirement, which could be implemented in the future, may lead the Issuer to require an increase of capital, which may result in an increased financial cost to the Issuer and have an impact on its profitability. There can be no assurance that the Issuer would be able to increase its eligible capital (or, thus, its capital ratios) sufficiently or within the time required. If the Issuer is unable to increase its capital ratios sufficiently and/or comply with other regulatory requirements, its credit ratings may be negatively impacted and its cost of funding may increase, and/or the competent authorities may impose fines, penalties or other regulatory measures. The occurrence of any such consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations.

**Competition on the Slovak market** – The banking and financial services sector of CEE, and in the Slovak Republic in particular, are becoming increasingly saturated and accordingly the Issuer may encounter rising competition from both local and global financial institutions. This may in turn lead to reduced interest rate spreads, pricing of loans and other products. Fees and commission income and business volumes may also be reduced, and increased costs of deposits and other funding are expected. The Slovak banking market is currently highly concentrated and though there are few competitors of comparable size and similar scope of business to the Issuer, the Issuer may also face increased competition from less well-established banks and financial institutions or new entrants seeking to penetrate the market by offering more attractive interest or deposit rates and pursuing other aggressive pricing strategies. The Slovak banking market continues to see the emergence of low-cost banks primarily focused on providing internet-based banking services or applying other advanced operational procedures with disruptive technologies or business strategies. In addition, competition on the payments market is expected to be deeply impacted by Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on Payment Services in the Internal Market ("**PSD2**"), which was implemented into Slovak law through the amendment of Act No. 492/2009 Coll., on Payment Services, as amended, effective as of 13 January 2018. PSD2 aims to further develop the integrated internal market for electronic payments within the EU. Under PSD2, among other things, banks will be compelled to grant third-party providers access to customers' online accounts and payment services. This will allow customers to opt for these providers instead of the bank maintaining their account for (i) "account information services", for example the display of information regarding one or more bank accounts maintained with one or more banks, providing to customers a better overview of their finances, and (ii) "payment initiation services", i.e. the initiation of electronic payments between bank accounts. PSD2 is likely to result in increased competition in the payments market and may result in a decrease in the market share and related transaction fees of banks, including the Issuer, in the payments market. However, there is currently no public awareness about any service provider being active on that new field of payments market, but the situation may change once the potential entrants become sufficiently familiar with all legal, regulatory, business and operational aspects of PSD 2 legislative framework. The Issuer's ability to compete effectively will be contingent on its ability to adapt quickly to these new market and industry trends, including product offerings, customer behaviour and legal developments. If the Issuer fails to compete effectively with local competitors or large international financial institutions and new financial services providers entering the market as a result of PSD2, among other things, this may have a material adverse effect on the Issuer's business, the results of its operations, and its overall financial condition, liquidity, capital base and reputation.

**Rating of the Issuer** - The rating assigned by Moody's rating agency as of date of the Base Prospectus does not represent all risks and therefore such situation may happen, that may lead to losses of the Issuer and consequently impact the financial results of Issuer, or its ability to fulfil its obligations arising from the Bonds. Assigned rating valuation represents the opinion of the rating agency on the creditworthiness of the Issuer. A rating of the Issuer can be downgraded, interrupted or withdrawn, which may lead to limitation of access to financing resources of the Issuer and consequently to higher refinancing costs.

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

**U.S. Foreign Account Tax Compliance Act (FATCA)** - Payments of interest or the principal of the Bonds to bondholders that (i) fail to comply with tax certifications or identification requirements (including the provision of information regarding waivers of application of any laws prohibiting the disclosure of such information to the tax authorities); or (ii) are financial institutions that fail to comply with the U.S. Foreign Account Tax Compliance Act or any similar provisions of non-U.S. laws, including any voluntary agreements entered into with the tax authorities pursuant to such laws, may be subject to a 30% withholding tax. The Issuer will not be obliged to make any additional payments in respect of any such amounts withheld by the Issuer or other paying agent

**Enforcement of claims under Slovak law** – While the legal infrastructure of the enforcement of claims in the Slovak Republic is converging to the standards applicable in Western European countries, the process of enforcement of claims is often lengthy and requires a number of formalities to be complied with. Investors should be aware that there may be fewer judges in the Slovak Republic who specialize in complex investments in securities compared to the number in Western European countries. As a result, cases brought before the Slovak courts may be subject to delays in proceedings.

**Compliance with anti-money laundering, anti-corruption and anti-terrorism financing rules** - The Issuer must comply with national and international rules and regulations relating to money laundering, anti-corruption and the financing of terrorism. These rules and regulations have become stricter over the last few years and may be further tightened and more strictly enforced in the future. Compliance with these rules and regulations places a significant financial burden on banks and other financial institutions and gives rise to significant technical issues. Any violation or suspected violation of these or similar rules by the Issuer may have severe legal, monetary and reputational consequences on the Issuer, including sanctions imposed by the NBS. This could therefore have a material adverse effect on the Issuer's business, the results of its operations, as well as its financial condition, liquidity, capital base, prospects, and reputation.

**Bankruptcy and other laws and regulations governing creditors' rights** – Slovak bankruptcy proceedings often take several years to be resolved and the level of recovery for creditors is relatively low compared to the rest of the European Union. Therefore, the Issuer cannot ensure that its rights as a creditor in bankruptcy proceedings will be sufficient to enable it to successfully collect amounts owed by its debtors. In addition, the Issuer's litigation costs related to the bankruptcy proceedings of its borrowers or counterparties may increase substantially as a result of any newly adopted and untested procedures and possible changes in regulations. The process of collateral enforcement in the Slovak Republic is quite costly and can take several years. As a result, the Issuer may be unable to enforce in a timely manner, for reasonable costs, or at all, collateral securing loans and other credit extended by the Issuer, including mortgage loans. This might have a material adverse effect on the Issuer's business, the results of its operations, its financial condition, liquidity, capital base, prospects and reputation.

Complications connected with potentially costly and lengthy bankruptcy proceedings may be mitigated by the Issuer's statutory possibility to assign the receivables that are past due for more than 90 days to a third party without requiring debtor's consent. Such assignment may contribute to cash collection and generate funds for repayment of liabilities towards the bondholders. Furthermore, any defaulted non-performing facilities (i.e. where the obligor is in default for more than 90 days) must be removed from the cover pool and erased from the register of covered bonds and are replaced by duly performing loans, which contributes to strengthening of the cover pool and improving the ability of the Issuer to meet its obligations towards the bondholders.

## 2.3 Risks associated with the Bonds

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

1) have enough knowledge and experience in order to reasonably evaluate the Bonds, advantages and risks of investment to the Bonds and information contained in the Base Prospectus, information referred to in the Base Prospectus, and any Supplement thereto;

2) have enough information concerning the investment, as well as the ability to assess the information in context of their own financial situation and impact of that investment on their own existing portfolio;
3) have enough funds to withstand an eventual negative development of risk factors concerning the Issuer or the 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** – The Issuer can use the whole volume or a part of funds obtained from selling of the Bonds for hedging transactions, which should normally not influence the value of the Bonds, however the Issuer cannot guarantee that it will not affect it.
The Issuer may in connection with the Bonds from time to time act in other capacities, such as calculation agent, which allows the Issuer to make calculations in respect of the Bonds (e.g. amount of interest to be paid), which are binding on bondholders.
It is usual for employees of financial institutions such as the Issuer to undertake deals on their own behalf subject to compliance with securities laws as well as statutory and internal compliance standards on personal transactions and market abuse. Employees and related parties are permitted to take part in securities offerings of the Issuer. Furthermore, when purchasing the Bonds, the employee receives a discount from the value of the market price. Sales employees of the 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 the 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 such companies, which could have a material adverse effect on the Issuer's business, financial position and results of operations.

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

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

**The secondary market generally –** The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. In addition, the Bonds issued under the Programme might not be rated or listed on a stock exchange or regulated market and, in these circumstances, pricing information may be more difficult to obtain and the liquidity and market prices of such Bonds may be adversely affected. In an illiquid market, an investor might not be able to sell its Bonds at any time at fair market prices. The possibility to sell the Bonds might additionally be restricted by country specific reasons. Furthermore, the Issuer cannot guarantee the price for which Bonds will be purchased and/or sold on the secondary market. The price is influenced by current market conditions, therefore it changes during trading. Historical development of prices of the Bonds cannot be considered as indicator of future development of prices. 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.

**Rating of the Bonds** – Any credit rating of the Bonds may not adequately reflect all the risks of investing in the Bonds. Credit ratings may be also suspended, downgraded or withdrawn. Such suspension, downgrade or withdrawal may have an adverse effect on the market value and trading price of the Bonds. A credit rating is not a recommendation to purchase, sell or hold securities and may be revised or withdrawn by a credit rating agency at any time.

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

**Credit risk** – The value of the Bonds may change, depending on the market perception of Issuer's creditworthiness.

**Risk of credit spread** - The Bonds carry the credit spread risk of the Issuer, which during the life of the Bonds could 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, and 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 Bonds are denominated may also have a negative effect and potential investors should consider all these factors.

**Influence of inflation** – The obligation of the 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 of that currency.

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

**Legal regime** – The Bonds are issued in compliance with the legal regulations valid in the Slovak Republic at the time of the Bonds issue. Any change in legal regulations during the life of the Bonds may have an impact on the value of the Bonds, on the structure of the Programme or on overall legal treatment of the Bonds and therefore may impact the investor's return on investment.

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

**No acceleration upon Issuer's default and no joint representative** – Pursuant to the terms of the Bonds and in line with prevailing market practice for debt issuances by Slovak credit institutions in domestic Slovak market, a default on Issuer's obligations under the Bonds will not trigger acceleration of Issuer's debts towards the bondholders under the Bonds or bondholders' right to claim early repayment of the Bonds. In case of a payment default by the Issuer, the bondholders will have a right to sue the Issuer for the payment of and they will also have the benefit of the right of separate satisfaction in respect of the assets in the cover pool in potential enforcement proceedings, but the bondholder will not have right to require early repayment of the whole principal amount. Also, a default of the Issuer will trigger convening of bondholders meeting, but there is no common representative of the bondholders and each bondholder will generally have to enforce its rights against the Issuer individually.

**Subordination risk** - In accordance with Act No. 7/2005 Coll., on bankruptcy and restructuring, as amended (the "**Bankruptcy Act**"), any obligation of the Issuer towards a creditor who is, or at any time during its existence was, a person which is or was a related party to the Issuer under Section 9 of the Bankruptcy Act (the "**Related Obligation**") (i) will be automatically subordinated to any and all of the Issuer's other unsubordinated obligations in bankruptcy proceedings over the Issuer's property in the Slovak Republic and such Related Obligation will not be satisfied before the satisfaction of all of the Issuer's other unsubordinated obligations towards creditors who have registered their claims in the Issuer's bankruptcy proceedings; (ii) in the Issuer's bankruptcy, it cannot be satisfied in the same or a better manner to any of the Issuer's other unsubordinated obligations towards creditors who have registered their claims in the Issuer's bankruptcy. Definition of "related party" is broad and will include inter alia shareholders with at least 5% direct or indirect interest, subsidiaries in which the Issuer holds at least 5% direct or indirect interest and affiliates linked with the Issuer through at least 5% direct or indirect interest.

Section 95(5) of the Bankruptcy Act clarifies specifically with regard to covered bonds, that the subordination will not apply to a creditor who is neither related to the Issuer nor to a person from which it acquired the claim under covered bonds. This means that a bondholder who is not related to the Issuer and has not purchased a Bond from its related party, should not be considered a creditor of a Related Obligation.

Because the subordination rule apply only in case of distribution to creditors from the liquidation of bankruptcy estate (i.e. the cover pool in case of the Bonds), the subordination risk is unlikely to have material impact on the creditors of the Related Obligations arising under the Bonds, except in case of liquidation of the cover pool following a failure by the bankruptcy trustee to transfer the whole covered bonds programme of the Issuer to another Slovak bank, as envisaged under Section 195a of the Bankruptcy Act. However, if such liquidation occurs, the creditors of the Related Obligations and related to the Issuer most likely will not have priority rights to be compensated from the proceeds of the sale of the cover pool assets and will receive compensation (if any) only after all other general unsecured creditors of the Issuer will be compensated in full. No provision of the Bankruptcy Act prevents a bondholder from transferring the Bonds to an unrelated party at any time.

**The risk of the Bonds with fixed rate** – The risk involves 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 the 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 investors 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 Interbank Offered rate) ("**EURIBOR**"), the London Interbank Offered Rate ("**LIBOR**"), Prague Interbank Offered Rate ("**PRIBOR**") or another Benchmark.

EURIBOR, LIBOR, PRIBOR 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 European Securities and Markets Authority ("**ESMA**"), and European Banking Authority ("**EBA**"); and (iii) Regulation (EU) No. 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 the 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 the 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 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 the 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 the Bonds and may cause that the financial and securities settlement will be not realised.

**Exchange rate risks and exchange controls** - The Issuer will pay principal and interest on the Bonds in the issue currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the investor's currency) other than the issue currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the issue currency or revaluation of the investor's currency) and the risk that authorities with jurisdiction over the investor's currency may impose or modify exchange controls. An appreciation in the value of the investor's currency relative to the issue currency would decrease (1) the investor's currency-equivalent yield on the Bonds, (2) the investor's currency equivalent value of the principal payable on the Bonds and (3) the investor's currency equivalent market value of the Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

**In exceptionally adverse bankruptcy situation the cover pool assets may not be sufficient to fully cover all liabilities under the Bonds** - The cover pool (in Slovak *krycí súbor*) covering the liabilities of the Issuer under the Bonds will consist primarily of mortgage loans secured by way of a legally perfected first ranking mortgage in favour of the Issuer over the mortgaged property (the "**Mortgage Loans**") and certain substitute assets, such as cash and securities. All assets included in the cover pool must comply with the applicable requirements or criteria set out in the Act on Banks. In particular, for an individual Mortgage Loan eligible to be included in the cover pool must comply with the applicable requirements including, amongst other things, the loan-to-value limit under which the outstanding amount of principal under the loan may not exceed 80% of the value of mortgaged property, subject to limited exemptions. Also, the Issuer is required to perform regular testing of the value of the mortgaged properties and the total value of the cover pool assets must at all times be at least 105% of the value of all covered liabilities, whereby according to the legislation, the Issuer must calculate this cover ratio on the last day of each relevant month.

All mortgaged property is located in the Slovak Republic. The value of the mortgaged property as well as the value of the Mortgage Loans included in the cover pool may reduce over time, in particular, in the event of a general downturn in the value of properties located in the Slovak Republic. In such cases, despite the relevant statutory safeguards and regulatory requirements under Section 67 et seq. of the Act on Banks, the value of the Mortgage Loans may become insufficient to provide full cover for the outstanding Bonds. While the Issuer is solvent and operating its business, it will be obliged to include additional eligible assets in the cover pool in order to maintain the required cover ratio. However, in case of bankruptcy, involuntary administration or similar situations when the Issuer's ability to generate additional eligible assets will be limited, the value of the cover pool assets may decrease below the required levels so that it may not be sufficient to fully cover all covered liabilities including those under the Bonds.

It should be also noted that due to the preregistration of the mortgage bonds issued by the Issuer before 1 January 2018 (the "**MB**" or "**MBs**") as described in Section "III. INFORMATION ABOUT THE PROGRAMME" - General information concerning the legal framework for issuing the Bonds under Slovak law" below, the single common cover pool will also cover all the liabilities of the Issuer under those historic mortgage bonds. The claims of the bondholders under the Bonds will rank pari passu with the claims of the holders of the MB and all holders will have the same priority right with respect to the whole cover pool.

Finally, any substantial overall downturn in the value of real properties in the Slovak Republic could adversely affect the Issuer's results of operations, financial condition and business prospects and its ability to perform its obligations under the Bonds and the value of the cover pool.

**Risk of extension of final maturity of the Bonds and risk of change of the Issuer of the Bonds** - In the event of bankruptcy or involuntary administration of the Issuer, the bankruptcy trustee or the involuntary administrator (each a "**Trustee**") of the Issuer will take over the operation of the Programme and of the cover pool (the "**covered bonds programme**"), as defined in the Act on Banks and not to be confused with the Programme under this Base Prospectus). The covered bonds programme as defined in the Act on Banks includes generally all assets of the cover pool as well as all liabilities under the Bonds, all MB issued by the Issuer in the past, any other covered bonds issued by the Issuer and other covered liabilities, such as hedging derivatives (if any) and related administrative contracts and functions. The Trustee will be obliged to evaluate whether the operation of the programme does not cause the overall decrease of rate of satisfaction of the bondholders. If the Trustee reaches the conclusion that the operation of the programme may result in decrease of satisfaction of the bondholders, it will have the obligation to notify the NBS of its intention to transfer the programme or its parts to another bank or several banks in the Slovak Republic and to attempt such transfer. As a result of the notification, the final maturity of the Bonds would be adjusted in accordance with Section 67 (10) and (11) of the Act on Banks (so called soft bullet extension) as follows: (i) during the first month from delivery of the transfer notification to the NBS, the maturity dates would not be adjusted, (ii) from the first day of the second month until the last day of the 12th month from delivery of the transfer proposal to the NBS, any final maturity date for principal payment under the Bonds falling into that period would be postponed by 12 months, and (iii) if the Trustee requires a prolongation of the transfer period, any final maturity date for principal payment under any Bonds falling into the period of subsequent 12 months would be prolonged by a another 12 months. The same applies to final maturity dates already extended during the first prolongation period. The interest payments and other conditions of the Bonds would not be affected, but the bondholders will not receive any other compensation and will not have any remedies in respect of the extended maturity of the Bonds.

The soft bullet extension of the final maturities will be effective from the date of delivery of the programme transfer notification by the administrator to the NBS and will not be subject to any further approval or consent of the NBS. In the event no transfer is affected, the postponed maturities for principal payments would occur on the last day of the prolongation period.

It should be noted that the extension of the final maturities will not apply to maturities of the MB issued before 1 January 2018. If a maturity date for any tranche of the MB occurs during the transfer period, the Trustee will have to pay the principal to the holders of the MB as originally scheduled.

The transfer of the programme itself will be subject to prior approval of the NBS. If such a transfer is affected, the identity of the Issuer of the Bonds will change to the transferee bank, i.e. another bank in the Slovak Republic will become an obligor under the Bonds. This does not have an effect on the terms of the Bonds themselves, but general creditworthiness of the new obligor might be different from the creditworthiness of the Issuer.

In accordance with Section 55 (10) of the Act on Banks and Section 195a (7) of the Bankruptcy Act, the consent of the bondholders is not required in bankruptcy and involuntary administration scenarios in order for the transfer of the programme or its part to be valid and become effective.

**Indicated maximum issue volume of the Bonds may not be binding** – The total amount of the issue specified in the 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 the Bonds by the maturity Date. The total volume depends on the demand for the Bonds, on buybacks of the Bonds by the Issuer or on their early repayment. No conclusion may therefore be drawn from the indicated aggregate principal amount of the 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 the Bonds on secondary market at a lower than anticipated price, which may cause a loss to the 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 presume that they will be able to repay loan or credit and relevant interest from the earning from investment in the Bonds.

**The risk related to further issuing of debt instruments of the Issuer** – Bondholders are exposed to the risk that the Issuer is not limited in further issuing debt securities or in the amount of debt that the 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 bankruptcy. 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 the Bonds and, in case of the Issuer's liquidation, loss of their entire investment.

**The risk of unpredictable event (vis major)** – The value of the Bonds can be influenced by various unpredictable events, such as terrorist attacks, natural disasters, riots, strikes, disruptions to the supply of energy or power distributions etc. These events may cause failures in financial markets and movement of exchange rates, what may influence the value of the Bonds. The negative effect of such events may cause a lower return on investments of the Issuer and may threaten its ability to repay all due liabilities from the Bonds. The value of the Bonds and any revenues arising from the Bonds may be influenced by global political, economic, social or other events, which may also occur outside the countries in which the Bonds are issued and traded.

Any estimates or prospects concerning the 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 which the Issuer cannot influence. Potential investors should make their own analyses of any development trends or prospects provided herein or eventually further conduct their 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 the Base Prospectus. Potential buyers of the Bonds should rely exclusively on their own analyses of facts provided in this chapter and on their own legal, tax and other professional advisors.

**No independent calculation agent and paying agent** – All calculations and payments to bondholders under the Bonds will be performed by the Issuer. There will not be any independent calculation agent or payment administrator responsible for these tasks. Solely the Issuer will perform all administrative task related to the Programme and the Bonds. This is in line with prevailing market practice for debt issuances by Slovak credit institutions in domestic Slovak market and the Issuer has taken steps to manage potential conflicts of interests in accordance with applicable regulation, but the investors should note that they cannot rely on impartial third-party agents. Detailed procedures and requirements for payments under the Bonds are specified in Clause 5 of the Common Terms (Section 4.4 in "IV. INFORMATION ABOUT SECURITIES").

## III. INFORMATION ABOUT THE PROGRAMME

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

**Arranger and Dealer**

Banca IMI S.p.A., a bank organised as a joint stock company under the laws of the Republic of Italy, whose registered office is at Largo Mattioli, 3, 20121 Milan, Italy, incorporated with Fiscal Code number, VAT number and registration number with Milan Register of Enterprises No. 04377700150, and registered with the Bank of Italy pursuant to Article 13 of the Banking Law under number 5570 ABI, part of the Intesa Sanpaolo Group, VAT No. IT11991500015 ("**Banca IMI**") acts as the sole arranger and dealer for the Programme. The Issuer and Banca IMI will enter into a dealer agreement on or about the date of publication of this Base Prospectus (the "**Dealer Agreement**"). Additional Dealers may be appointed under the Programme from time to time either on a permanent basis or in relation to a single issuance or issuances of Bonds.

Banca IMI will not act as a dealer for domestic issues of the Bonds offered by the Issuer to the public in the Slovak Republic.

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

**PROGRAMME SUMMARY**

The Bonds that are issued under the Programme will be issued as Slovak-law governed covered bonds.

A covered bond is a special type of secured bond that can only be issued by a Slovak bank (such as the Issuer) and is specifically regulated under the Act on Bonds, the Act on Banks and the Bankruptcy Act. Further secondary regulation consists of the NBS regulations.

All key features discussed below are prescribed under applicable Slovak law, consequently, they are not contractual arrangements.

Principal and outstanding interest payments under the Bonds are fully covered by the assets constituting the cover pool. The assets of the cover pool are preferentially intended to satisfy claims arising from such covered bond if the Issuer is unable to duly pay its liabilities arising from the Bonds, including in case of bankruptcy of the Issuer. Covered bonds can only be issued only by a Slovak bank after receiving prior approval from the NBS to perform activities related to covered bond programmes. The NBS has granted such consent to the Issuer on 14 May 2018, with the ruling No. 100-000-105-179, file No.: NBS1-000-0204-409.

The supervision authority is exercised by the NBS. The "covered bonds programme" as defined in the Act on Banks is a broader general term encompassing a part of the Issuer's business consisting generally all assets of the cover pool as well as all liabilities under the Bonds, all MB issued by the Issuer in the past (see below Transition from MBs to CBs), any other covered bonds issued by the Issuer and other covered liabilities, such as hedging derivatives (if any) and related administrative contracts and functions. Consequently, the term "covered bonds programme" should not be confused with the "Programme" in the meaning of debt securities offering programme under this Base Prospectus.

**Cover pool**

The cover pool consists of:

- **base assets** – formed of the Issuer's receivables from the Mortgage Loans with their term not exceeding 30 years (must form at least 90% of the aggregate value of the cover pool less the liquid assets),
- **substitute assets** – formed by, inter alia, cash or deposits in the NBS, ECB, EU Member state central bank (up to 10% of the aggregate value of the cover pool less the liquid assets),
- **hedging derivatives**; and
- **liquid assets**.

The mortgaged property must be located in the Slovak Republic, while the substitute assets can be located in or outside of the Slovak Republic. No commercial mortgages are allowed.

The Issuer is required to maintain special records containing the list and the scope of the cover pool, including the immovable assets used as security and other statutory information (the "**Register of Covered Bonds**"). However, the cover pool assets, although individually identified in the Register of Covered Bonds, remain in the possession and control of the Issuer and they are not legally segregated from other issuer's assets.

The Issuer must comply with and at all times maintain statutory requirements concerning, inter alia, the quality of assets in the cover pool, over-collateralisation, and regular stress-testing.

At the time of registration in the Register of Covered Bonds the outstanding principal of the relevant Mortgage Loan together with any other permitted security must not exceed 80% of the value of the mortgaged property. If the value of the mortgaged property decreases to the amount of the currently outstanding principal of the mortgage loan (i.e. the LTV is between 80% and 100%), the claim from this Mortgage Loan is included in the calculation of the base assets only up to the amount that does not exceed 80% of the value of the mortgaged property.

If the value of the mortgaged property decreases further below the amount of the outstanding principal (i.e. the LTV is more than 100%), the claim from this Mortgage Loan is not included in the calculation of the base assets and the

Issuer is obliged to immediately remove this asset from the cover pool (i.e. deregister it from the Register of Covered Bonds).

Each Mortgage Loan in relation to which debtor is considered defaulted (within the meaning Article 178 (1) of Regulation (EU) No. 575/2013) must be immediately removed from the cover pool, deleted from the Register of Covered Bonds and replaced with another non-defaulted eligible Mortgage Loan in the same value.

The Issuer must carry out stress tests annually. The purpose of the stress testing is to identify any changes to the cover indicator, flowing from potential adverse changes in the market conditions. Such stress testing must cover testing of credit risk, interest risk, currency risk, liquidity risk, counterparty risk, operative risk as well as the risk of decrease in value of immovable property. The parameters of the stress testing should correspond with the parameters used in evaluation of capital adequacy of the Issuer.

**Administrator**

The Act on Banks requires that the NBS appoints an independent individual as an administrator of the covered bonds programme as well as his/her deputy. The NBS has appointed Mr. Rudolf Šujan as the administrator and Ms. Judita Bischofová as the deputy administrator of the covered bonds programme of the Issuer. The administrator is required to prepare a written certificate evidencing that the coverage the Bonds are secured by is in accordance with the Act on Banks and that an entry in the Register of Covered Bonds has been made prior to any issue of the Bonds. The administrator also verifies whether the Issuer discharges its obligations arising from the Bonds in compliance with the applicable legislation.

**Transfer of the covered bonds programme**

Outside bankruptcy or involuntary administration, the Issuer is entitled to transfer the covered bonds programme or its part to a third person, who can only be a Slovak bank (or several banks). In such case, the Issuer must seek prior consent of the NBS as well as the consent of the bondholders with the change of the terms and conditions of the Bonds. Consents of the debtors from the Mortgage Loans (base assets) is not required.

**Cover pool in bankruptcy and involuntary administration**

One of the main features of the Bonds is that the assets forming the cover pool constitute a separate bankruptcy estate, the proceeds of which can only be used in order to satisfy the liabilities of the Issuer under the Bonds.

In case of bankruptcy of the Issuer, the bankruptcy administrator takes over the operation of the covered bonds programme. If the bankruptcy administrator concludes that operation of the covered bonds programme would result in an overall reduction of the degree of satisfaction of the bondholders, the bankruptcy administrator may transfer the covered bonds programme to another Slovak bank (or several banks).

In case of transfer of the covered bonds programme in bankruptcy or involuntary administration of the Issuer, neither the consent of the bondholders, nor the consent from the debtors is required for the validity and effectiveness of the transfer.

Pending the transfer, the final maturity of the Bonds will be extended by a maximum of one year (or two years in total, in case of repeated attempt to transfer) (soft bullet extension). The extension has no impact on the interest payments. The extension will occur by operation of law upon filing an application by bankruptcy administrator or involuntary administrator with the NBS with a view to obtain a consent with the transfer.

**Hedging**

Although Slovak law allows entering into hedging transactions in connection with the covered bonds programme, no hedging arrangements are currently entered into or contemplated by the Issuer. Rights and obligation under hedging derivatives (if any) would have to be registered in the Register of Covered Bonds.

## GENERAL INFORMATION CONCERNING THE LEGAL FRAMEWORK FOR ISSUING THE COVERED BONDS UNDER SLOVAK LAW

**Nature of the CBs**

CBs as a special type of secured bonds are regulated by the Act on Bonds under Section 20b, the Act on Banks in part 12, the Bankruptcy Act in part 6 and by five regulations of the NBS. According to the Act on Banks, a CB is a bond, the nominal value and proportional 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 the CBs, are preferentially intended to satisfy claims arising from these CBs and these assets, in case the bank issuing these CBs is not able to pay its liabilities arising from them properly and on time, and will be preferentially used to pay the nominal value of the CBs and proportional interest income. CBs can be issued only by a bank and their name must include the words "covered bond".

CBs can be issued only by a bank that has obtained prior approval from the NBS to carry out activities related to a CB programme. With regard to its definition under the Act on Banks, a CB programme includes generally all assets of the cover pool as well as all liabilities under the covered bonds, all MBs issued by the issuer in the past, any other covered bonds issued by the issuer and other covered liabilities, such as hedging derivatives (if any) and related administrative contracts and functions.

**Assets covering CB obligations**

The owners of the Bonds have a preferential security right to assets and other property values constituting the cover pool. 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:

- base assets, i.e. the Mortgage Loans,
- additional assets,
- hedging derivatives, and
- liquid assets.

Base assets must account for at least 90 % of the total value of the cover pool less the value of the liquid assets (Liquid assets cushion).

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 less the value of the liquid assets (Liquid assets cushion).

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 consecutive 180 days then, 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 the liquidity coverage requirement for credit institutions.

**Register of CBs**

The bank issuing CBs shall register 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 Issuer 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.

**Asset coverage ratio (over-collateralisation)**

The Act on Banks sets out a minimum level of 5 per cent. of over-collateralisation. The 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.

**Stress tests**

The bank shall, at least once per year, carry out stress tests as part of its CB programme in order to identify potential changes in compliance with the coverage ratio resulting from potential changes in market conditions that might have an adverse effect on the coverage ratio. The bank shall perform a stress test for the period of the preceding calendar year on or before 31 March 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 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 a higher level if it has committed to maintain such a higher level in the terms and conditions of issuance of CBs.

**Administrator**

The administrator of the covered bonds programme (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. The NBS shall appoint a CB programme administrator as an independent individual and also his/her 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. The NBS supervises the issuer of CBs.

The CB Programme Administrator has to prepare and file with the NBS detailed report by 30 April of each calendar year. The contents of the report are prescribed under the Act on Banks and NBS regulations and it must include inter alia detailed quantitative data on the portfolio of the issued CBs, cover pool, as well as description of any major changes or risks.

**Information to the investors and general public**

The issuer of CBs shall disclose on its website at least on a quarterly basis information regarding:

- the structure of the 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 to 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 base assets' security indicator in the cover pool,

- the proportional geographical distribution of the base assets and real estate which secure them and constitute the cover pool, and
- other documents and information related to the CB programme.

**Transfer of CB programmes**

In order to secure higher protection of the claims of owners of CBs arising from CBs, a special legal institution of the transfer of CB programmes has been incorporated into the Act on Banks by the adoption of the Amending Act (as defined below), which is expected to be used mostly in special circumstances where the bank issuing CBs is subject to various reorganisation measures taken by competent public authorities in the form of initiating involuntary administration or instigating and maintaining resolution proceedings as well as in the case bankruptcy has been declared over the issuing bank's estate. The purpose of using the institution represented by the transfer of the 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 occurred.

In order to be able to fully utilise the potential of exercising the institution represented by the transfer of the CB programme, it is necessary, at first, to inform the NBS in writing about the intention to transfer the CB programme. This notification duty must be fulfilled by an involuntary administrator appointed to carry out involuntary 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 involuntary administration or after the declaration of bankruptcy. Prior to its decision about notification of the intention to transfer the CB programme, the involuntary administrator/trustee must assess with due professional care whether or not the further management of the CB programme would result in an overall decrease in satisfaction of the owners of CBs. When carrying out the assessment, the involuntary administrator/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 the involuntary administrator/trustee assesses that the further management of the CB programme would result in an overall decrease in satisfaction of the owners of CBs, he/she is obligated to proceed in collaboration with the administrator of the CB programme and to inform the NBS of 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. The prior approval of the NBS is required for the transfer of the CB programme, including the conclusion of a contract for the transfer of the CB programme between the relevant transferor and transferee. The CB programme shall be transferred for adequate consideration within one year of the date of delivery of the notice of a involuntary administrator/trustee to the NBS of the intention to transfer the CB programme. The NBS, at the request of the involuntary administrator/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 the CB programme will lead to the achievement of a higher level of satisfaction of debts owed to the owners of CBs.

The validity and effect of the transfer of the 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 the issuer of the CBs resulting from the transfer of the CB programme, nor to the consent of the debtors of liabilities corresponding to the receivables constituting base assets in the cover pool of the issued CBs. The exception to this rule is where the transfer of the CB programme is carried out outside the involuntary administration or bankruptcy proceedings; in such case only the consent of the owners of CBs to the change of the terms and conditions of issuance of the CBs is required in relation to the validity and effect of the transfer of the 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 the CB programme, however, in order to transfer the CB programme, it is not required to transfer the whole or any part of the personnel element of the business (i.e. employees of a transferor bank) and after the transfer of the CB programme the creditors of the transferor bank (i.e. any owner of CBs) may not request a judicial ruling that the transfer of an obligation from the seller to the buyer is ineffective if such obligation towards the creditor constitutes a part of the transfer of the CB programme. The transfer of the CB programme is registered in the commercial register on the basis of an application submitted by the involuntary administrator/trustee immediately after the transfer of the CB programme.

**Extension of CB maturity in case of proposed transfer (soft bullet extension)**

The key feature of the mechanism introduced by the application of the institution of transfer of the CB programme is that there is no suspension in relation to the satisfaction of the claims of owners of CBs to be paid interest income from CBs within the original maturities during the whole period (maximum 2 years) for the transfer of the CB programme, regardless of whether the transfer is being carried out as part of involuntary 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 the CB programme, the owners of CBs take advantage of additional income that is generated from the 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 from exercising their rights related to CBs due to the suspension in payment of the principal amount of the CBs resulting from the extension of the original maturities of issuances that expire during the period for the transfer of the 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 following the day of delivery of a notice of the involuntary administrator/trustee to the NBS of 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 the involuntary administrator/trustee delivers a notice to the NBS of the extension of the period for the transfer of the CB programme for another twelve months and the 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 the 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 continuously paid in full amount to the owners of CBs during all the extended maturity periods of individual issuances mentioned above, while, original terms of payment of yield, including the method of its calculation, shall apply equally 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 the CB programme applies where the original maturity of a relevant issuance of CBs expires on any day within the first month of the day of delivery of the notice of the involuntary administrator/trustee to the NBS of the intention to transfer the CB programme. In such case, all debts owed under CBs are paid to the owners of CBs within their 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.

**Additional features of the transfer of CB programme**

Another important feature of the institution represented by the transfer of the 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 triggered at the moment bankruptcy is declared over the estate of a bankrupt bank issuing CBs nor during the whole period (maximum 2 years) for the transfer of the CB programme. Instead of immediate acceleration, a delay in 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 the transfer of the CB programme.

If the trustee fails to manage the realisation of assets via the transfer of the CB programme, it is entitled, in the course of operation of the bankrupt bank's business, to realise the receivables arising under mortgage loans included in the assets of the cover pool via the transfer of such receivables for remuneration. These receivables may be realised only via the transfer of such receivables for remuneration to a third-party transferee that is 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 the declaration of bankruptcy.

If the bankrupt entity is a bank issuing CBs, the owners of the CBs issued by that bank represent the group of secured creditors. These secured creditors shall have a preferential right to have their claims arising under the CBs satisfied via the 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 comprise assets and other property values serving to cover the issued CBs and, at the same time, also for securing the claims of the owners of the 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 pledges over real estate securing the claims under mortgage loans serving to cover the issued CBs.

**Amending Act**

As of 1 January 2018, the mortgage banking regime that existed in the Slovak Republic until that date was repealed and replaced by new legislation, Act No. 279/2017 Coll., dated 12 October 2017, which amended inter alia the Act on Banks (the "**Amending Act**"). The Amending Act has brought about the following changes, among others:

- cancelling the obligation of banks granting mortgage loans to have a licence issued by the NBS for carrying out mortgage transactions;
- cancelling the obligation of banks to fund the granting of mortgage loans through the issuance and sale of MBs;
- a new definition of mortgage loan has been introduced that includes all loans granted by banks which are secured by a pledge or other security right to residential real estate;
- further issuance of MBs as a special type of bonds has been abolished and CBs as a new special type of secured bonds has been introduced; and
- introducing the obligation for the banks performing the activities related to the covered bond programmes to obtain a prior consent of the NBS.

**Transition from MBs to CBs**

Until 31 December 2017 the Issuer issued MBs under the Programme. By adopting the Amending Act, a prohibition has been introduced into legislation according to which it is no longer possible to issue MBs as a special type of bonds as of 1 January 2018. As of 1 January 2018, only CBs can be issued by the Issuer within the Programme, while at the same time the Issuer must, within the boundaries set out 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 existing MB issuances, the Issuer can fully and thoroughly preserve the continuity and inner coherence of activities and processes that are carried out within the Programme during the entire period of its duration. One of the most crucial 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 in a way that would lead to the formation of one universal source of records about all existing and future issuances within the Programme, as well as about all property values that serve as their coverage.

In order to achieve the result mentioned above, the Issuer utilised a mechanism regulated under Section 122ya(3) of the Act on Banks. This mechanism enabled it to transfer entries from the register of mortgages to the register of CBs, regarding all MBs that were issued prior to 1 January 2018 as well as mortgage loans provided under mortgage loan agreements entered into prior to 1 January 2018, including mortgage loans under Section 72(2) of the Act on Banks (in the wording effective until 31 December 2017), security rights and claims of the Issuer arising from mortgage loans provided under mortgage loan agreements entered into prior to 1 January 2018 and other property values serving as due coverage of mortgage bonds issued prior to 1 January 2018. This transfer could be effected during the transition period that ended on 31 December 2018, provided that the Issuer ensured such assets and other property values met 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 above, the Issuer carried out deregistration from the register of mortgages and registration to the register of covered bonds on the same date. The aggregate notional amounts of all such re-registered MBs that are considered Bonds shall count towards the total volume of the Programme.

**Continuity of rights and obligations**

After completing the transfer of entries from the register of mortgages to the register of CBs concerning all MBs and all relevant assets and other property values as mentioned above, the Issuer ensured that the Programme, despite the essential changes in the present legislation that were introduced by the Amending Act, still preserved its inner unity and coherence as concerns the eligible type of securities being issued as well as the ongoing processes and activities related to issuing such securities and creating their coverage. Accordingly, under Section 122ya(4) of the Act on Banks, all MBs are to be deemed to be CBs pursuant to legal regulations effective after 31 December 2017 as of 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 the transfer. As a consequence of the 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 and without any impact on the rights and obligations related to MBs or any related need for change of the Final Terms of issued MBs. By having ensured the fulfilment of the condition for activating the legal effects of reclassification of MBs to CBs, the Issuer has made it possible to continue in processes and activities related to MBs that have been so reclassified within the framework of the existing Programme, in particular, when it comes to the creation of their coverage. The Issuer has ensured the fulfilment of this condition in compliance with the legislative requirements by transferring all entries to a new register of CBs that relates 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 the eligibility criteria for constituting a part of the cover pool under the currently applicable Act on Banks. At the same time, in accordance with the requirements set forth by the Amending Act, the Issuer publishes on its web site https://www.vub.sk/en/personal-finance/information-service/securities-prospectuses/ data regarding each issuance of MBs that are deemed CBs, including the date as of which they are deemed CBs.

**General information on offering, issuance and trading of the Bonds**

The Issuer may, within the framework of the Programme, issue the Bonds through public offer in the Slovak Republic 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 in bearer book-entered form (in Slovak *zaknihované cenné papiere na doručiteľa*). 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 proportional 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 the 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 the 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 the specific issue.

The interest or nominal value (principal) repaid will be always taxed pursuant to legal regulations applicable of the payment date.

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

**Enforcement of judgments in the Slovak Republic**

According to Regulation (EC) No 593/2008 of 17 June 2008 on the Law Applicable to Contractual Obligations (Rome I), parties to a contract may, subject to the terms set out in such contract, select the law which will govern their contractual relations in civil and commercial matters and the Slovak courts must give effect to such choice. In addition, Regulation (EC) No 864/2007 of the European Parliament and of the Council of 11 July 2007 on the Law Applicable to Non-Contractual Obligations (Rome II) allows parties to choose the governing law of their non-contractual obligations in civil and commercial matters, subject to the terms set out therein. Unless the parties to a dispute agree otherwise, or unless the courts of a different member state have exclusive jurisdiction, foreign entities may bring civil proceedings before the Slovak courts against individuals and legal entities domiciled in the Slovak Republic. In court proceedings, Slovak courts apply their national procedural rules and their judgments are enforceable in their respective jurisdictions, subject to some statutory limitations on the ability of creditors to enforce judgments against certain assets.

In order to bring an action in the Slovak Republic the claimant may be required to: (i) submit to the court translations into Slovak or Czech (apostilled if applicable pursuant to relevant international treaties) of any relevant documents prepared by a sworn translator authorised by such court; and (ii) pay a court filing fee.

If court judgments against the Issuer are issued by the courts of non-EU member states, the following rules apply:

In cases where the Slovak Republic has concluded a treaty with the specific country on the mutual recognition and enforcement of court rulings, enforcement of such court rulings is possible pursuant to the terms of such treaty.

On the other hand, if there is no relevant international treaty between the two countries, the judgment of a court in a non-EU member state, which is not voidable under the internal laws of such state would be recognised by the Slovak courts, provided the relevant conditions in respect of recognition and enforcement of foreign judgments set out in Slovak Act No. 97/1963 Coll., on Private and Procedural International Law, as amended (the "**Slovak Private International Law Act**") are met, including without limitation the following: (i) the non-EU judgment is final and enforceable according to the law of the state where it was issued; (ii) the matter is not within the exclusive jurisdiction of the Slovak Republic, and the court of law of the non-EU member state which issued the judgment would have had jurisdiction even if Slovak law had applied to assess its jurisdiction; (iii) the non-EU judgment is a decision on the merits of the case; (iv) the party to the dispute against whom enforcement is sought was not denied access to the foreign court, e.g. it must have been served with a statement of claim or summons for the hearing; (v) the non-EU judgment is not irreconcilable with a prior Slovak judgment or an earlier foreign judgment which is recognised in the Slovak Republic; (vi) the non-EU judgment is not against Slovak public policy; and (vii) the application for recognition before the Slovak courts is made in accordance with the procedural rules of the Slovak Private International Law Act and all the documentation required by the rules was attached to the application. Under Slovak private international law there is no reciprocity principle applied in relation to foreign civil and commercial judgments.

**Mortgage Loans and their regulatory framework in the Slovak Republic**

The Mortgage Loans provided by the Issuer in the Slovak Republic are secured by mortgages over real estate owned by the relevant borrowers. In case of default, the Issuer as pledgee may enforce its rights against the pledgor (i) through voluntary auction pursuant to Act No. 527/2002 Coll., on Voluntary Auctions and Supplementing Act No. 323/1992 Coll. on Notaries (Notarial Code), as amended, or (ii) by execution.

Regardless of the method of enforcement, the pledgee must always notify the pledgor in writing of the commencement of mortgage enforcement. In this notice the pledgee must specify the method which will be used to enforce the claim. The pledgee can only go ahead with the enforcement of the mortgage after 30 days have lapsed since such notice was delivered. Due delivery of the written notice has significant effects on the pledgor's dispositional rights as, from the moment it receives the written notice, the pledgor may not dispose of the real estate without the pledgee's consent. Disposition without such consent might be void; however, a breach of this prohibition does not affect the validity of a purchase agreement entered into in the ordinary course of business, unless the purchaser must have known about the commencement of enforcement.

The pledgee is not entitled to sell the real estate before the day falling thirty days after (i) delivery of the pledgee's notification of commencement of enforcement to the pledgor or (ii) registration of the commencement of enforcement of the mortgage in the Slovak Cadastral Register, depending on which of the events set out under (i) or (ii) occurs later, unless the pledgee and pledgor agree on an earlier sale after delivery of the notification.

Regardless of the choice of enforcement method, the pledgee is always entitled to reimbursement for necessarily and reasonably incurred expenses associated with the enforcement.

If the borrower under a Mortgage Loan is declared insolvent, the Issuer will qualify as a secured creditor. The Issuer's position as a secured creditor can however be challenged in bankruptcy proceedings. If the bankruptcy administrator files such a challenge, the Issuer has to file an action with the bankruptcy court demanding that the receivable from the Mortgage Loan be recognised as a secured receivable. If the Issuer is recognised as a secured creditor, it would be entitled to have its claim satisfied from the borrower's assets that are subject to the first ranking security created in favour of the Issuer at any time after the decision on resolution of the borrower's bankruptcy by liquidation of the borrower's assets. Secured creditors are, after the deduction of the costs of administration and liquidation of the relevant asset and remuneration of the bankruptcy administrator, satisfied from the proceeds of the liquidation of that asset in the order in which the legal grounds of their entitlement to such satisfaction from that asset arose. The ranking of statutory the pledges is determined on the basis of the date they were registered in the Slovak Cadastral Register.

## IV. INFORMATION ABOUT SECURITIES

*This Section of the Base Prospectus together with Section "III. INFORMATION ABOUT THE PROGRAMME" provides description of securities related to all Bonds issues issued within the Programme as well as the information, which will be specified in the Final Terms of individual issue.*

### 4.1 Responsible persons

**Responsible persons:** VÚB, a.s., represented by Alexander Resch, Chairman 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 Base Prospectus.

**Declaration of responsible persons:** The 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 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, 28 February 2019

Alexander Resch
Chairman of the VÚB, a. s. Management Board

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

### 4.2 Risk factors

**Key risk factors inherent to the 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 Bonds issues is to finance general business activities of the Issuer.
- **Estimated costs and use of proceeds:** This information will be specified in the Final Terms of a specific issue.

### 4.4 Common Terms

*This Section of the Base Prospectus (as defined below) contains certain information in square brackets that do not contain specific information or contain only a general description (or general principles or alternatives). This* unknown information, at the moment of preparation of the Base Prospectus, concerning the Bonds (as defined below), will be completed by the Issuer for individual issues of the Bonds in the Final Terms (as defined below) which will be prepared and published in the form specified in the section of the Base Prospectus designated as the "Form of Final Terms".

**Interpretation and definitions**

All issues of the Bonds to be issued under the Programme on the basis of this Base Prospectus will be governed by the Common Terms set out in this Section 4.4 (Common Terms) as completed in information under the relevant part of the respective Final Terms. This Section 4.4 (Common Terms) together with the relevant part of the Final Terms replaces the terms and conditions of the respective issue of the Bonds (the "**Terms and Conditions**"). For the purposes of these Common Terms and pursuant to Section 121 (10) of the Act on Securities, the Final Terms mean a document designated as the "Final Terms" to be prepared and published by the Issuer with regard to individual issues of the Bonds and which will contain particular information the description of which is given in square brackets in these Common Terms (or is designated to be specified in the Final Terms).

The term "Bonds" for the purposes of this Section 4.4 (Common Terms) only refers to the Bonds of a particular issue and shall not be construed as referring to any bonds issued continuously or repeatedly by the Issuer under the Programme.

Any reference to point, section or paragraph in the Terms and Conditions (including in the Final Terms) means reference to point, section or paragraph of the whole Terms and Conditions of a specific issuance of Bonds.

In this Section 4.4 (Common Terms) the following expressions shall have the following meaning:

**"Act on Banks"** means Act No. 483/2001 Coll., on banks, as amended.

**"Act on Bonds"** means Act No. 530/1990 Coll., on bonds, as amended.

**"Act on Securities"** means Act No. 566/2001 Coll., on securities and investment services, as amended.

**"Bankruptcy Act"** means Act No. 7/2005 Coll., on bankruptcy and restructuring, as amended.

"**Aggregate Nominal Amount**" means the maximum sum of all Nominal Values of all the Bonds of a specific issue as defined in the Final Terms of a specific issue.

**"Base Prospectus"** means a base prospectus for debt securities, issued within the Programme on the basis of which the Issuer is authorised to issue, in compliance with the generally binding legal regulations, individual covered bond (in Slovak *krytý dlhopis*) in any currency, on the basis of the information provided therein as later amended.

**"Bondholder"** means a person registered as the owner of the Bonds as set out in Clause 1(p) of this section 4.4 (Common Terms) below.

**"Bratislava Stock Exchange"** means the Bratislava Stock Exchange, with the registered office at Vysoká 17, 811 06 Bratislava, Slovak Republic, Identification number: 00 604 054, registered in the Commercial Register of District Court Bratislava I, section: Sa, file no.: 117/B.

**"Business Day"** means a day which is not a holiday under Act No. 241/1993 Coll., on Public Holiday, Non-Business Days and Memorial Days, as amended and Act No. 311/2001 Coll., the Labour 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).

**"Central Securities Depository"** means the Central Depository of Securities of the Slovak Republic (in Slovak *Centrálny depozitár cenných papierov SR, a.s.*), a joint-stock company incorporated and existing under the laws of Slovak Republic, with the registered office at ul. 29. augusta 1/A, 814 80 Bratislava, Slovak Republic, Identification number: 31 338 976, registered in the Commercial Register of District Court Bratislava I, section: Sa, file no. 493/B, which keeps for the Issuer the securities register.

"**Commercial Code**" means Act No. 513/1991 Coll., Commercial Code, as amended.

**"Issue Date"** means the date when the Bonds issue is commenced. The Issue Date is specified in the Final Terms.

**"Interest Payment Date"** means a date specified in the Final Terms of the issue on which the interest is payable. Should the payment day fall on a day other than a Business Day, the payment date shall be the next Business Day immediately following non-Business Day. In such case, there will be no entitlement to additional interest or any other appreciation.

**"EURIBOR"** means 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 interest 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 the Base Prospectus it is not registered in registry of the ESMA in accordance with 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**"). 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"** means the European Securities and Markets Authority.

**"Ex-Principal Date"** means the date falling on the 30th day prior to the Maturity Date. Nominal 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.

**"Ex-Coupon Date"** has been set on 30th day prior to each Interest Payment Date. 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.

**"Final Terms"** means the final terms of the relevant issue prepared by the Issuer substantially in the form set out in Section "V. FORM OF FINAL TERMS" of the Base Prospectus.

**"Issuer"** or **" VÚB, a.s."** means Všeobecná úverová banka, a.s., with the registered office at Mlynské nivy 1, 829 90 Bratislava, Identification number: 31 320 155, registered in the Commercial Register of District Court Bratislava I, section: Sa, file no. 341/B, LEI: 549300JB1P61FUTPEZ75.

**"LIBOR"** means 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 the Base Prospectus it is registered in ESMA registry in accordance with the Benchmark Regulation.

**"LSE"** means Luxembourg Stock Exchange, with the registered office at 35A Boulevard Joseph II, L-1840 Luxembourg.

**"Maturity Date**" means a date when the nominal value of a specific issue of the Bonds will be paid out.

**"Margin"** means one of the floating rate components, the amount of which is defined in the Final Terms of a specific issue.

**"Nominal Value"** means the nominal value (denomination) of each Bond and the principal amount to be repaid by the Issuer under each Bond as defined in the Final Terms of a specific issue.

**"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 Issue Date and end no later than on the last date of the anticipated period of Bond issue.

**"PRIBOR"** means 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 of the interest, 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 the Base prospectus it is not registered in ESMA registry in accordance with the Benchmark Regulation. 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 the Base Prospectus.

**"Reference Rate"** means an interest rate defined for calculation of the interest income on the Bonds bearing the floating rate. If the relevant reference rate has not been determined in the Final Terms, then in the Bonds with the floating rate and nominal value denominated euro, the reference rate EURIBOR will apply. In the Bonds with floating rate and nominal value denominated in the Czech koruna, PRIBOR will be applied as a reference rate. In the Bonds with floating rate and nominal 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 Benchmark Regulation.

**"Request"** means the request for interest payment and / or for repayment of the Nominal Value as set out in Clause 5(e) of this Section 4.4 (Common Terms) below.

## 1. Basic information, form and manner of issue of the Bonds

a. Type of Bonds - Covered Bonds], **[ISIN]**, will be issued by the Issuer. **[Common Code]** will be specified in the Final Terms, if assigned to specific issue of the Bonds.

b. The Bonds are issued as Covered Bonds (in Slovak *kryté dlhopisy*) under Section 67 et seq. of the Act on Banks and are covered by assets or other property values in the cover pool pursuant to the relevant provisions of the Act on Banks.

c. The Bonds are book-entered securities (in Slovak *zaknihované cenné papiere*) in bearer form (in Slovak *vo forme na doručiteľa*) registered in the Central Securities Depository pursuant to the Act on Securities.

d. The Bonds will be issued with principal amount (in Slovak menovit*á* hodnota) of each of the Bonds of **[Nominal Value]**. No global certificates, definitive certificates or coupons will be issued with respect to any Bonds.

e. The Bonds will be exclusively issued in the currency **[Currency]**.

f. The name of the Bonds is **[Name]**.

g. The Bonds, and all non-contractual obligations arising out of or in connection with the Bonds, are governed by Slovak law. Slovak courts have exclusive jurisdiction to settle any dispute arising in relation to the Bonds.

h. The Aggregate Nominal Amount (in Slovak *celková menovitá hodnota* emisie) of the Bonds will be **[Aggregate Nominal Amount]**.

i. The issue date of the Bonds is set for **[Issue Date]**.

j. The Bonds will be issued under the EUR 5,000,000,000 debt securities issuance programme pursuant to Section 121 (5) (a) of the Act on Securities.

k. The transferability of the Bonds is not restricted. No rights to exchange them for any other securities and no pre-emption rights (rights for preferential subscription) to any securities and no other benefits are attached to the Bonds.

l. The payment of the Nominal Value or the payment of interest on the Bonds is secured in compliance with the applicable provisions of the Act on Banks.

m. No joint representative of the Bondholders or any other representative of Bondholders has been appointed.

n. The Bonds will be issued in accordance with the Act on Bonds, the Act on Securities and the Act on Banks and Bondholders have the rights and obligations arising from these acts and the Terms and Conditions. The procedure for exercising these rights follows from the applicable laws and the Terms and Conditions.

o. Rights attached to the Bonds are not restricted, except for general restrictions pursuant to applicable legal regulations.

p. The Bondholders will be the persons registered as owners of the Bonds (a) on the owner's account (in Slovak *účet majiteľa*) maintained by the Central Securities Depository or by a member of Central Securities Depository; or (b) on the internal account of a person for which Central Securities Depository maintains a custody account (in Slovak *držiteľský účet*) (each such account referred to as the "**Relevant Account**"). If some of the Bonds are registered in a custody account, the Issuer reserves the right to rely on the authority of each person maintaining such account to fully represent (directly or indirectly) the Bondholder and perform vis-a-vis the Issuer and to the account of the Bondholder all legal acts (either in the Bondholder's name or in its own name) associated in the Bonds as if this person were their owner.

q. A transfer of the Bonds is made through the registration of the transfer in the Relevant Account.

r. Unless the law or a decision of the court delivered to the Issuer provides otherwise, the Issuer will deem each Bondholder as the authorised owner in all respects and make the payments under the Bonds to that Bondholder.

**2. Admission to trading**

a. An alternative applied to a particular issue will be specified in the Final Terms:

  i. The Issuer will submit an application to Bratislava Stock Exchange, for the admission of the Bonds to trading on its market, or

  ii. The Issuer will submit an application to the LSE for the admission of the Bonds to trading on its market, or

  iii. The Issuer will submit an application for the admission of the Bonds for trading on other than the LSE or the Bratislava Stock Exchange regulated market organizer, or

  iv. The Issuer will not submit an application for the admission of the Bonds for trading on a regulated market.

## 3. Status of Bond obligations

a. Obligations from the Bonds constitute direct, general, secured, unconditional and unsubordinated liabilities of the Issuer which rank pari passu among themselves and always rank at least pari passu with any other direct, general, similarly secured, unconditional and unsubordinated obligations of the Issuer, present and future, save for those obligations of the Issuer as may be stipulated by mandatory provisions of law.

b. The Issuer declares that it owes to the Bondholders the Nominal Value and undertakes to repay the Nominal Value and any interest on the Bonds (if the Bonds bear interest income), in accordance with their Terms and Conditions.

c. The Issuer undertakes to treat all Bondholders in the same circumstances equally.

## 4. Interest

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

   i. **Fixed interest rate based on Final Terms**. The Bond interest determined this way will bear a fixed rate over the whole lifetime of the Bond or over the pre-defined period. The interest rate and the period will be defined in the Final Terms.

   ii. **Floating interest rate based on Final Terms**. The Bond interest rate determined this way will bear a floating rate equal to the Reference Rate increased /decreased by relevant Margin (if applicable) always over specific, successive interest rate periods. The specific composition of the interest will be defined in the Final Terms. The relevant interest will be set for the next period on the second Business Day preceding the date of the interest payout for the current interest period. The rate for the first period will be defined on the second Business Day prior to issue date.

   iii. **Interest rate determined as difference between the Nominal Value and lower issue price of the Bond (zero coupon)**. The interest rate specified this way in the Final Terms will not bear an interest. The interest rate on these Bonds represents difference between the issue price and Nominal Value of each Bond.

   iv. **The interest rate determined by combination of the above methods**. The interest rate defined this way in the Final Terms will bear an interest which is a combination of several or all items set out under i to iii above for a specific interest rate period. The specific composition of the interest rate will be specified in the Final Terms.

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

c. The interest payment for each interest rate period will be due on each Interest Payment Date specified in the Final Terms. Should an Interest Payment Date fall on other than a Business Day, the payment date will be the next Business Day immediately following such non-Business Day. For avoidance of any doubt, such delay in payment will not constitute title to additional interest or any other appreciation. With respect to specific Bond, the Issuer will define the interest payment for each interest payment period. The amount shall be rounded based on mathematical rules to two decimal places according to a figure on the third decimal place.

d. The interest payment on a Bond will be determined as a multiple of the Nominal 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.

e. The interest rate period is a time between two Interest Payment Dates, starting from each Interest Payment Date (inclusive) until the next Interest Payment Date (exclusive); the first interest payment period is a period starting with the Issue Date (inclusive) until the first Interest Payment Date (exclusive).

f. The Ex-Coupon Date is the 30th calendar day prior to Interest Payment Date. The interest payment for the relevant period will 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-Coupon Date as indicated in the list of Bondholders.

g. **Interest Payment Dates**. This information will be specified in the Final Terms of a specific issue.

h. **Limitation period**. Any rights arising from the Bonds shall become time-barred after the lapse of the 10-year period after their Maturity Date.

i. **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.

j. **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.

k. **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.

l. The method of interest rate calculation will consist of interbank interest rate, which can be increased or decreased by a Margin.

m. **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.

n. **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 interest rate, economic crisis et cetera 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.

o. **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 price 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.

p. **If the nominal rate has not been fixed, name of the person in charge of calculations**. No calculation agent or representative will be appointed, the Issuer itself will make all calculations with regard to the Bonds.

q. **If the nominal rate has not been fixed and the security bears a derivative component in the interest payment, specify how does the value of underlying instrument(s) impacts the investment value in terms of the most obvious risks of the investment**. The Bonds have no derivative component in the interest payment.

### 5. Maturity Date

a. The Maturity Date of Bonds' Nominal Value (the Maturity Date of the Aggregate Nominal Amount of the Bonds of a specific issue) will be specified in the Final Terms of a specific issue. The Bond does not bear any interest after the Maturity Date, except in cases where the Maturity Date is extended in accordance with mandatory provisions of Slovak law. Should the Maturity Date of the Bond Nominal 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 interest or any other appreciation will arise.

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

   i. The Issuer shall repay the Nominal Value of each Bond in full on the Maturity Date. The Issuer shall not be committed to early repayment of the Bonds on request of the Bondholder and the Bondholder shall not be entitled to request the early repayment; or

   ii. The Nominal Value of each Bond shall be repaid by the Issuer in several instalments, i.e. not as balloon payment at the end of maturity. The relevant instalment of Nominal Value plus the interest payment for the given interest period will be paid on the Interest Payment Date. Repayment of the Nominal Value will be split into instalments the number of which will correspond to that of interest periods, unless otherwise stated in the Final Terms. Repayment amount relevant to the Nominal Value and the relevant Interest Payment Date will be specified in 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

   iii. The Issuer shall repay the Nominal Value of each Bond in full on the Maturity Date with option of early repayment initiated by the 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 (while maintaining the principle of equal treatment of all Bondholders) or all Bonds at any time and repeatedly provided it has notified its decision to 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 accordance with clause 11 below. 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 Nominal Value of the Bonds or all Bonds together with accrued interest.

c. 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 decides 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).

d. The Ex-Principal Date was set on the 30th calendar day prior to the Maturity Date. The Nominal Value of the Bond shall be paid out only to a Bondholder, who had been owner of the Bond as of the end of the Business Day immediately preceding the Ex-Principal Date as indicated in the list of Bondholders prepared by the Central Securities Depository.

e. Payment of interest and / or repayment of the Nominal Value of the Bonds will be affected by non-cash transfer on the account of the entitled party (the "**account**") as specified by the entitled beneficiary in the Request delivered to the Issuer, sub-department treasury back office at the Head office, no later than on the 20th day before the Interest Payment Date and / or Maturity Date. If the Request has not been delivered to the Issuer within the period indicated above, the Issuer shall pay out the interests and / or repay the Nominal Value of the Bonds within five Business Days following the day the Request with account number indicated thereon has been delivered (however not before the Interest Payment Date and /or repayment date of the Nominal Value under this general information on the Bonds) to the Issuer.

At the same time, the eligible beneficiary shall not be entitled to obtain any additional interest or interest or any other appreciation, for the period starting the interest payout date and /or Maturity Date under this general information on the Bonds ending the effective payment date and/or repayment date.

f. The Issuer shall not be obliged to accept the documents and written instruments presented by authorised parties / or persons acting on behalf of the authorised parties, if executed in other than the English, Slovak or Czech language. In other instances, the Issuer will 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 super-legalized and furnished with "Apostille" based on Hague Convention abolishing the requirement of legalisation for foreign public documents of 5 October 1961. The Issuer shall not be obliged to execute any acts, namely, to pay-out the interests without limitation, and repay the Nominal Value of the 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 authorised 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.

g. The place where the payment of the Nominal Value and the interest will be paid (in Slovak *platobné* miesto) will be VÚB, a. s., Mlynské nivy 1, 829 90 Bratislava, the Slovak Republic.

h. The Issuer shall pay the interest on Bond and the Nominal Value of each Bond to the Bondholder in accordance with the Final Terms of the given issue.

i. **An indication of yield (only for fixed rate Bonds)**. This information will be specified in the Final Terms of a specific issue, if applicable.

6. **Method of interest calculation (convention).** The method applied to the particular issue shall set forth in its Final Terms.

For purposes of calculation of the Bond interest, one of the conventions specified below shall apply:

a. **"Act/Act"** as a ratio of actual number of days in the period for which the interest 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 interest has been determined and which falls in leap year divided by 366 and (ii) actual number of days of the period for which the interest has been determined and which does not fall in leap year divided by 365); or

b. **"Act/365"**as a ratio "actual number of days in the period for which the interest has been determined to 365"; or

c. **"Act/360"** as a ratio "actual number of days in the period for which the interest has been determined to 360"; or

d. **"30/360"** as a ratio "number of days in the period for which the interest 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 interest has been determined falls on the 31$^{st}$ day of a month and concurrently the first day of this period is not the 30$^{th}$ or 31$^{st}$ day in a month, that month shall have 31 days or (ii) the last day of the period for which the interest has been determined, is the last day in February, than the months shall not be extended onto 30 days"; or

e. **"30E/360"**, as a number of days in the period for which the interest has been determined to 360 (in this case the year is deemed to have 360 days,12 months and a month has 30 days).

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

8. **Issue Date.** This information will be specified in the Final Terms of a specific issue.

9. **Information on Bond collateral.** Bonds represent a specific type of covered bonds under Section 20b of the Act on Bonds, which Nominal Value and proportional interest income is fully covered by assets or asset values in a covered pool under Section 68 (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 Issuer 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 proportional 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 its covered receivable for the payment of nominal value and proportional interest income related to the 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 Section 195a (1) of the Bankruptcy Act.

10. **Meeting of the Bondholders**

    a. **The request to convene a Meeting**

    Any Bondholder whose nominal value is at least 10% of the total aggregate principal amount of the issued and outstanding Bonds of the given issue has (or Bondholders with joint nominal value at least 10% of the total aggregate principal amount of the issued and outstanding Bonds of the given issue have) the right to request the convening of the meeting of the Bondholders in relation to such issue (the "**Meeting**"). The request to convene the Meeting must be delivered to the Issuer. The Bondholders who have requested a Meeting are required to submit an extract from the records proving that they are Bondholders as of the date of signing of the request along with the request to convene the Meeting.

    The request to convene a Meeting may be withdrawn by the relevant Bondholders, but only if such withdrawal is received by the Issuer, no later than 5 (five) Business Days before the Meeting. Withdrawal of the request to convene a Meeting does not affect any other request to convene a Meeting by other Bondholders. If the Meeting does not take place solely due to the withdrawal of the request to convene the Meeting, the Bondholders shall jointly and severally reimburse to the Issuer the costs incurred so far for the preparation of the Meeting.

    The Issuer is entitled to convene the Meeting at any time and is obliged to convene the Meeting without undue delay if it is in default with the satisfaction of the rights attached to the Bonds.

    b. **Convening of the Meeting**

    The Issuer is obliged to promptly convene the Meeting no later than within 10 (ten) Business Days after receipt of the request to convene the Meeting.

    The costs of organizing and convening the Meeting shall be borne by the Issuer, unless stated otherwise. However, the Issuer has the right to demand reimbursement of the costs of convening the Meeting from the Bondholders who have filed the request to convene the Meeting without serious cause, especially if the Issuer duly fulfils the obligations arising from the Terms and Conditions. The costs associated with attending the Meeting shall be borne by each participant himself.

    c. **Notice of the Meeting**

    The Issuer is obliged to publish the convening notice of the Meeting in the manner set out in Clause 11 of this Section 4.4 (Common Terms) below, at the latest five Business Days prior to the date of the Meeting.

The convening notice must include at least:

i. name, identification No. and registered office of the Issuer;
ii. designation of the Bonds, including at least name of the Bond Issue Date and ISIN;
iii. place, date and hour of the Meeting; place of the Meeting may only be a place in Bratislava, date of the Meeting must be a day which is a Business Day and the time of the Meeting may not be earlier than 9:00 a.m. and later than 4:00 p.m.;
iv. agenda of the Meeting, whereas the choice of the Chairman of the Meeting must be the first item of the agenda of the Meeting; and
v. The Date of Record for Attending the Meeting (as defined below).

If there is no reason to convene the Meeting, the convener shall withdraw it in the same way as it was convened.

**d. Persons entitled to attend and vote at the Meeting**

i. Entitled Persons

Each holder of the Bond, except for any person controlled by the Issuer, is entitled to participate and vote at the Meeting (the "**Entitled Person**") if such person is a Bondholder (as shown by the relevant records proving that fact) on the seventh day prior to the day of the relevant Meeting (the "**Date of Record for Attending the Meeting**"). Any transfers of the Bonds made after the Date of Record for Attending the Meeting are disregarded.

The Entitled Person may be represented by an attorney who, at the beginning of the Meeting, presents and hands over to the Chairman of the Meeting (as defined below) the original of a power of attorney with an officially certified signature of the Entitled Person or its statutory body, in case of a legal entity, together with an original or a copy of a valid extract from the commercial register or other similar register in which the Entitled Person is registered (possibly also the attorney, if legal entity); this power of attorney is, except for manifest deficiencies, an irrefutable proof of the representative's right to participate and vote at the Meeting on behalf of the represented Entitled Person. After the end of the Meeting, the Chairman of the Meeting shall hand the power of attorney over to the Issuer's custody.

ii. Voting right

The Entitled Person has as many votes out of the total number of the votes that corresponds to the ratio between the principal amount of the Bonds it holds as of the Date of Record for Attending the Meeting and the total principal amount of the given issue which is held by all Entitled Persons attending the Meeting as of the Date of Record for Attending the Meeting.

iii. Attendance of other persons at the Meeting and co-operation of the Issuer

The Issuer is obliged to attend the Meeting, either through its statutory body or through a duly authorised person and provide the information necessary for the decision or adoption of the Meeting's opinion. Other members of the Issuer's statutory, supervisory or management body (if appointed), notary, advisors and guests invited by the Issuer to participate in the Meeting or any other persons whose attendance at the Meeting has been approved by the Issuer, may also attend the Meeting.

**e. Course of the Meeting and adopting decisions**

i. Quorum

The Meeting has a quorum if attended by the Entitled Persons who are, as of the Date of Record for Attending the Meeting, the Bondholders of the Bonds whose principal amount represents more than 50% of the total principal amount of issued and outstanding Bonds of the given issue, except for the Bonds held by any person controlled by the Issuer. Prior to commencement of the Meeting, the Issuer will provide information on the number of Bonds in respect of which the Entitled Persons are entitled to attend and vote at the Meeting in accordance with the Common Terms.

ii. Chairman of the Meeting

The Meeting shall be chaired by the Issuer or a person designated by the Issuer until it has been decided at the Meeting that another person will become the Chairman of the Meeting (the "**Chairman of the Meeting**"). Election of the Chairman of the Meeting shall be the first item of the agenda of the Meeting. If the election of the Chairman of the Meeting at the Meeting is not successful, the Meeting shall be chaired by the Issuer or a person designated by the Issuer until the end of the Meeting.

iii. Adopting decisions at the Meeting

The Meeting is entitled to decide only on proposed resolutions that fall within the scope of the Meeting defined in the Common Terms. The Meeting shall decide only on proposed resolutions referred to in the convening notice. Matters that were neither included in the proposed agenda of the Meeting nor mentioned in the convening notice can only be decided if it is agreed by all attending Entitled Persons who are entitled to vote at this Meeting.

The Meeting is entitled to decide on the change of the Terms and Conditions of the respective issue of the Bonds only if proposed by the Issuer.

The Meeting is also entitled, with the consent of the Issuer, to decide on an additional deadline for the fulfilment of the Issuer’s obligations under the Bonds or in relation to the Bonds.

The Meeting decides on the submitted proposals by way of resolutions. For the adoption of a resolution, an absolute majority of the votes of the attending Entitled Persons is sufficient.

Any matter submitted to the Meeting shall be decided in the following manner: after the Chairman of the Meeting has announced the wording of the proposed resolution, each of the Entitled Persons declares, upon the request of the Chairman of the Meeting, whether it (I) is for the adoption of the proposed resolution, (II) is against the adoption of the proposed resolution, or (III) abstains from voting; each such statement is recorded by the attending notary. After the end of the vote of all Entitled Persons as described above and after the evaluation of the results, the Chairman of the Meeting, upon agreement with the attending notary, shall announce to the Entitled Persons whether the proposed resolution has been adopted or rejected by the necessary votes of the Entitled Persons, such announcement together with the record of the attending notary on the result of the vote shall be irreversible and conclusive evidence of the result of the vote.

Any duly adopted resolution is binding on the Issuer and all Bondholders, regardless of whether they attended the Meeting and voted for, did not vote for the resolution at the Meeting or abstained from voting.

In cases specified in the Act on Bonds, Entitled Persons who, according to the minutes of the Meeting, voted against the proposed resolution at the Meeting or did not attend the Meeting, may request that the rights and obligations of the Issuer and the Bondholder under the original Terms and Conditions continue to exist or request early redemption of the Bonds.

iv. Adjourning the Meeting

The Chairman of the Meeting shall dissolve the Meeting if a duly convened Meeting does not have a quorum in accordance with the provisions of Clause 10(e) of this Section 4.4 (Common Terms) below after the lapse 60 minutes after the time specified for the beginning of the Meeting. In such case, the Issuer shall convene a replacement Meeting so that it takes place no sooner than two weeks and no later than four weeks from the date on which the original Meeting was convened. The replacement Meeting shall be announced in the manner set out in Clause 10(c) of this Section 4.4 (Common Terms) below. The new Meeting shall resolve and decide under the same terms and in the same manner as the dissolved Meeting.

v. Minutes of the Meeting

The course of every Meeting (including, but not limited to) (I) the agenda of the Meeting (II) the individual resolutions adopted by the Meeting and (III) the results of the votes at the Meeting on individual resolutions) shall be recorded in a notarial deed prepared at the Meeting; one copy shall be prepared by the attending notary for the Issuer. Minutes that are duly deposited with the Issuer are considered evidence of the facts contained in such minutes and, unless proven otherwise, are considered proof that the recorded Meeting has been duly convened and/or held, and that all resolutions of such Meeting were adopted subject to all conditions and requirements for their adoption in accordance with the Common Terms. The Issuer must publish the minutes within 14 days from the date of its preparation. The minutes of the Meeting shall be available to the Bondholders for inspection during the ordinary business hours of the Issuer. The Issuer shall also, without undue delay, make available all decisions of the Meeting in accordance with Clause 11 of this Section 4.4 (Common Terms) below.

**f. Presence and voting at the Meetings via electronic means**

The Entitled Person may participate and vote at the Meetings via audio/video conferencing facilities, subject to the following conditions:

i. the Chairman of the Meeting can identify the identity of the Entitled Person,
ii. the Chairman of the Meeting can control how the Meeting proceeds, and determine and announce the results of voting;
iii. those taking part can participate in discussions and voting on the items on the agenda simultaneously, as well as to view, receive, and transmit documents (if necessary).

The Entitled Person participating at the Meeting via audio/video conferencing will be deemed to be present at such Meeting.

**11. Notices**

a. Any notice, publication or communication by the Issuer addressed to the Bondholders and any facts material for exercising the rights of the Bondholders will be published in a nationwide newspaper of the Issuer's choice in the Slovak Republic and/or Luxembourg that publishes stock exchange news and/or at the Issuer's website, in each case at the opinion of the Issuer subject to mandatory requirements of applicable law only.

b. If the legal regulations or these Common Terms require that a notice is also published in another manner, such notice shall be deemed to be validly published when it is published in such required manner. If any notice is published by several manners, the date of its first publication shall be deemed the date of such notice. The publication date shall also be deemed the date of delivery of the notice to the Bondholders.

c. The Issuer is obliged to make notices and publications in relation to the Bonds in English or Slovak language or bilingually in English and Slovak language if the Bonds were offered on the territory of other Member States of the European Union. If it is permitted by the legal regulations considering the nature of a notice or publication, the Issuer may decide to make such notice or publication relating to the Bonds in Slovak language only.

d. Any notice to the Issuer in respect of the Bonds must be delivered in writing to the following address:

Všeobecná úverová banka, a.s.

ALM & Treasury Department

Mlynské nivy 1, 829 90 Bratislava

Slovak Republic

or to such other address notified to the Bondholders in a manner describe in this subsection.

**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 expected period during which the Bonds can be issued within specific issue, which starts as of the Issue Date (the "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 Issue Date, 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 in their entirety 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 Issue Date. The Issuer enters an order to assign the relevant number of Bond units on securities account of the investor kept with the Central Securities Depository, with the Central Securities Depository member or with another entity, which under legislation of the Slovak Republic or another state of the European Union is authorised and entitled to keep the evidence of registered securities, at the latest in 5 days from the Issue Date.

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

**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 a 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 price shall be determined as a specific percentage of the Bonds' Nominal Value (no higher than 120%) while in public offers dedicated to Qualified Investors and in offers subject Section 120 (3) of Act on Securities, the issue price will be defined as a spread.
The Issuer shall always determine the issue price 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 the Nominal 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 price. The price for the beneficiary will be determined as a multiple of issue price, Bonds' Nominal Value and number of Bond units. The issue price will be indicated in the confirmation of the primary purchase.

**The costs of the Issuer charged separately 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.

**The return on an investment in the Bonds affected by charges incurred by investors.** An investor's total return on an investment in any Bonds will be affected by the level of fees charged by the nominee service provider and/or clearing system used by the investor as well as any potentially applicable taxes. Such a person or institution may charge fees for the opening and operation of one or more investment accounts, transfers of the Bonds, custody services and on payments of interest, principal and other amounts. Potential investors are therefore advised to investigate the basis on which any such fees will be charged on the relevant Bonds.

**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:** No payment and depositary agents will be appointed, the Issuer itself will make all payments with regard to the Bonds.

**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 Additional information

**Bond issue advisors and their role.** Clifford Chance Prague LLP, organizační složka and Studio Legale Associato in associazione con Clifford Chance, Milan acted as advisors to the Issuer in connection with the Base Prospectus and updating of the Programme. Allen & Overy Bratislava, s.r.o. and Allen & Overy Studio Legale Associato, Milan acted as advisors to Banca IMI as the sole arranger and dealer.

Additional advisors, if any, 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 "6.5.2 Main Markets" of this Base Prospectus.

**Rating assigned to the Bonds.** Bonds issued by Issuer under the Programme were rated at the level Aa2 by Moody's.

## V. 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 Programme before the issue date.

Specific conditions for each issue issued within the Programme 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 supplementary 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.

VÚB BANKA

**Všeobecná úverová banka, a.s.**

**FINAL TERMS**

**date** [•]

**Issue** (name of issue)
**ISIN** (ISIN code)
**Aggregate Nominal Amount** (issue amount)
**Maturity** (date)

**issued within offering programme for Covered Bonds in the maximum volume of unpaid Bonds amounting to EUR 5,000,000,000**

The National Bank of Slovakia, by its resolution no. [•] dated [•] approved to the Issuer, Všeobecná úverová banka, a.s., with its registered office at Mlynské nivy 1, 829 90 Bratislava, Identification number: 31 320 155, registered in the Register of Companies of District Court Bratislava I, section: Sa, file no. 341/B ("**VÚB, a.s.**", the "**Issuer**" or the "**Bank**"), the Base Prospectus of [•] 2019, which contains the general information about the Bonds, and highlights information to be supplemented in the Final Terms of specific issues, issued by the Issuer.

Final Terms have been prepared for purposes of Directive 2003/71/EC, Article 5 paragraph 4 and shall be interpreted in connection with the Base Prospectus, including any Supplements thereof, as may be later attached to, which is published and made available free of charge at the registered office of the Issuer: Mlynské nivy 1, 829 90 Bratislava, Department: Balance Sheet Management, and on Issuer's website: https://www.vub.sk/en/personal-finance/information-service/securities-prospectuses/. Summary of a specific issue is attached to the Final Terms. This document covers key information for the investors. To acquire complete information about the Issuer and Bonds offering, the Final Terms should be read together with the Base Prospectus, including any Supplements thereof. 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 Programme.

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.

MiFID II Product Governance

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of [the/ each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturer ['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer ['s/s'] target market assessment) and determining appropriate distribution channels.]

[**MIFID II – PRODUCT GOVERNANCE / RETAIL INVESTORS, PROFESSIONAL INVESTORS AND ECPs TARGET MARKET** – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties, professional clients and retail clients, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and [(ii) all channels for distribution of the Bonds are appropriate[, including investment advice, portfolio management, non-advised sales and pure execution services] / (ii) all channels for distribution to eligible counterparties and professional clients are appropriate] and (iii) the following channels for distribution of the Bonds to retail clients are appropriate, including; investment advice[, portfolio management and non-advised sales][, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable]. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable].

The Final Terms together with Section 4.4 (Common Terms) shall constitute the terms and conditions of the relevant issue of the Bonds.

# 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 | Banca IMI S.p.A., an affiliate of the Issuer, has been appointed as the sole Arranger for the Programme. (•) Unless stated above, as far as the Issuer is aware, no other person has an interest material to the issue / offer of the Bonds. |

## 1.2. Reason for the offer, estimated net proceeds and total expenses

| | |
|---|---|
| Reasons for the offer | (•) |
| Estimated net proceeds: | (•) |
| Estimated total expenses: | (•) |

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

| | |
|---|---|
| Name of Bond | (•) |
| Nominal Value (of each Bond) | (•) |
| Aggregate Nominal Amount | (•) |
| ISIN | (•) |
| Common Code | (•) / Not applicable. |
| FISN | (•) / Not applicable. |
| Issue currency | (•) |
| Nominal interest rate | (•) Selected alternative specified in the Base Prospectus |
| Interest Payment Dates | (•) |
| Where the interest 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 (only for fixed rate Bonds) | (•) / Not applicable |

| | |
|---|---|
| Method of interest 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

| | |
|---|---|
| Public Offer | [Applicable][Not Applicable] (If not applicable, delete the remaining placeholders of this paragraph 3 below) |
| 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 the 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, DISTRIBUTION 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 | (•) |
| Method of distribution | [Syndicated / Non-syndicated] |
| Date of subscription agreement (If syndicated) | [(•) give names, addresses and underwriting commitments / [Not Applicable] |

### 5. ADDITIONAL INFORMATION

| | |
|---|---|
| Consultants related to issue and their roles | (•) / Not applicable |
| Stabilising Manager(s) (if any): | (•) / Not applicable |
| Ratings: | [The Bonds [have been/are expected to be] rated]:<br><br>Moody's: [Aa2]<br><br>Moody's Investors Service Ltd is established in the EEA and registered under Regulation (EU) No 1060/2009 on credit rating agencies, as amended. |

## VI. INFORMATION ABOUT THE ISSUER

### 6.1 Responsible persons[1]

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

### 6.2 Statutory auditors

The audit of the consolidated financial statements for the year ended on 31 December 2017 was carried out according to the IFRS by KPMG Slovensko spol. s r.o., with the registered office at Dvořákovo nábrežie 10, P.O.Box 7, 820 04 Bratislava, Slovak Repubic, 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 ended on 31 December 2018 was carried out according to the IFRS by KPMG Slovensko spol. s r.o., with the registered office at Dvořákovo nábrežie 10, P.O.Box 7, 820 04 Bratislava, Slovak Repubic, which is a member of the Slovak Chamber of Auditors - SKAU (license SKAU no. 96).

### 6.3 Risk factors

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

### 6.4 Issuer's history and development

| | |
|---|---|
| **Trade name** | Všeobecná úverová banka, a. s.; in short: VÚB, a. s.<br>registered in the Commercial Register of District Court Bratislava I, section: Sa, file no.: 341/B |
| **Date of incorporation** | 1 April 1992 |
| **Identification number** | 31 320 155 |
| **Registered office** | Mlynské nivy 1, 829 90 Bratislava, Slovak Republic |
| **Legal form** | joint-stock company |
| **Legal regulations under which Issuer carries out its business activities** | Commercial Code<br>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 |

VÚB, a. s. was incorporated by Štátna banka československá in connection with the reform of the Czechoslovak bank system as of 1 January 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 1 April 1992. VÚB, a. s. was registered in the Commercial Register with the registered capital of 2 039 054 000 Czechoslovak crowns. VÚB, a. s., was incorporated under the Commercial Code, Act No. 92/1991 Coll., on the Conditions of Transfer of the State Property to Other Persons, as amended 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, as amended, in

[1] Numbering to be adjusted.

compliance with the resolution of the government of the Czechoslovak Federal Republic no. 1 of 9 January 1992 approving the privatization project, prepared for the privatization of VÚB, a. s. 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 the bank became a member of this important financial group. Financial group Banca Intesa S.p.A. (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 1 January 2007 Banca Intesa S.p.A. officially merged with another Italian bank Sanpaolo IMI S.p.A., 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 a universal financial institution in the upcoming years is to strengthen its position in the Slovak banking market, extend the services offered to 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.

## 6.5 Overview of business activities

### 6.5.1 Main activities

VÚB, a. s. is a modern universal bank which offers a wide range of products and services to corporate, retail and institutional clients within the domestic and foreign markets. 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 the Issuer in accordance with the Act on Banks, stated in statutes of the Issuer. The business purpose is incorporated in Commercial Register and is provided in accordance with relevant generally binding legislation. Among the main products and services of the Issuer are current accounts, fixed-term deposits, mortgage loans, consumer loans, investment loans and internet banking services.

The main business areas of the Issuer are:

**Retail banking**. It is a key area, with the strong focus of the Issuer on the products and services provided. The main products and services in this area are products and services for residents, self-employed clients and [client of free enterprise]. The main products of this group are current accounts, saving accounts, fixed-term accounts, investment products, payment cards, mortgages 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**. The Issuer 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 the interbank market.

In order to satisfy growing client needs, the Issuer 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. The Issuer 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 are a new Internet banking or combined products, interconnecting conditions of fixed-term deposit with advantages of investment in funds.

### 6.5.2 Main markets

VÚB, a. s. operates on the Slovak market and through a branch (and a subsidiary) in Prague also in 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 2018, the market share of VÚB, a. s. in the total primary deposits was 18.5%, the loan share increased to 21.4%.

The Issuer at present provides banking services to corporate, retail and institutional clients via its wide network of 207 sales points within the Slovak Republic, what represents the second highest number of branches among the Slovak commercial banks with market share over 18 %. The number of employees is the second highest within the Slovak banking sector.

Operating income of VÚB, a. s. group decrease on year to year basis by -1.2 % to EUR 524.6 million. Operating profit of the VÚB, a. s. group decreased by - 1.4 % to EUR 260.1 million and its net profit decreased by 8.3 % to EUR 160.5 million.

The capital adequacy ratio of the VÚB, a.s. group reached at the end of last year the level of 17.18 %, representing the level well above the limit required by the NBS.

**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 Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on Credit Rating Agencies (the "**Regulation on Credit Rating Agencies**") submitted an application for registration in terms of the Regulation on Credit Rating Agencies on 12 August 2010 and it was registered on 31 October 2011.

### 6.6 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 the 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 the Issuer.

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

| Trade name | % share | Registered office | CRN (Identification number) |
|---|---|---|---|
| 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 31 December 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 | Bld, 2 Petroverigski per, 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, Str. 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 | 35 Boulevard du Prince Henri, L-1724 Luxembourg, Luxembourg | B210947 |
| **IMI Finance Luxembourg S.A** | 100.00 | 26 Boulevard Royal, L-2449 Luxembourg, Luxembourg | B 66762 |

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

| Trade name | % share | Registered office | CRN (identification number) |
|---|---|---|---|
| Intesa Sanpaolo S.p.A. | 100.00 | Piazza San Carlo 156, 10121 Torino, Italy | 799960158 |

**Overview of direct equity interest of VÚB, a.s. in business companies as of 31 December 2018**

| Trade name | Main purpose | Registered capital (in EUR) | Share of VÚB, a.s. in the registered capital (in %) |
|---|---|---|---|
| **CONSUMER FINANCE HOLDING ČESKÁ REPUBLIKA, a.s.** | Consumer finance | Approximately 8,295,000 | 100.00 |

| | | | |
|---|---|---|---|
| Pobřežní 620/3, Karlín, 186 00 Praha 8, Czech Republic,<br>Identification number: 046 16 073 | | | |
| **VÚB Leasing, a.s.** (former B.O.F., a.s.)<br>Mlynské nivy 1, 820 05 Bratislava<br>Identification number: 31 318 045 | Financial and operating lease | 16,600,000 | 100.00 |
| **VÚB Generali, Dôchodková správcovská spoločnosť (DSS), a.s.**<br>Mlynské nivy 1, 820 04 Bratislava<br>Identification number: 35 903 058 | Management of pension funds | 10,090,976 | 50.00 |
| **Slovak Banking Credit Bureau, s.r.o.**<br>Malý trh 2/A, 811 08 Bratislava<br>Identification number: 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**<br>Avenue Adèle I, B-1310, La Hulpe Belgium | International clearing and messages sending | 13,746,625 | 0.01 |
| **VISA EUROPE Ltd.**<br>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 [above] is categorised as a related party due to a greater than 20% share in voting rights.

As of 31 December 2018, VÚB, a. s. has no indirect equity interest.

### 6.7 Information about the trend

The Issuer declares that no material adverse change in the Base Prospectus has occurred since the last published financial statements verified by the auditor.

The 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 Base Prospectus during the current financial year.

### 6.8 Prognoses or profit estimates

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

### 6.9 Administrative, managing and supervising bodies

#### 6.9.1 Information on the members of statutory body and Supervisory Board

The supreme decision making 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 the Issuer. The Management Board is a statutory body managing the activities of the Issuer and it is authorised to act on behalf of the Issuer in all matters and represents the Issuer against third parties.

As of date of the 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 |
| **VICENÍK 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 |

The Issuer registers no activities carried out by the members of the Management Board and Supervisory Board outside VÚB, a. s., which would be significant for the 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 31 December 2018, Bank had 3,670 employees.

### 6.9.2 Conflicts of interest

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

## 6.10 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 31 December 2018**

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

| According to the nationality of shareholder | Share in the registered capital VÚB, a. s. (in %) |
|---|---|
| Intesa Holding International S.A. – majority shareholder | 97.03 |
| Domestic shareholders | 2.08 |
| Other foreign shareholders | 0.89 |
| **TOTAL** | **100.00** |

As of 31 December 2018, 28220 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 the Issuer. The Issuer is unaware of any actions by this shareholder, which would lead to abuse of control. The majority shareholder and owner of the Issuer, controlling the Issuer, is Intesa Sanpaolo Holding International S.A., with its registered office at 35 Boulevard du Prince Henri, L-1724 Luxembourg, who owns, as of 31 December 2018, 97.03% of the registered capital of the 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.

The Issuer is unaware of any mechanisms, implementation of which would result in change in the control over the 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.

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

**Consolidated financial statements prepared in accordance with the IFRS as of 31 December 2017**
The data specified below for the year ended 31 December 2017 have been assumed from the audited consolidated closing financial statements for the year ended 31 December 2017. The statements prepared according to the IFRS as amended by the European Union, which including the Auditor's Report were submitted as a part of VÚB a. s.'

annual financial report for 2017 to the NBS on 27 April 2018. The annual financial report is available at the registered office of the Issuer and the release note was published in Hospodárske Noviny on 27 April 2018.

The audited consolidated closing financial statements for the year ended 31 December 2017 prepared according to the IFRS as amended by the European Union are specified by the Issuer in this Base Prospectus in form of reference to the VÚB a. s.' annual report for the year ended 31 December 2017, which these closing financial statements are attached to (see part "List of used cross-references / Documents incorporated by reference" in this Base Prospectus) and are available on the website of the Issuer (www.vub.sk).

**Consolidated statement of financial position as of 31 December 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 ended 31 December 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 ended 31 December 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 ended 31 December 2017 (in thousands of EUR)

| | Share capital | Share premiu m | Legal reserve fund | Retained earnings | Revaluation surplus from property | Available for-sale financial assets | Cash flow hedg es | Translatio n of foreign operation | Combin ed |
|---|---|---|---|---|---|---|---|---|---|

| | | | | | and equipment | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **1 January 2016** | 430,819 | 13,719 | 99,903 | 927,622 | - | 27,271 | (1,250) | 22 | 1 498,106 |
| 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) | 1 505,256 |
| **1 January 2017** | 430,819 | 13,719 | 100,054 | 957,389 | - | 4,134 | (840) | (19) | 1 505,256 |
| 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 | 1 632,587 |

**Consolidated financial statements prepared in accordance with the IFRS as of 31 December 2018**

The data specified below for the year ended 31 December 2018 have been assumed from the audited consolidated closing financial statements for the year ended 31 December 2018, which is attached to the Base Prospectus.

**Consolidated statement of financial position as at 31 December 2018**
**(In thousands of euro)**

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash, balances at central banks | 1,747,562 | 1,595,097 |
| Financial assets at fair value through profit or loss: | | |
| Financial assets held for trading | 39,548 | - |
| Non-trading financial assets at fair value through profit or loss | 440 | - |

| | | |
|---|---|---|
| Derivatives – Hedge accounting | 26,765 | - |
| 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 | 749,974 | - |
| of which pledged as collateral | 620,922 | - |
| Available-for-sale financial assets | - | 520,416 |
| of which pledged as collateral | - | 300,043 |
| Held-to-maturity investments | - | 376,472 |
| of which pledged as collateral | - | 376,472 |
| Financial assets at amortised cost: | | |
| Due from other banks | 126,896 | 90,913 |
| Due from customers | 13,614,377 | 12,000,729 |
| of which pledged as collateral | 199,170 | 207,661 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 9,183 | - |
| Investments in subsidiaries, joint ventures and associates | 8,758 | 8,972 |
| Property and equipment | 91,683 | 126,848 |
| Intangible assets | 92,863 | 80,100 |
| Goodwill | 29,305 | 29,305 |
| Current income tax assets | 1,181 | 9,478 |
| Deferred income tax assets | 70,731 | 53,779 |
| Other assets | 23,747 | 23,128 |
| Non-current assets classified as held for sale | 26,922 | - |
| | 16,659,935 | 14,970,876 |

**Consolidated statement of financial position as at 31 December 2018 (continued)**
**(In thousands of euro)**

| | 2018 | 2017 |
|---|---|---|
| **Liabilities** | | |
| Financial liabilities at fair value through profit or loss: | | |
| Financial liabilities held for trading | 39,335 | - |
| Derivatives – Hedge accounting | 15,226 | - |
| Derivative financial instruments | - | 52,184 |
| Financial liabilities at amortised cost: | | |
| Due to banks | 1,192,015 | 768,781 |
| Due to customers | 11,130,637 | 9,939,121 |
| Subordinated debt | 200,181 | 200,164 |
| Debt securities in issue | 2,332,253 | 2,252,380 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 1,499 | - |
| Current income tax liabilities | 10,724 | - |
| Provisions | 24,723 | 29,743 |
| Other liabilities | 99,389 | 95,916 |
| | 15,045,982 | 13,338,289 |
| **Equity** | | |
| Share capital | 430,819 | 430,819 |
| Share premium | 13,719 | 13,719 |
| Legal reserve fund | 88,986 | 100,054 |
| Retained earnings | 1,052,943 | 1,060,501 |
| Equity reserves | 27,486 | 27,494 |
| | 1,613,953 | 1,632,587 |
| | 16,659,935 | 14,970,876 |

**Consolidated statement of profit or loss and other comprehensive income**

**for the year ended 31 December 2018**
**(In thousands of euro)**

| | 2018 | 2017 |
|---|---|---|
| Interest and similar income | 416,398 | 434,140 |
| Interest and similar expense | (49,699) | (50,227) |
| **Net interest income** | 366,699 | 383,913 |
| Fee and commission income | 157,689 | 151,028 |
| Fee and commission expense | (29,751) | (37,379) |
| **Net fee and commission income** | 127,938 | 113,649 |
| Net trading result | 39,888 | 40,391 |
| Other operating income | 6,359 | 8,506 |
| Other operating expenses | (16,092) | (15,518) |
| Special levy of selected financial institutions | (26,286) | (24,823) |
| Salaries and employee benefits | (129,223) | (126,659) |
| Other administrative expenses | (85,793) | (90,826) |
| Amortisation | (12,448) | (12,635) |
| Depreciation | (10,808) | (12,134) |
| **Profit before provisions, impairment and tax** | 260,234 | 263,864 |
| Provisions | (340) | 16,511 |
| Impairment losses | (61,397) | (59,205) |
| Net gains arising from the derecognition of financial assets measured at amortised cost | 3,525 | - |
| | 202,022 | 221,170 |
| Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method | 2,131 | 1,965 |
| **Profit before tax** | 204,153 | 223,135 |
| Income tax expense | (43,835) | (48,138) |
| **NET PROFIT FOR THE YEAR** | 160,318 | 174,997 |
| **Other comprehensive income for the year, after tax:** | | |
| Items that shall not be reclassified to profit or loss in the future: | | |
| Net revaluation gain from property and equipment | 2 | 21,966 |
| Change in value of financial assets at fair value through other comprehensive income (equity instruments) | 537 | - |
| | 539 | 21,966 |
| Items that may be reclassified to profit or loss in the future: | | |
| Change in value of cash flow hedges | (544) | 1,378 |
| Change in value of financial assets at fair value through other comprehensive income (debt securities) | (39,760) | - |
| Change in value of available-for-sale financial assets | - | 606 |
| Exchange difference on translating of foreign operations | (316) | 269 |
| | (40,620) | 2,253 |
| **Other comprehensive income for the year, net of tax** | (40,081) | 24,219 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | 120,237 | 199,216 |

**Consolidated statement of changes in equity for the year ended 31 December 2018**
**(In thousands of euro)**

| | Share capital | Share premium | Legal reserve fund | Retained earnings | Buildings and land | Financial assets at FVOCI | Available-for-sale financial assets | Cash flow hedges | Translation of foreign operation | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | 430,819 | 13,719 | 100,054 | 957,389 | - | - | 4,134 | (840) | (19) | 1,505,256 |
| 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 |
| | - | - | - | (71,890) | - | - | - | - | - | (71,890) |
| **At 31 December 2017** | 430,819 | 13,719 | 100,054 | 1,060,501 | 21,966 | - | 4,718 | 538 | 272 | 1,632,587 |
| Impact of adopting IFRS 9 | - | - | - | (35,429) | - | 44,792 | (4,718) | - | - | 4,645 |
| **At 1 January 2018** | 430,819 | 13,719 | 100,054 | 1,025,072 | 21,966 | 44,792 | - | 538 | 272 | 1,637,232 |
| Total comprehensive income for the year, net of tax | - | - | - | 160,318 | 2 | (39,223) | - | (544) | (316) | 120,237 |
| Transfers | - | - | (11,068) | 11,068 | - | - | - | - | - | - |
| Exchange difference | - | - | - | 328 | (1) | - | - | - | - | 327 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | | |
| Dividends to shareholders | - | - | - | (144,025) | - | - | - | - | - | (144,025) |
| Reversal of dividends distributed but not collected | - | - | - | 182 | - | - | - | - | - | 182 |
| | - | - | - | (143,843) | - | - | - | - | - | (143,843) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | 430,819 | 13,719 | 88,986 | 1,052,943 | 21,967 | 5,569 | - | (6) | (44) | 1,613,953 |

## Consolidated statement of cash flows for the year ended 31 December 2018
## (In thousands of euro)

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | 204,153 | 223,135 |
| Adjustments for: | | |
| Amortisation | 12,448 | 12,635 |
| Depreciation | 10,808 | 12,134 |
| Gains from revaluation of debt securities in issue | (12,800) | (25,019) |
| Interest income | (416,398) | (434,140) |
| Interest expense | 49,699 | 50,227 |
| Sale of intangible assets and property and equipment | (244) | (751) |
| Impairment losses and similar charges | 84,264 | 68,352 |
| Interest received | 425,872 | 442,631 |
| Interest paid | (47,779) | (53,684) |
| Tax paid | (43,000) | (45,929) |
| Increase in balances at central banks | (485,789) | (7,264) |
| Increase in financial assets at fair value through profit or loss | (8,714) | - |
| Increase in derivatives – hedge accounting (assets) | (2,400) | - |
| Increase in financial assets at fair value through profit or loss | - | (5,309) |
| Increase in derivative financial instruments (assets) | - | (1,229) |
| Financial assets at amortised cost: | | |
| (Increase)/decrease in due from other banks | (37,041) | 11,023 |
| Increase in due from customers | (1,739,131) | (1,370,396) |
| Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets) | (11,616) | - |
| (Increase)/decrease in other assets | (856) | 1,966 |
| Increase in financial liabilities at fair value through profit or loss | 1,793 | - |
| Increase in derivatives – hedge accounting (liabilities) | 584 | - |
| Decrease in derivative financial instruments (liabilities) | - | (13,170) |
| Financial liabilities measured at amortised cost: | | |
| Increase/(decrease) in due to banks | 424,052 | (85,615) |
| Increase in due to customers | 1,191,443 | 375,416 |
| Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities) | 1,469 | - |
| Increase in reserves | 1,485 | - |
| Increase in other liabilities | 3,472 | 10,966 |
| Net cash used in operating activities | (394,259) | (834,021) |
| **Cash flows from investing activities** | | |
| Purchase of financial assets at fair value through other comprehensive income | (220,000) | - |
| Disposal of financial assets at fair value through other comprehensive income | 244,393 | - |
| Repayments of financial assets at fair value through other comprehensive income | 150,000 | - |
| Purchase of available-for-sale financial assets | - | (20,000) |
| Disposal of available-for-sale financial assets | - | 726,872 |
| Repayments of available-for-sale financial assets | - | 69,000 |
| Repayments of held-to-maturity investments | - | 147,282 |
| Purchase of intangible assets and property and equipment | (41,158) | (45,381) |
| Disposal of intangible assets and property and equipment | 6,500 | 11,620 |
| Net cash from investing activities | 139,735 | 889,393 |

**Consolidated statement of cash flows for the year ended 31 December 2018 (continued)**
**(In thousands of euro)**

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from issue of debt securities | 300,000 | 750,000 |
| Repayments of debt securities in issue | (235,545) | (186,155) |
| Dividends paid | (144,025) | (72,020) |
| Net cash (used in)/from financing activities | (79,570) | 491,825 |
| Net change in cash and cash equivalents | (334,094) | 547,197 |
| Cash and cash equivalents at the beginning of the year | 1,613,045 | 1,065,848 |
| **Cash and cash equivalents at 31 December** | 1,278,951 | 1,613,045 |

### 6.11.1 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.

### 6.11.2 Age of the newest financial information

The audited financial statements selected from the consolidated closing financial statements for the year ended 31 December 2018 prepared according to the IFRS, attached to the Base Prospectus, are not older than 18 months from the preparation date of the Base Prospectus.

### 6.11.3 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 the date of the Base Prospectus.

### 6.11.4 Material change to Issuer's financial or business situation

No material changes have occurred since the date as at which the consolidated financial statements as of and for the year ended 31 December 2018 were prepared under the IFRS.

## 6.12 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 the holder of the Bonds. With respect to its core business, the Issuer does not provide any research and development.

## 6.13 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 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:

2. web page of the NBS (information in section: "II. RISK FACTORS" and in section "6.5.2 Main Markets");
3. web page of the Statistical Office of the Slovak Republic and Eurostat (information in section "II. RISK FACTORS"); and
4. web page of the Slovak Banking Association (information in section "6.5.2 Main Markets").

### 6.14 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, Slovak Republic:

1. This Base Prospectus, each Final Terms, each Summary of individual issue and each Supplement (if any);
2. The Issuer's Deed of Foundation and Articles of Association;
3. The historical consolidated financial statements about liabilities of the Issuer and its subsidiaries, consolidated closing financial statements prepared under the IFRS including auditor's reports for the years ended 31 December 2017 and 2018.

## VII. TAXATION

The information stated herein is a general information on taxation of bonds originated from the source in the territory of the Slovak Republic effective as of the date of this Base Prospectus and is not intended as a complete description of all tax or similar regulatory aspects that may arise or an advice on the tax implications to the individual investor. Therefore, potential investors are advised to obtain an advice from their own advisors on the application of the relevant regulations, mainly tax and foreign exchange or social security regulations valid in the Slovak Republic, or in the countries in which the potential investors are residents or in the countries which may require to tax revenues from bonds depending on the individual situation of the investor in case of investing in the Bonds.

The tax legislation changes over the time, therefore, interests from Bonds will be taxed in accordance with the legally binding law at time of the payment. The Issuer will not provide to Bondholders any compensation or gross-up of yields from Bonds in respect of any withholding of taxes made according to the valid law.

The taxation of revenues from bonds is regulated by Act No. 595/2003 Coll., on Income Tax, as amended in the Slovak Republic. The way of taxation varies depending on the type of income (interests from Bonds or capital gains) and who is the recipient of such income (Slovak tax residents, Slovak tax non-residents, individuals vs. legal entities). The Slovak tax non-residents are considered (i) individuals who do not have a permanent home or who usually do not stay (at least 183 days in a calendar year) in the Slovak Republic or (ii) legal entities which do not have the seat or a place of management in the Slovak Republic.

(a) Interests derived from bonds

Slovak tax residents

Interests from the Bonds derived by a Slovak tax resident being an individual, the NBS or a taxpayer not founded or established to conduct business activities, are subject to a withholding tax at the tax rate of 19%.

In case, the recipient of the interests from the Bonds is an individual, the Issuer is responsible for the withholding of the withholding tax with the exception if the Bonds are held for such investor by a securities broker. In such a case, this securities broker is obliged to withhold the withholding tax. However, in case the recipients of yields from bonds are taxpayers not founded or established to conduct business activities or the NBS, a withholding tax shall be remitted to the Slovak tax authorities by themselves. In specific cases, the yield representing the difference between Bond's Nominal Value and its lower issue price derived by an individual need not to be subject to the withholding tax and be taxed by the individual.

Interests from the Bonds derived by a Slovak tax resident being a legal entity are subject to corporate income tax, but are not subject to a withholding tax. Such interests are a part of the corporate income tax base of the particular legal entity taxed at the corporate income tax rate of 21%.

Slovak tax non-residents

In case the beneficiary of interests derived from holding of the bonds being paid by a Slovak tax resident is either an individual or a legal entity, both being a Slovak tax non-resident, such income is not considered to be the income generated from the source in the Slovak Republic. Therefore, such yields from bonds are not subject to tax in the Slovak Republic. The Issuer or the payer of such income may require the presentation of the tax residency certificate proving that the recipient of such income is a tax resident abroad.

(b) Capital gains (income) derived from the sale of the Bonds on secondary market

Generally, capital gains derived by a Slovak tax resident individual (i.e. the Bondholder) or Slovak permanent establishment of the Slovak tax non-resident individual from the sale of bonds are included in his tax base and taxed together with his other taxable income at the progressive income tax rate (19% or 25%). The individuals are obliged to tax such capital gains by themselves through their personal income tax return and could benefit from a tax exemption up to the amount of EUR 500. In such a case, the capital gain from the sale of the Bonds is also subject to obligatory health insurance contributions at the rate of 14%, if the individual is subject to obligatory health insurance in the Slovak Republic. There is no cap for annual assessment base for health insurance contributions in 2019.

In case the Bonds are accepted for trading in the regulated market or the similar foreign regulated market, the capital gains are exempt from the Slovak personal income tax provided that the period between the acquisition and the sale exceeds one year and these bonds were not included in the business assets of the taxpayer. Such capital gain is also not subject to health insurance or social security contributions.

Capital gains derived by a Slovak tax resident legal entity or a Slovak permanent establishment of the Slovak tax non-resident (i.e. the Bondholder) from the sale of the bonds are subject to corporate income tax at the rate of 21%. The deduction of losses from the sale of bonds is limited. The taxation is performed through a regular corporate income tax return.

Income (capital gains) from the sale of the Bonds derived by a Slovak tax non-resident being an individual or a legal entity paid to such tax non-resident by a Slovak tax resident or a Slovak permanent establishment of the Slovak tax non-resident is, in general, subject to income tax at the applicable individual or corporate income tax rate in Slovakia unless the relevant double tax treaty states otherwise. The payer of such income may be required under certain circumstances to withhold a collateral tax at the rate of 19% or 35% from the gross amount of a purchase price of bonds in case the seller is not a tax resident of a country of the European Union and the countries of the Agreement on the European Economic Area. The tax rate of a collateral tax may be reduced by an applicable double tax treaty.

## VIII. IMPORTANT NOTICES AND GENERAL INFORMATION

**General**

The Base Prospectus is prepared in compliance with the relevant provisions of the Act on Securities, the Act on Bonds and the Acton Banks, in compliance with the Regulation.

This Base Prospectus is a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purposes of giving information which, according to the particular nature of the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the rights attaching to the Bonds.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which preceded them.

Once approved by the NBS, the 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: ALM & Treasury (the "**Issuer's Registered Office**") and on Issuer's website: https://www.vub.sk/en/personal-finance/information-service/securities-prospectuses//. A notification of availability will be published in daily national press. All Final Terms and Summaries of individual issues will be accessible on Issuer's website: https://www.vub.sk/en/personal-finance/information-service/securities-prospectuses/ and in hard copy at the Issuer's Registered Office. Issuer's financial reports and financial statements published after the issue date of the Base Prospectus, as well as all documents referred to herein are available on Issuer's website: https://www.vub.sk/en/financial-indicators/information-about-bank-activities/#tab_1 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

**MiFID II target market**

The Final Terms in respect of any Bonds will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Bonds and which channels for distribution of the Bonds are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits (the "**MiFID Product Governance Rules**"), any dealer subscribing for any Bonds is a manufacturer in respect of such Bonds, but otherwise neither the arranger nor the dealer nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

**Approval and notifications**

The Base Prospectus will not be subject to approval by any administrative or other authority of any legal order other than the NBS in the Slovak Republic. The Issuer may submit a request to issue confirmation of approval of the Base Prospectus including all its supplements, confirming that it was prepared in line with the applicable legislation, for the purpose of its submission to the ESMA and the Commission de Surveillance du Secteur Financier ("**CSSF**"), or any other regulatory body.

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the relevant Final Terms, no action has been or will be taken in any country or jurisdiction by the Issuer or the dealer that would permit a public offering of the Bonds, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Base Prospectus or any Final Terms comes are required by the Issuer and the dealer to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Bonds or have in their possession or distribute such offering material, in all cases at their own expense.

**Compliance with law, restrictions and liability**

Each dealer has agreed and each further dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Bonds or possesses or distributes the Base Prospectus, any offering material or any Final Terms, and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer or any dealer shall have any responsibility therefore.

None of the Issuer or the dealers represents that Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale."

Issuer has not approved any other declaration or information about the Programme, the Issuer or the 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 the Issuer. Unless otherwise provided, all the information provided herein are provided to the date of preparation hereof. Submitting or other form of making the 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.

Neither the arranger nor any of the dealers nor any other person have separately verified the information contained in this Base Prospectus. No dealer or the arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the dealers or the arranger that any recipient of this Base Prospectus or any other financial statements should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of the Bonds should be based upon such investigation as it deems necessary. The arranger and dealers do not undertake to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus or to advise any investor or potential investor in the Bonds of any information coming to the attention of the arranger or any of the dealers.

Only the Issuer is liable for obligations arising under the Bonds. No third person is liable for or guarantees the performance of obligations arising under the Bonds.

**Language**

The Base Prospectus including later Supplements is drafted and approved by the NBS in Slovak language as the original language. Each Final Terms and Summary of a specific issue (if relevant) will be prepared in Slovak language as original.

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.

**MiFID II policies of the Issuer**

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 Issuer 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 it.

In accordance with Section 73o et seq. of the Act on Securities and in accordance with Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, the Issuer has adopted the best execution policy under MiFID II (the "**Policy**"). The Issuer 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 Issuer reviews the efficiency of the Policy, including questions as to whether the execution venues listed in the Policy allow the Issuer 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.

**Registration**

The Bonds will not be registered, upon Issuer's request, elsewhere than in the Central Securities Depository.

**Stabilisation**

In connection with any individual issue of the Bonds (tranche) under the Programme, the dealer (if any) which is specified in the relevant Final Terms as the stabilising manager (the "**Stabilising Manager**") or any person acting for the Stabilising Manager may over-allot any such tranche of the Bonds or effect transactions with a view to supporting the market price such tranche of the Bonds at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of the Bonds and 60 days after the date of the allotment of the Bonds in such tranche. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

**Dealers transacting with the Issuer**

Certain of the dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. Banca IMI, arranger and dealer under the Programme is an affiliate of the Issuer. Certain of the dealers and their affiliates may have positions, deal or make markets in the Bonds issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuers and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of the Bonds issued under the Programme. The dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For avoidance of doubts the term "affiliates" in this clause includes also parent companies.

## IX. SUBSCRIPTION AND SALE

### Dealer Agreement

Bonds may be sold from time to time by the Issuer to Banca IMI, and/or each "dealer" designated as such under the Dealer Agreement (the "**Dealers**" or each individually as a "**Dealer**"). The arrangements under which Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, the Dealers are set out in the Dealer Agreement. The Dealer Agreement provides for, inter alia, an indemnity to the Dealer against certain liabilities in connection with the offer and sale of the Bonds. The Dealer Agreement also provides for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other dealers either generally in respect of the Programme or in relation to a particular issuance. The Dealer Agreement contains, inter alia, stabilising provisions.

### Subscription Agreements

Any Subscription Agreement between the Issuer and the Dealer and/or any additional or other dealers, from time to time, for the sale and purchase of Bonds (each a Relevant Dealer) will, inter alia, provide for the price at which the relevant Bonds will be subscribed for by the Relevant Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase.]

### Selling restrictions

The distribution of this Base Prospectus, any document incorporated herein by reference and any Final Terms and the offering, sale and delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms come are required by the Issuer and the Dealer to inform themselves about and to observe any such restrictions.

### United States

The Bonds have not been and will not be registered under the United States Securities Act of 1933 (the "**U.S. Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the U.S. Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, it will not offer, sell or deliver the Bonds, (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in case of an issue of the Bonds on a syndicated basis, the relevant lead manager, of all Bonds of the issuance of which such Bonds are a part within the United States of America or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed and each further Dealer appointed under the Programme will be required to agree, that it will send to each Dealer to which it sells the Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States of America or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any issuance of the Bonds, an offer or sale of such the Bonds within the United States of America by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise that in accordance with an available exemption from registration under the Securities Act.

### Offering limitation towards the EEA Retail Investors

Unless the Final Terms in respect of any of the Bonds specifies the "Offering limitation" as "Not Applicable", the Bonds cannot be offered, sold or otherwise made available to any retail investor in the EEA. For the purposes of this provision, the expression retail investor means a person who is one (or more) of the following:

a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); or
b) a customer within the meaning of Directive (UE) 2016/97 (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

If the Final Terms in respect of Bonds specifies "Offering limitation" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Issuer represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

a) Qualified investors: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
b) Fewer than 150 offerees: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
c) Other exempt offers: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (a) to (c) above shall require the Issuer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Bonds to the public in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (as amended including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

**The United Kingdom**

The Issuer represents and agrees, that:

a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer, as the case may be; and
b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

**France**

The Bonds have not been offered or sold and will not be offered or sell, directly or indirectly, to the public in France. The Base Prospectus, the relevant Final Terms or any other offering material relating to the Bonds will not be distributed or caused to be distributed to the public in France, and that such offers, sales and distributions have been and will be made in France only to qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1, L.533-16 and L.533-20 of the French Code monétaire et financier.

**Germany**

The Bonds will be offered in the Federal Republic of Germany only in compliance with the provisions of the German Securities Prospectus Act (Wertpapierprospektgesetz) and any other laws applicable in the Federal Republic of Germany.

**Republic of Italy**

The offering of Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Bonds may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to any Bonds be distributed in the Republic of Italy, except:

a) to qualified investors (investitori qualificati), as defined pursuant to Article 100 of the Legislative Decree No. 58 of 24 February 1998, as amended (the Financial Law) and Article 34-ter, first paragraph, letter b, of CONSOB Regulation No. 11971 of 14 May 1999 (as amended from time to time) (Regulation No. 11971); or
b) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Law and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Bonds or distribution of copies of this Base Prospectus or any other document relating to the Bonds in the Republic of Italy under (a) or (b) above must:

a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Law, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993, as amended (the Banking Law); and
b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Law and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority."

**General**

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the relevant Final Terms, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealer that would permit a public offering of Covered Bonds, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Base Prospectus or any Final Terms comes are required by the Issuer and the Dealer to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Covered Bonds or have in their possession or distribute such offering material, in all cases at their own expenses.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes the Base Prospectus, any offering material or any Final Terms, and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer and any other Dealer shall have any responsibility therefore.

None of the Issuer and the Dealers represent that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## X. LIST OF USED CROSS-REFERENCES / DOCUMENTS INCORPORATED BY REFERENCE

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

1. The audited consolidated financial statements for the year ended 31 December 2017, prepared under the IFRS, which is attached to the VÚB's annual report for 2017 under the Act on Securities (the "**2017 Annual Report**"). This Base Prospectus shall be read along with the above-mentioned part of the 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.

# XI. CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS AS OF 31 DECEMBER 2018

VÚB BANKA

**Consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditors' Report for the year ended 31 December 2018**

## Contents

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Translation of the Auditors' Report originally prepared in Slovak language

# Independent Auditors' Report

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

## Report on the Audit of the Consolidated Financial Statements

*Opinion*

We have audited the consolidated financial statements of Všeobecná úverová banka, a. s. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section. We are independent of the Group in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG Slovensko spol. s r.o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of District court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number: 31 348 238
Evidenčné číslo licencie audítora: 96
Licence number of statutory auditor: 96

### Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2018: € 13,614,377 thousand; impairment loss recognised in 2018: € 61,397 thousand; total impairment loss as at 31 December 2018: € 404,912 thousand.

Refer to Note 3 (Significant accounting policies) and Notes 12.2, 22 and 35 (Due from customers, Movements in impairment losses and Impairment losses losses and Net gain arising from the derecognition of financial assets measured at amortised cost) to the consolidated financial statements.

| Key audit matter | Our response |
|---|---|
| Impairment allowances represent the Management Board's best estimate of the expected credit losses within Financial assets at amortized cost at the reporting date. We focused on this area as the determination of impairment allowances requires significant judgment from the Management Board over both the timing of recognition and the amount of any such impairment.<br><br>Additionally, as from 1 January 2018, the Group has been applying the new financial instruments standard, IFRS 9 *Financial Instruments*, whose impairment requirements are based on the expected credit loss (ECL) model rather than the incurred loss model, as previously used. | Our audit procedures in this area included, among others:<br>• Inspecting the Group's new ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the new standard. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors, including inspecting validation reports;<br><br>• Making relevant inquiries of the Group's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Group's IT control environment for data security and access, assisted by our own IT specialists;<br><br>• Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances; |

| Key audit matter | Our response |
|---|---|
| Following the initial application of IFRS 9, impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below EUR 500 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions.<br><br>For non-performing exposures exceeding EUR 500 thousand, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required increased attention. Accordingly, we considered the area to be a key audit matter. | • With respect to impairment accounting under the new standard:<br><br>– Understanding the overall transition process activities and controls, including the process and controls over determining the impact as well as the underlying process activities that generated the related disclosures;<br><br>– Assessing whether the definition of default and the new standard's staging criteria were consistently applied. Also assessing whether the definition of default applied for each segment/portfolio is appropriate based on the requirements of the new standard (e.g. taking into account the 90-day presumption);<br><br>– Evaluating the overall modelling approach, of calculation of ECLs, including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD));<br><br>– Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Group's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information; Challenging LGD and PD parameters used by the Bank, by reference to historically realized losses on defaults;<br><br>– Performing a comparison of the ECL-based impairment allowances as at the new standard's initial application date, to those calculated at that same date in accordance with the previous standard, and assessing their reasonableness based on inquiries of the credit risk management personnel.<br><br>• Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients |

| | |
|---|---|
| | operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage;<br>• For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2018;<br>• For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing respective independent recalculations, where relevant. |

**IT systems and controls over financial reporting**

| Key audit matter | Our response |
|---|---|
| The Group has a complex information technology ("IT") environment and operates various IT systems and applications.<br><br>The financial accounting and reporting systems are heavily dependent on these complex IT solutions and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. | Our audit procedures included, among others:<br>• Using our internal IT specialists, updating our understanding of the Group's IT environment and the framework of governance over the IT organization, including the under-standing of the controls over program development and changes, access to programs and data and IT operations;<br>• Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting;<br>• Testing certain aspects of the security of the IT systems, including access management and segregation of duties; and<br>• Where relevant, assessing whether compensating controls were effective in mitigating deficiencies identified either by the Bank or by us independently. |

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*Responsibilities of the Management Board and Those Charged with Governance for the Consolidated Financial Statements*

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

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

***Reporting on Information in the consolidated Annual Report***

The Management Board is responsible for the information in the consolidated annual report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the consolidated financial statements does not cover other information in the consolidated annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated annual report and, in doing so, consider whether the other information is materially inconsistent with the audited consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated annual report, we consider whether it includes the disclosures required by the Act on Accounting.

Based on the work undertaken in the course of the audit of the consolidated financial statements, in our opinion:

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- the information given in the consolidated annual report for the year 2018 is consistent with the consolidated financial statements prepared for the same financial year; and
- the consolidated annual report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the Group and its environment obtained in the course of audit, we are required to report if we have identified material misstatement in the consolidated Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in this respect.

***Additional requirements on the content of the auditors' report according to Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities***

*Appointment and approval of an auditor*

We have been appointed as statutory auditor by the Management Board of the Group on 10 July 2018 on the basis of approval by the General Meeting of the Bank on *23 March 2018*. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is seven years.

*Consistency with the additional report to the audit committee*

Our audit opinion as expressed in this report is consistent with the additional report to the audit committee of the Group, which was issued on the same date as the date of this report.

*Non-audit services*

No prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities were provided and we remained independent of the Group in conducting the audit.

In addition to the statutory audit services and services disclosed in the consolidated annual report or the consolidated financial statements of the Group, we did not provide any other services to the Group or accounting entities controlled by the Group.

22 February 2019
Bratislava, Slovak Republic

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

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

Responsible auditor:
Ing. Michal Maxim, FCCA
License UDVA No. 1093

## Consolidated statement of financial position as at 31 December 2018
## (In thousands of euro)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash, balances at central banks | 8 | 1,747,562 | 1,595,097 |
| Financial assets at fair value through profit or loss: | 9 | | |
| Financial assets held for trading | | 39,548 | - |
| Non-trading financial assets at fair value through profit or loss | | 440 | - |
| Derivatives – Hedge accounting | 10 | 26,765 | - |
| Financial assets at fair value through profit or loss | 9 | - | 5,783 |
| Derivative financial instruments | 9, 10 | - | 49,856 |
| Financial assets at fair value through other comprehensive income | 11 | 749,974 | - |
| of which pledged as collateral | | 620,922 | - |
| Available-for-sale financial assets | 11 | - | 520,416 |
| of which pledged as collateral | | - | 300,043 |
| Held-to-maturity investments | 11 | - | 376,472 |
| of which pledged as collateral | | - | 376,472 |
| Financial assets at amortised cost: | 12 | | |
| Due from other banks | | 126,896 | 90,913 |
| Due from customers | | 13,614,377 | 12,000,729 |
| of which pledged as collateral | | 199,170 | 207,661 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 13 | 9,183 | - |
| Investments in subsidiaries, joint ventures and associates | 14 | 8,758 | 8,972 |
| Property and equipment | 15 | 91,683 | 126,848 |
| Intangible assets | 16 | 92,863 | 80,100 |
| Goodwill | 17 | 29,305 | 29,305 |
| Current income tax assets | 18 | 1,181 | 9,478 |
| Deferred income tax assets | 18 | 70,731 | 53,779 |
| Other assets | 19 | 23,747 | 23,128 |
| Non-current assets classified as held for sale | 15 | 26,922 | - |
| | | 16,659,935 | 14,970,876 |

The accompanying notes on page 16 to 169 form an integral part of these financial statements.

## Consolidated statement of financial position as at 31 December 2018 (continued)
## (In thousands of euro)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Liabilities** | | | |
| Financial liabilities at fair value through profit or loss: | 9 | | |
| Financial liabilities held for trading | | 39,335 | - |
| Derivatives – Hedge accounting | 10 | 15,226 | - |
| Derivative financial instruments | 9, 10 | - | 52,184 |
| Financial liabilities at amortised cost: | 12 | | |
| Due to banks | | 1,192,015 | 768,781 |
| Due to customers | | 11,130,637 | 9,939,121 |
| Subordinated debt | | 200,181 | 200,164 |
| Debt securities in issue | | 2,332,253 | 2,252,380 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 13 | 1,499 | - |
| Current income tax liabilities | 18 | 10,724 | - |
| Provisions | 20 | 24,723 | 29,743 |
| Other liabilities | 21 | 99,389 | 95,916 |
| | | 15,045,982 | 13,338,289 |
| **Equity** | 24 | | |
| Share capital | | 430,819 | 430,819 |
| Share premium | | 13,719 | 13,719 |
| Legal reserve fund | | 88,986 | 100,054 |
| Retained earnings | | 1,052,943 | 1,060,501 |
| Equity reserves | | 27,486 | 27,494 |
| | | 1,613,953 | 1,632,587 |
| | | 16,659,935 | 14,970,876 |

The accompanying notes on page 16 to 169 form an integral part of these financial statements.

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## Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 (In thousands of euro)

| | Note | 2018 | 2017 |
|---|---|---|---|
| Interest and similar income | | 416,398 | 434,140 |
| Interest and similar expense | | (49,699) | (50,227) |
| **Net interest income** | 26 | 366,699 | 383,913 |
| Fee and commission income | | 157,689 | 151,028 |
| Fee and commission expense | | (29,751) | (37,379) |
| **Net fee and commission income** | 27 | 127,938 | 113,649 |
| Net trading result | 28 | 39,888 | 40,391 |
| Other operating income | 29 | 6,359 | 8,506 |
| Other operating expenses | 30 | (16,092) | (15,518) |
| Special levy of selected financial institutions | 31 | (26,286) | (24,823) |
| Salaries and employee benefits | 32 | (129,223) | (126,659) |
| Other administrative expenses | 33 | (85,793) | (90,826) |
| Amortisation | 16 | (12,448) | (12,635) |
| Depreciation | 15 | (10,808) | (12,134) |
| **Profit before provisions, impairment and tax** | | 260,234 | 263,864 |
| Provisions | 23, 34 | (340) | 16,511 |
| Impairment losses | 22, 35 | (61,397) | (59,205) |
| Net gains arising from the derecognition of financial assets measured at amortised cost | 35 | 3,525 | - |
| | | 202,022 | 221,170 |
| Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method | | 2,131 | 1,965 |
| **Profit before tax** | | 204,153 | 223,135 |
| Income tax expense | 36 | (43,835) | (48,138) |
| **NET PROFIT FOR THE YEAR** | | 160,318 | 174,997 |
| **Other comprehensive income for the year, after tax:** | 37, 38 | | |
| Items that shall not be reclassified to profit or loss in the future: | | | |
| Net revaluation gain from property and equipment | | 2 | 21,966 |
| Change in value of financial assets at fair value through other comprehensive income (equity instruments) | | 537 | - |
| | | 539 | 21,966 |
| Items that may be reclassified to profit or loss in the future: | | | |
| Change in value of cash flow hedges | | (544) | 1,378 |
| Change in value of financial assets at fair value through other comprehensive income (debt securities) | | (39,760) | - |
| Change in value of available-for-sale financial assets | | - | 606 |
| Exchange difference on translating of foreign operations | | (316) | 269 |
| | | (40,620) | 2,253 |
| **Other comprehensive income for the year, net of tax** | | (40,081) | 24,219 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 120,237 | 199,216 |

The accompanying notes on page 16 to 169 form an integral part of these financial statements.

VÚB BANKA

## Consolidated statement of changes in equity for the year ended 31 December 2018
### (In thousands of euro)

| | Share capital | Share premium | Legal reserve fund | Retained earnings | Buildings and land | Financial assets at FVOCI | Available-for-sale financial assets | Cash flow hedges | Trans-lation of foreign operation | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | 430,819 | 13,719 | 100,054 | 957,389 | - | - | 4,134 | (840) | (19) | 1,505,256 |
| 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 |
| | - | - | - | (71,890) | - | - | - | - | - | (71,890) |
| **At 31 December 2017** | 430,819 | 13,719 | 100,054 | 1,060,501 | 21,966 | - | 4,718 | 538 | 272 | 1,632,587 |
| Impact of adopting IFRS 9 | - | - | - | (35,429) | - | 44,792 | (4,718) | - | - | 4,645 |
| **At 1 January 2018** | 430,819 | 13,719 | 100,054 | 1,025,072 | 21,966 | 44,792 | - | 538 | 272 | 1,637,232 |
| Total comprehensive income for the year, net of tax | - | - | - | 160,318 | 2 | (39,223) | - | (544) | (316) | 120,237 |
| Transfers | - | - | (11,068) | 11,068 | - | - | - | - | - | - |
| Exchange difference | - | - | - | 328 | (1) | - | - | - | - | 327 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | | |
| Dividends to shareholders | - | - | - | (144,025) | - | - | - | - | - | (144,025) |
| Reversal of dividends distributed but not collected | - | - | - | 182 | - | - | - | - | - | 182 |
| | - | - | - | (143,843) | - | - | - | - | - | (143,843) |
| **At 31 December 2018** | 430,819 | 13,719 | 88,986 | 1,052,943 | 21,967 | 5,569 | - | (6) | (44) | 1,613,953 |

The accompanying notes on page 16 to 169 form an integral part of these financial statements.

VÚB BANKA

## Consolidated statement of cash flows for the year ended 31 December 2018
## (In thousands of euro)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 204,153 | 223,135 |
| Adjustments for: | | | |
| Amortisation | 16 | 12,448 | 12,635 |
| Depreciation | 15 | 10,808 | 12,134 |
| Gains from revaluation of debt securities in issue | | (12,800) | (25,019) |
| Interest income | 26 | (416,398) | (434,140) |
| Interest expense | 26 | 49,699 | 50,227 |
| Sale of intangible assets and property and equipment | 30 | (244) | (751) |
| Impairment losses and similar charges | 34, 35 | 84,264 | 68,352 |
| Interest received | | 425,872 | 442,631 |
| Interest paid | | (47,779) | (53,684) |
| Tax paid | | (43,000) | (45,929) |
| Increase in balances at central banks | | (485,789) | (7,264) |
| Increase in financial assets at fair value through profit or loss | | (8,714) | - |
| Increase in derivatives – hedge accounting (assets) | | (2,400) | - |
| Increase in financial assets at fair value through profit or loss | | - | (5,309) |
| Increase in derivative financial instruments (assets) | | - | (1,229) |
| Financial assets at amortised cost: | | | |
| (Increase)/decrease in due from other banks | | (37,041) | 11,023 |
| Increase in due from customers | | (1,739,131) | (1,370,396) |
| Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets) | | (11,616) | - |
| (Increase)/decrease in other assets | | (856) | 1,966 |
| Increase in financial liabilities at fair value through profit or loss | | 1,793 | - |
| Increase in derivatives – hedge accounting (liabilities) | | 584 | - |
| Decrease in derivative financial instruments (liabilities) | | - | (13,170) |
| Financial liabilities measured at amortised cost: | | | |
| Increase/(decrease) in due to banks | | 424,052 | (85,615) |
| Increase in due to customers | | 1,191,443 | 375,416 |
| Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities) | | 1,469 | - |
| Increase in reserves | | 1,485 | - |
| Increase in other liabilities | | 3,472 | 10,966 |
| Net cash used in operating activities | | (394,259) | (834,021) |
| **Cash flows from investing activities** | | | |
| Purchase of financial assets at fair value through other comprehensive income | | (220,000) | - |
| Disposal of financial assets at fair value through other comprehensive income | | 244,393 | - |
| Repayments of financial assets at fair value through other comprehensive income | | 150,000 | - |
| Purchase of available-for-sale financial assets | | - | (20,000) |
| Disposal of available-for-sale financial assets | | - | 726,872 |
| Repayments of available-for-sale financial assets | | - | 69,000 |
| Repayments of held-to-maturity investments | | - | 147,282 |
| Purchase of intangible assets and property and equipment | | (41,158) | (45,381) |
| Disposal of intangible assets and property and equipment | | 6,500 | 11,620 |
| Net cash from investing activities | | 139,735 | 889,393 |

The accompanying notes on page 16 to 169 form an integral part of these financial statements.

VÚB BANKA

## Consolidated statement of cash flows for the year ended 31 December 2018 (continued)
## (In thousands of euro)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from issue of debt securities | 12 | 300,000 | 750,000 |
| Repayments of debt securities in issue | 12 | (235,545) | (186,155) |
| Dividends paid | | (144,025) | (72,020) |
| Net cash (used in)/from financing activities | | (79,570) | 491,825 |
| Net change in cash and cash equivalents | | (334,094) | 547,197 |
| Cash and cash equivalents at the beginning of the year | 7 | 1,613,045 | 1,065,848 |
| **Cash and cash equivalents at 31 December** | 7 | 1,278,951 | 1,613,045 |

The accompanying notes on page 16 to 169 form an integral part of these financial statements.

# 1. Basis of preparation

## 1.1. Reporting entity - 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 December 2018, the Bank had a network of 212 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).

At 31 December 2018, the members of the Management Board are Alexander Resch (Chairman), Antonio Bergalio, Peter Magala (re-elected from 3 March 2018), Peter Novák, Martin Techman (re-elected from 2 March 2018), Roberto Vercelli and Andrej Viceník.

At 31 December 2018, the members of the Supervisory Board are Ignacio Jaquotot (Chairman, from 24 March 2018), Elena Kohútiková (Vice Chairman, from 24 March 2018), Luca Finazzi, Paolo Sarcinelli, Christian Schaack, Andrej Straka and Róbert Szabo.

Another member of the Supervisory Board was Ezio Salvai (Chairman, until 23 March 2018).

## 1.2. The VUB Group

The consolidated financial statements comprise the Bank and its subsidiaries (together referred to as 'the VUB Group' or 'the Group') and the Group's interest in associates and joint ventures. All entities are incorporated in the Slovak Republic.

| | Share 2018 | Share 2017 | Principal business activity |
|---|---|---|---|
| **Subsidiaries** | | | |
| Consumer Finance Holding Česká republika, a. s. ('CFH ČR') | 100% | - | Consumer finance business |
| VÚB Leasing, a. s. ('VÚB Leasing') | 100% | 100% | Finance and operating leasing |
| Consumer Finance Holding, a. s. ('CFH') | - | 100% | Consumer finance business |
| VÚB Factoring, a. s. ('VÚB Factoring') | - | 100% | Factoring of receivables |
| **Joint ventures** | | | |
| VÚB Generali d. s. s., a. s. ('VÚB Generali') | 50% | 50% | Pension fund administration |
| **Associates** | | | |
| Slovak Banking Credit Bureau, s. r. o. ('SBCB') | 33.33% | 33.33% | Credit database administration |

The VUB Group's ultimate parent company is Intesa Sanpaolo S.p.A. ('ISP' or 'the Parent Company'), which is a joint-stock company and 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.

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.

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.

Consumer Finance Holding Česká republika, a. s. was a 100% subsidiary of CFH till 31 December 2017. After merger of CFH into VUB it becomes 100% subsidiary of VÚB. This company is situated in Czech republic.

# 1. Basis of preparation (continued)

## 1.3. Basis of accounting

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

The consolidated financial statements of the VUB Group for the year ended 31 December 2017 were authorised for issue by the Management Board on 15 February 2018.

The separate financial statements of the Bank for the year ended 31 December 2018 were issued on 22 February 2019 and are available at the registered office of the Bank.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value though profit or loss, financial assets at fair value through other comprehensive income, derivatives – hedge accounting, buildings and land in property and equipment under revaluation model (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 VUB Group will continue in operation for the foreseeable future.

## 1.4. Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power over the investee and has the exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of these returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date at which effective control commences until the date at which control ceases.

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

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

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

(b) Associates

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

# 1. Basis of preparation (continued)

(c) Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The financial statements include the VUB Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

To determine the nature of interest in another entity an assessment of the control indicators described above is performed by the management of the VUB Group, applying certain level of judgement.

## 1.5. Functional and presentation currency

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

Negative balances are presented in brackets.

## 1.6. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the VUB Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### 1.6.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes. The most significant judgements relate to the classification of financial instruments.

Applicable to 2018 only:

- Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest ('SPPI') on the principal amount outstanding. (note 3.5)
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL. (note 4.1.2)

Applicable to 2017 only:

- Classification of financial instruments: assessment of category within which financial instruments are held: Held-to-maturity investments, Financial assets held for trading or Financial assets designated at fair value through profit or loss on initial recognition. (note 3.5)

### 1.6.2. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes.

Applicable to 2018 only:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information. (note 4.1.2)

Applicable to 2018 and 2017:

- 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 due from other banks and due from customers, provisions 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, provisions for legal claims and deferred tax assets.

## 1. Basis of preparation (continued)

- Determination of the fair value of financial instruments with significant unobservable inputs.

  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 inputs 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 of financial instruments: key assumptions used in estimating recoverable cash flows.

  The VUB Group reviews its loans and advances at each reporting date to assess whether any individually assessed impairment loss 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 impairment loss required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the individually assessed impairment losses.

- Recognition and measurement of legal claims: key assumptions about the likelihood and magnitude of an outflow of resources.

- Recognition of deferred tax assets: availability of future taxable profit against which deferred tax assets can be used.

- Impairment testing for cash generating units containing goodwill: key assumptions underlying recoverable amounts.

## 2. Changes in accounting policies

### 2.1. Adoption of IFRS 9 and IFRS 15

The VUB Group has initially adopted International financial reporting standard 9 Financial instruments (‘IFRS 9’) and International financial reporting standard 15 Revenue from Contracts with Customers (‘IFRS 15’) from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the VUB Group's financial statements.

Due to the transition method chosen by the VUB Group in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the VUB Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:
- An increase in impairment losses recognised on financial assets (note 2.1.1);
- Additional disclosures related to IFRS 9 (notes 4.1.2, 4.1.9) and IFRS 15 (note 27); and; and
- Impact of the introduction of IFRS 9 on own funds (note 2.1.1).

Except for the changes below, the VUB Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

## 2. Changes in accounting policies (continued)

### 2.1.1. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces International accounting standard 39 Financial Instruments: Recognition and Measurement ('IAS 39'). The requirements of IFRS 9 represent a significant change from IAS 39.The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the VUB Group has elected to continue to apply the hedge accounting requirements of IAS 39.

As a result of the adoption of IFRS 9, the VUB Group has adopted consequential amendments to International accounting standard 1 Presentation of Financial Statements ('IAS 1'), which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method.

Additionally, the VUB Group has adopted consequential amendments to International financial reporting standard 7 Financial Instruments: Disclosures ('IFRS 7') that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the VUB Group's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in this note below Transition.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost ('AC'), fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVTPL'). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the VUB Group classifies financial assets under IFRS 9, see note 3.5.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. For an explanation of how the VUB Group classifies financial liabilities under IFRS 9, see 3.5.

Measurement

A financial asset is measured at amortised 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, the VUB Group 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.

Impairment of financial assets

Impairment of financial assets IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The new impairment model is applied to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. It is also applied to certain loan commitments and financial guarantee contracts.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the VUB Group applies the impairment requirements of IFRS 9, see 4.1.2.

## 2. Changes in accounting policies (continued)

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

- 12-month ECLs: these are ECLs that result from possible default events within 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.

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 VUB Group. 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).

| **€ '000** | **2018** | **2019** | **2020** | **2021** | **2022** |
|---|---|---|---|---|---|
| Decreasing factor | 95% | 85% | 70% | 50% | 25% |
| Impact to CET 1 | 42,633 | 38,145 | 31,414 | 22,438 | 11,219 |

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 using the scaling factor to assess the Risk Weighted Assets of Standard exposures;
- Tier 2 elements relating to IRB weighted exposures.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative period has not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held;
- Trading portfolio, derivatives and hedging derivatives, which are measured at FVTPL under IAS 39, continue to be measured at FVTPL under IFRS 9, however, hedge instruments are shown in separate line 'Derivatives - Hedge accounting';
- Debt securities that were classified as available-for-sale under IAS 39 are generally measured at FVOCI;
- The designation of certain investments in equity instruments not held for trading at FVOCI;
- Loans and advances to banks and customers that were measured under amortised cost under IAS 39, are also generally measured at amortised cost under IFRS 9;
- Held-to-maturity investments that were measured under amortised cost under IAS 39 are reclassified and measured at FVOCI.

## 2. Changes in accounting policies (continued)

This table shows the impact of the application IFRS 9 to the consolidated 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 | Revaluation | IFRS 9 measu-rement |
| **Assets** | **Assets** | | | | | |
| Cash and balances with central banks | Cash, balances at central banks | 1,595,097 | - | - | - | 1,595,097 |
| Due from banks | Financial assets at amortised cost: Due from other banks | 90,913 | - | (482) | - | 90,431 |
| 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 at FVTPL | - | 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 FVOCI | 520,416 | - | (178) | 178 | 520,416 |
| Loans and advances to customers | Financial assets at amortised cost: Due from customers | 12,000,729 | 2,433 | (45,604) | - | 11,957,558 |
| | 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 |
| Associates and joint ventures | Investments in joint ventures and associates | 8,972 | - | - | - | 8,972 |
| Intangible assets | Intangible assets | 80,100 | - | - | - | 80,100 |
| Goodwill | Goodwill | 29,305 | - | - | - | 29,305 |
| Property and equipment | Property and equipment | 126,848 | - | - | - | 126,848 |
| Current income tax assets | Current income tax assets | 9,478 | - | - | - | 9,478 |
| Deferred income tax assets | Deferred income tax assets | 53,779 | - | 9,418 | (10,652) | 52,545 |
| Other assets | Other assets | 23,128 | - | (32) | - | 23,096 |
| | | 14,970,876 | - | (36,927) | 40,074 | 14,974,023 |

## 2. Changes in accounting policies (continued)

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

| € '000 | | | | Remeasurement | | |
|---|---|---|---|---|---|---|
| **IAS 39 categories** | **IFRS 9 categories** | **IAS 39 measu-rement** | **Reclas-sification** | **Expected credit losses** | **Other** | **IFRS 9 measu-rement** |
| **Liabilities** | **Liabilities** | | | | | |
| Due to central and other banks | Financial liabilities measured at amortised cost: due to banks | 768,781 | - | - | - | 768,781 |
| Derivative financial instruments | Financial liabilities at fair value through profit or loss: Financial liabilities held for trading | 52,184 | (14,642) | - | - | 37,542 |
| | Derivatives – Hedge accounting | - | 14,642 | - | - | 14,642 |
| Due to customers | Financial liabilities measured at amortised cost: due to customers | 9,939,121 | (30) | - | - | 9,939,091 |
| | 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 | 29,743 | - | (1,498) | - | 28,245 |
| Other liabilities | Other liabilities | 95,917 | - | - | - | 95,917 |
| | | 13,338,290 | - | (1,498) | - | 13,336,792 |
| **Equity** | **Equity** | | | | | |
| Equity (excluding net profit for the year) | Equity (excluding net profit for the year) | 1,457,589 | - | (35,429) | 40,074 | 1,462,234 |
| Net profit for the year | Net profit for the year | 174,997 | - | - | - | 174,997 |
| | | 1,632,586 | - | (35,429) | 40,074 | 1,637,231 |
| | | 14,970,876 | - | (36,927) | 40,074 | 14,974,023 |

## 2. Changes in accounting policies (continued)

### 2.1.2. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced International accounting standard 18 Revenue ('IAS 18'), International accounting standard 11 Construction Contracts ('IAS 11') and related interpretations.

The VUB Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IFRS without any practical expedients. The timing or amount of the VUB Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15 except for life insurance brokerage fee, where the VUB Group is exposed to clawbacks if client cancels the insurance contract within certain periods. The VUB Group calculated impact of IFRS 15 and evaluated this impact as non-material and continues to recognise income on these fees as the related brokerage service is provided. The impact of IFRS 15 was limited to the new disclosure requirements (note 27).

### 2.2. Changes in presentation

In 2018, to better reflect income structure of the ISP Group, the VUB Group reassessed the presentation of selected items of the Statement of profit or loss and other comprehensive income and the Statement of financial position:

The VUB Group changed the breakdown of equity in the Statement of financial position to be consistent with the Statement of changes in equity. 'Retained earnings' includes 'Net profit for the year'. The comparatives were restated.

The VUB Group changed the presentation of allowances for financial guarantees and commitments from 'Other liabilities' into 'Provisions' in the Statement of financial position. Provisions for litigations and other provisions continue to be recognised under 'Provisions' in the Statement of financial position but the related net creation of provisions was reclassified from 'Other operating expenses' to 'Provisions' in the Statement of profit or loss and other comprehensive income. The comparatives were restated.

Separate line 'Other administrative expenses' was created in the Statement of profit or loss and other comprehensive income. Other administrative expenses are a subset of 'Other operating expenses' and represent general administrative costs of running the VUB Group. These costs pertain to operation expenses rather than to expenses that can be directly related to the main operations of the VUB Group: providing retail and commercial banking services. These costs occur independently of VUB Group 's main operations (note 33).

'Other operating expenses', on the other hand, represent direct costs involved in the VUB Group 's operations, which means expenses related to VUB Group's clients (note 30). These mainly contains contributions to the Single Resolution Fund and the Deposit Guarantee Fund and other non-recurring expenses. Recoveries of these expenses are presented within 'Other operating income' (note 29).

Recoveries of these administrative expenses are now presented along with 'Other administrative expenses' as opposed to 'Other operating income' (note 33). The comparatives were restated.

| € '000 | 2017 | Changes | Restated 2017 |
|---|---|---|---|
| **Liabilities** | | | |
| Provisions | 9,962 | 19,781 | 29,743 |
| Other liabilities | 115,698 | (19,781) | 95,917 |
| | | | |
| Other operating income | 9,462 | (956) | 8,506 |
| Other operating expense | (90,789) | 75,271 | (15,518) |
| Other administrative expenses | - | (90,826) | (90,826) |
| Provisions | - | 16,511 | 16,511 |

The breakdown in analysis of exposures by industry sector was change to be in line with Statistical Classification of Economic Activities (SK NACE Rev. 2). The comparatives were restated.

## 2. Changes in accounting policies (continued)

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

A number of new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, however, the VUB Group has not early adopted them in preparing these consolidated financial statements. Of these pronouncements, the following will potentially have an impact on the VUB Group's financial statements. The VUB Group plans to adopt these pronouncements when they become effective.

**IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the VUB Group also applies IFRS 15.)**

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- Leases with a lease term of 12 months or less and containing no purchase options;
- Leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

Leases in which the VUB Group is a lessee

It is expected that the new Standard will require the VUB Group to recognise in its statement of financial position assets and liabilities relating to operating leases for which the VUB Group acts as a lessee.

The VUB Group will recognise new assets and liabilities for its operating leases in respect of branch and office premises, lands under ATMs and fleet of company cars. The nature and expenses related to those leases will now change because the VUB Group will recognise a depreciation charge for right-of-use assets and interest expense on the lease liabilities.

Previously, the VUB Group recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised.

In addition the VUB Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the VUB Group will include payments due under the lease in lease liability. No significant impact is expected for the VUB Group's finance leases.

Based on the information currently available, and taking into account ongoing rationalisation of VUB Group's retail branch network where renting details are still subject to negotiation, the VUB Group estimates that it will recognise lease liability along with right-of-use asset in amount of € 22,860 thousand as at 1 January 2019.

Previously, the VUB Group disclosed minimum lease payments under non-cancellable leases in amount of € 4,350 thousand. Under this approach the VUB Group considered leases with undetermined contractual maturity only for duration of cancellation period which was generally 3 months.

As for the fleet of company cars, which represent € 2,250 thousand of the abovementioned lease liability, the VUB Group will use rates implicit in the contracts. Average rate of these contracts is 4.35%. The cars are generally used for 5 years and the fleet is being renewed according to the needs of the VUB Group.

As for the VUB Group branches and office premises and lands under ATMs, which represent amount of € 20,610 thousand of the abovementioned lease liability, the VUB Group will use incremental borrowing rates as at 1 January 2019. Average rate of these contracts is 0.51%. The management has made judgement to rent premises and lands with no contractual maturity for 5 years with regard to ongoing rationalisation of VUB Group's retail branch network.

## 2. Changes in accounting policies (continued)

The VUB Group does not expect the adoption of IFRS 16 to impact its RWA and capital adequacy.

Leases in which the VUB Group is a lessor

The VUB Group will reassess the classification of sub leases in which the VUB Group is a lessor. Based on the information currently available, no significant impact is expected for other leases in which the VUB Group is a lessor.

Transition

The VUB Group plans to apply IFRS 16 initially on 1 January 2019 using the modified retrospective approach B. Therefore no adjustment to the opening balance of retained earnings at 1 January 2019 will be recognised, with no restatement of comparative information.

The VUB Group plans to apply the practical expedient to grandfather the definition of lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

**Amendments to IFRS 9: Prepayment Features with Negative Compensation (Effective for annual periods beginning on or after 1 January 2019)**

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The VUB Group does not expect that the amendments will have a material impact on the financial statements because the VUB Group does not have prepayable financial assets with negative compensation.

**IFRIC 23 Uncertainty over Income Tax Treatments (Effective for annual periods beginning on or after 1 January 2019. Early application is permitted)**

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. The VUB Group must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The VUB Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the VUB Group does not operate in a complex multinational tax environment or does not have material uncertain tax positions.

**Other standards**

The following amended standards are not expected to have a significant impact on the VUB Group's consolidated financial statements:

- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2019);
- Annual Improvements to IFRS 2015-2017 Cycle (Effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 Employee Benefits (Effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2020).

## 3. Significant accounting policies

### 3.1. 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.

### 3.2. 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.

### 3.3. 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 other banks with contractual maturity of less than 90 days.

### 3.4. 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.

### 3.5. 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 VUB Group 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 in the statement of financial position on value date when funds are transferred.

Classification of financial assets and liabilities

Policy applicable from 1 January 2018

From 1 January 2018, the VUB Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms into following portfolios:

- Fair value through profit or loss,
- Fair value through other comprehensive income, or
- Amortised cost.

The VUB Group determines its business models at the level that best reflects how it manages groups of financial assets to achieve its business objective. The VUB Group'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 VUB Group's original expectations, the VUB Group 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.

## 3. Significant accounting policies (continued)

The VUB Group uses the following business models:
- Hold to collect,
- Hold to collect and sell,
- Held for trading/Other.

As a second step of its classification process the VUB Group assesses the contractual terms of financial instruments to identify whether they meet the Solely Payments of Principal and Interest 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 VUB Group 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 at fair value through profit or loss.

Financial liabilities are measured at amortised cost or at fair value through profit or loss. The VUB Group classifies and measures derivative financial instruments and trading portfolio at fair value through profit or loss. The VUB Group 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.

Policy applicable before 1 January 2018

Financial assets held by the VUB Group were categorised into portfolios in accordance with the intent on the acquisition date and pursuant to the investment strategy. The VUB Group had developed security investment strategies and, reflecting the intent on acquisition, had allocated securities into the following portfolios:
- Fair value through profit or loss,
- Available-for-sale,
- Held-to-maturity.

The principal differences among the portfolios related to the measurement and recognition of fair values in the financial statements.

Financial liabilities were measured at amortised cost except for derivative financial instruments which were measured at fair value through profit or loss.

Initial and subsequent measurement of financial instruments

Policy applicable from 1 January 2018

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, when transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

After initial recognition, the VUB Group measures financial assets and financial liabilities in accordance to the classification at fair value through profit or loss (note 3.5.1), fair value through other comprehensive income (note 3.5.2) or at amortised cost (note 3.5.3).

Policy applicable before 1 January 2018

All financial instruments held by the VUB Group were recognised using settlement date accounting and were initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, any directly attributable incremental costs of acquisition. Securities purchased, but not settled, were recorded in the off-balance sheet and changes in their fair values, for purchases into the fair value through profit or loss and the available-for-sale portfolios, were recognised in the statement of profit or loss and other comprehensive income and in equity respectively.

After initial recognition, the VUB Group measured financial assets and financial liabilities in accordance to the category at fair value through profit or loss (note 3.5.1), fair value through other comprehensive income (note 3.5.2) or at amortised cost (note 3.5.3).

## 3. Significant accounting policies (continued)

Reclassification of financial instruments

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

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

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

The VUB Group 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. From 1 January 2018 when assessing whether or not to derecognise a loan to a customer, amongst others, the VUB Group 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 VUB Group 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.

Modifications of financial instruments

Policy applicable from 1 January 2018

If the terms of a financial asset are modified, then the VUB Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see above under Derecognition other than due to substantial modification) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the VUB Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy, note 4.1.5). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

## 3. Significant accounting policies (continued)

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the VUB Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate as well as fixed-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (note 4.1.2), then the gain or loss is presented together with impairment losses.

Policy applicable before 1 January 2018

If the terms of a financial asset were modified, then the VUB Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different,
then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see above under Derecognition other than due to substantial modification) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the premodification interest rate.

### 3.5.1. Financial assets and liabilities at fair value through profit or loss

Policy applicable from 1 January 2018

'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 at fair value through profit or loss.

Policy applicable before 1 January 2018

Financial assets at fair value through profit or loss comprised financial assets held for trading, derivative financial instruments and financial assets designated at fair value through profit or loss on initial recognition.

### 3.5.1.1. Financial assets held for trading

Policy applicable from 1 January 2018

The VUB Group 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 or loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the VUB Group's own credit risk. Such changes in fair value are recorded in the 'Fair value gains and losses arising from the VUB Group'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 considered to be incidental to the VUB Group's trading operations and is presented together with all other changes in the fair value of instruments designated at FVTPL in net trading result. Dividend income from equity instruments measured at FVTPL is also considered to be incidental to the VUB Group's trading operations and is recorded in profit or loss as net trading result 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 in the near term.

The VUB Group 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'.

## 3. Significant accounting policies (continued)

Policy applicable before 1 January 2018

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

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

The VUB Group monitored changes in fair values on a daily basis and recognised 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 was accrued on a daily basis and reported in the statement of profit or loss and other comprehensive income in 'Net trading result''.

Derivative financial instruments

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

Derivative financial instruments 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:

- From 1 January 2018: 'Financial assets held for trading';
- Before 1 January 2018: 'Derivative financial instruments'.

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. If such values are not available, discounted cash flow models and option pricing models are used. 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 (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. 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.

The VUB Group assesses whether any embedded derivatives contained in given contract are required to be separated from the host contract and accounted for as derivatives.

Policy applicable from 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The VUB Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

## 3. Significant accounting policies (continued)

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss in net trading result unless they form part of a qualifying cash flow hedging relationship.
Separated embedded derivatives are presented in the statement of financial position together with other derivatives.

Policy applicable before 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The VUB Group accounted for an embedded derivative separately from the host contract when:

- the host contract was not itself carried at FVTPL;
- the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives were measured at fair value, with all changes in fair value recognised in profit or loss unless they formed part of a qualifying cash flow hedging relationship.

Separated embedded derivatives are presented in the statement of financial position together with other derivatives.

### 3.5.1.2. Financial assets measured at fair value through profit or loss

Policy applicable from 1 January 2018

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

Financial assets measured at fair value also comprises Equity instruments not held for trading where the VUB Group did not elect option to classify investments at FVOCI. Financial assets measured 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 result. Interest and dividend income is recorded in net trading result according to the terms of the contract, or when the right to payment has been established.

Policy applicable before 1 January 2018

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

Financial instruments classified in this category were those that had been designated by management on initial recognition. This designation could have been used only when at least one of the following conditions was met:

- the designation eliminated or significantly reduced a measurement or recognition inconsistency that would otherwise have arisen from measuring assets or liabilities or recognising the gains and losses on them on a different basis;
- the assets and financial liabilities were part of a group of financial assets, financial liabilities or both that were managed and their performance was evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contained one or more embedded derivatives that significantly modified the cash flows that otherwise would have been required by the contract.

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

The VUB Group monitored changes in fair values on a daily basis and recognised 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 was accrued on a daily basis and reported in the statement of profit or loss and other comprehensive income in ‘Net trading result’’.

## 3. Significant accounting policies (continued)

### 3.5.2. Financial assets at fair value through other comprehensive income

#### 3.5.2.1. Debt instruments measured at fair value through other comprehensive income

Policy applicable from 1 January 2018

The VUB Group 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.

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39 but also comprise held-to-maturity investments where the VUB Group change the business model to hold to collect and sell.

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. The VUB Group applies 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 is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

Where the VUB Group 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.

Policy applicable before 1 January 2018

Available-for-sale financial assets

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

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

Interest earned whilst holding 'available-for-sale' securities was accrued on a daily basis and reported in the statement of profit or loss and other comprehensive income in 'Interest and similar income'.

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

Equity investments whose fair value could not be reliably measured were held at cost less impairment. For 'available-for-sale' equity investments, the VUB Group assessed at each reporting date whether there was objective evidence that an investment or a group of investments was impaired.

## 3. Significant accounting policies (continued)

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

In the case of debt instruments classified as 'available-for-sale', impairment was 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 increased and the increase could be objectively related to an event occurring after the impairment loss had been recognised in 'Impairment losses' in the statement of profit or loss and other comprehensive income, the impairment loss was reversed through the statement of profit or loss and other comprehensive income.

In the case of equity investments classified as 'available-for-sale', objective evidence would have included a significant or prolonged decline (more than 13,5% and more than 9 months) in the fair value of the investment below its cost. Where there was evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – was removed from equity and recognised in 'Impairment losses' in the statement of profit or loss and other comprehensive income. Impairment losses on equity investments were not reversed through statement of profit or loss and other comprehensive income; increases in their fair value after impairment were recognised directly in Other comprehensive income.

Held-to-maturity investments

Held-to-maturity investments that were measured under amortised cost under IAS 39 were reclassified into business model hold to collect and sell and are measured at FVOCI.

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

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

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

### 3.5.2.2. Equity instruments measured at fair value through other comprehensive income

Upon initial recognition, the VUB Group 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 VUB Group 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.

### 3.5.3. Financial assets and liabilities at amortised costs

Financial assets at amortised costs comprise balances due from other 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.

## 3. Significant accounting policies (continued)

### 3.5.3.1. Financial assets at amortised costs: Due from other banks and Due from customers

Policy applicable from 1 January 2018

From 1 January 2018, the VUB Group only measures 'Due from other 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; and
- 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 other banks

Due from other 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. These receivables are recorded at amortised cost less any impairment losses. (note 12.2)

Impairment

The detailed description of policy applicable from 1 January 2018 is in the note 4.1.2.

The VUB Group writes off 'Due from other banks' and 'Due from customers' when it determines that the loans and advances are uncollectible. Loans and advances are written off against the Impairment losses on Financial Assets in amortised cost with remaining part being written-off against profit or loss reported under 'Impairment losses'. Any recoveries of written off loans are credited to the statement of profit or loss and other comprehensive income on receipt.

Policy applicable before 1 January 2018

Due from other banks

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

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

Due from customers

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

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

The VUB Group first assessed whether objective evidence of impairment existed on its exposures. Significant exposures were assessed individually, while exposures that were not significant were assessed either individually or on portfolio basis. The main criterion for determining, whether a specific exposure was individually significant was the sum of on-balance exposure and off-balance exposure exceeding significance threshold (€ 500 thousand). The amounts of on-balance and off-balance exposure were calculated at the borrower level. If the VUB Group determined that no objective evidence of impairment existed for an individually assessed exposure, it included the asset in a group of exposures with similar credit risk characteristics and collectively assessed them for impairment and recognised provision accordingly.

## 3. Significant accounting policies (continued)

The VUB Group wrote off loans and advances when it determined that the loans and advances were uncollectible. Loans and advances were written off against the reversal of the related impairment losses. Any recoveries of written off loans were credited to the statement of profit or loss and other comprehensive income on receipt.

#### 3.5.3.2. 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 VUB Group's sources of debt funding.

The VUB Group 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.

### 3.6. 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.

### 3.7. 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.

### 3.8. Derivatives – Hedge accounting

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

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position in 'Derivatives – Hedge accounting'.

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

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

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

## 3. Significant accounting policies (continued)

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

Cash flow hedges

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

When the hedged cash flow affects profit or loss, the gain or loss on the hedging instrument is reclassified from other comprehensive income to profit or loss as a reclassification adjustment in 'Net trading result'. 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'.

From 1 January 2018: In case of macro hedge, the change in the fair value of the hedged items attributable to the risk hedged is presented separately as 'Fair value changes of the hedged items in portfolio hedge of interest rate risk'

Before 1 January 2018: In case of macro hedge, the change in the fair value of the hedged items attributable to the risk hedged was presented as part of carrying value of the hedged items.

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.

### 3.9. Investments in 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 Capital Asset Pricing Model ('CAPM'). 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 the Intesa Sanpaolo Group ('ISP Group') level specifically for the Slovak market.

## 3. Significant accounting policies (continued)

### 3.10. Transactions under common control

Transactions under common control refer to business combinations involving entities belonging to the same group. More specifically, a combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The VUB Group follows the accounting treatment of such transactions in continuity of values (pooling of interests) that consists of maintaining the book values of the acquiree in the financial statements of the acquirer. Assets and liabilities of the acquired company are recognised at the carrying amounts compliant with IFRS. Any differences between net equity of the acquired company and the investment in subsidiaries carried at cost are recorded in retained earnings of the acquirer.

### 3.11. Property and equipment

At initial recognition, the items of property and equipment are measured at cost. At 31 December 2017, the VUB Group changed the accounting policy for buildings and land, before evaluated by the cost model to the revaluation model for subsequent measurement, following the ISP Group policy.

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 recognised 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 VUB Group tests its assets for impairment on annual basis. 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.

## 3. Significant accounting policies (continued)

### 3.12. 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.

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

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

### 3.13. Goodwill

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

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

### 3.14 Non-current assets held for sale

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

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

### 3.15. Leasing

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

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

## 3. Significant accounting policies (continued)

VUB Group as the lessee

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

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

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

VUB Group as the lessor

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

### 3.16. Provisions

Policy applicable from 1 January 2018

Provisions comprise litigations and claims, financial guarantees and loan commitments.

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

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

Financial guarantee liabilities are initially recognised 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 'Impairment losses'. In case of conversion of financial guarantee into Financial assets at amortised cost along with creation of Liability towards holder, the Provision is converted into Impairment losses on Financial Assets in amortised cost along with movement, if any, within 'Impairment losses'.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

For loan commitments the VUB Group also recognises Provisions based on stage of financial instrument. Any increase or decrease in the provision relating to Loan commitments is reflected in the statement of profit or loss and other comprehensive income in 'Impairment losses'.

## 3. Significant accounting policies (continued)

Policy applicable before 1 January 2018

Provisions comprised litigations and claims.

Provisions for litigations and claims were recognised when the VUB Group had a present obligation (legal or constructive) as a result of a past event, and it was probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate could be made of the amount of the obligation.

Financial guarantee liabilities were initially recognised in off-balance sheet at their fair value, and the initial fair value was amortised over the life of the financial guarantee. Income from financial guarantees was 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 were recognised in accordance with IAS 37 and subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee had become probable). Financial guarantees were included within ‘Other liabilities’. Any increase in the liability relating to financial guarantees was recorded in the statement of profit or loss and other comprehensive income in ‘Impairment losses’.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

For loan commitments the VUB Group also recognises Provisions based in accordance with IAS 37 if the contract was considered to be onerous.

### 3.17. Provisions for employee benefits

The VUB Group’s obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. 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’.

### 3.18. Equity reserves

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

‘Buildings and land’ 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.

Reserve regarding revaluation of debt securities previously measured at FVOCI that were classified as available-for-sale under IAS 39:

- From 1 January 2018: ‘Financial assets at fair value through other comprehensive income’ reserve which comprises changes in the fair value of Financial assets at FVOCI.
- Before 1 January 2018: ‘Available-for-sale financial assets’ reserve which comprises changes in the fair value of available-for-sale investments.

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

## 3. Significant accounting policies (continued)

### 3.19. 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.

### 3.20. Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 3.19).

Other fee and commission income arises on financial services provided by the VUB Group including account maintenance, cash management services, brokerage services, administrative services regarding loans, investment advice and financial planning, investment banking services, project finance transactions, asset management services, factoring services and other. Fee and commission income and expense is recognised when the corresponding service is provided. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, account maintenance and brokerage fees which are expensed as the services are received.

### 3.21. 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.

### 3.22. Current and deferred income tax

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

Deferred 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 VUB Group is also subject to various indirect operating taxes, which are included in ‘Other operating expenses’.

## 4. Financial and operational risk management

The VUB Group 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 VUB Group's exposure to each of the above risks, the VUB Group's objectives, policies and processes for measuring and managing risk.

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

### 4.1. Credit risk

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

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

More specifically, CRC 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 VUB Group'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.

## 4. Financial and operational risk management (continued)

### 4.1.1. Management of credit risk

The Risk Management Division is established within the VUB Group 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 VUB Group's credit risk including:

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

### 4.1.2. Impairment losses

The VUB Group 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 VUB Group, such as a breach of contract, problems with repayments or collateral, the VUB Group 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 VUB Group 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 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 VUB Group 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 VUB Group;
- 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.

## 4. Financial and operational risk management (continued)

Inputs, assumptions and techniques used for estimating impairment

Calculation of expected credit loss ('ECL') 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 reviewed.

The VUB Group identified the following portfolios: Retail Other - Consumer Loans, Retail Other – Overdrafts, Retail Other - Credit cards, Corporate – Small and Medium Enterprises ('SME'), Mortgage Loans, SME Retail, Large corporate above 500 million turnover, Large corporate up to € 500 million turnover, Non-Banking Financial Institutions, Banks, Municipalities, Sovereigns and Public Sector Entities, Slotting models (Special Purpose Vehicles ('SPV') and Real Estate Development ('RED')), Group of flat owners, models for former VUB subsidiaries (CFH Mortgage Loans, CFH Credit Cards, CFH Retail Other) and model for subsidiary VUB Leasing.

The methodology of risk parameters used by ECL calculation is compliant with the ISP Group methodology provided by Parent Company and is based on the availability of regulatory or managerial risk parameters for each portfolio.

For PD models of the portfolios where the VUB Group uses internal models, the advanced approach is used. The modelling approach consists of the following steps:

- Creation of migration matrices using the internal ratings;
- Removal of macroeconomic effect from the migration matrices using the Merton formula;
- Creation of Through-the-cycle ('TTC') matrix computed as the average of the annual migration matrices obtained after the removal of the macroeconomic effect;
- Creation of the future Point-in-Time ('PIT') matrices obtained by conditioning the TTC matrix using Merton formula and forward looking information;
- Obtaining the final Lifetime PD vectors by multiplying the predicted PIT and TTC matrices adjusted by add-on for incorporation of other economic scenarios.

For LGD models of the portfolios where the VUB Group uses internal models, the modelling approach consists of the following steps:

- Calculation of nominal LGD values based on the same pools as used by internal models;
- Incorporation of forward looking information using EBA coefficients;
- Obtaining the final LGD values by discounting the recovery rates using Effective interest rate and Average time to recovery.

For the portfolios, where it is unable to follow this approach (unavailability of internal model, low number of observations, low number of defaults, unavailability of macroeconomic model for the portfolio) the VUB Group follows simplified approach, e.g. final values provided from the Parent Company, notching criteria, using the country rating and LGD, etc.

The counterparties with low number of observations and with low numbers of observed defaults, where it was unable to create reliable migration matrices or develop the macroeconomic satellite models for prediction of default rate, were defined as the Low default portfolio. This portfolio, as also defined by Parent Company, consists of exposures with the following parties:

- Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
- Institutions (Banks, and Other Non-banking Financial Institutions);
- Large Corporate (Corporate with turnover more than € 500 million).

For these counterparties, the VUB Group uses final PD and LGD values provided by Parent Company.

## 4. Financial and operational risk management (continued)

Staging methodology

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.

The VUB Group implemented internal rules using significant days past due, significant increase of PD, forbearance measures, early warning system, proactive credit management (‘PCM’) process, non-performing categories to assess correct stage for expected loss calculation. These indicators are described in more detail below.

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

DPD = Banking Date – Due Date for repayment

Where banking date represent days between and holding from Monday through Friday, and do not include public holidays and weekends.

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 VUB Group’s classification of exposures into the stages is based on the following criteria:

| STAGE 1 | STAGE 2 | STAGE 3 |
|---|---|---|
| Performing exposures with DPD less than 30 | Performing non-defaulted contracts with more than 30 days past due with 5% materiality threshold | Non-performing Past Due |
| Performing exposures with DPD more than 30 under 5% materiality threshold | Forborne performing exposures | Non-performing Unlikely to Pay |
| | Performing exposures showing Early warning signals and PCM | Non-performing Doubtful |
| | Defaulted exposures classified as Performing | |
| | Performing exposures with significant increase in PD | |

In general these rules are applied:

- At origination financial instruments are classified in Stage 1, except instruments which are deteriorated at the date of acquisition, which are classified in the relevant stage;
- If there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2;
- At the date of acquisition all defaulted Loans are classified in Stage 3.

## 4. Financial and operational risk management (continued)

**Stage 2 criterion: Performing exposures with more than 30 past due days**

According to IFRS 9 Principle par. 5.5.11: '…there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.' To comply with this requirement the VUB Group adopts days past due criterion. In addition to 30 days past due, the VUB Group also incorporated a materiality threshold of 5% into the criteria, that is related to overdue exposure of a client as requested by regulatory requirements.

Applying the 5% materiality threshold for the 30 DPD criterion, all transactions of a counterparty are classified to Stage 2 when past due days are more than 30 days if one of the cases is true:

a) overdue amount at reporting date breach the 5% threshold calculated at a counterparty level:

$$\frac{\text{Overdue Exposure at client level}}{\text{Cash Exposure at client level}} \geq 5\%$$

or

b) overdue amount at reporting date or average overdue amount in the last 30 days breach the 5% threshold calculated at a counterparty level:

$$\frac{\text{Average Overdue Exposure at client level for the last 30 days}}{\text{Average Cash Exposure at client level for the last 30 days}} \geq 5\%$$

Consequently, the overall exposure of a counterparty is classified to Stage 2 if, at reporting date, the greater of the amounts calculated in a) and b) is equal or higher than the 5% threshold.

**Stage 2 criterion: Forborne performing exposures**

Forborne status for performing exposures is identified as another criterion of credit deterioration since it represents concession towards a client facing or about to face difficulties in meeting its financial commitments. Forborne performing exposures represents Forborne performing (originally) and Forborne performing stemming from Non-performing. Minimum probation period for these contracts is 24 months, after this period the contract might migrate to Stage 1 if meets exit criteria from Forborne classification (for example there is not more than 30 DPD, contract is Performing or counterparty has repaid more than significant amount of its debt since entering to Forborne).

**Stage 2 criterion: Performing exposures showing early warning signals and proactive credit management**

Exposures with active Early Warning Signals ('EWS') and clients reported on PCM are classified in Stage 2 since they can be considered as exposures that have deteriorated significantly in credit quality since their recognition. Similarly to forborne status, identification and application of EWS follow the rules defined by the VÚB Group. For IFRS 9 purposes, exposures with orange, red and light blue EWS should be classified into Stage 2.

Early warning system performs regular monitoring of corporate clients portfolio; their risk assessment based on pre-defined criteria, grouped into 6 particular triggers families (Asset Quality Review Fatal indicators, Additional Asset Quality Review indicators, Client Missing Payments, Handling Account, Balance Sheet, and Client Management). Level of the riskiness for every particular detected case is expressed by the final EWS „traffic lights“ as follows:

| Traffic light | Meaning | Related action |
|---|---|---|
| Dark blue | Harder severity signals<br>Fast Track activation | Classification to NPL |
| Light blue | Very high intensity signals<br>Fast Track activation | Impairment proposal<br>Classification proposal |
| Red | High intensity signals | Proactive management |
| Orange | Medium intensity signals | Proactive management |
| Dark green | Low intensity signals | Anomaly check<br>(e.g. rating update) |
| Light Green | No negative signals | - |

## 4. Financial and operational risk management (continued)

Once the counterparty is detected automatically by EWS or manually by Proactive credit management ('PCM') team with risk severity HIGH and the respective deliberative body decides about inclusion of the counterparty in the PCM perimeter, the counterparty is flagged as PCM. The flag PCM is deactivated when the counterparty is excluded to full performing portfolio (Stage 1) or non-performing portfolio (Stage 3).

**Stage 2 criterion: Defaulted exposures classified as performing**

This criterion contains such exposures which do not satisfy condition for Non-performing classification, but satisfy conditions for the default definition.

**Stage 2 criterion: Performing exposures with significant increase in PD**

Significant increase of PD between origination (or initial recognition) and reporting date is used as indicator of credit quality deterioration according to the IFRS 9 principle par. 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.' PD at origination is used solely for the purposes of staging.

This criterion is applied for all the portfolios. The thresholds for each portfolio can vary. In order to assess whether credit risk has increased significantly since the origination, it is necessary to compare Lifetime PD between origination and reporting date.

This criterion is set individually for each portfolio however the main features of the methodology are common.

According to the methodology, the comparison should be performed between:

- $PD_{origination}$ – the lifetime PD over the residual maturity related to the rating to which the instrument belonged at the origination (if some other risk drivers e.g. year of life are used in addition to the rating, the values as of the reporting date are taken) and
- $PD_{reporting}$ – the lifetime PD over the residual maturity related to the rating to which the instrument belongs at the reporting date.

The relative change of the lifetime PD is calculated as $PD_{reporting}/PD_{origination} - 1$. If this relative change is greater than the set PD threshold then the exposure should be classified to the stage 2.

The proper setting of PD threshold is the core of this criterion. The Group methodology states the PD threshold could be different based on portfolio/model, residual maturity, rating class or other potential drivers. Indeed, the cumulative PDs and their relative differences (between some two rating grades) are changing very swiftly with increasing residual maturity. That's why the one common threshold for all maturities would not lead to proper staging. The differentiation of thresholds between rating classes is important, too – generally, the worse rating leads to the lower threshold.

**Stage 3 criterion**

Stage 3 financial assets are considered credit impaired. It is when one or more events that have a detrimental impact on the estimated future cash flows have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

## 4. Financial and operational risk management (continued)

**Staging criteria for debt securities**

Staging process for Bonds is performed in parallel to the staging of Loans. The criteria used to assess whether the credit quality of Bond has deteriorated significantly since origination is Lifetime PDs comparison.

The following criteria are approved for each stage for debt securities:

| STAGE 1 | STAGE 2 | STAGE 3 |
|---|---|---|
| Bonds with no significant credit quality deterioration<br>Investment grade Bonds (Low Credit Risk Exemption rule valid only for FVOCI Bonds for FTA) | Bonds with significant increase in PD since origination | Defaulted Bonds |

In addition to the above-mentioned criteria, the following rules should be followed for Stage Assignment:

- at origination financial instruments are classified in Stage 1;
- if there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2;
- at the date of acquisition all defaulted Bonds are classified in Stage 3.

**Staging criteria for Low Default Portfolio and Intragroup exposures**

Low Default Portfolio consists of exposures with the following parties:

- Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
- Institutions (Banks, and Other Non-banking Financial Institutions);
- Large Corporate (Corporate with turnover more than € 500 million).

Intragroup exposures are exposures with the following parties:

- Parent Company;
- Other ISP Group subsidiaries.

Given their particular nature (exposures are within own bank group with low risk profile), intragroup transactions are always classified as Stage 1 with a 12-months ECL.

Since the models for Low Default Portfolio were developed by Parent Company the staging rules for Low Default Portfolio and Intragroup exposures are set by the Parent Company for Loans and Bonds and valid at ISP Group level. Exposures are classified to Stage 2 based on the significant increase of credit risk criterion measured by Lifetime PD comparison. This criterion for Low Default Portfolio is defined based on the specific rating and residual maturity of exposure. Thresholds are provided by Parent Company. The thresholds are applied in the same way as described above in Stage 2 criterion: Performing exposures with significant increase in PD.

**Expected loss calculation**

Stage 1

The Expected Loss for exposures in Stage 1 is calculated as:

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

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.

In the calculation of Expected Credit Loss for positions expiring during the first year, in order to avoid the counting of an entire PD on yearly basis and to consider the real expiration date, PD can be adjusted as follows:

$$PD_n = 1 - \sqrt[12/n]{1 - PD_{1year}}$$

where n is the number of months to maturity.
For the transactions without a maturity date, it is assumed that they are subjected to annual review and their maturity is assumed to be equal to one year.

## 4. Financial and operational risk management (continued)

Stage 2

The formula of Lifetime Expected Loss, calculated considering the residual maturity with respect to the reporting date, is summarized as follows:
For exposures with remaining maturity less or equal than 1 year (see Stage 1):

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

For exposures with remaining maturity greater than 1 year :

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

where:

- $PD_t$ is cumulative PD estimated between time 0 and time t (time 0 is the reporting date, time t is time t is the number of years till 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.

To illustrate the application of formula 2 for ECL calculation for exposures in Stage 2 with residual maturity of 3 years, the following example is provided:

$$EL_{lifetime} = EAD_1 \times PD_1 \times LGD_1 + \frac{EAD_2 \times (PD_2 - PD_1) \times LGD_2}{(1 + EIR)^1} + \frac{EAD_3 \times (PD_3 - PD_2) \times LGD_3}{(1 + EIR)^2}$$

where:

- $EAD_1$, $EAD_2$, $EAD_3$ are exposure at default at the beginning of each residual year;
- $PD_1$ is probability that exposure enters in default during the first year of residual maturity;
- $PD_2 – PD_1$ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- $PD_3 – PD_2$ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- $LGD_1$, $LGD_2$, $LGD_3$ is percentage of loss in case of default of each residual year;
- EIR is Effective Interest Rate.

In the calculation of Expected Credit Loss for position expiring during the first year in order to avoid the counting of an entire PD on yearly basis and to consider the real expiration date, PD should be adjusted.

For the transactions without a maturity date, it is assumed that they are subjected to annual review and their maturity is assumed to be equal to one year.

Additionally, for cases when residual maturity is a fraction of years, the VUB Group can choose to use the maturity as follows:

- When the portion of residual maturity that exceeds the year is greater than six months, the maturity will be rounded to the year immediately after;
- When the portion of residual maturity that exceeds the year is equal or lower than six months, the maturity will be rounded to the previous year.

Stage 3

VUB Group has decided to determine the provision for Non Performing exposures (transactions in Stage 3) including an Add-on, which estimation is based on forward looking elements, increasing the current level of coverage on NPLs.

The methodology for the estimation of the Add-on on Stage 3 needs to be applied to the whole Non Performing perimeter (both collective and individual assessments) including revocable and irrevocable margins.

## 4. Financial and operational risk management (continued)

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

$$EL_{Stage3} = PCBS * \left(1 + \text{Add-on}_{Performing}\right)$$

where:

- PCBS is the provision calculated based on scenarios determined by the Bank on NPLs;
- $\text{Add-on}_{Performing}$ is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, Mots-Likely and Worst scenarios from satellite models or obtained with scenarios given by EBA Stress Test coefficients.

**Incorporation of forward-looking information**

The VUB Group incorporates forward-looking information by using the Base scenario from the internal satellite models or the Baseline stress test coefficient issued by the European Banking Authority ('EBA'). Other scenarios are incorporated in the form of „add-on".

The VUB Group uses internally developed satellite models for the prediction of default rate for various segments. These models are based on relevant macroeconomic variables such as for instance gross domestic product ('GDP'), unemployment rate, consumer prices index, EURIBOR. The development of these models contains the model for the base scenario as well as the models for the other scenarios, which are used to calculate the add-on. This approach is used for the most of the PD models.

The VUB Group uses also the stress test coefficients issued by EBA. Since EBA issues the coefficients only for Adverse and Baseline scenario, the Best coefficient is calculated additionally based on these two scenarios. The scenarios are then used for the calculation of the add-on. Using the EBA coefficients is characteristic for LGD models. Moreover, a similar approach is used for the calculation of add-on for the exposures in Stage 3.

The satellite models for prediction of default rates are also used for other purpose such as stress testing. The base scenario represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the VUB Group carries out recalibration of the satellite models.

The VUB Group identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The economic scenarios used the following ranges of the inputs for the quarters of years 2018, 2019, and 2020 for the satellite model development in 2017.

| | GDP, (constant prices, % change) | | Unemployment rate (Labour Force Sample Survey, %) | | Consumer prices index (quarterly average, % change) | | EURIBOR 3M (end of period) | |
|---|---|---|---|---|---|---|---|---|
| | Base scenario | Range | Base scenario | Range | Base scenario | Range | Base scenario | Range |
| 1Q 2018 | 3.6 | 2.0 – 4.5 | 8.1 | 7.1 – 9.5 | 1.3 | 0.0 – 2.8 | (0.29) | (0.50) – 0.25 |
| 2Q 2018 | 3.8 | 1.4 – 4.9 | 7.5 | 7.5 – 9.7 | 1.5 | 0.0 – 2.5 | (0.27) | (0.50) – 0.50 |
| 3Q 2018 | 3.9 | 0.8 – 5.4 | 8.0 | 7.5 – 10.1 | 1.9 | 0.1 – 2.5 | (0.24) | (0.50) – 0.75 |
| 4Q 2018 | 4.0 | (0.2) – 6.1 | 7.7 | 6.8 – 10.0 | 2.1 | 0.1 – 3.3 | (0.20) | (0.50) – 1.00 |
| 1Q 2019 | 4.1 | (0.6) – 6.4 | 7.5 | 6.6 – 10.3 | 2.0 | 0.1 – 4.3 | (0.00) | (0.40) – 1.25 |
| 2Q 2019 | 4.0 | (0.7) – 6.3 | 6.9 | 7.0 – 10.5 | 2.0 | 0.1 – 4.6 | (0.04) | (0.40) – 1.50 |
| 3Q 2019 | 4.0 | (0.2) – 6.1 | 7.4 | 7.0 – 10.9 | 2.0 | 0.1 – 4.9 | 0.05 | (0.40) – 1.75 |
| 4Q 2019 | 3.9 | 0.8 – 5.4 | 7.1 | 6.3 – 10.8 | 2.0 | 0.1 – 4.1 | 0.39 | (0.40) – 2.00 |
| 1Q 2020 | 3.6 | 1.3 – 4.8 | 6.9 | 6.1 – 10.5 | 2.0 | 0.5 – 4.3 | 0.48 | (0.30) – 2.00 |
| 2Q 2020 | 3.5 | 1.5 – 4.6 | 6.3 | 6.5 – 10.7 | 2.0 | 0.5 – 4.6 | 0.72 | (0.30) – 2.25 |
| 3Q 2020 | 3.4 | 1.7 – 4.3 | 6.8 | 6.5 – 11.1 | 2.0 | 0.5 – 4.9 | 0.88 | (0.30) – 2.25 |
| 4Q 2020 | 3.4 | 2.0 – 4.2 | 6.5 | 5.8 – 11.0 | 2.0 | 0.5 – 4.1 | 1.11 | (0.30) – 2.50 |

Predicted relationships between the relevant drivers and default rates for various segments have been developed based on analysing historical data over the past 6 to 12 years. (note 4.1.11)

## 4. Financial and operational risk management (continued)

The split of the stage 1 credit portfolio to individually and portfolio assessed is shown below:

| | Portfolio assessed | | | Individually assessed | | |
|---|---|---|---|---|---|---|
| **2018**<br>**€ '000** | **Gross amount** | **Impairment losses** | **Net amount** | **Gross amount** | **Impairment losses** | **Net amount** |
| **Stage 1** | | | | | | |
| Balances at central banks | 1,592,505 | - | 1,592,505 | - | - | - |
| Financial assets at AC: | | | | | | |
| Due from other banks | 125,120 | (656) | 124,464 | - | - | - |
| Due from customers: | | | | | | |
| Sovereigns | 119,935 | (1,240) | 118,695 | - | - | - |
| Corporate | 4,966,873 | (28,459) | 4,938,414 | - | - | - |
| Retail | 7,520,265 | (18,603) | 7,501,662 | - | - | - |
| | 12,607,073 | (48,302) | 12,558,771 | - | - | - |
| | 12,732,193 | (48,958) | 12,683,235 | - | - | - |
| Financial assets at FVOCI – debt securities | 741,248 | (134) | 741,114 | - | - | - |
| Financial commitments and contingencies | 3,712,198 | (6,993) | 3,705,205 | - | - | - |

**4. Financial and operational risk management (continued)**

The split of the stage 2 credit portfolio to individually and portfolio assessed is shown below:

| | Portfolio assessed | | | Individually assessed | | |
|---|---|---|---|---|---|---|
| **2018**<br>**€ '000** | **Gross amount** | **Impairment losses** | **Net amount** | **Gross amount** | **Impairment losses** | **Net amount** |
| **Stage 2** | | | | | | |
| Financial assets at AC: | | | | | | |
| Due from other banks | 2,530 | (98) | 2,432 | - | - | - |
| Due from customers: | | | | | | |
| Sovereigns | 21,392 | (1,361) | 20,031 | - | - | - |
| Corporate | 309,822 | (13,168) | 296,654 | - | - | - |
| Retail | 625,689 | (55,055) | 570,634 | - | - | - |
| | 956,903 | (69,584) | 887,319 | - | - | - |
| | 959,433 | (69,682) | 889,751 | - | - | - |
| Financial commitments and contingencies | 206,588 | (3,664) | 202,924 | - | - | - |

## 4. Financial and operational risk management (continued)

The split of the stage 3 credit portfolio to individually and portfolio assessed is shown below:

| | Portfolio assessed | | | Individually assessed | | |
|---|---|---|---|---|---|---|
| **2018**<br>**€ '000** | **Gross amount** | **Impairment losses** | **Net amount** | **Gross amount** | **Impairment losses** | **Net amount** |
| **Stage 3** | | | | | | |
| Financial assets at AC: | | | | | | |
| Due from customers: | | | | | | |
| Sovereigns | 1 | - | 1 | - | - | - |
| Corporate | 18,432 | (6,685) | 11,747 | 86,784 | (63,141) | 23,643 |
| Retail | 344,265 | (213,199) | 131,066 | 5,831 | (4,001) | 1,830 |
| | 362,698 | (219,884) | 142,814 | 92,615 | (67,142) | 25,473 |
| | 362,698 | (219,884) | 142,814 | 92,615 | (67,142) | 25,473 |
| Financial commitments and contingencies | 7,875 | (1,305) | 6,570 | 11,918 | (2,418) | 9,500 |

## 4. Financial and operational risk management (continued)

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

| 2018<br>€ '000 | Portfolio assessed<br>Gross amount | Portfolio assessed<br>Impairment losses | Portfolio assessed<br>Net amount | Individually assessed<br>Gross amount | Individually assessed<br>Impairment losses | Individually assessed<br>Net amount |
|---|---|---|---|---|---|---|
| Balances at central banks | 1,592,505 | - | 1,592,505 | - | - | - |
| Financial assets at AC: | | | | | | |
| Due from other banks | 127,650 | (754) | 126,896 | - | - | - |
| Due from customers: | | | | | | |
| Sovereigns | 141,328 | (2,601) | 138,727 | - | - | - |
| Corporate | 5,295,127 | (48,312) | 5,246,815 | 86,784 | (63,141) | 23,643 |
| Retail | 8,490,219 | (286,857) | 8,203,362 | 5,831 | (4,001) | 1,830 |
| | 13,926,674 | (337,770) | 13,588,904 | 92,615 | (67,142) | 25,473 |
| | 14,054,324 | (338,524) | 13,715,800 | 92,615 | (67,142) | 25,473 |
| Financial assets at FVOCI – debt securities | 741,248 | (134) | 741,114 | - | - | - |
| Financial commitments and contingencies | 3,926,661 | (11,962) | 3,914,699 | 11,918 | (2,418) | 9,500 |

## 4. Financial and operational risk management (continued)

| € '000 | Amortised cost | 2017 Impairment losses | Carrying amount |
|---|---|---|---|
| **Portfolio assessed** | | | |
| Financial assets at AC: | | | |
| Due from other banks | 90,986 | (73) | 90,913 |
| Due from customers: | | | |
| Sovereigns | 128,594 | (98) | 128,496 |
| Corporate | 4,435,096 | (42,556) | 4,392,540 |
| Retail | 7,670,047 | (242,166) | 7,427,881 |
| | 12,233,737 | (284,820) | 11,948,917 |
| | 12,324,723 | (284,893) | 12,039,830 |
| Securities: | | | |
| FVTPL | 5,783 | - | 5,783 |
| Available for sale | 520,416 | - | 520,416 |
| Held to maturity | 376,472 | - | 376,472 |
| | 902,671 | - | 902,671 |
| **Individually assessed** | | | |
| Financial assets at AC: | | | |
| Due from customers: | | | |
| Corporate | 135,386 | (84,812) | 50,574 |
| Retail | 5,183 | (3,945) | 1,238 |
| | 140,569 | (88,757) | 51,812 |

## 4. Financial and operational risk management (continued)

The reconciliation from the opening balance to the closing balance of the impairment losses to explain the changes in the impairment losses and the reasons for those changes:

| **2018**<br>**€ '000** | **1 January 2018 (after IFRS 9)** | **Origination** | **Changes in credit risk (net)** | **Transfer to Stage 1** | **Transfer to Stage 2** | **Transfer to Stage 3** | **Derecog-nition** | **Assets written-off/sold** | **31 December 2018** |
|---|---|---|---|---|---|---|---|---|---|
| **Stage 1** | | | | | | | | | |
| Financial assets at FVOCI | 226 | 38 | (79) | - | - | - | (51) | - | 134 |
| Financial assets at AC: | | | | | | | | | |
| Due from other banks | 205 | 1,569 | 232 | - | - | - | (1,350) | - | 656 |
| Due from customers | 52,254 | 35,582 | (62,574) | 70,097 | (18,163) | (544) | (28,350) | - | 48,302 |
| | 52,459 | 37,151 | (62,342) | 70,097 | (18,163) | (544) | (29,700) | - | 48,958 |
| Financial commitments and contingencies | 7,275 | 8,522 | (14,254) | 8,097 | (649) | (5) | (1,993) | - | 6,993 |
| **Stage 2** | | | | | | | | | |
| Financial assets at AC: | | | | | | | | | |
| Due from other banks | 350 | - | (252) | - | - | - | - | - | 98 |
| Due from customers | 67,847 | 13,325 | 47,531 | (55,060) | 38,599 | (31,689) | (10,969) | - | 69,584 |
| | 68,197 | 13,325 | 47,279 | (55,060) | 38,599 | (31,689) | (10,969) | - | 69,682 |
| Financial commitments and contingencies | 8,296 | 638 | 2,149 | (7,154) | 850 | (711) | (404) | - | 3,664 |
| **Stage 3** | | | | | | | | | |
| Financial assets at AC: | | | | | | | | | |
| Due from customers | 299,080 | 7,727 | 50,993 | (15,037) | (20,436) | 32,233 | (5,657) | (61,877) | 287,026 |
| Financial commitments and contingencies | 2,712 | 1,427 | 1,107 | (943) | (201) | 716 | (1,095) | - | 3,723 |

## 4. Financial and operational risk management (continued)

| 2018<br>€ '000 | 1 January 2018 (after IFRS 9) | Origination | Changes in credit risk (net) | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | Derecog-nition | Assets written-off/sold | 31 December 2018 |
|---|---|---|---|---|---|---|---|---|---|
| **Total** | | | | | | | | | |
| Financial assets at FVOCI | 226 | 38 | (79) | - | - | - | (51) | - | 134 |
| Financial assets at AC: | | | | | | | | | |
| Due from other banks | 555 | 1,569 | (20) | - | - | - | (1,350) | - | 754 |
| Due from customers | 419,181 | 56,634 | 35,950 | - | - | - | (44,976) | (61,877) | 404,912 |
| | 419,736 | 58,203 | 35,930 | - | - | - | (46,326) | (61,877) | 405,666 |
| Financial commitments and contingencies | 18,283 | 10,587 | (10,998) | - | - | - | (3,492) | - | 14,380 |

## 4. Financial and operational risk management (continued)

The changes in the gross carrying amount of financial instruments during the year contributed to changes in the impairment losses:

| **2018**<br>**€ '000** | **1 January 2018 (after IFRS 9)** | **Origination** | **Transfer to Stage 1** | **Transfer to Stage 2** | **Transfer to Stage 3** | **Derecog-nition** | **Assets written-off/sold** | **31 December 2018** |
|---|---|---|---|---|---|---|---|---|
| **Stage 1** | | | | | | | | |
| Financial assets at FVOCI | 947,387 | 275,406 | - | - | - | (237,286) | (244,393) | 741,114 |
| Financial assets at AC: | | | | | | | | |
| Due from other banks | 86,769 | 11,816,947 | - | - | - | (11,778,596) | - | 125,120 |
| Due from customers | 10,961,646 | 7,594,660 | 994,727 | (1,292,240) | (14,425) | (5,637,295) | - | 12,607,073 |
| | 11,048,415 | 19,411,607 | 994,727 | (1,292,240) | (14,425) | (17,415,891) | - | 12,732,193 |
| Financial commitments and contingencies | 3,102,039 | 4,666,818 | 342,016 | (200,063) | (8,310) | (4,190,302) | - | 3,712,198 |
| **Stage 2** | | | | | | | | |
| Financial assets at AC: | | | | | | | | |
| Due from other banks | 4,217 | - | - | - | - | (1,687) | - | 2,530 |
| Due from customers | 906,875 | 147,517 | (968,301) | 1,357,187 | (133,643) | (352,732) | - | 956,903 |
| | 911,092 | 147,517 | (968,301) | 1,357,187 | (133,643) | (354,419) | - | 959,433 |
| Financial commitments and contingencies | 440,323 | 29,138 | (329,461) | 201,144 | (11,054) | (123,502) | - | 206,588 |
| **Stage 3** | | | | | | | | |
| Financial assets at AC: | | | | | | | | |
| Due from customers | 505,785 | 14,212 | (26,426) | (64,947) | 148,068 | (37,027) | (84,352) | 455,313 |
| Financial commitments and contingencies | 20,617 | 3,395 | (12,555) | (1,081) | 19,364 | (9,947) | - | 19,793 |

## 4. Financial and operational risk management (continued)

| 2018<br>€ '000 | 1 January 2018 (after IFRS 9) | Origination | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | Derecog-nition | Assets written-off/sold | 31 December 2018 |
|---|---|---|---|---|---|---|---|---|
| **Total** | | | | | | | | |
| Financial assets at FVOCI | 947,387 | 275,406 | - | - | - | (237,286) | (244,393) | 741,114 |
| Financial assets at AC: | | | | | | | | |
| Due from other banks | 90,986 | 11,816,947 | - | - | - | (11,780,283) | - | 127,650 |
| Due from customers | 12,374,306 | 7,756,389 | - | - | - | (6,027,054) | (84,352) | 14,019,289 |
| | 12,465,292 | 19,573,336 | - | - | - | (17,807,337) | (84,352) | 14,146,939 |
| Financial commitments and contingencies | 3,562,979 | 4,699,351 | - | - | - | (4,323,751) | - | 3,938,579 |

## 4. Financial and operational risk management (continued)

### 4.1.3. Non-performing loan classification

The VUB Group considers a financial asset to be in Non-performing status in compliant with the Commission's Implementing Regulation (EU) No 680/2014 and its further amendments (Implementing Technical Standards, 'ITS') when:

- The borrower is unlikely to pay its credit obligations to the VUB Group in full, without recourse by the VUB Group 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 VUB Group.

The VUB Group uses the definitions of non-performing loans derived from the Harmonisation project. The Harmonisation project was driven by Intesa Sanpaolo in order to unify the definitions and categories of non-performing loans across the foreign subsidiaries of the ISP 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) and judgemental criteria for the categories doubtful and unlikely to pay. In case of the past due category, DPD and materiality thresholds of borrower are taken into account.

The description of the classification categories of loans 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. |

The overall borrower exposure is recognised as Past due if, as at reporting date, the higher of the following two values is equal to or exceeding the 5% materiality threshold:

- Borrower's average overdue amounts reported to the total outstanding cash exposure, recorded on a daily basis over the last 90 calendar days;
- Borrower's overdue amount reported to the total outstanding cash exposure as at reporting date.

For category Unlikely to pay are taken into account qualitative indicators such as:

- Borrowers facing difficulties in meeting payment obligations in a timely manner (thus exposed to their creditors' tolerance), despite the confident expectation of positive future operating cash flows;
- Borrowers under negotiations with the VUB Group for defining an out of Court restructuring/settlement agreement;
- Borrowers which signed out of Court restructuring/settlement agreements and that are regularly servicing their financial obligations
- Borrowers whose credit quality indicators significantly worsened and where future cash flows are not expected to fully service the debt toward the bank;
- Serious difficulties in borrower's business (additional equity required, liquidity seriously stretched)

For category Doubtful are taken into account qualitative indicators such as:

- If the borrower is under voluntary dissolution or under any legally binding liquidation, without possibility to operate on 'going concern basis';
- If the Court already ordered the legal liquidation, even if the borrower's operations are not suspended under the legal procedures;
- If according to any public Registry or by Court order the borrower ceases to exist as legal entity;
- If the borrower has been registered (has to be registered) on the Fraud/Black List;
- Borrowers which expected cash flows will not be generated from the borrowers' operations, but from the enforcement of collateral/ guarantees ('gone concern' approach);
- Borrowers (typically Individuals) against whom are initiated receivership or enforcement proceedings.

Non-performing status is carried out on borrower level following united rules of Parent Company. However, VUB Group's definition of default (approved by National bank of Slovakia) is in case of Retail Mortgages on transaction level and uses only absolute threshold.

## 4. Financial and operational risk management (continued)

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

| € '000 | Category | 2018 Gross amount | 2018 Impairment losses | 2018 Net amount |
|---|---|---|---|---|
| Balances at central banks | | | | |
| | Performing | 1,592,505 | - | 1,592,505 |
| Financial assets at AC: | | | | |
| Due from other banks | | | | |
| | Performing | 127,650 | (754) | 126,896 |
| Due from customers: | | | | |
| Municipalities | | | | |
| | Performing | 141,327 | (2,601) | 138,726 |
| | Doubtful | 1 | - | 1 |
| | | 141,328 | (2,601) | 138,727 |
| Corporate | | | | |
| | Performing | 5,276,695 | (41,627) | 5,235,068 |
| | Past due | 9,202 | (310) | 8,892 |
| | Unlikely to pay | 40,903 | (17,960) | 22,943 |
| | Doubtful | 55,111 | (51,556) | 3,555 |
| | | 5,381,911 | (111,453) | 5,270,458 |
| Retail | | | | |
| | Performing | 8,145,954 | (74,028) | 8,071,926 |
| | Past due | 14,569 | (8,385) | 6,184 |
| | Unlikely to pay | 47,890 | (27,129) | 20,761 |
| | Doubtful | 287,637 | (181,316) | 106,321 |
| | | 8,496,050 | (290,858) | 8,205,192 |
| | | 14,019,289 | (404,912) | 13,614,377 |
| | | 14,146,939 | (405,666) | 13,741,273 |
| Financial assets at FVOCI – debt securities | | | | |
| | Performing | 741,248 | (134) | 741,114 |
| Financial commitments and contingencies | | | | |
| | Performing | 3,918,787 | (10,658) | 3,908,129 |
| | Past due | 179 | (39) | 140 |
| | Unlikely to pay | 13,127 | (2,790) | 10,337 |
| | Doubtful | 6,486 | (893) | 5,593 |
| | | 3,938,579 | (14,380) | 3,924,199 |

## 4. Financial and operational risk management (continued)

| € '000 | Category | 2017 Amortised cost | 2017 Impairment losses | 2017 Carrying amount |
|---|---|---|---|---|
| Financial assets at AC: | | | | |
| Due from other banks | | | | |
| | Performing | 90,986 | (73) | 90,913 |
| Due from customers: | | | | |
| Municipalities | | | | |
| | Performing | 128,593 | (98) | 128,495 |
| | Doubtful | 1 | - | 1 |
| | | 128,594 | (98) | 128,496 |
| Corporate | | | | |
| | Performing | 4,413,296 | (35,648) | 4,377,648 |
| | Past due | 1,750 | (245) | 1,505 |
| | Unlikely to pay | 84,671 | (29,865) | 54,806 |
| | Doubtful | 70,765 | (61,610) | 9,155 |
| | | 4,570,482 | (127,368) | 4,443,114 |
| Retail | | | | |
| | Performing | 7,326,886 | (47,066) | 7,279,820 |
| | Past due | 15,468 | (8,227) | 7,241 |
| | Unlikely to pay | 53,875 | (25,239) | 28,636 |
| | Doubtful | 279,001 | (165,579) | 113,422 |
| | | 7,675,230 | (246,111) | 7,429,119 |
| | | 12,374,306 | (373,577) | 12,000,729 |
| | | 12,465,292 | (373,650) | 12,091,642 |
| Securities | | | | |
| | Performing | 902,671 | - | 902,671 |

## 4. Financial and operational risk management (continued)

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

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 VUB Group's credit portfolio in terms of delinquency of payments:

| € '000 | 2018 Gross amount | 2018 Impairment losses | 2018 Net amount |
|---|---|---|---|
| Balances at central banks | | | |
| No delinquency | 1,592,505 | - | 1,592,505 |
| Financial assets at AC: | | | |
| Due from other banks | | | |
| No delinquency | 126,556 | (726) | 125,830 |
| 1 – 30 days | 1,094 | (28) | 1,066 |
| | 127,650 | (754) | 126,896 |
| Due from customers: | | | |
| Municipalities | | | |
| No delinquency | 141,160 | (2,601) | 138,559 |
| 1 – 30 days | 167 | - | 167 |
| Over 181 days | 1 | - | 1 |
| | 141,328 | (2,601) | 138,727 |
| Corporate | | | |
| No delinquency | 5,275,812 | (62,206) | 5,213,606 |
| 1 – 30 days | 43,316 | (2,159) | 41,157 |
| 31 – 60 days | 9,083 | (2,195) | 6,888 |
| 61 – 90 days | 2,634 | (1,104) | 1,530 |
| 91 – 180 days | 5,352 | (2,334) | 3,018 |
| Over 181 days | 45,714 | (41,455) | 4,259 |
| | 5,381,911 | (111,453) | 5,270,458 |
| Retail | | | |
| No delinquency | 7,947,228 | (59,017) | 7,888,211 |
| 1 – 30 days | 197,400 | (25,945) | 171,455 |
| 31 – 60 days | 46,221 | (10,203) | 36,018 |
| 61 – 90 days | 26,075 | (7,615) | 18,460 |
| 91 – 180 days | 35,665 | (18,044) | 17,621 |
| Over 181 days | 243,461 | (170,034) | 73,427 |
| | 8,496,050 | (290,858) | 8,205,192 |
| | 14,019,289 | (404,912) | 13,614,377 |
| | 14,146,939 | (405,666) | 13,741,273 |
| Financial assets at FVOCI - debt securities | | | |
| No delinquency | 741,248 | (134) | 741,114 |
| Financial commitments and contingencies | | | |
| No delinquency | 3,938,579 | (14,380) | 3,924,199 |

## 4. Financial and operational risk management (continued)

| € '000 | Gross amount | 2017 Impairment losses | Net amount |
|---|---|---|---|
| Financial assets at AC: | | | |
| Due from other banks | | | |
| No delinquency | 90,986 | (73) | 90,913 |
| Due from customers: | | | |
| Sovereigns | | | |
| No delinquency | 127,891 | (98) | 127,793 |
| 1 – 30 days | 702 | - | 702 |
| Over 181 days | 1 | - | 1 |
| | 128,594 | (98) | 128,496 |
| Corporate | | | |
| No delinquency | 4,410,022 | (62,344) | 4,347,678 |
| 1 – 30 days | 69,764 | (2,188) | 67,576 |
| 31 – 60 days | 16,008 | (2,530) | 13,478 |
| 61 – 90 days | 4,479 | (1,786) | 2,693 |
| 91 – 180 days | 5,696 | (2,777) | 2,919 |
| Over 181 days | 64,513 | (55,743) | 8,770 |
| | 4,570,482 | (127,368) | 4,443,114 |
| Retail | | | |
| No delinquency | 7,062,054 | (33,393) | 7,028,661 |
| 1 – 30 days | 258,143 | (13,862) | 244,281 |
| 31 – 60 days | 45,368 | (5,291) | 40,077 |
| 61 – 90 days | 28,669 | (4,526) | 24,143 |
| 91 – 180 days | 43,736 | (20,890) | 22,846 |
| Over 181 days | 237,260 | (168,149) | 69,111 |
| | 7,675,230 | (246,111) | 7,429,119 |
| | 12,374,306 | (373,577) | 12,000,729 |
| | 12,465,292 | (373,650) | 12,091,642 |
| Securities | | | |
| No delinquency | 902,671 | - | 902,671 |

## 4. 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 individually impaired financial assets are more than one day overdue.

| 2018 € '000 | Neither past due nor impaired Gross amount | Impairment losses | Net amount | Past due but not individually impaired Gross amount | Impairment losses | Net amount | Impaired (non-performing) Gross amount | Impairment losses | Net amount |
|---|---|---|---|---|---|---|---|---|---|
| Balances at central banks | 1,592,505 | - | 1,592,505 | - | - | - | - | - | - |
| Financial assets at AC: | | | | | | | | | |
| Due from other banks | 126,556 | (726) | 125,830 | 1,094 | (28) | 1,066 | - | - | - |
| Due from customers: | | | | | | | | | |
| Municipalities | | | | | | | | | |
| Municipalities | 140,613 | (2,599) | 138,014 | 167 | - | 167 | 1 | - | 1 |
| Municipalities – Leasing | 536 | (2) | 534 | - | - | - | 11 | - | 11 |
| | 141,149 | (2,601) | 138,548 | 167 | - | 167 | 12 | - | 12 |
| Corporate | | | | | | | | | |
| Large Corporates | 2,137,176 | (3,294) | 2,133,882 | 554 | (1) | 553 | 7,227 | (2,189) | 5,038 |
| Large Corporates – debt securities | 53,360 | (619) | 52,741 | - | - | - | - | - | - |
| Specialized Lending | 826,812 | (30,414) | 796,398 | 100 | (2) | 98 | 21,400 | (16,214) | 5,186 |
| SME | 1,419,951 | (4,586) | 1,415,365 | 23,157 | (923) | 22,234 | 44,585 | (34,454) | 10,131 |
| Other Non-banking Financial Institutions | 480,609 | (264) | 480,345 | - | - | - | 2 | (1) | 1 |
| Public Sector Entities | 2,895 | (72) | 2,823 | 3 | - | 3 | 7 | (1) | 6 |
| Leasing | 227,691 | (1,174) | 226,517 | 9,578 | (203) | 9,375 | 21,467 | (15,823) | 5,644 |
| Factoring | 82,531 | (12) | 82,519 | 12,277 | (58) | 12,219 | 10,529 | (1,149) | 9,380 |
| | 5,231,025 | (40,435) | 5,190,590 | 45,669 | (1,187) | 44,482 | 105,217 | (69,831) | 35,386 |

## 4. Financial and operational risk management (continued)

| | Neither past due nor impaired | | | Past due but not individually impaired | | | Impaired (non-performing) | | |
|---|---|---|---|---|---|---|---|---|---|
| **2018**<br>**€ '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 customers: | | | | | | | | | |
| Retail | | | | | | | | | |
| Small Business | 246,965 | (3,816) | 243,149 | 7,571 | (429) | 7,142 | 11,452 | (9,133) | 2,319 |
| Small Business – Leasing | 11,566 | (34) | 11,532 | 911 | (37) | 874 | 766 | (329) | 437 |
| Consumer Loans | 1,389,146 | (30,415) | 1,358,731 | 118,298 | (21,173) | 97,125 | 219,056 | (149,654) | 69,402 |
| Mortgages | 6,017,227 | (5,834) | 6,011,393 | 84,448 | (4,173) | 80,275 | 71,054 | (24,074) | 46,980 |
| Credit Cards | 136,531 | (4,195) | 132,336 | 9,823 | (1,887) | 7,936 | 37,173 | (26,623) | 10,550 |
| Overdrafts | 72,543 | (882) | 71,661 | 13,595 | (871) | 12,724 | 10,373 | (6,833) | 3,540 |
| Leasing | 3,901 | (30) | 3,871 | 144 | (3) | 141 | 222 | (184) | 38 |
| Flat Owners Associations | 33,253 | (248) | 33,005 | 34 | (3) | 31 | - | - | - |
| | 7,911,132 | (45,454) | 7,865,678 | 234,824 | (28,576) | 206,248 | 350,096 | (216,830) | 133,266 |
| | 13,283,306 | (88,490) | 13,194,816 | 280,660 | (29,763) | 250,897 | 455,325 | (286,661) | 168,664 |
| | 13,409,862 | (89,216) | 13,320,646 | 281,754 | (29,791) | 251,963 | 455,325 | (286,661) | 168,664 |
| Financial assets at FVOCI – debt securities | 741,248 | (134) | 741,114 | - | - | - | - | - | - |
| Financial commitments and contingencies | 3,918,787 | (10,658) | 3,908,129 | - | - | - | 19,792 | (3,722) | 16,070 |

## 4. Financial and operational risk management (continued)

| | Neither past due nor impaired | | | Impaired (non-performing) | | | Past due but not individually impaired | | |
|---|---|---|---|---|---|---|---|---|---|
| **2017**<br>**€ '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 | 90,986 | (73) | 90,913 | - | - | - | - | - | - |
| Due from customers: | | | | | | | | | |
| Sovereigns | | | | | | | | | |
| Municipalities | 127,449 | (97) | 127,352 | 1 | - | 1 | 702 | - | 702 |
| Municipalities – Leasing | 442 | (1) | 441 | - | - | - | - | - | - |
| | 127,891 | (98) | 127,793 | 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 | 1,373,595 | (15,344) | 1,358,251 | 54,088 | (46,082) | 8,006 | 24,691 | (1,214) | 23,477 |
| Other Non-banking Financial Institutions | 293,155 | (1,386) | 291,769 | 3 | - | 3 | - | - | - |
| Public Sector Entities | 1,070 | (3) | 1,067 | 5 | - | 5 | 83 | - | 83 |
| Leasing | 226,819 | (915) | 225,904 | 22,714 | (14,628) | 8,086 | 7,828 | (217) | 7,611 |
| Factoring | 55,185 | (370) | 54,815 | 3,486 | (1,176) | 2,310 | 39,534 | (34) | 39,500 |
| | 4,330,046 | (34,069) | 4,295,977 | 157,186 | (91,720) | 65,466 | 83,250 | (1,579) | 81,671 |
| Retail | | | | | | | | | |
| Small Business | 216,433 | (3,096) | 213,337 | 11,056 | (9,106) | 1,950 | 30,083 | (711) | 29,372 |
| Small Business – Leasing | 9,429 | (36) | 9,393 | 876 | (343) | 533 | 589 | (14) | 575 |
| Consumer Loans | 1,342,670 | (17,764) | 1,324,906 | 211,979 | (134,898) | 77,081 | 160,620 | (12,560) | 148,060 |
| 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 |
| Leasing | 3,745 | (11) | 3,734 | 231 | (194) | 37 | 187 | (6) | 181 |
| Flat Owners Associations | 27,651 | (358) | 27,293 | - | - | - | - | - | - |
| Other | 12,393 | - | 12,393 | 1 | - | 1 | 9 | (1) | 8 |
| | 7,035,185 | (29,241) | 7,005,944 | 348,344 | (199,045) | 149,299 | 291,701 | (17,825) | 273,876 |
| | 11,493,122 | (63,408) | 11,429,714 | 505,531 | (290,765) | 214,766 | 375,653 | (19,404) | 356,249 |
| | 11,584,108 | (63,481) | 11,520,627 | 505,531 | (290,765) | 214,766 | 375,653 | (19,404) | 356,249 |

## 4. Financial and operational risk management (continued)

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

| € '000 | 2018 Gross amount | 2018 Impairment losses | 2018 Net amount |
|---|---|---|---|
| Financial assets at AC: | | | |
| Due from other banks | | | |
| 1 – 30 days | 1,094 | (28) | 1,066 |
| Due from customers: | | | |
| Sovereigns | | | |
| 1 – 30 days | 167 | - | 167 |
| Corporate | | | |
| 1 – 30 days | 38,850 | (707) | 38,143 |
| 31 – 60 days | 5,250 | (355) | 4,895 |
| 61 – 90 days | 1,519 | (120) | 1,399 |
| 91 – 180 days | 50 | (5) | 45 |
| | 45,669 | (1,187) | 44,482 |
| Retail | | | |
| 1 – 30 days | 177,731 | (17,334) | 160,397 |
| 31 – 60 days | 35,420 | (6,152) | 29,268 |
| 61 – 90 days | 15,941 | (3,563) | 12,378 |
| 91 – 180 days | 5,551 | (1,510) | 4,041 |
| Over 181 days | 181 | (17) | 164 |
| | 234,824 | (28,576) | 206,248 |
| | 280,660 | (29,763) | 250,897 |
| | 281,754 | (29,791) | 251,963 |

| € '000 | 2017 Gross amount | 2017 Impairment losses | 2017 Net amount |
|---|---|---|---|
| Financial assets at AC: | | | |
| Due from customers: | | | |
| Sovereigns | | | |
| 1 – 30 days | 702 | - | 702 |
| Corporate | | | |
| 1 – 30 days | 67,514 | (1,195) | 66,319 |
| 31 – 60 days | 13,265 | (225) | 13,040 |
| 61 – 90 days | 2,403 | (146) | 2,257 |
| 91 – 180 days | 68 | (13) | 55 |
| | 83,250 | (1,579) | 81,671 |
| Retail | | | |
| 1 – 30 days | | | |
| 31 – 60 days | 232,272 | (10,378) | 221,894 |
| 61 – 90 days | 35,713 | (3,710) | 32,003 |
| 91 – 180 days | 17,703 | (2,404) | 15,299 |
| Over 181 days | 5,973 | (1,319) | 4,654 |
| | 40 | (14) | 26 |
| | 291,701 | (17,825) | 273,876 |
| | 375,653 | (19,404) | 356,249 |

## 4. Financial and operational risk management (continued)

### 4.1.4. 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 VUB Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the VUB Group had provided initially. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. The VUB Group implements a forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the VUB Group's forbearance policy, an exposure is identified as forborne if both of these two conditions are satisfied:

- The VUB Group 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:

| 2018<br>€ '000 | Performing forborne<br>Gross amount | Impairment losses | Net amount | Non-performing forborne<br>Gross amount | Impairment losses | Net amount |
|---|---|---|---|---|---|---|
| Financial assets at AC: | | | | | | |
| Corporate | 61,865 | (7,668) | 54,197 | 29,379 | (23,902) | 5,477 |
| Retail | 53,793 | (2,659) | 51,134 | 21,465 | (13,000) | 8,465 |
| | 115,658 | (10,327) | 105,331 | 50,844 | (36,902) | 13,942 |
| Financial commitments and contingencies | 948 | (1) | 947 | 1,480 | (876) | 604 |

| 2017<br>€ '000 | Performing forborne<br>Gross amount | Impairment losses | Net amount | Non-performing forborne<br>Gross amount | Impairment losses | Net amount |
|---|---|---|---|---|---|---|
| Financial assets at AC: | | | | | | |
| Corporate | 15,622 | (460) | 15,162 | 102,613 | (51,055) | 51,558 |
| Retail | 46,452 | (1,276) | 45,176 | 23,413 | (12,132) | 11,281 |
| | 62,074 | (1,736) | 60,338 | 126,026 | (63,187) | 62,839 |

Certain non-performing forborne exposures were reclassified to performing forborne due to improved credit quality or repaid.

### 4.1.5. Write-off Policy

The VUB Group writes off a loan or security balance when it determines that the loans or securities are uncollectible. In principle, the VUB Group 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.

Financial assets that are written-off are subject of continuous enforcement process. The majority of such assets are subject of sale to third parties for the best offered prices.

## 4. Financial and operational risk management (continued)

### 4.1.6. Collateral Policy

The VUB Group's collateral policy is an integral and indispensable part of the credit risk management and credit risk mitigation for VUB Group. Collateral is used primarily to provide the VUB Group 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 VUB Group in its lending activities. The rules, as the minimum, describe and state:

- Conditions for legal enforceability;
- Conditions for the process of valuation and the maximum values accepted by the 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 VUB Group's exposures. This includes the following:

- The establishment and maintenance of collateral a policy defining the types of collateral taken by the VUB Group, the legal documentation used by the VUB Group 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 VUB Group's right to collateral in the event of default by the borrower;
- The regular monitoring and re-valuation of collateral held by the VUB Group during the life of the exposure;
- The analysis, monitoring and review of realization rates achieved by Recovery Department activities in order to assess the effectiveness of the collateral policy as a risk mitigant.

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

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

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

The VUB Group 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 VUB Group updates the fair value on a regular basis.

The VUB Group 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.

## 4. Financial and operational risk management (continued)

The value of collateral accepted by the VUB Group (fair value adjusted by internal haircuts limited to outstanding amount of credit exposure) and other security enhancements held against financial assets is shown below:

| € '000 | 2018 Clients | 2018 Banks | 2017 Clients | 2017 Banks |
|---|---|---|---|---|
| Property | 7,111,465 | - | 6,365,878 | - |
| of which covered by mortgages | 6,299,708 | - | 5,491,876 | - |
| LTV* lower than 60% | 1,768,089 | - | 1,542,439 | - |
| LTV higher than 60% and lower than 80% | 2,582,685 | - | 2,028,955 | - |
| LTV higher than 80% and lower than 100% | 1,943,856 | - | 1,915,581 | - |
| LTV higher than 100% | 5,078 | - | 4,901 | - |
| Debt securities | 91,124 | - | 33,952 | - |
| Other | 805,875 | 70,987 | 1,042,009 | 44,655 |
| | 8,008,464 | 70,987 | 7,441,839 | 44,655 |

* LTV means loan to value ratio.

The value of collateral and other security enhancements held against stage 3 financial assets:

| € '000 | 2018 Clients | 2018 Banks |
|---|---|---|
| Property | 136,859 | - |
| of which covering mortgages: | 99,218 | - |
| LTV lower than 60% | 39,519 | - |
| LTV higher than 60% and lower than 80% | 41,204 | - |
| LTV higher than 80% and lower than 100% | 16,537 | - |
| LTV higher than 100% | 1,958 | - |
| Debt securities | 1,873 | - |
| Other | 6,678 | - |
| | 145,410 | - |

### 4.1.7 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are:

- Offset in the statement of financial position; or
- Subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In general, the similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the VUB Group or the counterparties or following other predetermined events. In addition, the VUB Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The VUB Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- Derivatives,
- Sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms including, when appropriate, an ISDA Credit Support Annex. This means that securities received or given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

## 4. Financial and operational risk management (continued)

The following tables show the financial assets and financial liabilities that are subject to enforceable master netting arrangements and similar agreements in the statement of financial position ('SOFP'):

| 2018<br>€ '000 | Note | Gross amount | Gross amount offset in SOFP | Net amount presented in SOFP | Related amounts not offset in SOFP<br>Financial instrument and non-cash collateral | Related amounts not offset in SOFP<br>Cash collateral received | Net amount |
|---|---|---|---|---|---|---|---|
| **Types of financial assets** | | | | | | | |
| Reverse repo transactions | 8 | 1,069,327 | - | 1,069,327 | (1,069,327) | - | - |
| Derivative financial instruments | 9, 10 | 57,929 | - | 57,929 | - | (968) | 56,961 |

| 2018<br>€ '000 | Note | Gross amount | Gross amount offset in SOFP | Net amount presented in SOFP | Related amounts not offset in SOFP<br>Financial instrument and non-cash collateral | Related amounts not offset in SOFP<br>Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|---|
| **Types of financial liabilities** | | | | | | | |
| Derivative financial instruments | 9, 10 | 51,774 | - | 51,774 | - | (31,110) | 20,664 |

| 2017<br>€ '000 | Note | Gross amount | Gross amount offset in SOFP | Net amount presented in SOFP | Related amounts not offset in SOFP<br>Financial instrument and non-cash collateral | Related amounts not offset in SOFP<br>Cash collateral received | Net amount |
|---|---|---|---|---|---|---|---|
| **Types of financial assets** | | | | | | | |
| Reverse repo transactions | 8 | 724,427 | - | 724,427 | (724,437) | - | - |
| Derivative financial instruments | 9, 10 | 47,277 | - | 47,277 | - | (11,629) | 35,648 |

| 2017<br>€ '000 | Note | Gross amount | Gross amount offset in SOFP | Net amount presented in SOFP | Related amounts not offset in SOFP<br>Financial instrument and non-cash collateral | Related amounts not offset in SOFP<br>Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|---|
| **Types of financial liabilities** | | | | | | | |
| Derivative financial instruments | 9, 10 | 43,449 | - | 43,449 | - | (39,918) | 3,531 |

## 4. Financial and operational risk management (continued)

Below is the reconciliation of the net amount of financial instruments subject to enforceable master netting arrangements and similar agreements to the total carrying amount presented in the statement of financial position:

| € '000 | Note | 2018 Total carrying amount pre-sented in SOFP | 2018 In scope of off-setting dis-closure | 2018 Not in scope of off-setting disclo-sure | 2017 Total carrying amount pre-sented in SOFP | 2017 In scope of off-setting disclo-sure | 2017 Not in scope of off-setting disclo-sure |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash, balances at central banks | 8 | 1,747,556 | 1,069,327 | 678,229 | 1,595,097 | 724,427 | 870,670 |
| Financial assets at FVTPL: | 9 | | | | | | |
| Financial assets held for trading | | 39,548 | 31,164 | 8,384 | - | - | - |
| Derivatives – Hedge accounting | 10 | 26,765 | 26,765 | - | - | - | - |
| Derivative financial instruments | 9, 10 | - | - | - | 49,856 | 47,277 | 2,579 |
| **Financial liabilities** | | | | | | | |
| Financial liabilities at FVTPL: | 9 | | | | | | |
| Financial liabilities held for trading | | 39,548 | 36,548 | 3,000 | - | - | - |
| Derivatives – Hedge accounting | 10 | 15,226 | 15,226 | - | - | - | - |
| Derivative financial instruments | 9, 10 | - | - | - | 52,184 | 43,449 | 8,735 |

# 4. Financial and operational risk management (continued)

## 4.1.8. Concentrations of credit risk

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

| € '000 | 2018 Gross amount | 2018 Impairment losses/ provisions | 2018 Net amount |
|---|---|---|---|
| **Europe** | | | |
| Balances at central banks | 1,592,505 | - | 1,592,505 |
| Financial assets at AC: | | | |
| Due from other banks | 58,726 | (404) | 58,322 |
| Due from customers: | | | |
| Municipalities | 141,328 | (2,601) | 138,727 |
| Corporate | 5,318,356 | (111,300) | 5,207,056 |
| Retail | 8,490,751 | (290,668) | 8,200,083 |
| | 13,950,435 | (404,569) | 13,545,866 |
| | 14,009,161 | (404,973) | 13,604,188 |
| Financial assets at FVOCI - debt securities | 741,248 | (134) | 741,114 |
| Financial commitments and contingencies | 3,872,520 | (14,281) | 3,858,239 |
| **North America** | | | |
| Financial assets at AC: | | | |
| Due from other banks | 384 | - | 384 |
| Due from customers: | | | |
| Corporate | 35,876 | (47) | 35,829 |
| Retail | 3,436 | (154) | 3,282 |
| | 39,312 | (201) | 39,111 |
| | 39,696 | (201) | 39,495 |
| Financial commitments and contingencies | 1,695 | - | 1,695 |
| **Asia** | | | |
| Financial assets at AC: | | | |
| Due from other banks | 1,158 | - | 1,158 |
| Due from customers: | | | |
| Corporate | 27,398 | (106) | 27,292 |
| Retail | 677 | (2) | 675 |
| | 28,075 | (108) | 27,967 |
| | 29,233 | (108) | 29,125 |
| Financial commitments and contingencies | 43,945 | (46) | 43,899 |
| **Rest of the World** | | | |
| Financial assets at AC: | | | |
| Due from other banks | 67,382 | (350) | 67,032 |
| Due from customers: | | | |
| Corporate | 281 | - | 281 |
| Retail | 1,186 | (34) | 1,152 |
| | 1,467 | (34) | 1,433 |
| | 68,849 | (384) | 68,465 |
| Financial commitments and contingencies | 20,419 | (53) | 20,366 |

## 4. Financial and operational risk management (continued)

| € '000 | Gross amount | 2017 Impairment losses/ provisions | Net amount |
|---|---|---|---|
| **Europe** | | | |
| Financial assets at AC: | | | |
| Due from other banks | 59,942 | (15) | 59,927 |
| Due from customers: | | | |
| Sovereigns | 128,594 | (98) | 128,496 |
| Corporate | 4,526,662 | (127,076) | 4,399,586 |
| Retail | 7,671,893 | (245,939) | 7,425,954 |
| | 12,327,149 | (373,113) | 11,954,036 |
| | 12,387,091 | (373,128) | 12,013,963 |
| Securities | 896,362 | - | 896,362 |
| **America** | | | |
| Financial assets at AC: | | | |
| Due from other banks | 30,370 | (57) | 30,313 |
| Due from customers: | | | |
| Corporate | 42,577 | (127) | 42,450 |
| Retail | 495 | (3) | 492 |
| | 43,072 | (130) | 42,942 |
| | 73,442 | (187) | 73,255 |
| Securities | 6,309 | - | 6,309 |
| **Asia** | | | |
| Financial assets at AC: | | | |
| Due from other banks | 607 | (1) | 606 |
| Due from customers: | | | |
| Corporate | 1,243 | (165) | 1,078 |
| Retail | 2,305 | (148) | 2,157 |
| | 3,548 | (313) | 3,235 |
| | 3,834 | (314) | 3,841 |
| **Rest of the World** | | | |
| Financial assets at AC: | | | |
| Due from other banks | 67 | - | 67 |
| Due from customers: | | | |
| Retail | 537 | (21) | 516 |
| | 604 | (21) | 583 |

## 4. Financial and operational risk management (continued)

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

| € '000 | 2018 Gross amount | 2018 Impairment losses | 2018 Net amount | 2017 Gross amount | 2017 Impairment losses | 2017 Net amount |
|---|---|---|---|---|---|---|
| **Europe** | | | | | | |
| Slovakia | 516,936 | (30) | 516,906 | 629,706 | - | 629,706 |
| Italy | 204,137 | (96) | 204,041 | 266,591 | - | 266,591 |
| Poland | 20,175 | (8) | 20,167 | - | - | - |
| Other | - | - | - | 65 | - | 65 |
| | 741,248 | (134) | 741,114 | 896,362 | - | 896,362 |
| **North America** | | | | | | |
| USA | - | - | - | 6,309 | - | 6,309 |

## 4. Financial and operational risk management (continued)

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

| 2018<br>€ '000 | Banks | Financial assets at AC:<br>Municipa-lities | Corporate | Retail* | Financial assets at FVOCI - debt securities | Financial commit-ments and contin-gencies |
|---|---|---|---|---|---|---|
| Agriculture, forestry and fishing | - | - | 177,803 | 27,312 | - | 51,408 |
| Mining and quarrying | - | - | 49,379 | 99 | - | 43,796 |
| Manufacturing | - | - | 744,818 | 30,820 | - | 775,217 |
| Electricity, gas, steam and air conditioning supply | - | - | 680,627 | 1,228 | - | 400,955 |
| Water supply | - | 62 | 95,686 | 2,996 | - | 23,506 |
| Construction | - | - | 204,997 | 29,031 | - | 445,655 |
| Wholesale and retail trade | - | - | 927,075 | 72,372 | - | 389,175 |
| Transport and storage | - | 3,188 | 372,089 | 19,050 | - | 156,579 |
| Accommodation and food service activities | - | - | 34,413 | 13,021 | - | 6,539 |
| Information and communication | - | - | 38,527 | 4,741 | - | 50,099 |
| Financial and insurance activities** | 126,896 | - | 750,232 | 289 | 59,305 | 253,668 |
| Real estate activities | - | - | 461,034 | 47,886 | - | 91,428 |
| Professional, scientific and technical activities | - | - | 178,408 | 20,203 | - | 120,500 |
| Administrative and support service activities | - | - | 215,030 | 4,331 | - | 44,650 |
| Public administration and defence, compulsory social security | - | 135,454 | 337 | 160 | 681,809 | 15,737 |
| Education | - | 1 | 576 | 1,384 | - | 234 |
| Human health services and social work activities | - | - | 22,263 | 14,234 | - | 16,387 |
| Arts, entertainment and recreation | - | - | 18,240 | 2,715 | - | 5,107 |
| Other services | - | 22 | 298,924 | 119,999 | - | 35,910 |
| Consumer Loans | - | - | - | 1,654,673 | - | 390,789 |
| Mortgage Loans | - | - | - | 6,138,648 | - | 606,860 |
| | 126,896 | 138,727 | 5,270,458 | 8,205,192 | 741,114 | 3,924,199 |

## 4. Financial and operational risk management (continued)

| **2017** **€ '000** | Financial assets at AC: **Banks** | **Municipa-lities** | **Corporate** | **Retail*** | **Securities** |
|---|---|---|---|---|---|
| Agriculture, forestry and fishing | - | - | 165,883 | 22,461 | - |
| Mining and quarrying | - | - | 31,577 | 76 | - |
| Manufacturing | - | - | 677,472 | 28,867 | - |
| Electricity, gas, steam and air conditioning supply | - | - | 478,152 | 1,749 | - |
| Water supply | - | 120 | 92,973 | 2,499 | - |
| Construction | - | - | 145,582 | 26,586 | - |
| Wholesale and retail trade | - | - | 941,121 | 75,059 | - |
| Transport and storage | - | 4,707 | 341,084 | 19,089 | - |
| Accommodation and food service activities | - | - | 32,860 | 13,507 | - |
| Information and communication | - | - | 80,798 | 3,841 | - |
| Financial and insurance activities** | 90,913 | - | 311,731 | 171 | 81,523 |
| Real estate activities | - | - | 485,569 | 38,428 | - |
| Professional, scientific and technical activities | - | - | 126,442 | 18,020 | - |
| Administrative and support service activities | - | - | 193,664 | 3,583 | - |
| Public administration and defense, compulsory social security | - | 123,615 | 475 | 130 | 821,148 |
| Education | - | 1 | 265 | 1,263 | - |
| Human health services and social work activities | - | - | 20,697 | 13,389 | - |
| Arts, entertainment and recreation | - | - | 21,418 | 1,239 | - |
| Other services | - | 53 | 295,345 | 9,679 | - |
| Consumer Loans | - | - | 7 | 1,832,926 | - |
| Mortgage Loans | - | - | - | 5,316,557 | - |
| | 90,913 | 128,496 | 4,443,114 | 7,429,119 | 902,671 |

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

** ‘Financial and insurance activities’ involves financial services, leasing and insurance.

## 4. Financial and operational risk management (continued)

### 4.1.9. Internal and external ratings

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:<br>• the obligor is past due more than 90 days on any material credit obligation to the VUB Group, the Parent Company undertaking or any of its subsidiaries (absolute threshold is set according to NBS directive);<br>• the VUB Group considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the VUB Group 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 VUB Group. 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

## 4. 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:<br>• The obligor is past due more than 90 days on any material credit obligation to the VUB Group (absolute threshold is set according to NBS directive);<br>• The VUB Group considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the VUB Group to actions such as realizing security (if held). |

### Capital requirement calculation

The VUB Group 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 VUB Group, 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. Simple IRB approach is used for equity exposures. The VUB Group 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.

## 4. Financial and operational risk management (continued)

The following table shows the quality of the Bank's stage 1 credit portfolio in terms of internal ratings used for IRB purposes:

| **2018**<br>**€ '000** | **Internal rating** | **Gross amount** | **Impairment losses** | **Net amount** |
|---|---|---|---|---|
| **Stage 1** | | | | |
| Balances at central banks | | | | |
| | Unrated | 1,592,505 | - | 1,592,505 |
| Financial assets at AC: | | | | |
| Due from other banks | | | | |
| | Unrated | 125,120 | (656) | 124,464 |
| Due from customers: | | | | |
| Municipalities | | | | |
| | Unrated | 119,935 | (1,240) | 118,695 |
| Corporate | | | | |
| Large Corporates, SME | | | | |
| | LC_I1 – LC_I6 | 1,130,688 | (1,176) | 1,129,512 |
| | LC_M1 – LC_M4 | 411,388 | (1,639) | 409,749 |
| | LC_R1 – LC_R5 | 10,029 | (532) | 9,497 |
| | I1 – I6 | 624,070 | (63) | 624,007 |
| | M1 – M4 | 885,504 | (949) | 884,555 |
| | R1 – R5 | 169,321 | (823) | 168,498 |
| | Unrated | 171,873 | (1,476) | 170,397 |
| Specialized Lending - SPV, RED | | | | |
| | Strong | 246,107 | (1,509) | 244,598 |
| | Good | 249,544 | (3,388) | 246,156 |
| | Satisfactory | 256,514 | (13,202) | 243,312 |
| | Weak | 16,701 | (2,299) | 14,402 |
| | Unrated | 3,242 | (31) | 3,211 |
| Other Non-banking Financial Institutions, Public Sector Entities | | | | |
| | LC_I1 – LC_I6 | 227,863 | (111) | 227,752 |
| | LC_M1 – LC_M4 | 13,554 | (86) | 13,468 |
| | I1 – I6 | 238,645 | (57) | 238,588 |
| | M1 – M4 | 547 | (9) | 538 |
| | Unrated | 2,897 | (73) | 2,824 |
| Factoring, Leasing | | | | |
| | Unrated | 308,386 | (1,036) | 307,350 |
| | | 4,966,873 | (28,459) | 4,938,414 |

## 4. Financial and operational risk management (continued)

| 2018<br>€ '000 | Internal rating | Gross amount | Impairment losses | Net amount |
|---|---|---|---|---|
| **Stage 1** | | | | |
| Financial assets at AC: | | | | |
| Due from customers: | | | | |
| Retail | | | | |
| Small Business, Flat Owners Associations | | | | |
| | I1 – I6 | 36,162 | (34) | 36,128 |
| | M1 – M4 | 146,832 | (661) | 146,171 |
| | R1 – R5 | 31,158 | (609) | 30,549 |
| | Unrated | 15,810 | (44) | 15,766 |
| Mortgages | | | | |
| | L1 – L4 | 5,326,277 | (372) | 5,325,905 |
| | N1 | 258,370 | (111) | 258,259 |
| | N2 – W1 | 250,524 | (307) | 250,217 |
| | W2 | 14,113 | (102) | 14,011 |
| | W3 | 2,810 | (84) | 2,726 |
| | Unrated | 2,491 | (5) | 2,486 |
| Unsecured Retail | | | | |
| | U01a – U02 | 317,600 | (380) | 317,220 |
| | U3 | 100,649 | (247) | 100,402 |
| | U04 – U07 | 411,399 | (2,373) | 409,026 |
| | U08 – U09 | 75,986 | (1,456) | 74,530 |
| | U10 – U11 | 23,327 | (1,248) | 22,079 |
| | U12 | 6,185 | (1,127) | 5,058 |
| | Unrated | 484,502 | (9,400) | 475,102 |
| Small Business – Leasing, Leasing | | | | |
| | Unrated | 16,070 | (43) | 16,027 |
| | | 7,520,265 | (18,603) | 7,501,662 |
| | | 12,607,073 | (48,302) | 12,558,771 |
| | | 12,732,193 | (48,958) | 12,683,235 |
| Financial assets at FVOCI - debt securities | | | | |
| | Unrated | 741,248 | (134) | 741,114 |

## 4. Financial and operational risk management (continued)

| 2018<br>€ '000 | Internal rating | Gross amount | Provisions | Net amount |
|---|---|---|---|---|
| **Stage 1** | | | | |
| Financial commitments and contingencies | | | | |
| | LC_I1 – LC_I6 | 1,054,046 | (384) | 1,053,662 |
| | LC_M1 – LC_M4 | 96,444 | (156) | 96,288 |
| | LC_R1 – LC_R5 | 21,308 | (155) | 21,153 |
| | I1 – I6 | 607,555 | (79) | 607,476 |
| | M1 – M4 | 489,537 | (520) | 489,017 |
| | R1 – R5 | 52,777 | (236) | 52,541 |
| | Strong | 20,971 | (102) | 20,869 |
| | Good | 88,195 | (880) | 87,315 |
| | Satisfactory | 95,741 | (3,415) | 92,326 |
| | Weak | 469 | (43) | 426 |
| | L1 – L4 | 495,541 | (52) | 495,489 |
| | N1 | 40,535 | (24) | 40,511 |
| | N2 – W1 | 60,397 | (120) | 60,277 |
| | W2 | 6,965 | (71) | 6,894 |
| | W3 | 200 | (12) | 188 |
| | U01a – U02 | 239,286 | (39) | 239,247 |
| | U3 | 22,012 | (18) | 21,994 |
| | U04 – U07 | 30,685 | (79) | 30,606 |
| | U08 – U09 | 1,571 | (21) | 1,550 |
| | U10 – U11 | 274 | (9) | 265 |
| | U12 | 266 | (44) | 222 |
| | Unrated | 287,423 | (534) | 286,889 |
| | | 3,712,198 | (6,993) | 3,705,205 |

## 4. Financial and operational risk management (continued)

The following table shows the quality of the VUB Group's stage 2 credit portfolio in terms of internal ratings used for IRB purposes:

| **2018**<br>**€ '000** | **Internal rating** | **Gross amount** | **Impairment losses** | **Net amount** |
|---|---|---|---|---|
| **Stage 2** | | | | |
| Financial assets at AC: | | | | |
| Due from other banks | | | | |
| | Unrated | 2,530 | (98) | 2,432 |
| Due from customers: | | | | |
| Municipalities | | | | |
| | Unrated | 21,392 | (1,361) | 20,031 |
| Corporate | | | | |
| Large Corporates, SME | | | | |
| | LC_M1 – LC_M4 | 23,523 | (93) | 23,430 |
| | I1 – I6 | 1,283 | (1) | 1,282 |
| | M1 – M4 | 45,615 | (67) | 45,548 |
| | R1 – R5 | 155,598 | (1,754) | 153,844 |
| | Unrated | 5,306 | (854) | 4,452 |
| Specialized Lending - SPV, RED | | | | |
| | Satisfactory | 3,286 | (376) | 2,910 |
| | Weak | 51,519 | (9,611) | 41,908 |
| Other Non-banking Financial Institutions, Public Sector Entities | | | | |
| | Unrated | 1 | - | 1 |
| Factoring, Leasing | | | | |
| | Unrated | 23,691 | (412) | 23,279 |
| | | 309,822 | (13,168) | 296,654 |

## 4. Financial and operational risk management (continued)

| 2018<br>€ '000 | Internal rating | Gross amount | Impairment losses | Net amount |
|---|---|---|---|---|
| **Stage 2** | | | | |
| Financial assets at AC: | | | | |
| Due from customers: | | | | |
| Retail | | | | |
| Small Business, Flat Owners Associations | | | | |
| | I1 – I6 | 10 | - | 10 |
| | M1 – M4 | 16,571 | (397) | 16,174 |
| | R1 – R5 | 40,686 | (2,618) | 38,068 |
| | Unrated | 592 | (131) | 461 |
| Mortgages | | | | |
| | L1 – L4 | 17,699 | (106) | 17,593 |
| | N1 | 5,714 | (47) | 5,667 |
| | N2 – W1 | 104,171 | (1,925) | 102,246 |
| | W2 | 56,954 | (1,829) | 55,125 |
| | W3 | 58,647 | (4,070) | 54,577 |
| | D (default) | 3,905 | (1,050) | 2,855 |
| Unsecured Retail | | | | |
| | U01a – U02 | 887 | (5) | 882 |
| | U3 | 529 | (5) | 524 |
| | U04 – U07 | 69,177 | (1,587) | 67,590 |
| | U08 – U09 | 62,161 | (3,263) | 58,898 |
| | U10 – U11 | 59,203 | (6,061) | 53,142 |
| | U12 | 59,270 | (13,076) | 46,194 |
| | D (default) | 4,297 | (1,982) | 2,315 |
| | Unrated | 64,764 | (16,845) | 47,919 |
| Small Business – Leasing, Leasing | | | | |
| | Unrated | 452 | (58) | 394 |
| | | 625,689 | (55,055) | 570,634 |
| | | 956,903 | (69,584) | 887,319 |
| | | 959,433 | (69,682) | 889,751 |

## 4. Financial and operational risk management (continued)

| **2018**<br>**€ '000** | **Internal rating** | **Gross amount** | **Provisions** | **Net amount** |
|---|---|---|---|---|
| **Stage 2** | | | | |
| Financial commitments and contingencies | | | | |
| | LC_I1 – LC_I6 | 5,000 | (3) | 4,997 |
| | LC_M1 – LC_M4 | 100,182 | (150) | 100,032 |
| | LC_R1 – LC_R5 | 988 | (44) | 944 |
| | I1 – I6 | 229 | - | 229 |
| | M1 – M4 | 7,822 | (39) | 7,783 |
| | R1 – R5 | 31,381 | (405) | 30,976 |
| | Weak | 954 | (254) | 700 |
| | L1 – L4 | 100 | (3) | 97 |
| | N2 – W1 | 2,017 | (83) | 1,934 |
| | W2 | 1,109 | (75) | 1,034 |
| | W3 | 220 | (22) | 198 |
| | U01a – U02 | 75 | - | 75 |
| | U3 | 21 | - | 21 |
| | U04 – U07 | 8,628 | (67) | 8,561 |
| | U08 – U09 | 2,495 | (60) | 2,435 |
| | U10 – U11 | 1,182 | (63) | 1,119 |
| | U12 | 935 | (284) | 651 |
| | D (default) | 3,624 | (284) | 3,340 |
| | Unrated | 39,626 | (1,828) | 37,798 |
| | | 206,588 | (3,664) | 202,924 |

## 4. Financial and operational risk management (continued)

The following table shows the quality of the VUB Group's stage 3 credit portfolio in terms of internal ratings used for IRB purposes:

| 2018<br>€ '000 | Internal rating | Gross amount | Impairment losses | Net amount |
|---|---|---|---|---|
| **Stage 3** | | | | |
| Financial assets at AC: | | | | |
| Due from customers: | | | | |
| Municipalities | | | | |
| | Unrated | 1 | - | 1 |
| Corporate | | | | |
| Large Corporates, SME | | | | |
| | M1 – M4 | 7,562 | (2,078) | 5,484 |
| | R1 – R5 | 6,884 | (4,504) | 2,380 |
| | D (default) | 32,252 | (27,393) | 4,859 |
| | Unrated | 5,114 | (2,664) | 2,450 |
| Specialized Lending - SPV, RED | | | | |
| | Weak | 7,934 | (3,339) | 4,595 |
| | D (default) | 13,465 | (12,875) | 590 |
| Other Non-banking Financial Institutions, Public Sector Entities | | | | |
| | M1 – M4 | 2 | (1) | 1 |
| | Unrated | 7 | (1) | 6 |
| Factoring, Leasing | | | | |
| | Unrated | 31,996 | (16,971) | 15,025 |
| | | 105,216 | (69,826) | 35,390 |

## 4. Financial and operational risk management (continued)

| **2018**<br>**€ '000** | **Internal rating** | **Gross amount** | **Impairment losses** | **Net amount** |
|---|---|---|---|---|
| **Stage 3** | | | | |
| Financial assets at AC: | | | | |
| Due from customers: | | | | |
| Retail | | | | |
| Small Business, Flat Owners Associations | | | | |
| | M1 – M4 | 6 | (5) | 1 |
| | R1 – R5 | 1,198 | (953) | 245 |
| | D (default) | 10,112 | (8,126) | 1,986 |
| | Unrated | 136 | (49) | 87 |
| Mortgages | | | | |
| | L1 – L4 | 1,837 | (377) | 1,460 |
| | N1 | 1,056 | (166) | 890 |
| | N2 – W1 | 1,702 | (328) | 1,374 |
| | W2 | 1,802 | (388) | 1,414 |
| | W3 | 28,222 | (6,613) | 21,609 |
| | D (default) | 36,434 | (16,201) | 20,233 |
| | Unrated | 1 | - | 1 |
| Unsecured Retail | | | | |
| | U01a – U02 | 19 | (12) | 7 |
| | U3 | 34 | (22) | 12 |
| | U04 – U07 | 281 | (178) | 103 |
| | U08 – U09 | 398 | (254) | 144 |
| | U10 – U11 | 764 | (488) | 276 |
| | U12 | 6,326 | (4,007) | 2,319 |
| | D (default) | 154,007 | (107,288) | 46,719 |
| | Unrated | 104,773 | (71,229) | 33,544 |
| Small Business – Leasing, Leasing | | | | |
| | Unrated | 988 | (516) | 472 |
| | | 350,096 | (217,200) | 132,896 |
| | | 455,313 | (287,026) | 168,287 |
| | | 455,313 | (287,026) | 168,287 |

## 4. Financial and operational risk management (continued)

| 2018<br>€ '000 | Internal rating | Gross amount | Provisions | Net amount |
|---|---|---|---|---|
| **Stage 3** | | | | |
| Financial commitments and contingencies | | | | |
| | M1 – M4 | 8,601 | (390) | 8,211 |
| | R1 – R5 | 3,148 | (1,996) | 1,152 |
| | L1 – L4 | 168 | - | 168 |
| | W2 | 70 | - | 70 |
| | U01a – U02 | 25 | - | 25 |
| | U3 | 11 | - | 11 |
| | U04 – U07 | 87 | - | 87 |
| | U08 – U09 | 17 | - | 17 |
| | U10 – U11 | 21 | - | 21 |
| | U12 | 172 | - | 172 |
| | D (default) | 6,228 | (883) | 5,345 |
| | Unrated | 1,245 | (454) | 791 |
| | | 19,793 | (3,723) | 16,070 |

## 4. Financial and operational risk management (continued)

The following table shows the quality of the VUB Group's total credit portfolio in terms of internal ratings used for IRB purposes and the sensitivity analyses by improvement and deterioration by one internal rating grade:

| **2018**<br>**€ '000** | **Internal rating** | **Gross amount** | **Impairment losses** | **Net amount** |
|---|---|---|---|---|
| Balances at central banks | | | | |
| | Unrated | 1,592,505 | - | 1,592,505 |
| Financial assets at AC: | | | | |
| Due from other banks | | | | |
| | Unrated | 127,650 | (754) | 126,896 |
| Due from customers: | | | | |
| Municipalities | | | | |
| | Unrated | 141,328 | (2,601) | 138,727 |
| Corporate | | | | |
| Large Corporates, SME | | | | |
| | LC_I1 – LC_I6 | 1,130,688 | (1,176) | 1,129,512 |
| | LC_M1 – LC_M4 | 434,911 | (1,732) | 433,179 |
| | LC_R1 – LC_R5 | 10,029 | (532) | 9,497 |
| | I1 – I6 | 625,353 | (64) | 625,289 |
| | M1 – M4 | 938,681 | (3,094) | 935,587 |
| | R1 – R5 | 331,803 | (7,081) | 324,722 |
| | D (default) | 32,252 | (27,393) | 4,859 |
| | Unrated | 182,293 | (4,994) | 177,299 |
| Specialized Lending - SPV, RED | | | | |
| | Strong | 246,107 | (1,509) | 244,598 |
| | Good | 249,544 | (3,388) | 246,156 |
| | Satisfactory | 259,800 | (13,578) | 246,222 |
| | Weak | 76,154 | (15,249) | 60,905 |
| | D (default) | 13,465 | (12,875) | 590 |
| | Unrated | 3,242 | (31) | 3,211 |
| Other Non-banking Financial Institutions, Public Sector Entities | | | | |
| | LC_I1 – LC_I6 | 227,863 | (111) | 227,752 |
| | LC_M1 – LC_M4 | 13,554 | (86) | 13,468 |
| | I1 – I6 | 238,645 | (57) | 238,588 |
| | M1 – M4 | 549 | (10) | 539 |
| | Unrated | 2,905 | (74) | 2,831 |
| Factoring, Leasing | | | | |
| | Unrated | 364,073 | (18,419) | 345,654 |
| | | 5,381,911 | (111,453) | 5,270,458 |

## 4. Financial and operational risk management (continued)

| 2018<br>€ '000 | Internal rating | Gross amount | Impairment losses | Net amount |
|---|---|---|---|---|
| Financial assets at AC: | | | | |
| Due from customers: | | | | |
| Retail | | | | |
| Small Business, Flat Owners Associations | | | | |
| | I1 – I6 | 36,172 | (34) | 36,138 |
| | M1 – M4 | 163,409 | (1,063) | 162,346 |
| | R1 – R5 | 73,042 | (4,180) | 68,862 |
| | D (default) | 10,112 | (8,126) | 1,986 |
| | Unrated | 16,538 | (224) | 16,314 |
| Mortgages | | | | |
| | L1 – L4 | 5,345,813 | (855) | 5,344,958 |
| | N1 | 265,140 | (324) | 264,816 |
| | N2 – W1 | 356,397 | (2,560) | 353,837 |
| | W2 | 72,869 | (2,319) | 70,550 |
| | W3 | 89,679 | (10,767) | 78,912 |
| | D (default) | 40,339 | (17,251) | 23,088 |
| | Unrated | 2,492 | (5) | 2,487 |
| Unsecured Retail | | | | |
| | U01a – U02 | 318,506 | (397) | 318,109 |
| | U3 | 101,212 | (274) | 100,938 |
| | U04 – U07 | 480,857 | (4,138) | 476,719 |
| | U08 – U09 | 138,545 | (4,973) | 133,572 |
| | U10 – U11 | 83,294 | (7,797) | 75,497 |
| | U12 | 71,781 | (18,210) | 53,571 |
| | D (default) | 158,304 | (109,270) | 49,034 |
| | Unrated | 654,039 | (97,474) | 556,565 |
| Small Business – Leasing, Leasing | | | | |
| | Unrated | 17,510 | (617) | 16,893 |
| | | 8,496,050 | (290,858) | 8,205,192 |
| | | 14,019,289 | (404,912) | 13,614,377 |
| | | 14,146,939 | (405,666) | 13,741,273 |
| Financial assets at FVOCI - debt securities | | | | |
| | Unrated | 741,248 | (134) | 741,114 |

## 4. Financial and operational risk management (continued)

| 2018<br>€ '000 | Internal rating | Gross amount | Provisions | Net amount |
|---|---|---|---|---|
| Financial commitments and contingencies | | | | |
| | LC_I1 – LC_I6 | 1,059,046 | (387) | 1,058,659 |
| | LC_M1 – LC_M4 | 196,626 | (306) | 196,320 |
| | LC_R1 – LC_R5 | 22,296 | (199) | 22,097 |
| | I1 – I6 | 607,784 | (79) | 607,705 |
| | M1 – M4 | 505,960 | (949) | 505,011 |
| | R1 – R5 | 87,306 | (2,637) | 84,669 |
| | Strong | 20,971 | (102) | 20,869 |
| | Good | 88,195 | (880) | 87,315 |
| | Satisfactory | 95,741 | (3,415) | 92,326 |
| | Weak | 1,423 | (297) | 1,126 |
| | L1 – L4 | 495,809 | (55) | 495,754 |
| | N1 | 40,535 | (24) | 40,511 |
| | N2 – W1 | 62,414 | (203) | 62,211 |
| | W2 | 8,144 | (146) | 7,998 |
| | W3 | 420 | (34) | 386 |
| | U01a – U02 | 239,386 | (39) | 239,347 |
| | U3 | 22,044 | (18) | 22,026 |
| | U04 – U07 | 39,400 | (146) | 39,254 |
| | U08 – U09 | 4,083 | (81) | 4,002 |
| | U10 – U11 | 1,477 | (72) | 1,405 |
| | U12 | 1,373 | (328) | 1,045 |
| | D (default) | 9,852 | (1,167) | 8,685 |
| | Unrated | 328,294 | (2,816) | 325,478 |
| | | 3,938,579 | (14,380) | 3,924,199 |

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortised cost: due from other banks is in the rating scale from Aa3 to Ba1. The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on Moody's ratings.

| 2018<br>€ '000 | External rating | Gross amount | Impairment losses | Net amount |
|---|---|---|---|---|
| Financial assets at FVOCI - debt securities | | | | |
| | Aa3 | 20,175 | (8) | 20,167 |
| | A2 | 477,786 | (18) | 477,768 |
| | Baa1 | 39,150 | (12) | 39,138 |
| | Baa3 | 204,137 | (96) | 204,041 |
| | | 741,248 | (134) | 741,114 |

## 4. Financial and operational risk management (continued)

### 4.1.10. Sensitivity analysis of impairment losses

In the table below the Bank shows the sensitivity of ECL calculation to a decrease of PD parameter by 10%:

| 2018<br>€ '000 | Base scenario | Decrease PD by 10% | | |
|---|---|---|---|---|
| | Impairment losses | Impairment losses | Absolute change | Relative change |
| Financial assets at AC: | | | | |
| Due from other banks | 754 | 688 | (66) | (8.75%) |
| Due from customers: | | | | |
| Municipalities | | | | |
| Municipalities | 2,599 | 2,339 | (260) | (10.00%) |
| Municipalities – Leasing | 2 | 2 | - | - |
| | 2,601 | 2,262 | (339) | (13.03%) |
| Corporate | | | | |
| Large Corporates | 5,484 | 5,158 | (326) | (5.94%) |
| Large Corporates – debt securities | 619 | 557 | (62) | (10.02%) |
| Specialized Lending | 46,630 | 43,588 | (3,042) | (6.52%) |
| SME | 39,963 | 39,644 | (319) | (0.80%) |
| Other Non-banking Financial Institutions | 265 | 235 | (30) | (11.32%) |
| Public Sector Entities | 73 | 66 | (7) | (9.59%) |
| Leasing | 17,200 | 16,994 | (206) | (1.20%) |
| Factoring | 1,219 | 1,217 | (2) | (0.16%) |
| | 111,453 | 107,459 | (3,994) | (3.58%) |
| Retail | | | | |
| Small Business | 13,377 | 12,958 | (419) | (3.13%) |
| Small Business – Leasing | 400 | 395 | (5) | (1.20%) |
| Consumer Loans | 201,242 | 196,106 | (5,136) | (2.55%) |
| Mortgages | 34,081 | 33,186 | (895) | (2.63%) |
| Credit Cards | 32,705 | 32,222 | (483) | (1.48%) |
| Overdrafts | 8,586 | 8,411 | (175) | (2.04%) |
| Leasing | 217 | 214 | (3) | (1.20%) |
| Flat Owners Associations | 250 | 224 | (26) | (10.40%) |
| | 290,858 | 283,717 | (7,141) | (2.46%) |
| | 404,912 | 393,517 | (11,395) | (2.81%) |
| | 405,666 | 394,205 | (11,461) | (2.83%) |
| Financial assets at FVOCI - debt securities | 134 | 121 | (13) | (9.70%) |

## 4. Financial and operational risk management (continued)

In the table below the Bank shows the sensitivity of ECL calculation to an increase of PD parameter by 10%:

| **2018**<br>**€ '000** | **Base scenario** | **Increase PD by 10%** | | |
|---|---|---|---|---|
| | **Impairment losses** | **Impairment losses** | **Absolute change** | **Relative change** |
| Financial assets at AC: | | | | |
| Due from other banks | 754 | 821 | 67 | 8.89% |
| Due from customers: | | | | |
| Municipalities | | | | |
| Municipalities | 2,599 | 2,859 | 260 | 10.00% |
| Municipalities – Leasing | 2 | 2 | - | 0.00% |
| | 2,601 | 2,941 | 340 | 13.07% |
| Corporate | | | | |
| Large Corporates | 5,484 | 5,810 | 326 | 5.94% |
| Large Corporates – debt securities | 619 | 681 | 62 | 10.02% |
| Specialized Lending | 46,630 | 49,672 | 3,042 | 6.52% |
| SME | 39,963 | 40,281 | 318 | 0.80% |
| Other Non-banking Financial Institutions | 265 | 296 | 31 | 11.70% |
| Public Sector Entities | 73 | 81 | 8 | 10.96% |
| Leasing | 17,200 | 17,406 | 206 | 1.20% |
| Factoring | 1,219 | 1,221 | 2 | 0.16% |
| | 111,453 | 115,448 | 3,995 | 3.58% |
| Retail | | | | |
| Small Business | 13,377 | 13,796 | 419 | 3.13% |
| Small Business – Leasing | 400 | 405 | 5 | 1.20% |
| Consumer Loans | 201,242 | 206,377 | 5,135 | 2.55% |
| Mortgages | 34,081 | 34,976 | 895 | 2.63% |
| Credit Cards | 32,705 | 33,187 | 482 | 1.47% |
| Overdrafts | 8,586 | 8,760 | 174 | 2.03% |
| Leasing | 217 | 220 | 3 | 1.20% |
| Flat Owners Associations | 250 | 275 | 25 | 10.00% |
| | 290,858 | 297,995 | 7,137 | 2.45% |
| | 404,912 | 416,304 | 11,392 | 2.81% |
| | 405,666 | 417,125 | 11,459 | 2.82% |
| Financial assets at FVOCI - debt securities | 134 | 147 | 13 | 9.70% |

## 4. Financial and operational risk management (continued)

The following table shows the quality of the VUB Group's credit portfolio in 2017 in terms of internal ratings used for IRB purposes and the sensitivity analyses by improvement and deterioration by one internal rating grade:

| 2017 € '000 | Internal rating | Gross amount | Impairment losses | Net amount | Sensitivity analysis: Impact of IR deterio-ration | Sensitivity analysis: Impact of IR impro-vement |
|---|---|---|---|---|---|---|
| Financial assets at AC: | | | | | | |
| Due from other banks | Unrated | 90,986 | (73) | 90,913 | - | - |
| Due from customers: | | | | | | |
| Municipalities | Unrated | 128,594 | (98) | 128,496 | - | - |
| Corporate | | | | | | |
| Large Corporates, SME | I1 – I6 | 883,885 | (690) | 883,195 | (358) | 266 |
| | M1 – M4 | 826,418 | (6,202) | 820,216 | (702) | 2,780 |
| | R1 – R5 | 352,900 | (13,746) | 339,154 | (2,307) | 6,309 |
| | LC_I1 – LC_I6 | 370,753 | (258) | 370,495 | (142) | 93 |
| | LC_M1 – LC_M4 | 538,790 | (1,405) | 537,385 | (806) | 510 |
| | D (default) | 45,810 | (42,245) | 3,565 | - | - |
| | Unrated | 120,387 | (1,561) | 118,826 | - | - |
| Specialized Lending – SPV, RED | Strong | 129,220 | (335) | 128,885 | (130) | - |
| | Good | 292,373 | (3,792) | 288,581 | (3,107) | 3,792 |
| | Satisfactory | 199,231 | (5,576) | 193,655 | (8,529) | 4,871 |
| | Weak | 103,183 | (13,213) | 89,970 | - | 8,044 |
| | D (default) | 24,091 | (17,406) | 6,685 | - | - |
| Other Non-banking Financial Institutions, Public Sector Entities | I1 – I6 | 116,026 | (89) | 115,937 | (48) | 30 |
| | M1 – M4 | 15,508 | (763) | 14,745 | (592) | 178 |
| | Unrated | 162,782 | (537) | 162,245 | - | - |
| Other | Unrated | 33,559 | (2,210) | 31,349 | - | - |
| Leasing, Factoring | Unrated | 355,566 | (17,340) | 338,226 | - | - |
| | | 4,570,482 | (127,368) | 4,443,114 | (16,721) | 26,873 |

## 4. Financial and operational risk management (continued)

| 2017 € '000 | Internal rating | Gross amount | Impairment losses | Net amount | Sensitivity analysis: Impact of IR deterio-ration | Sensitivity analysis: Impact of IR impro-vement |
|---|---|---|---|---|---|---|
| Financial assets at AC: | | | | | | |
| Due from customers: | | | | | | |
| Retail | | | | | | |
| Small Business, Flat Owners Associations | | | | | | |
| | I3 – I6 | 35,561 | (61) | 35,500 | (32) | 26 |
| | M1 – M4 | 157,489 | (1,540) | 155,949 | (796) | 531 |
| | R1 – R5 | 66,201 | (2,564) | 63,637 | (1,062) | 931 |
| | D (default) | 10,454 | (9,012) | 1,442 | - | - |
| | Unrated | 15,518 | (94) | 15,424 | - | - |
| Mortgages | | | | | | |
| | L1 – L4 | 4,554,342 | (1,073) | 4,553,269 | (928) | 463 |
| | N1 | 248,515 | (357) | 248,158 | (210) | 165 |
| | N2 – W1 | 342,472 | (1,342) | 341,130 | (1,525) | 562 |
| | W2 | 69,460 | (1,035) | 68,425 | (3,764) | 638 |
| | W3 | 84,550 | (4,338) | 80,212 | - | 3,403 |
| | D (default) | 42,620 | (17,257) | 25,363 | - | - |
| Unsecured Retail | | | | | | |
| | U01a – U02 | 291,765 | (170) | 291,595 | (65) | 64 |
| | U3 | 91,421 | (126) | 91,295 | (62) | 41 |
| | U04 – U07 | 448,510 | (2,088) | 446,422 | (1,104) | 721 |
| | U08 – U09 | 135,207 | (2,185) | 133,022 | (1,182) | 745 |
| | U10 – U11 | 85,543 | (3,319) | 82,224 | (3,164) | 1,221 |
| | U12 | 73,025 | (8,294) | 64,731 | - | 4,708 |
| | D (default) | 154,947 | (105,842) | 49,105 | - | - |
| | Unrated | 740,170 | (84,809) | 655,361 | - | - |
| Small Business – Leasing, Leasing | | | | | | |
| | Unrated | 15,057 | (604) | 14,453 | - | - |
| Other | | | | | | |
| | Unrated | 12,403 | (1) | 12,402 | - | - |
| | | 7,675,230 | (246,111) | 7,429,119 | (13,894) | 14,219 |
| Securities | | | | | | |
| | Unrated | 902,671 | - | 902,671 | - | - |

## 4. Financial and operational risk management (continued)

### 4.1.11. Impact of the possible scenarios on the impairment losses and provisions

The behaviour of the model is described by six possible scenarios simulating a worsening of the macroeconomic situation. The scenarios resulted in the increase of expected loss in both stage 1 and stage 2. The simulation was run on the most significant segment Mortgages.

If the predicted GDP growth will be decreased by 91 bps (30% of the last available value at the time of development of the model - the last available values as of 4$^{th}$ Quarter 2016: GDP year/year growth = 3.02%; CPI = (0.1%)) then the impact on the profit or loss will be € 26 thousand for stage 1 and € 89 thousand for stage 2.

Other scenarios and their impact are depicted in the tables below:

| **2018**<br>**€ '000** | | | **Stage 1** | | |
|---|---|---|---|---|---|
| **Scenario** | **Scenario description** | | **Impairment losses** | **Provisions** | **Total** |
| Base | without stressing | | | | |
| | | ECL | 976 | 279 | 1,255 |
| | | Absolute change | - | - | - |
| | | Relative change | - | - | - |
| GDP stress 10% | GDP growth decrease by 30 bps | | | | |
| | | ECL | 983 | 281 | 1,264 |
| | | Absolute change | 7 | 2 | 9 |
| | | Relative change | 0.69% | 0.64% | 0.68% |
| CPI stress 10% | CPI decrease by 1 bps | | | | |
| | | ECL | 977 | 279 | 1,256 |
| | | Absolute change | 1 | - | 1 |
| | | Relative change | 0.09% | 0.08% | 0.08% |
| GDP&CPI stress 10% | GDP growth decrease by 30 bps and CPI decrease by 1 bps | | | | |
| | | ECL | 984 | 281 | 1,265 |
| | | Absolute change | 8 | 2 | 10 |
| | | Relative change | 0.76% | 0.71% | 0.75% |
| GDP stress 30% | GDP growth decrease by 91 bps | | | | |
| | | ECL | 996 | 285 | 1,281 |
| | | Absolute change | 20 | 6 | 26 |
| | | Relative change | 2.05% | 1.91% | 2.02% |
| CPI stress 30% | CPI decrease by 3 bps | | | | |
| | | ECL | 979 | 280 | 1,259 |
| | | Absolute change | 3 | 1 | 4 |
| | | Relative change | 0.23% | 0.22% | 0.23% |
| GDP&CPI stress 30% | GDP growth decrease by 91 bps and CPI decrease by 3 bps | | | | |
| | | ECL | 999 | 285 | 1,284 |
| | | Absolute change | 23 | 6 | 29 |
| | | Relative change | 2.28% | 2.11% | 2.24% |

## 4. Financial and operational risk management (continued)

**2018**
**€ '000**

| Scenario | Scenario description | | Stage 2 Impairment losses | Stage 2 Provisions | Stage 2 Total |
|---|---|---|---|---|---|
| Base | without stressing | | | | |
| | | ECL | 9,027 | 183 | 9,210 |
| | | Absolute change | - | - | - |
| | | Relative change | - | - | - |
| GDP stress 10% | GDP growth decrease by 30 bps | | | | |
| | | ECL | 9,056 | 183 | 9,239 |
| | | Absolute change | 29 | - | 29 |
| | | Relative change | 0.32% | 0.33% | 0.32% |
| CPI stress 10% | CPI decrease by 1 bps | | | | |
| | | ECL | 9,030 | 183 | 9,213 |
| | | Absolute change | 3 | - | 3 |
| | | Relative change | 0.04% | 0.04% | 0.04% |
| GDP&CPI stress 10% | GDP growth decrease by 30 bps and CPI decrease by 1 bps | | | | |
| | | ECL | 9,059 | 184 | 9,243 |
| | | Absolute change | 32 | 1 | 33 |
| | | Relative change | 0.36% | 0.36% | 0.36% |
| GDP stress 30% | GDP growth decrease by 91 bps | | | | |
| | | ECL | 9,114 | 185 | 9,299 |
| | | Absolute change | 87 | 2 | 89 |
| | | Relative change | 0.97% | 0.98% | 0.97% |
| CPI stress 30% | CPI decrease by 3 bps | | | | |
| | | ECL | 9,036 | 183 | 9,219 |
| | | Absolute change | 9 | - | 9 |
| | | Relative change | 0.11% | 0.11% | 0.11% |
| GDP&CPI stress 30% | GDP growth decrease by 91 bps and CPI decrease by 3 bps | | | | |
| | | ECL | 9,124 | 185 | 9,309 |
| | | Absolute change | 97 | 2 | 99 |
| | | Relative change | 1.07% | 1.08% | 1.07% |

## 4. Financial and operational risk management (continued)

### 4.1.12. Credit risk of financial derivatives

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

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 VUB Group 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 VUB Group that has a positive exposure to the counterparty. In these scenarios the VUB Group suffers a loss equal to the cost of replacing the derivative,
- The DVA (positive) takes into account scenarios whereby the VUB Group fails before the counterparty and has a negative exposure to the counterparty. In these scenarios the VUB Group 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 VUB Group is selective in its choice of counterparties and sets limits for transactions with customers. The VUB Group 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. 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** | **2018** |
|---|---|
| **Financial assets** | |
| Financial assets at fair value through profit or loss: | |
| Financial assets held for trading: | |
| Derivative financial instruments | 87,565 |
| Derivatives – Hedge accounting | 65,113 |
| | 152,678 |

| **€ '000** | **2017** |
|---|---|
| **Financial assets** | |
| Derivative financial instruments | 121,142 |

## 4. Financial and operational risk management (continued)

### 4.2. 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 VUB Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

### 4.2.1. Management of market risk

The VUB Group 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 VUB Group 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 sub-department ALM, and include all positions which are not intended for trading.

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. All other financial instruments are part of banking book.

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

### 4.2.2. Exposure to market risk – trading portfolios

The principal tool used to measure and control market risk exposures within the VUB Group's trading portfolio is Value at Risk ('VaR'). A derivation of VaR is the stress VaR ('sVaR '), which represents maximal VaR of a selected one year period generating the highest value of VaR during the last five years. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the VUB Group is based upon a 99% confidence level and assumes a one-day holding period.

The VaR and sVaR models used are based on historical simulations. Taking into account market data from the previous year and in case of sVaR a one year scenario from five years of history 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 VUB Group uses VaR limits for total market risk in the trading book, foreign exchange risk and interest rate risk. The overall structure of VaR and sVaR limits is subject to review and approval by ALCO and Intesa Sanpaolo. VaR is measured on a daily basis. Daily reports of utilisation of VaR and sVaR limits are submitted to the trading unit, the head of the 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 and sVaR position of the VUB Group's trading portfolios:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| **€ '000** | **Balance** | **Avg** | **Max** | **Min** | **Balance** | **Avg** | **Max** | **Min** |
| Foreign currency risk | 44 | 43 | 124 | 12 | 13 | 32 | 102 | 4 |
| Interest rate risk | 343 | 1,492 | 3,942 | 343 | 1,492 | 2,122 | 4,094 | 41 |
| Total VaŔ | 332 | 1,495 | 3,926 | 332 | 1,493 | 2,123 | 4,102 | 43 |
| Total sVaR | 791 | 1,479 | 3,445 | 334 | 343 | 1,615 | 4,238 | 101 |

## 4. Financial and operational risk management (continued)

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 VUB Group uses a wide range of stress tests, to model the financial impact of a variety of exceptional market scenarios on the VUB Group's position. Furthermore, integrating the sVaR measure into the VaR concept adds to mitigation of the limitation of using historical series and possibly omitting scenarios of an extraordinary nature.

### 4.2.3. 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.

All the assumptions, methodologies and responsibilities are described in internal document 'Guidelines on the Governance of Interest Rate Risk in the Banking Book' ('IRRBB') and 'Rules on the Measurement and control of IRRBB in VÚB Group' which are approved by Management Board and are consistent with ISP Group IRRBB guidelines and rules.

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.

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.

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.

## 4. Financial and operational risk management (continued)

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

Behavioural

These are items for which it is not exactly known when the maturity or next re-pricing will take place (e.g. current accounts). 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 VUB Group's historical data and statistical models.

At 31 December 2018, the interest margin sensitivity of banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 20,778 thousand (31 December 2017: € 16,505 thousand).

At 31 December 2018, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (23,039) thousand (31 December 2017: € (11,180) thousand).

At 31 December 2018, the interest margin sensitivity of banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (36,246) thousand (31 December 2017: € (25,585) thousand).

At 31 December 2018, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € (240) thousand (31 December 2017: € (5,569) thousand).

At 31 December 2018, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2,301) thousand (31 December 2017: € (673) thousand).

At 31 December 2018, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € 391 thousand (31 December 2017: € 10,568 thousand).

## 4. Financial and operational risk management (continued)

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

| 2018<br>€ '000 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Not specified | Total |
|---|---|---|---|---|---|---|---|
| **Interest rate bearing financial assets** | | | | | | | |
| Cash, balances at central banks | 1,747,562 | - | - | - | - | - | 1,747,562 |
| Financial assets at FVTPL (excluding Trading derivatives) | 440 | - | - | - | - | - | 440 |
| Financial assets at FVOCI | 117 | 39,138 | 578,559 | 103,373 | 28,787 | - | 749,974 |
| Financial assets at AC: | | | | | | | |
| Due from other banks | 24,678 | 66,211 | 4,897 | - | - | 31,110 | 126,896 |
| Due from customers | 2,036,025 | 1,735,677 | 1,470,639 | 7,174,877 | 995,414 | 201,745 | 13,614,377 |
| | 3,808,822 | 1,841,026 | 2,054,095 | 7,278,250 | 1,024,201 | 232,855 | 16,239,249 |
| **Interest rate bearing financial liabilities** | | | | | | | |
| Financial liabilities measured at AC: | | | | | | | |
| Due to banks | (414,891) | (35,994) | (444,673) | (294,744) | - | (1,713) | (1,192,015) |
| Due to customers | (4,858,318) | (1,205,604) | (2,615,554) | (2,189,620) | (261,541) | - | (11,130,637) |
| Subordinated debt | - | (200,181) | - | - | - | - | (200,181) |
| Debt securities in issue | (8,802) | (3,197) | (266,640) | (1,003,053) | (1,050,561) | - | (2,332,253) |
| | (5,282,011) | (1,444,976) | (3,326,867) | (3,487,417) | (1,312,102) | (1,713) | (14,855,086) |
| **Net position of financial instruments** | 9,090,833 | 3,286,002 | 5,380,962 | 10,765,667 | 2,336,303 | 234,568 | 31,094,335 |
| **Cumulative net position of financial instruments** | 9,090,833 | 12,376,835 | 17,757,797 | 28,523,464 | 30,859,767 | 31,094,335 | - |
| Cash inflow from derivatives | 3,089,568 | 2,766,558 | 1,804,562 | 1,751,119 | 1,815,018 | - | 11,226,825 |
| Cash outflow from derivatives | (3,848,480) | (1,637,784) | (722,597) | (4,126,768) | (891,236) | - | (11,226,865) |
| **Net position from derivatives** | (758,912) | 1,128,774 | 1,081,965 | (2,375,649) | 923,782 | - | (40) |
| **Total net position** | (1,473,189) | 396,050 | (1,272,772) | 3,790,833 | (287,901) | 231,142 | 1,384,163 |
| **Cumulative total net position** | (1,473,189) | (1,077,139) | (2,349,911) | 1,440,922 | 1,153,021 | 1,384,163 | - |

## 4. Financial and operational risk management (continued)

| 2017<br>€ '000 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Not specified | Total |
|---|---|---|---|---|---|---|---|
| **Interest rate bearing financial assets** | | | | | | | |
| Cash, balances at central banks | 1,595,097 | - | - | - | - | | 1,595,078 |
| Financial assets at FVTPL (excluding Trading derivatives) | - | - | - | - | 4,933 | 850 | 5,783 |
| Available-for-sale financial assets | - | 42,329 | 357,392 | 109,717 | 10,978 | - | 520,416 |
| Held-to-maturity investments | - | - | 11,749 | 264,821 | 99,902 | - | 376,472 |
| Financial assets at AC: | | | | | | | |
| Due from other banks | 56,422 | 27,453 | 7,025 | 13 | - | - | 90,744 |
| Due from customers | 1,347,229 | 1,612,697 | 2,019,011 | 6,001,471 | 835,117 | 185,204 | 11,487,518 |
| | 2,998,748 | 1,682,479 | 2,395,177 | 6,376,022 | 950,930 | 186,054 | 14,076,011 |
| **Interest rate bearing financial liabilities** | | | | | | | |
| Financial liabilities measured at AC: | | | | | | | |
| Due to banks | (181,813) | (50,605) | (120,651) | (402,982) | (12,730) | - | (449,815) |
| Due to customers | (7,923,912) | (686,670) | (1,008,243) | (320,296) | - | - | (9,855,433) |
| Subordinated debt | - | (200,164) | - | - | - | - | (200,164) |
| Debt securities in issue | (108,531) | (103,460) | (110,808) | (771,152) | (1,158,429) | - | (2,252,380) |
| | (8,214,256) | (1,040,899) | (1,239,702) | (1,494,430) | (1,171,159) | - | (12,757,792) |
| **Net position of financial instruments** | (5,215,508) | 641,580 | 1,155,475 | 4,881,592 | (220,229) | 186,054 | 1,318,219 |
| **Cumulative net position of financial instruments** | (5,215,508) | (4,573,928) | (3,418,453) | 1,463,139 | 1,242,910 | 1,428,964 | - |
| Cash inflow from derivatives | 2,805,217 | 1,941,325 | 1,523,212 | 411,477 | 1,769,764 | - | 8,450,995 |
| Cash outflow from derivatives | (3,556,656) | (641,502) | (950,402) | (2,552,610) | (759,529) | - | (8,460,699) |
| **Net position from derivatives** | (751,439) | 1,299,823 | 572,810 | (2,141,133) | 1,010,235 | - | (9,704) |
| **Total net position** | (5,856,492) | 1,922,715 | 1,714,576 | 2,638,536 | 703,126 | 186,054 | 1,308,515 |
| **Cumulative total net position** | (5,856,492) | (3,933,777) | (2,219,201) | 419,335 | 1,122,461 | 1,308,515 | - |

## 4. Financial and operational risk management (continued)

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

| | 2018 |
|---|---|
| **Financial assets** | |
| Cash, balances at central banks | 0.82% |
| Financial assets at FVTPL | 0.80% |
| Financial assets at FVOCI | 1.85% |
| Financial assets at AC: | |
| Due from other banks | 1.46% |
| Due from customers | 2.96% |
| **Financial liabilities** | |
| Financial liabilities at AC: | |
| Due to banks | 0.44% |
| Due to customers | 0.18% |
| Debt securities in issue | 1.17% |

| | 2017 |
|---|---|
| **Financial assets** | |
| Cash, balances at central banks | 0.00% |
| Financial assets at FVTPL | 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 | 3.47% |
| **Financial liabilities** | |
| Financial liabilities at AC: | |
| Due to banks | 0.29% |
| Due to customers | 0.20% |
| Debt securities in issue | 1.23% |

## 4. Financial and operational risk management (continued)

### 4.2.4. 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 VUB Group 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.

| **2018**<br>**€ '000** | **EUR** | **USD** | **CZK** | **Other** | **Total** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash, balances at central banks | 636,831 | 1,287 | 1,104,881 | 4,563 | 1,747,562 |
| Financial assets at FVTPL | 37,155 | 1,673 | 1,142 | 18 | 39,988 |
| Derivatives – Hedge accounting | 23,960 | 55 | 2,676 | 74 | 26,765 |
| Financial assets at FVOCI | 749,974 | - | - | - | 749,974 |
| Financial assets at AC: | | | | | |
| Due from other banks | 122,267 | 15,086 | (13,517) | 3,060 | 126,896 |
| Due from customers | 13,005,102 | 218,559 | 309,120 | 81,596 | 13,614,377 |
| Fair value changes of the hedged items in portfolio hedge of IRR | 9,183 | - | - | - | 9,183 |
| | 14,584,472 | 236,660 | 1,404,302 | 89,311 | 16,314,745 |
| **Financial liabilities** | | | | | |
| Financial liabilities at FVTPL | 36,718 | 1,341 | 1,272 | 4 | 39,335 |
| Derivatives – Hedge accounting | 12,130 | 2,665 | - | 431 | 15,226 |
| Financial liabilities measured at AC: | | | | | |
| Due to banks | 1,171,689 | 13,412 | (1,155) | 8,069 | 1,192,015 |
| Due to customers | 10,748,479 | 176,360 | 127,476 | 78,322 | 11,130,637 |
| Subordinated debt | 200,181 | - | - | - | 200,181 |
| Debt securities in issue | 2,283,820 | 48,433 | - | - | 2,332,253 |
| Fair value changes of the hedged items in portfolio hedge of IRR | 1,499 | - | - | - | 1,499 |
| | 14,454,516 | 242,211 | 127,593 | 86,826 | 14,911,146 |
| Net position | 129,956 | (5,551) | 1,276,709 | 2,485 | 1,403,599 |

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

| **2018**<br>**€ '000** | **EUR** | **USD** | **CZK** | **Other** | **Total** |
|---|---|---|---|---|---|
| Receivables | 1,448,171 | 78,067 | 32,021 | 103,953 | 1,662,212 |
| Payables | (166,826) | (94,706) | (1,290,481) | (110,202) | (1,662,215) |
| **Net position from derivatives** | 1,281,345 | (16,639) | (1,258,460) | (6,249) | (3) |

## 4. Financial and operational risk management (continued)

| 2017<br>€ '000 | EUR | USD | CZK | Other | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash, balances at central banks | 123,615 | 1,109 | 1,467,216 | 3,157 | 1,595,097 |
| Financial assets at FVTPL | 5,783 | - | - | - | 5,783 |
| Derivative financial instruments | 42,310 | 4,294 | 3,252 | - | 49,856 |
| Available-for-sale financial assets | 514,107 | 6,309 | - | - | 520,416 |
| Held-to-maturity investments | 376,472 | - | - | - | 376,472 |
| Financial assets at AC: | | | | | |
| Due from other banks | 85,239 | 2,172 | 422 | 3,080 | 90,913 |
| Due from customers | 11,371,011 | 265,239 | 314,663 | 49,816 | 12,000,729 |
| | 12,518,537 | 279,123 | 1,785,553 | 56,053 | 14,639,266 |
| **Financial liabilities** | | | | | |
| Derivative financial instruments | (45,474) | (633) | (4,471) | (1,606) | (52,184) |
| Financial liabilities measured at AC: | | | | | |
| Due to banks | (715,363) | (83) | (53,063) | (272) | (768,781) |
| Due to customers | (9,531,663) | (158,499) | (169,350) | (79,609) | (9,939,121) |
| Subordinated debt | (200,164) | - | - | - | (200,164) |
| Debt securities in issue | (2,173,842) | (58,779) | (19,759) | - | (2,252,380) |
| | (12,666,506) | (217,994) | (246,643) | (81,487) | (13,212,630) |
| Net position | (147,969) | 61,129 | 1,539,910 | (25,434) | 1,426,636 |

## 4. Financial and operational risk management (continued)

### 4.3. Liquidity risk

Liquidity risk is defined as the risk that the VUB Group is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the VUB Group 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 VUB Group outline the set of principles, methods, regulations and control processes required to prevent the occurrence of a liquidity crisis and call for the VUB Group 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 VUB Group are:

- The existence of an operating structure that works within set of 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,
- 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 VUB Group's liquidity or system liquidity.

The VUB Group is regularly stress testing its liquidity position in order to simulate potential stress scenarios. The level of unencumbered highly liquid assets are kept at levels, which should support the VUB Group also in case of these extraordinary events. The VUB Group is also able to seek short term funding from the Parent Company or interbank market in order to support its liquidity position.

The departments of the VUB Group 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.

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 VUB Group 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 VUB Group to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

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

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

## 4. Financial and operational risk management (continued)

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

| **2018**<br>**€ '000** | **Up to 1 month*** | **1 to 3 months** | **3 months to 1 year** | **1 to 5 years** | **Over 5 years** | **Not specified** | **Total** |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash, balances at central banks | 1,747,562 | - | - | - | - | - | 1,747,562 |
| Financial assets at FVTPL (excluding Trading derivatives) | - | - | - | - | - | 440 | 440 |
| Financial assets at FVOCI | 127 | 46 | 530,417 | 192,693 | 20,150 | 8,860 | 752,293 |
| Financial assets at AC: | | | | | | | |
| Due from other banks | 55,780 | 1,052 | 3,726 | 50,763 | 23,864 | - | 135,185 |
| Due from customers | 1,012,610 | 415,193 | 1,193,934 | 5,535,845 | 8,158,229 | 196,041 | 16,511,851 |
| | 2,816,079 | 416,291 | 1,728,077 | 5,779,301 | 8,202,243 | 205,341 | 19,147,331 |
| **Financial liabilities** | | | | | | | |
| Financial liabilities measured at AC: | | | | | | | |
| Due to banks | (41,387) | (312,825) | (435,268) | (386,471) | (44,428) | - | (1,220,379) |
| Due to customers | (8,588,987) | (597,275) | (1,637,741) | (233,995) | (78,320) | - | (11,136,317) |
| Subordinated debt | - | (1,027) | 452 | (1,385) | (207,488) | - | (209,448) |
| Debt securities in issue | (3,595) | (3,255) | (285,861) | (1,031,670) | (1,215,320) | - | (2,539,701) |
| | (8,633,969) | (914,382) | (2,358,418) | (1,653,521) | (1,545,556) | - | (15,105,846) |
| **Net position of financial instruments** | 11,450,048 | 1,330,673 | 4,086,495 | 7,432,822 | 9,747,799 | 205,341 | 34,253,177 |
| Cash inflows from derivatives | 1,400,348 | 113,652 | 78,210 | 35,538 | 130,651 | - | 1,758,399 |
| Cash outflows from derivatives | (1,405,695) | (111,797) | (76,382) | (38,202) | (111,243) | - | (1,743,319) |
| **Net position from derivatives** | (5,347) | 1,854 | 1,827 | (2,663) | 19,408 | - | 15,079 |
| **Net position from financial commitments and contingencies** | (3,938,579) | - | - | - | - | - | (3,938,579) |

* The high negative liquidity gap in the first bucket is caused by a huge volume of deposits on demand (without contractual maturity) which are presented under 'Due to customers'. For the purpose of internal liquidity management monitoring the behavioural profile of on-demand deposits is taken into account based on a statistical model using internal historical data. According to when they are expected to be settled such deposits are then placed into later buckets.

## 4. Financial and operational risk management (continued)

| 2017<br>€ '000 | Up to<br>1 month | 1 to 3<br>months | 3 months<br>to 1 year | 1 to 5<br>years | Over<br>5 years | Not<br>specified | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and balances with central banks | 1,595,412 | - | - | - | - | - | 1,595,412 |
| Financial assets at FVTPL (excluding Trading derivatives) | - | - | - | - | 4,933 | 850 | 5,783 |
| Available-for-sale financial assets | - | 874 | 260,972 | 246,526 | - | - | 508,372 |
| Held-to-maturity investments | - | - | 18,474 | 294,379 | 117,531 | - | 430,384 |
| Financial assets at AC: | | | | | | | |
| Due from other banks | 33,379 | 1,197 | 4,682 | 12,735 | 42,672 | - | 94,665 |
| Due from customers | 630,230 | 416,308 | 1,469,723 | 5,234,668 | 6,922,418 | 217,738 | 14,891,085 |
| | 2,259,021 | 418,379 | 1,753,851 | 5,788,308 | 7,087,554 | 218,588 | 17,525,701 |
| **Financial liabilities** | | | | | | | |
| Financial liabilities measured at AC: | | | | | | | |
| Due to banks | (146,590) | (34,956) | (63,695) | (450,989) | (67,978) | - | (764,208) |
| Due to customers | (7,811,786) | (760,695) | (965,816) | (403,425) | (469) | - | (9,642,191) |
| Subordinated debt | - | (1,458) | (471) | (2,295) | (210,706) | - | (214,930) |
| Debt securities in issue | (4,459) | (3,254) | (246,929) | (952,020) | (1,238,785) | - | (2,445,447) |
| | (7,962,835) | (800,363) | (1,276,911) | (1,808,729) | (1,517,938) | - | (13,366,776) |
| **Net position of financial instruments** | (5,703,814) | (381,984) | 476,940 | 3,979,579 | 5,569,616 | 218,588 | 4,158,925 |
| Cash inflows from derivatives | 1,702,187 | 55,507 | 81,630 | 90,645 | 36,063 | - | 1,966,032 |
| Cash outflows from derivatives | (1,710,454) | (56,858) | (89,608) | (84,221) | (24,456) | - | (1,965,597) |
| **Net position from derivatives** | (8,267) | (1,351) | (7,978) | 6,424 | 11,607 | - | 435 |
| **Net position from financial commitments and contingencies** | (3,562,980) | - | - | - | - | - | (3,562,980) |

## 4. 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:

| **2018**<br>**€ '000** | **Less than 12 months** | **Over 12 months** | **Total** |
|---|---|---|---|
| **Assets** | | | |
| Cash, balances at central banks | 1,747,562 | - | 1,747,562 |
| Financial assets at FVTPL | 6,028 | 33,960 | 39,988 |
| Derivatives – Hedge accounting | 686 | 26,079 | 26,765 |
| Financial assets at FVOCI | 528,662 | 221,312 | 749,974 |
| Financial assets at AC: | | | |
| Due from other banks | 58,839 | 68,057 | 126,896 |
| Due from customers | 2,351,449 | 11,262,928 | 13,614,377 |
| Fair value changes of the hedged items in portfolio hedge of IRR | - | 9,183 | 9,183 |
| Investments in joint ventures and associates | - | 8,758 | 8,758 |
| Property and equipment | - | 91,683 | 91,683 |
| Intangible assets | - | 92,863 | 92,863 |
| Goodwill | - | 29,305 | 29,305 |
| Current income tax assets | 1,181 | - | 1,181 |
| Deferred income tax assets | 1,573 | 69,158 | 70,731 |
| Other assets | 23,747 | - | 23,747 |
| Non-current assets classified as held for sale | 26,922 | - | 26,922 |
| | 4,746,649 | 11,913,286 | 16,659,935 |
| **Liabilities** | | | |
| Financial liabilities at FVTPL | (6,665) | (32,670) | (39,335) |
| Derivatives – Hedge accounting | (1,208) | (14,018) | (15,226) |
| Financial liabilities measured at AC: | | | |
| Due to banks | (757,273) | (434,742) | (1,192,015) |
| Due to customers | (1,759,245) | (9,371,392) | (11,130,637) |
| Subordinated debt | (181) | (200,000) | (200,181) |
| Debt securities in issue | (262,291) | (2,069,962) | (2,332,253) |
| Fair value changes of the hedged items in portfolio hedge of IRR | - | (1,499) | (1,499) |
| Current income tax liabilities | (10,724) | - | (10,724) |
| Provisions | - | (24,723) | (24,723) |
| Other liabilities | (96,640) | (2,749) | (99,389) |
| | (2,894,227) | (12,151,755) | (15,045,982) |
| **Net position** | 1,852,422 | (238,469) | 1,613,953 |

## 4. Financial and operational risk management (continued)

| 2017<br>€ '000 | Less than 12 months | Over 12 months | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash, balances at central banks | 1,595,097 | - | 1,595,097 |
| Financial assets at FVTPL | 37,105 | 53,808 | 90,913 |
| Derivative financial instruments | - | 5,783 | 5,783 |
| Available-for-sale financial assets | 5,902 | 43,954 | 49,856 |
| Held-to-maturity investments | 262,952 | 257,464 | 520,416 |
| Financial assets at AC: | 2,206,047 | 9,794,682 | 12,000,729 |
| Due from other banks | 11,750 | 364,722 | 376,472 |
| Due from customers | - | 8,972 | 8,972 |
| Investments in joint ventures and associates | - | 80,100 | 80,100 |
| Intangible assets | - | 29,305 | 29,305 |
| Property and equipment | - | 126,848 | 126,848 |
| Current income tax assets | 9,478 | - | 9,478 |
| Deferred income tax assets | - | 53,779 | 53,779 |
| Other assets | 23,128 | - | 23,128 |
| | 4,151,459 | 10,819,417 | 14,970,876 |
| **Liabilities** | | | |
| Derivative financial instruments | (24,278) | (27,906) | (52,184) |
| Financial liabilities at AC: | | | |
| Due to banks | (219,680) | (549,101) | (768,781) |
| Due to customers | (1,757,586) | (8,181,535) | (9,939,121) |
| Subordinated debt | (164) | (200,000) | (200,164) |
| Debt securities in issue | (238,066) | (2,014,314) | (2,252,380) |
| Provisions | - | (9,962) | (9,962) |
| Other liabilities | (111,007) | (4,691) | (115,698) |
| | (2,350,781) | (10,987,509) | (13,338,290) |
| **Net position** | 1,800,678 | (168,092) | 1,632,586 |

## 4. Financial and operational risk management (continued)

### 4.4. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the VUB Group'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 VUB Group's operations.

### 4.4.1. Operational risk management strategies and processes

The VUB Group, in coordination with Intesa Sanpaolo, has defined the overall operational risk management framework by setting up a 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 (voting members: Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of Anti-Money Laundering Department; permanent invitees without voting rights**:** 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 Information Security sub-department, Head of Business Continuity Management sub-department, Head of Physical Security sub-department and Member of the Management Board of VUB Leasing, a. s.), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

### 4.4.2. Organisational structure of the associated risk management function

For some time, the VUB Group has had a centralised function within the Risk Management Division for the management of the VUB Group's operational risks. This function is responsible, in coordination with the Parent Company, for the definition, implementation and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to senior Management. In compliance with current requirements, the individual organisational units 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, including information and communication technology risk. The Risk Management Division carries out second level monitoring of these activities.

### 4.4.3. 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 Česká republika, a. s. and VUB Leasing, a. s.. 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.

For the use of the AMA, the VUB Group has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank and VUB Group companies that fall within the scope of AMA. 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.

## 4. Financial and operational risk management (continued)

### 4.4.4. Policies for hedging and mitigating risk

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

## 5. 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 VUB Group 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 VUB Group 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 VUB Group are based on quoted market prices. However, no readily available market prices exist for a significant portion of the VUB Group'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 VUB Group for debt instruments involves the method of discounting future 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 VUB Group 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 VUB Group 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 VUB Group 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 VUB Group 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 VUB Group'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 other 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 other banks approximates their estimated fair value. Impairment losses are taken into consideration when calculating fair values.

## 5. 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 is estimated by discounting their future expected cash flows using the risk free interest rate curve.

(e) Subordinated debt

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

(f) Debt securities in issue

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

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

| 2018<br>€ '000 | Note | Carrying amount<br>At amortised cost | At fair value | Total carrying amount | Fair value<br>Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Cash, balances at central banks | 8 | 1,747,562 | - | 1,747,562 | - | 1,747,562 | - | 1,747,562 |
| Financial assets at FVTPL | 9 | - | 39,988 | 39,988 | 440 | 39,548 | - | 39,988 |
| Derivatives – Hedge accounting | 10 | - | 26,765 | 26,765 | - | 26,765 | - | 26,765 |
| Financial assets at FVOCI | 11 | - | 749,974 | 749,974 | 225,760 | 524,214 | - | 749,974 |
| Financial assets at AC: | 12 | | | | | | | |
| Due from other banks | | 126,896 | - | 126,896 | - | 126,896 | - | 126,896 |
| Due from customers | | 13,614,377 | - | 13,614,377 | - | - | 14,084,512 | 14,084,512 |
| | | 15,488,835 | 816,727 | 16,305,562 | 226,200 | 2,464,985 | 14,084,512 | 16,775,697 |
| **Financial liabilities** | | | | | | | | |
| Financial liabilities at FVTPL | 9 | - | 39,335 | 39,335 | - | 39,335 | - | 39,335 |
| Derivatives – Hedge accounting | 10 | - | 15,226 | 15,226 | - | 15,226 | - | 15,226 |
| Financial liabilities at AC: | 12 | | | | | | | |
| Due to banks | | 1,192,015 | - | 1,192,015 | - | 1,192,015 | - | 1,192,015 |
| Due to customers | | 11,130,637 | - | 11,130,637 | - | 11,136,701 | - | 11,136,701 |
| Subordinated debt | | 200,181 | - | 200,181 | - | 180,158 | - | 180,158 |
| Debt securities in issue | | 2,332,253 | - | 2,332,253 | - | 2,314,698 | - | 2,314,698 |
| | | 14,855,086 | 54,561 | 14,909,647 | - | 14,878,133 | - | 14,878,133 |

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

| 2017<br>€ '000 | Note | Carrying amount<br>At amortised cost | At fair value | Total carrying amount | Fair value<br>Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Cash, balances at central banks | 7 | 1,595,097 | - | 1,595,097 | - | 1,595,097 | - | 1,595,097 |
| Financial assets at FVTPL | 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 | | 90,913 | - | 90,913 | - | 90,913 | - | 90,913 |
| Due from customers | | 12,000,729 | - | 12,000,729 | - | - | 13,170,161 | 13,170,161 |
| | | 14,063,211 | 576,055 | 14,639,266 | 266,592 | 2,416,134 | 13,176,470 | 15,859,196 |
| **Financial liabilities** | | | | | | | | |
| Derivative financial instruments | 8, 9 | - | 52,184 | 52,184 | - | 52,184 | - | 52,184 |
| Financial liabilities at AC: | 11 | | | | | | | |
| Due to banks | | 768,781 | - | 768,781 | - | 768,781 | - | 768,781 |
| Due to customers | | 9,939,121 | - | 9,939,121 | - | 9,947,677 | - | 9,947,677 |
| 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 |
| | | 13,160,446 | 52,184 | 13,212,630 | - | 13,305,141 | - | 13,305,141 |

At 31 December 2018 the VUB Group transfers the shares of companies VISA Inc. Seria C and S.W.I.F.T. from Level 3 to Level 2 to be in line with the methodology of the Parent Company.

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

## 6. Segment reporting

The VUB Group reports financial and descriptive information about its operating segments in these financial statements. An operating segment is a component of the VUB Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the VUB Group), 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 VUB Group operates in three operating segments – Retail Banking, Corporate Banking and Central Treasury. Each segment is exposed to different risks and differs in the nature of its services, business processes and types of customers for its products and services.

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

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

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.

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

Corporate Banking comprises SME, the Corporate Customer Desk ('CCD'), Municipalities and Public Sector Entities. SME includes loans, deposits and other transactions and balances with SME (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 VUB Group's funding, issues of debt securities as well as trading book.

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

## 6. Segment reporting (continued)

| 2018<br>€ '000 | Retail Banking | Corporate Banking | Central Treasury | Other | Total |
|---|---|---|---|---|---|
| External revenue: | | | | | |
| Interest and similar income | 280,276 | 107,235 | 18,441 | 10,446 | 416,398 |
| Interest and similar expense | (10,129) | (6,557) | (24,921) | (8,092) | (49,699) |
| Inter-segment revenue | (22,429) | (16,329) | 33,447 | 5,311 | - |
| Net interest income | 247,718 | 84,349 | 26,967 | 7,665 | 366,699 |
| Net fee and commission income | 100,245 | 29,027 | 2,167 | (3,501) | 127,938 |
| Net trading result | 4,059 | 5,608 | 29,913 | 308 | 39,888 |
| Other operating income | 316 | 4,399 | 66 | 1,578 | 6,359 |
| Other operating expense | (7,878) | (2,708) | - | (5,506) | (16,092) |
| Special levy of selected financial institutions* | - | - | - | (26,286) | (26,286) |
| Salaries and employee benefits* | - | - | - | (129,223) | (129,223) |
| Other administrative expenses* | - | - | - | (85,793) | (85,793) |
| Amortisation | (5,482) | (351) | (7) | (6,608) | (12,448) |
| Depreciation | (4,861) | (2,908) | (4) | (3,035) | (10,808) |
| **Profit before provisions and impairment** | 334,117 | 117,416 | 59,102 | (250,401) | 260,234 |
| Provisions* | - | - | - | (340) | (340) |
| Impairment losses | (60,698) | 4,745 | 55 | (5,499) | (61,397) |
| Net gains/(losses) arising from the derecognition of financial assets measured at amortised cost | 5,003 | (1,380) | - | (98) | 3,525 |
| **Total segment operating income** | 278,422 | 120,781 | 59,157 | (256,338) | 202,022 |
| Segment assets | 8,025,859 | 5,089,247 | 2,952,393 | 592,436 | 16,659,935 |
| Segment liabilities | 6,426,304 | 4,455,865 | 3,784,197 | 379,616 | 15,045,982 |

* The VUB Group does no allocate these items to the individual segments.

## 6. Segment reporting (continued)

| **2017**<br>**€ '000** | **Retail Banking** | **Corporate Banking** | **Central Treasury** | **Other** | **Total** |
|---|---|---|---|---|---|
| External revenue: | | | | | |
| Interest and similar income | 308,010 | 95,069 | 19,871 | 11,237 | 434,187 |
| Interest and similar expense | (10,572) | (5,338) | (24,893) | (9,424) | (50,227) |
| Inter-segment revenue | (17,086) | (11,923) | 23,445 | 5,564 | - |
| Net interest income | 280,352 | 77,808 | 18,423 | 7,377 | 383,960 |
| Net fee and commission income | 86,797 | 27,837 | 3,128 | (4,113) | 113,649 |
| Net trading result | 3,709 | 5,331 | 30,983 | 321 | 40,344 |
| Other operating income | 1,025 | 7,101 | 326 | 54 | 8,506 |
| Other operating expense | (5,947) | - | - | (9,571) | (15,518) |
| Special levy of selected financial institutions* | - | - | - | (24,823) | (24,823) |
| Salaries and employee benefits* | - | - | - | (126,659) | (126,659) |
| Other administrative expenses* | - | - | - | (90,826) | (90,826) |
| Amortisation | (7,221) | (1,004) | (7) | (4,403) | (12,635) |
| Depreciation | (6,721) | (2,730) | (3) | (2,680) | (12,134) |
| **Profit before provisions and impairment** | 351,994 | 114,343 | 52,850 | (255,323) | 263,864 |
| Provisions* | - | - | - | 16,511 | 16,511 |
| Impairment losses | (52,185) | (7,987) | (522) | 1,489 | (59,205) |
| **Total segment operating income** | 299,809 | 106,356 | 52,328 | (237,323) | 278,514 |
| Segment assets | 7,463,880 | 4,236,117 | 2,778,733 | 492,146 | 14,970,876 |
| Segment liabilities | 6,126,804 | 3,967,952 | 2,968,081 | 275,453 | 13,338,290 |

* The VUB Group does no allocate these items to the individual segments.

## 7. 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** | **2018** | **2017** |
|---|---|---|---|
| Cash, balances at central banks | 8 | 1,254,509 | 1,587,833 |
| Current accounts in other banks | 12.1 | 24,442 | 25,212 |
| | | 1,278,951 | 1,613,045 |

## 8. Cash, balances at central banks

| € '000 | 2018 | 2017 |
|---|---|---|
| Cash in hand | 155,057 | 125,550 |
| Balances at central banks: | | |
| Compulsory minimum reserves | 493,053 | 7,264 |
| Current accounts | 2,914 | 1,753 |
| Term deposits | 27,211 | 736,103 |
| Loans and advances | 1,069,327 | 724,427 |
| | 1,592,505 | 1,469,547 |
| | 1,747,562 | 1,595,097 |

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.

At 31 December 2018 the balance of 'Loans and advances' comprised of one reverse repo trade concluded with ČNB in the nominal amount of CZK 27,500 million (€ 1,068,999 thousand) (31 December 2017: CZK 18,500 million (€ 724,354 thousand)). The repo trade was secured by four treasury bills of ČNB (31 December 2017: four treasury bills of ČNB).

## 9. Financial assets and liabilities at fair value through profit or loss

| € '000 | 2018 |
|---|---|
| Financial assets held for trading: | |
| Trading derivatives | 39,548 |
| Non-trading financial assets at fair value through profit or loss: | |
| Equities | 440 |
| Financial liabilities held for trading: | |
| Trading derivatives | 39,335 |

| € '000 | 2017 |
|---|---|
| **Assets** | |
| Financial assets at fair value through profit or loss: | |
| Government debt securities of EU countries | 4,933 |
| Equities | 850 |
| | 5,783 |
| Derivative financial instruments*: | |
| Trading derivatives | 27,961 |
| **Liabilities** | |
| Derivative financial instruments*: | |
| Trading derivatives | 37,542 |

* Part of 'Derivative financial instruments' related to hedge accounting is disclosed in the note 9.

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

Equities in 'Non-trading financial assets 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 VUB Group 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'.

| **€ '000** | **2018 Assets** | **2017 Assets** | **2018 Liabilities** | **2017 Liabilities** |
|---|---|---|---|---|
| **Trading derivatives – Fair values** | | | | |
| Interest rate instruments: | | | | |
| Swaps | 33,346 | 21,385 | 32,585 | 18,403 |
| Options | - | 51 | - | 51 |
| | 33,346 | 21,436 | 32,585 | 18,454 |
| Foreign currency instruments: | | | | |
| Forwards and swaps | 5,428 | 4,322 | 5,943 | 16,896 |
| Options | 163 | 42 | 215 | 42 |
| | 5,591 | 4,364 | 6,158 | 16,938 |
| Equity and commodity instruments: | | | | |
| Equity options | 446 | 2,146 | 443 | 2,137 |
| Commodity forwards and swaps | 165 | 15 | 148 | 13 |
| | 611 | 2,161 | 592 | 2,150 |
| | 39,548 | 27,961 | 39,335 | 37,542 |

| **€ '000** | **2018 Assets** | **2017 Assets** | **2018 Liabilities** | **2017 Liabilities** |
|---|---|---|---|---|
| **Trading derivatives – Notional values** | | | | |
| Interest rate instruments: | | | | |
| Swaps | 3,927,603 | 1,974,174 | 3,927,603 | 1,974,174 |
| Options | 66,105 | 49,014 | 66,105 | 49,014 |
| Futures | - | 3,431 | - | 3,431 |
| | 3,993,708 | 2,026,619 | 3,993,708 | 2,026,619 |
| Foreign currency instruments: | | | | |
| Forwards and swaps | 1,519,362 | 1,837,936 | 1,520,462 | 1,847,944 |
| Options | 24,171 | 7,201 | 24,256 | 7,201 |
| | 1,543,533 | 1,845,137 | 1,544,718 | 1,855,145 |
| Equity and commodity instruments: | | | | |
| Equity options | 5,487 | 7,087 | 5,487 | 7,087 |
| Commodity forwards and swaps | 5,675 | 7,407 | 5,675 | 7,407 |
| | 11,162 | 14,494 | 11,162 | 14,494 |
| | 5,548,403 | 3,886,250 | 5,549,588 | 3,896,258 |

## 10. Derivatives – Hedge accounting

| € '000 | 2018 Assets | 2018 Liabilities |
|---|---|---|
| Cash flow hedges of interest rate risk | - | 10 |
| Fair value hedges of interest rate risk | 26,765 | 15,216 |
| | 26,765 | 15,226 |

| € '000 | 2017 Assets | 2017 Liabilities |
|---|---|---|
| Derivative financial instruments*: | | |
| Cash flow hedges of interest rate risk | 1,312 | 631 |
| Fair value hedges of interest rate risk | 20,583 | 14,011 |
| | 21,895 | 14,642 |

* Part of 'Derivative financial instruments' related to trading is disclosed in the note 8.

### 10.1. Cash flow hedges of interest rate risk

The VUB Group uses one interest rate swap to hedge the interest rate risk arising from the issuance of one variable rate covered bond denominated in EUR. The cash flows on the floating leg of these interest rate swap substantially match the cash flows profile of the variable rate covered bond. The fix deal interest rate is (0.21%). The maturity of this hedging instrument is in 2019.

The VUB Group used one interest rate swap to hedge the interest rate risk of a subordinated loan denominated in EUR as at 31 December 2017. The cash flows on the floating leg of this interest rate swap substantially matched the cash flows profile of the subordinated loan with variable interest rate.

| € '000 | 2018 Assets Fair values | 2018 Liabilities Fair values | 2018 Assets Notional values | 2018 Liabilities Notional values | 2018 Change in fair value used for calculating hedge ineffectiveness for 2018 | 2018 Change in fair value recognised in OCI | 2018 Hedge ineffectiveness recognised in profit or loss | 2018 Amount reclassified from hedge reserve to profit or loss |
|---|---|---|---|---|---|---|---|---|
| **Micro hedges** | | | | | | | | |
| Interest rate instruments: | | | | | | | | |
| Swaps | - | 10 | 80,000 | 80,000 | (94) | (94) | - | (689) |

## 10. Derivatives – Hedge accounting (continued)

The amounts relating to items designated as hedged items were as follows:

| € '000 | Line item in SOFP | 2018<br>Carrying amount | Change in fair value used for calculating hedge ineffectiveness | Cash flow hedge reserve | Balances remaining in hedge reserve after termination of hedging relationship |
|---|---|---|---|---|---|
| Covered bonds | Financial liabilities at AC: Debt securities in issue | 80,000 | (24) | (6) | - |

Below is a schedule indicating the periods when the hedged cash flows are expected to occur:

| € '000 | 2018<br>Up to 1 year | 1 to 5 years | Over 5 years | 2017<br>Up to 1 year | 1 to 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Covered bonds | (1,264) | - | - | (4,078) | (1,414) | - |
| Subordinated debt | - | - | - | (6,010) | (25,326) | - |

### 10.2. Fair value hedges of interest rate risk

The VUB Group used one interest rate swap to hedge the interest rate risk of a pool of corporate loans in EUR. The changes in fair value of this interest rate swap substantially offset the changes in fair value of loans in relation to changes of interest rates.

The VUB Group used twenty eight 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 in relation to changes of interest rates.

The VUB Group used thirty four 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 in relation to changes of interest rates.

The VUB Group used one interest rate swap to hedge the interest rate risk of a pool of targeted longer-term refinancing operations ('TLTROs') denominated in EUR. TLTROs are Eurosystem operations that provide financing to credit institutions for periods of up to four years. The changes in fair value of this interest rate swap substantially offset the changes in fair value of the TLTROs in relation to changes of interest rates.

The VUB Group used four interest rate swaps to hedge the interest rate risk of three fixed rate state bonds from the FVOCI portfolio. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used fourteen interest rate swaps and five cross currency swaps to hedge interest rate risk of nineteen corporate loans. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

Furthermore, the VUB Group used thirty six interest rate swaps to hedge the interest rate risk arising from the issuance of twenty fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

## 10. Derivatives – Hedge accounting (continued)

In 2018, the VUB Group recognised a net gain of € 714 thousand (2017: net gain of € 11,801 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 542 thousand (2017: net loss of € 11,867 thousand). Both items are disclosed within 'Net trading result'.

| € '000 | 2018 Assets Fair values | 2018 Liabilities Fair values | 2018 Assets Notional values | 2018 Liabilities Notional values | 2018 Change in fair value used for calculating hedge ineffective -ness for 2018 | 2018 Ineffectiv-ness recogni-sed in profit or loss |
|---|---|---|---|---|---|---|
| **Micro hedges** | | | | | | |
| Interest rate instruments: | | | | | | |
| Swaps | | | | | | |
| Hedge of debt securities at FVOCI | 247 | 1,503 | 156,371 | 156,371 | 1,486 | - |
| Hedge of corporate loans | 2,897 | 2,101 | 471,464 | 471,464 | (1,559) | - |
| Hedge of covered bonds | 20,720 | 533 | 1,944,036 | 1,944,036 | 12,044 | 4 |
| Foreign currency instruments: | | | | | | |
| Swaps | | | | | | |
| Hedge of corporate loans | 74 | 2,839 | 135,430 | 134,285 | (1,235) | 9 |
| **Macro hedges** | | | | | | |
| Interest rate instruments: | | | | | | |
| Swaps | | | | | | |
| Hedge of corporate loans | - | 181 | 63,000 | 63,000 | (140) | 7 |
| Hedge of mortgage loans | 944 | 8,059 | 1,892,000 | 1,892,000 | (11,478) | 84 |
| Hedge of TLTROs | 7 | - | 250,000 | 250,000 | (1) | 17 |
| Hedge of current accounts | 1,876 | - | 565,500 | 565,500 | 1,597 | 51 |

## 10. Derivatives – Hedge accounting (continued)

The amounts relating to items designated as hedged items were as follows:

| € '000 | Line item in SOFP | 2018 Carrying amount | 2018 Accumulated amount of fair value adjustments included in carrying amount | 2018 Change in fair value used for calculating hedge ineffectiveness for 2018 | 2018 Accumulated amount of fair value adjustment after termination of hedging relationship |
|---|---|---|---|---|---|
| **Micro hedges** | | | | | |
| Debt securities at FVOCI | Financial assets at FVOCI | 124,832 | (836) | (1,486) | - |
| Corporate loans | Financial assets at AC: Due from customers | 604,713 | (1,036) | 2,803 | - |
| Covered bonds | Financial liabilities at AC: Debt securities in issue | 1,370,550 | 24,521 | 12,040 | 5,798 |
| **Macro hedges** | | | | | |
| Corporate loans | Financial assets at AC: Due from customers | 63,146 | 146 | 147 | - |
| Mortgage loans | Financial assets at AC: Due from customers | 1,899,246 | 7,246 | 11,562 | 1,790 |
| TLTROs | Financial liabilities at AC: Due to banks | 247,842 | (18) | (18) | - |
| Current accounts | Financial liabilities at AC: Due to customers | 626,017 | 1,517 | 1,546 | - |

Maturity of notional values of hedging instruments designated as fair value hedges of interest rate risk and their average interest rates:

| € '000 | 2018 Less than 1 year | 2018 1 – 5 years | 2018 More than 5 years |
|---|---|---|---|
| Interest rate instruments: | | | |
| Swaps | | | |
| Hedge of debt securities at FVOCI | 86,671 | 50,000 | 20,000 |
| | 1.15% | 0.26% | 0.32% |
| Hedge of corporate loans | 13,606 | 366,812 | 154,046 |
| | 0.83% | 0.07% | 0.52% |
| Hedge of mortgage loans | 159,000 | 1,733,000 | - |
| | (0.26%) | (0.07%) | - |
| Hedge of TLTROs | 250,000 | - | - |
| | (0.35%) | - | - |
| Hedge of current account | 512,000 | - | 112,500 |
| | (0.35%) | - | 0.64% |
| Hedge of covered bonds | 670,736 | 321,000 | 952,300 |
| | 0.17% | 0.66% | 1.14% |
| Foreign currency instruments: | | | |
| Swaps | | | |
| Hedge of corporate loans | 41,847 | 5,382 | 87,057 |
| | 0.00% | 0.00% | 2.63% |

## 11. Financial assets at fair value through other comprehensive income

| **€ '000** | **2018** |
|---|---|
| Government debt securities of EU countries | 681,809 |
| Bank debt securities | 59,305 |
| Equity instruments: | |
| VISA Inc. Seria C | 7,676 |
| Intesa Sanpaolo S.p.A. | 1,112 |
| S.W.I.F.T. | 72 |
| | 8,860 |
| | 749,974 |

| **€ '000** | **2017** |
|---|---|
| **Available-for-sale financial assets** | |
| Government debt securities of EU countries | 439,744 |
| Bank debt securities | 72,467 |
| Equity instruments: | |
| VISA Inc. Seria C | 6,309 |
| Intesa Sanpaolo S.p.A. | 1,831 |
| S.W.I.F.T. | 65 |
| | 8,205 |
| | 520,416 |
| **Held-to-maturity investments** | |
| Government debt securities of EU countries | 376,472 |

The VUB Group 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 VUB Group classified them as 'Financial assets at fair value through other comprehensive income'.

The VUB Group 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 December 2018, bonds in the total nominal amount of € 599,935 thousand from FVOCI portfolio were pledged by the VUB Group 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 favor of the ECB within the pool of assets used as collateral for received funds needed for liquidity management purposes.

## 12. Financial assets and liabilities at amortised cost

### 12.1. Due from other banks

| € '000 | Note | 2018 | 2017 |
|---|---|---|---|
| Current accounts | 7 | 24,442 | 25,212 |
| Loans and advances: | | | |
| with contractual maturity over 90 days | | 72,098 | 34,028 |
| Cash collateral | | 31,110 | 31,746 |
| Impairment losses | 22 | (754) | (73) |
| | | 126,896 | 90,913 |

### 12.2. Due from customers

| 2018<br>€ '000 | Gross amount | Impairment losses (note 22) | Net amount |
|---|---|---|---|
| **Municipalities** | | | |
| Municipalities | 140,781 | (2,599) | 138,182 |
| Municipalities – Leasing | 547 | (2) | 545 |
| | 141,328 | (2,601) | 138,727 |
| **Corporate** | | | |
| Large Corporates | 2,144,957 | (5,484) | 2,139,473 |
| Large Corporates – debt securities | 53,360 | (619) | 52,741 |
| Specialized Lending | 848,312 | (46,630) | 801,682 |
| SME | 1,487,693 | (39,963) | 1,447,730 |
| Other Non-banking Financial Institutions | 480,611 | (265) | 480,346 |
| Public Sector Entities | 2,905 | (73) | 2,832 |
| Leasing | 258,736 | (17,200) | 241,536 |
| Factoring | 105,337 | (1,219) | 104,118 |
| | 5,381,911 | (111,453) | 5,270,458 |
| **Retail** | | | |
| Small Business | 265,987 | (13,377) | 252,610 |
| Small Business – Leasing | 13,243 | (400) | 12,843 |
| Consumer Loans | 1,726,500 | (201,242) | 1,525,258 |
| Mortgages | 6,172,729 | (34,081) | 6,138,648 |
| Credit Cards | 183,527 | (32,705) | 150,822 |
| Overdrafts | 96,511 | (8,586) | 87,925 |
| Leasing | 4,267 | (217) | 4,050 |
| Flat Owners Associations | 33,286 | (250) | 33,036 |
| | 8,496,050 | (290,858) | 8,205,192 |
| | 14,019,289 | (404,912) | 13,614,377 |

## 12. Financial assets and liabilities at amortised cost (continued)

| 2017<br>€ '000 | Gross amount | Impairment losses (note 22) | Net amount |
|---|---|---|---|
| **Sovereigns** | | | |
| Municipalities | 128,152 | (97) | 128,055 |
| Municipalities – Leasing | 442 | (1) | 441 |
| | 128,594 | (98) | 128,496 |
| **Corporate** | | | |
| Large Corporates | 1,720,127 | (5,677) | 1,714,450 |
| Specialized Lending | 748,099 | (40,322) | 707,777 |
| SME | 1,452,374 | (62,640) | 1,389,734 |
| Other Non-banking Financial Institutions | 293,158 | (1,386) | 291,772 |
| Public Sector Entities | 1,158 | (3) | 1,155 |
| Leasing | 257,361 | (15,760) | 241,601 |
| Factoring | 98,205 | (1,580) | 96,625 |
| | 4,570,482 | (127,368) | 4,443,114 |
| **Retail** | | | |
| Small Business | 257,572 | (12,913) | 244,659 |
| Small Business – Leasing | 10,894 | (393) | 10,501 |
| Consumer Loans | 1,715,269 | (165,222) | 1,550,047 |
| Mortgages | 5,341,959 | (25,402) | 5,316,557 |
| Credit Cards | 203,609 | (32,265) | 171,344 |
| Overdrafts | 101,710 | (9,346) | 92,364 |
| Leasing | 4,163 | (211) | 3,952 |
| Flat Owners Associations | 27,651 | (358) | 27,293 |
| Other | 12,403 | (1) | 12,402 |
| | 7,675,230 | (246,111) | 7,429,119 |
| | 12,374,306 | (373,577) | 12,000,729 |

At 31 December 2018, the 20 largest corporate customers represented a total balance of € 1,523,949 thousand (31 December 2017: € 1,470,348 thousand) or 11.19% (31 December 2017: 11.88%) of the gross loan portfolio.

### 12.3. Due to banks

| € '000 | 2018 | 2017 |
|---|---|---|
| Due to central banks: | | |
| Current accounts | 658 | 1,147 |
| Loans received from central banks | 247,860 | 248,874 |
| | 248,518 | 250,021 |
| Due to other banks: | | |
| Current accounts | 20,337 | 37,991 |
| Term deposits | 620,785 | 16,137 |
| Loans received from other banks | 301,765 | 453,003 |
| Cash collateral received | 610 | 11,629 |
| | 943,497 | 518,760 |
| | 1,192,015 | 768,781 |

At 31 December 2018, 'Loans received from central banks' contains three loans from National Bank of Slovakia in the nominal amount of € 100,000 thousand, € 100,000 thousand and € 50,000 thousand (31 December 2017: three loans in the nominal amount of € 100,000 thousand, € 100,000 thousand and € 50,000 thousand). The interest rate for all loans is - 0.4% (31 December 2017: - 0.4%) and the maturity is in 2020 and 2021 (31 December 2017: in 2020 and 2021). The principal and interests are due at maturity of loans.

## 12. Financial assets and liabilities at amortised cost (continued)

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

| € '000 | 2018 | 2017 |
|---|---|---|
| European Investment Bank | 152,790 | 185,599 |
| CIB Bank Zrt. | 50,001 | - |
| Intesa Sanpaolo Bank Ireland P. L. C. | 35,026 | 35,025 |
| Intesa Sanpaolo Bank Luxembourg S. A. | 30,123 | 30,124 |
| European Bank for Reconstruction and Development | 13,437 | 21,898 |
| Intesa Sanpaolo S. p. A. | 13,345 | 144,689 |
| Council of Europe Development Bank | 7,042 | 10,646 |
| Tatra banka, a. s. | - | 25,002 |
| Other | 1 | 20 |
| | 301,765 | 453,003 |

European Investment Bank

Loans from the European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2018, the balance comprised of fourteen loans in the nominal amount of € 50,000 thousand, € 10,904 thousand, € 8,750 thousand, € 8,286 thousand, € 7,479 thousand, € 2,856 thousand, € 1,827 thousand with variable interest rates and € 14,985 thousand, € 14,985 thousand, € 9,900 thousand, € 7,691 thousand, € 5,000 thousand, € 4,995 thousand, € 4,995 thousand with fix interest rate (31 December 2017: sixteen loans in the nominal amount of € 50,000 thousand, € 20,000 thousand, € 15,380 thousand, € 14,985 thousand, € 14,985 thousand, € 13,125 thousand, € 12,720 thousand, € 9,990 thousand, € 9,141 thousand, € 6,429 thousand, € 4,995 thousand, € 4,995 thousand, € 3,808 thousand, € 2,222 thousand, € 2,159 thousand and € 625 thousand) with interest rates between 0.00% and 1.73% (31 December 2017: 0.00% to 1.73%) and with maturity between 2019 and 2028 (31 December 2017: 2018 – 2028). The principal of the loans is payable on an annual or semi-annual basis or at maturity and the interest is payable semi-annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

CIB Bank Zrt.

The VUB Group received from CIB Bank Zrt. two loans both in the nominal amount of € 25,000 thousand. The variable interest rates of both loans were 0.08% as at 31 December 2018. The principal is payable at maturity in 2019 and the interest are payable monthly.

Intesa Sanpaolo Bank Ireland P. L. C.

Loans received as at 31 December 2018 and 31 December 2017 from the Intesa Sanpaolo Bank Ireland P. L. C. consisted of two loans in the nominal amount of € 25,000 thousand and € 10,000 thousand with the fixed interest rates 0.15% and 0.19%, both maturing in 2019. The principal is payable at maturity and the interest are payable annually.

Intesa Sanpaolo Bank Luxembourg S. A.

As at 31 December 2018 and 31 December 2017 loans from the Intesa Sanpaolo Bank Luxembourg S. A. consisted of two loans in the nominal amount of € 20,000 thousand and € 10,000 thousand. The fixed interest rates are 1.52% and 2.10%, respectively, the interest is payable quarterly and the principal is payable at the maturity of the loan contracts in 2019.

European Bank for Reconstruction and Development ('EBRD')

Loans received from the EBRD represented funds granted to support the energy savings in large corporations. At 31 December 2018, there were five loan arrangements concluded in the nominal amount of € 3,571 thousand, € 3,571 thousand, € 3,571 thousand, € 2,143 thousand and € 558 thousand (31 December 2017: five loan arrangements in the nominal amount of € 5,000 thousand, € 5,000 thousand, € 5,000 thousand, € 3,571 thousand and € 3,285 thousand). The maturity of the loans is between 2020 and 2023 (31 December 2017: 2020 – 2023). At 31 December 2017 the variable interest rates are in the range between 0.35% and 1.64% (31 December 2017: 0.35% – 1.63%). The frequency of the repayment of both the interest and the principal is semi-annual.

## 12. Financial assets and liabilities at amortised cost (continued)

Intesa Sanpaolo S. p. A.

At 31 December 2018, there were one loan arrangements concluded with the Parent Company (31 December 2017: eleven loan arrangements) in the nominal amount of € 13,000 thousand (31 December 2017: € 20,000 thousand, € 20,000 thousand, € 20,000 thousand, € 20,000 thousand, € 15,000 thousand, € 13,000 thousand, € 10,000 thousand, € 10,000 thousand, € 8,000 thousand, € 5,000 thousand and € 3,000 thousand) maturing in 2019 (31 December 2017: 2018 – 2019) and with the fixed interest rate in the range of 2.76% (31 December 2017: (0.31%) to 3.45%). The principal is payable at maturity of the loan and the interest is payable on an annual basis.

Council of Europe Development Bank

At 31 December 2018, loans from the Council of Europe Development Bank comprised of four loans in the nominal amount of € 2,667 thousand, € 2,000 thousand, € 1,500 thousand and € 874 thousand (31 December 2017: four loans in the nominal amount of € 3,333 thousand, € 3,000 thousand, € 3,000 thousand and € 1,311 thousand). The purpose of these loans is to fund SME projects and development of municipalities in the Slovak republic. The interest rates of these loans are linked to 3M Euribor and are between 0.15% and 0.30% at 31 December 2018 (31 December 2017: 0.14% – 0.31%)The maturity of the individual loans is between 2019 and 2022 (31 December 2017: 2019 – 2022). The interest is payable quarterly and the principal is payable on an annual basis.

Tatra banka, a. s.

As at 31 December 2017 the VUB Group had loan received from the Tatra banka, a. s. in the nominal amount of € 25,000 thousand with maturity in 2018 and the interest rate 0.65%. The principal was payable at maturity of the loan and the interest was payable on a monthly basis.

### 12.4. Due to customers

| **€ '000** | **2018** | **2017** |
|---|---|---|
| Current accounts | 7,395,934 | 6,407,771 |
| Term deposits | 2,475,038 | 2,576,930 |
| Government and municipal deposits | 850,893 | 513,664 |
| Savings accounts | 246,494 | 238,263 |
| Loans received | 76,201 | - |
| Promissory notes | - | 9,988 |
| Other deposits | 86,077 | 116,304 |
| | 11,130,637 | 9,939,121 |

## 12. Financial assets and liabilities at amortised cost (continued)

### 12.5. Subordinated debt

| € '000 | 2018 | 2017 |
|---|---|---|
| Subordinated debt | 200,181 | 200,164 |

At 31 December 2018, the balance of subordinated debt comprised of one 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. Maturity is in 2026. The variable interest rate was 2.96% as at 31 December 2018. 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.

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

| 2018<br>€ '000 | 1 January | Cash flow | Accruals | Non-cash changes<br>Re-valuation | Non-cash changes<br>Exchange difference | Other | 31 December |
|---|---|---|---|---|---|---|---|
| Subordinated debt | 200,164 | - | 17 | - | - | - | 200,181 |

| 2017<br>€ '000 | 1 January | Cash flow | Accruals | Non-cash changes<br>Re-valuation | Non-cash changes<br>Exchange difference | Other | 31 December |
|---|---|---|---|---|---|---|---|
| Subordinated debt | 200,165 | - | (1) | - | - | - | 200,164 |

### 12.6. Debt securities in issue

| € '000 | 2018 | 2017 |
|---|---|---|
| Covered bonds | 838,698 | 262,037 |
| Covered bonds subject to cash flow hedges | 80,378 | 281,063 |
| Covered bonds subject to fair value hedges | 1,388,658 | 1,696,454 |
| | 2,307,734 | 2,239,554 |
| Revaluation of fair value hedged covered bonds | 18,722 | 8,465 |
| Unamortized part of revaluation related to terminated fair value hedges | 5,797 | 4,361 |
| | 2,332,253 | 2,252,380 |

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the VUB Group (note 12.2.).

## 12. Financial assets and liabilities at amortised cost (continued)

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

| | | Cash flow | | Non-cash changes | | | | |
|---|---|---|---|---|---|---|---|---|
| **2018 € '000** | **1 January** | **Proceeds from issue** | **Repay-ments** | **Accruals** | **Re-valuation** | **Ex-change differ-rence** | **Other** | **31 Decem-ber** |
| Covered bonds | 2,252,380 | 300,000 | (235,545) | 2,618 | 10,259 | 2,541 | - | 2,332,253 |

| | | Cash flow | | Non-cash changes | | | | |
|---|---|---|---|---|---|---|---|---|
| **2017 € '000** | **1 January** | **Proceeds from issue** | **Repay-ments** | **Accruals** | **Re-valuation** | **Ex-change differ-rence** | **Other** | **31 Decem-ber** |
| Covered bonds | 1,715,308 | 750,000 | (186,155) | (1,754) | (19,557) | (5,415) | (47) | 2,252,380 |

## 12. Financial assets and liabilities at amortised cost (continued)

| Name | Interest rate % | Currency | Number in circulation as at 31 December 2018 | Nominal value in original currency per piece | Issue date | Maturity date | 2018 € '000 | 2017 € '000 |
|---|---|---|---|---|---|---|---|---|
| Mortgage bonds VÚB, a. s. XX. | 4.300 | EUR | 50 | 331,939 | 9.3.2006 | 9.3.2021 | 17,176 | 17,176 |
| Mortgage bonds VÚB, a. s. XXX. | 5.000 | EUR | 1,000 | 33,194 | 5.9.2007 | 5.9.2032 | 33,476 | 33,457 |
| Mortgage bonds VÚB, a. s. 31. | 4.900 | EUR | 600 | 33,194 | 29.11.2007 | 29.11.2037 | 19,738 | 19,724 |
| Mortgage bonds VÚB, a. s. 36. | 4.750 | EUR | 560 | 33,194 | 31.3.2008 | 31.3.2020 | 19,189 | 19,140 |
| Mortgage bonds VÚB, a. s. 43. | 5.100 | EUR | 500 | 33,194 | 26.9.2008 | 26.9.2025 | 16,165 | 16,067 |
| Mortgage bonds VÚB, a. s. 57. | 1.039 | EUR | 100 | 1,000,000 | 30.9.2010 | 30.9.2018 | - | 100,262 |
| Mortgage bonds VÚB, a. s. 58. | 1.531 | EUR | 80 | 1,000,000 | 10.12.2010 | 10.12.2019 | 80,073 | 80,071 |
| Mortgage bonds VÚB, a. s. 62. | 1.712 | EUR | 100 | 1,000,000 | 28.7.2011 | 28.7.2018 | - | 100,730 |
| Mortgage bonds VÚB, a. s. 67. | 5.350 | EUR | 300 | 50,000 | 29.11.2011 | 29.11.2030 | 15,071 | 15,071 |
| Mortgage bonds VÚB, a. s. 72. | 4.700 | EUR | 250 | 100,000 | 21.6.2012 | 21.6.2027 | 25,479 | 25,463 |
| Mortgage bonds VÚB, a. s. 73. | 4.200 | EUR | 500 | 100,000 | 11.7.2012 | 11.7.2022 | 50,838 | 50,795 |
| Mortgage bonds VÚB, a. s. 74. | 3.350 | EUR | 700 | 100,000 | 16.1.2013 | 15.12.2023 | 72,014 | 71,967 |
| Mortgage bonds VÚB, a. s. 75. | 2.000 | EUR | 300 | 100,000 | 5.4.2013 | 5.4.2019 | 30,447 | 30,456 |
| Mortgage bonds VÚB, a. s. 76. | 2.400 | EUR | - | 10,000 | 22.4.2013 | 22.4.2018 | - | 3,141 |
| Mortgage bonds VÚB, a. s. 77. | 1.800 | CZK | - | 100,000 | 20.6.2013 | 20.6.2018 | - | 19,759 |
| Mortgage bonds VÚB, a. s. 78. | 2.160 | EUR | 905 | 10,000 | 3.3.2014 | 3.3.2020 | 9,220 | 9,227 |
| Mortgage bonds VÚB, a. s. 79. | 2.000 | EUR | 10,000 | 1,000 | 24.3.2014 | 24.9.2020 | 10,154 | 10,154 |
| Mortgage bonds VÚB, a. s. 80. | 1.850 | EUR | 31 | 1,000,000 | 27.3.2014 | 27.3.2021 | 31,622 | 31,704 |
| Mortgage bonds VÚB, a. s. 81. | 2.550 | EUR | 38 | 1,000,000 | 27.3.2014 | 27.3.2024 | 39,425 | 39,556 |
| Mortgage bonds VÚB, a. s. 82. | 1.650 | EUR | 1,701 | 1,000 | 16.6.2014 | 16.12.2020 | 1,716 | 1,716 |
| Mortgage bonds VÚB, a. s. 83. | 0.900 | EUR | 500 | 100,000 | 28.7.2014 | 28.7.2019 | 50,151 | 50,088 |
| Mortgage bonds VÚB, a. s. 84. | 0.600 | EUR | 500 | 100,000 | 29.9.2014 | 30.9.2019 | 50,040 | 49,996 |
| Mortgage bonds VÚB, a. s. 85. | 2.250 | EUR | 500 | 100,000 | 14.11.2014 | 14.11.2029 | 49,628 | 49,581 |
| Mortgage bonds VÚB, a. s. 86. | 0.300 | EUR | 1,000 | 100,000 | 27.4.2015 | 27.4.2020 | 99,610 | 99,135 |
| Mortgage bonds VÚB, a. s. 87. | 1.250 | EUR | 1,000 | 100,000 | 9.6.2015 | 9.6.2025 | 98,281 | 97,916 |
| Mortgage bonds VÚB, a. s. 88. | 0.500 | EUR | 965 | 100,000 | 11.9.2015 | 11.9.2020 | 96,704 | 96,733 |
| Mortgage bonds VÚB, a. s. 89. | 1.200 | EUR | 1,000 | 100,000 | 29.9.2015 | 29.9.2025 | 99,456 | 99,338 |
| Mortgage bonds VÚB, a. s. 90. | 1.600 | EUR | 1,000 | 100,000 | 29.10.2015 | 29.10.2030 | 98,192 | 98,011 |
| Mortgage bonds VÚB, a. s. 91. | 0.600 | EUR | 1,000 | 100,000 | 21.3.2016 | 21.3.2023 | 100,066 | 99,972 |

(Table continues on the next page)

## 12. Financial assets and liabilities at amortised cost (continued)

| Name | Interest rate % | Currency | Number in circulation as at 31 December 2018 | Nominal value in original currency per piece | Issue date | Maturity date | 2018 € '000 | 2017 € '000 |
|---|---|---|---|---|---|---|---|---|
| Mortgage bonds VÚB, a. s. 92. | 1.700 | USD* | 700 | 100,000 | 27.6.2016 | 27.6.2019 | 48,433 | 58,779 |
| Mortgage bonds VÚB, a. s. 93. | 0.500 | EUR | 2,500 | 100,000 | 18.1.2017 | 18.1.2024 | 248,641 | 248,139 |
| Mortgage bonds VÚB, a. s. 94. | 1.050 | EUR | 2,500 | 100,000 | 27.4.2017 | 27.4.2027 | 248,253 | 247,830 |
| Mortgage bonds VÚB, a. s. 95. | 0.375 | EUR | 2,500 | 100,000 | 26.9.2017 | 26.9.2022 | 248,789 | 248,401 |
| Covered bonds VÚB, a. s. 1 | 0.500 | EUR | 2,500 | 100,000 | 26.6.2018 | 26.6.2023 | 249,605 | - |
| Covered bonds VÚB, a. s. 2 | 1.500 | EUR | 500 | 100,000 | 5.10.2018 | 15.12.2027 | 50,082 | - |
| | | | | | | | 2,307,734 | 2,239,555 |

* The VUB Group issued the mortgage bonds in USD due to lower funding costs in USD, funding needs in USD and interests from investor side regarding securities denominated in USD.

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

| **€ '000** | **2018** |
|---|---|
| Financial assets at AC: | |
| Due from customers | |
| Corporate | 147 |
| Retail | |
| Mortgages | 9,036 |
| | 9,183 |
| Financial liabilities at AC: | |
| Due to banks | (18) |
| Due to customers | 1,517 |
| | 1,499 |

## 14. Investments in joint ventures and associates

| **2018**<br>**€ '000** | **Share** | **Cost** | **Revaluation** | **Carrying amount** |
|---|---|---|---|---|
| VÚB Generali | 50.00% | 16,597 | (7,920) | 8,677 |
| SBCB | 33.33% | 3 | 78 | 81 |
| | | 16,600 | (7,842) | 8,758 |

| **2017**<br>**€ '000** | **Share (%)** | **Cost** | **Revaluation** | **Carrying amount** |
|---|---|---|---|---|
| VÚB Generali | 50.00% | 16,597 | (7,692) | 8,905 |
| SBCB | 33.33% | 3 | 64 | 67 |
| | | 16,600 | (7,628) | 8,972 |

SBCB is associates of the VUB Group for which equity method of consolidation is used.

VÚB Generali is a joint arrangement in which the Group has a joint control and a 50% ownership interest. The company was founded in 2004 by VUB Bank and Generali Poisťovňa, a. s. and it is structured as a separate vehicle in which the Group has a residual share on net assets. Accordingly, the Group has classified its interest in VÚB Generali as a joint venture which is also equity-accounted.

VÚB Generali and SBCB are incorporated in the Slovak Republic.

## 14. Investments in joint ventures and associates (continued)

The following is summarised selected financial information of the VUB Group's associates and joint ventures together with the reconciliation to the carrying amount of the VUB Group's interest in these companies:

| € '000 | 2018 VÚB Generali | 2018 SBCB | 2017 VÚB Generali | 2017 SBCB |
|---|---|---|---|---|
| Net profit for the year* | 4,233 | 44 | 3,895 | 52 |
| Other comprehensive income | (690) | - | 437 | - |
| Total comprehensive income for the year | 3 543 | 44 | 4,332 | 52 |
| Assets** | 18,216 | 241 | 18,745 | 225 |
| Liabilities | (856) | (6) | (936) | (25) |
| Equity | 17,360 | 235 | 17,809 | 200 |
| VUB Group's interest on equity at 1 January | 8,905 | 67 | 8,739 | 49 |
| Share of profit/(loss) | 2,117 | 14 | 1,948 | 18 |
| Share of other comprehensive income | (345) | - | 218 | - |
| Dividends received during the year | (2,000) | - | (2,000) | - |
| VUB Group's interest on equity at 31 December | 8,677 | 81 | 8,905 | 67 |
| Carrying amount at 31 December | 8,677 | 81 | 8,905 | 67 |
| * includes: Interest income | 372 | - | 327 | - |
| Depreciation and amortization | (92) | (2) | (85) | (8) |
| Income tax expense | (1,133) | - | (1,042) | (3) |
| ** includes: Cash and cash equivalents | 12 | 7 | 3 | 3 |

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

| 2018<br>€ '000 | Buildings and land | Equipment | Other tangibles | Assets in progress | Total |
|---|---|---|---|---|---|
| **Cost or revalued amount** | | | | | |
| At 1 January | 103,635 | 62,138 | 49,609 | 4,042 | 219,424 |
| Additions | 7 | 4 | 4 | 11,386 | 11,403 |
| Disposals | (2,701) | (7,801) | (6,104) | - | (16,606) |
| Transfers | 246 | 2,599 | 7,195 | (10,040) | - |
| Revaluation | 2 | - | - | - | - |
| Exchange differences | (1) | - | - | - | (1) |
| At 31 December | 101,188 | 56,940 | 50,704 | 5,388 | 214,220 |
| **Accumulated depreciation** | | | | | |
| At 1 January | - | (57,328) | (35,157) | - | (92,485) |
| Depreciation for the period | (4,764) | (2,641) | (3,403) | - | (10,808) |
| Disposals | 2,621 | 7,780 | 4,494 | - | 14,895 |
| Transfers | - | 265 | (265) | - | - |
| At 31 December | (2,143) | (51,924) | (34,331) | - | (88,398) |
| **Impairment losses** | | | | | |
| At 1 January | - | - | (91) | - | (91) |
| Creation | (7,090) | - | (36) | - | (7,126) |
| At 31 December | (7,090) | - | (127) | - | (7,217) |
| **Carrying amount** | | | | | |
| **At 1 January** | 103,635 | 4,810 | 14,361 | 4,042 | 126,848 |
| **At 31 December** | 91,955 | 5,016 | 16,246 | 5,388 | 118,605 |

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

| 2017<br>€ '000 | Buildings and land | Equipment | Other tangibles | Assets in progress | Total |
|---|---|---|---|---|---|
| **Cost or revalued amount** | | | | | |
| At 1 January | 201,806 | 67,934 | 50,861 | 4,118 | 324,719 |
| Additions | - | - | - | 11,500 | 11,500 |
| Disposals | (3,249) | (7,441) | (4,406) | - | (15,096) |
| Transfers | 1,020 | 1,640 | 3,150 | (11,576) | (5,666) |
| Exchange differences | 6 | 5 | 4 | - | 15 |
| Revaluation | 27,805 | - | - | - | 27,468 |
| Other* | (123,853) | - | - | - | (122,733) |
| At 31 December | 103,635 | 62,138 | 49,609 | 4,042 | 219,424 |
| **Accumulated depreciation** | | | | | |
| At 1 January | (111,587) | (61,494) | (36,236) | - | (209,317) |
| Depreciation for the year | (5,871) | (3,324) | (2,939) | - | (12,134) |
| Disposals | 2,571 | 7,494 | 3,150 | - | 13,215 |
| Exchange differences | (6) | (4) | (4) | - | (14) |
| Other* | 114,893 | - | - | - | 114,893 |
| At 31 December | - | (57,328) | (35,157) | - | (92,485) |
| **Impairment losses (note 21)** | | | | | |
| At 1 January | (10,502) | - | (47) | - | (10,549) |
| Creation | - | - | (44) | - | (44) |
| Release | 1,542 | - | - | - | 1,542 |
| Other* | 8,960 | - | - | - | 8,960 |
| At 31 December | - | - | (91) | - | (91) |
| **Carrying amount** | | | | | |
| **At 1 January** | 79,717 | 6,440 | 14,578 | 4,118 | 104,853 |
| **At 31 December** | 103,635 | 4,810 | 14,361 | 4,042 | 126,848 |

* 'Other' represents elimination of the accumulated depreciation and impairment losses to 'Buildings and land' due to application of revaluation model.

In 2018 the VUB Group reviewed the carrying amount of its buildings. An impairment test was carried out to determine the recoverable amount of these assets which was based on the fair value less costs to sell. As a result of the impairment test the VUB Group recognized an impairment loss in total amount of € 7,090 thousand (31 December 2017: € 8,960 thousand).

At 31 December 2017, the VUB Group changed the accounting policy for 'Buildings and land', before evaluated from the cost to the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The VUB Group used income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs. The impact of the revaluation model on equity was in the total amount of € 21,966 thousand and on profit in the amount of € 1,521 thousand due to release of previously booked impairment.

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

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

| € '000 | 2018 | 2017 |
|---|---|---|
| Cost | 174,242 | 199,683 |
| Accumulated depreciation | (98,506) | (114,893) |
| Impairment losses | (10,438) | (10,481) |
| | 65,298 | 74,309 |

At 31 December 2018 and 31 December 2017, the VUB Group held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

| € '000 | 2018 | 2017 |
|---|---|---|
| Cost | 35,141 | - |
| Accumulated depreciation | (1,129) | - |
| Impairment losses | (7,090) | - |
| | 26,922 | - |

At 31 December 2018, the gross book value of fully depreciated tangible assets that are still used by the VUB Group amounted to € 84,232 thousand (31 December 2017: € 92,881 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

At 31 December 2018, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2017: € nil thousand).

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

## 16. Intangible assets

| 2018<br>€ '000 | Software | Other intangible assets | Assets in progress | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January | 239,425 | 19,483 | 24,238 | 283,146 |
| Additions | - | - | 25,212 | 25,212 |
| Disposals | (137) | (8,983) | (137) | (9,257) |
| Transfers | 12,622 | 334 | (12,956) | - |
| Exchange differences | (3) | (1) | - | (4) |
| At 31 December | 251,907 | 10,833 | 36,357 | 299,097 |
| **Accumulated amortisation** | | | | |
| At 1 January | (184,525) | (18,521) | - | (203,046) |
| Amortization for the year | (12,059) | (389) | - | (12,448) |
| Disposals | 274 | 8,983 | - | 9,257 |
| Exchange differences | 2 | 1 | - | 3 |
| At 31 December | (196,308) | (9,926) | - | (206,234) |
| **Carrying amount** | | | | |
| **At 1 January** | 54,900 | 962 | 24,238 | 80,100 |
| **At 31 December** | 55,599 | 907 | 36,357 | 92,863 |

## 16. Intangible assets (continued)

| **2017**<br>**€ '000** | **Software** | **Other intangible assets** | **Assets in progress** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January | 225,845 | 55,440 | 21,009 | 302,294 |
| Additions | 35 | - | 23,802 | 23,837 |
| Disposals | (6,843) | (36,181) | - | (43,024) |
| Transfers | 20,355 | 218 | (20,573) | - |
| Exchange differences | 33 | 6 | - | 39 |
| At 31 December | 239,425 | 19,483 | 24,238 | 283,146 |
| **Accumulated amortisation** | | | | |
| At 1 January | (179,052) | (54,354) | - | (233,406) |
| Amortisation for the year | (12,290) | (345) | - | (12,635) |
| Disposals | 6,843 | 36,181 | - | 43,024 |
| FX differences | (26) | (3) | - | (29) |
| At 31 December | (184,525) | (18,521) | - | (203,046) |
| **Carrying amount** | | | | |
| **At 1 January** | 46,793 | 1,086 | 21,009 | 68,888 |
| **At 31 December** | 54,900 | 962 | 24,238 | 80,100 |

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

At 31 December 2018, the gross book value of fully amortised intangible assets that are still used by the VUB Group amounted to € 141,298 thousand (31 December 2017: € 138,033 thousand).

At 31 December 2018, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2017: € 1,833 thousand).

## 17. Goodwill

| **€ '000** | **2018** | **2017** |
|---|---|---|
| VÚB Leasing, a. s. | 10,434 | 10,434 |
| Consumer Finance Holding, a. s. | 18,871 | 18,871 |
| | 29,305 | 29,305 |

Goodwill related to VÚB Leasing includes both goodwill related to the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million) from 2007 and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million from 2010).

Goodwill related to Consumer Finance Holding, a. s. arose in 2005 on the acquisition of CFH, the VUB Group's consumer finance subsidiary.

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

The VUB Group uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on the ISP Group level specifically for the Slovak market.

## 17. Goodwill (continued)

The following rates are used by the VUB Group:

| € '000 | 2018 | 2017 |
|---|---|---|
| Discount rate - cash flows | 6.39% | 7.66% |
| Discount rate - terminal value | 7.81% | 8.62% |
| Projected growth rate | 4.48% | 4.40% |

The calculation considers the following key assumptions:

- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

## 18. Current and deferred income tax assets and liabilities

| € '000 | 2018 | 2017 |
|---|---|---|
| Current income tax assets | 1,181 | 9,478 |
| Deferred income tax assets | 70,731 | 53,779 |
| Current income tax liabilities | 10,724 | - |

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

| € '000 | 2018 | Profit/ (loss) (note 35) | Equity | Impact of adopting IFRS 9 | 2017 |
|---|---|---|---|---|---|
| Derivative financial instruments designated as cash flow hedges | 2 | - | 145 | - | (143) |
| Financial assets at FVOCI | (1,452) | - | 9,152 | (10,604) | - |
| Available-for-sale financial assets | - | - | 1,181 | - | (1,181) |
| Financial assets at AC: | | - | - | - | |
| Due from other banks | 159 | 42 | - | 101 | 16 |
| Due from customers | 78,195 | 12,189 | - | 9,491 | 56,515 |
| | 78,354 | 12,231 | - | 9,592 | 56,531 |
| Property and equipment | (5,487) | 5,333 | (71) | - | (10,749) |
| Other assets | 7 | - | - | 7 | - |
| Provisions | 616 | (137) | - | (315) | 1,068 |
| Other liabilities | 9,785 | 536 | - | - | 9,249 |
| Other | (11,094) | (10,239) | 55 | 86 | (996) |
| Deferred income tax assets | 70,731 | 7,724 | 10,462 | (1,234) | 53,779 |

## 19. Other assets

| € '000 | Note | 2018 | 2017 |
|---|---|---|---|
| Operating receivables and advances | | 17,836 | 15,013 |
| Prepayments and accrued income | | 5,664 | 7,008 |
| Other tax receivables | | 1,504 | 1,315 |
| Inventories | | 1,393 | 1,819 |
| Receivables from termination of leasing | | 42 | 3 |
| Settlement of operations with financial instruments | | 9 | 7 |
| Other | | 637 | 632 |
| Impairment losses | 22 | (3,338) | (2,669) |
| | | 23,747 | 23,128 |

## 20. Provisions

| € '000 | Note | 2018 | 2017 |
|---|---|---|---|
| Financial guarantees and commitments | 22 | 14,380 | 19,781 |
| Litigation | 23, 25 | 9,408 | 8,991 |
| Restructuring provision | 23 | 924 | 924 |
| Other provisions | 23 | 11 | 47 |
| | | 24,723 | 29,743 |

## 21. Other liabilities

| € '000 | 2018 | 2017 |
|---|---|---|
| Various creditors | 51,771 | 43,448 |
| Settlement with employees | 33,314 | 27,493 |
| Severance and Jubilee benefits | 5,411 | 4,729 |
| Accruals and deferred income | 2,749 | 5,367 |
| VAT payable and other tax payables | 2,313 | 2,583 |
| Settlement with shareholders | 1,723 | 1,508 |
| Share remuneration scheme | 440 | 850 |
| Investment certificates | 434 | 449 |
| Settlement of operations with financial instruments | 1 | 25 |
| Factoring | - | 9,096 |
| Other | 1,233 | 368 |
| | 99,389 | 95,916 |

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

## 21. Other liabilities (continued)

Severance and Jubilee benefits are discounted to determine their 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. For the calculation there was used an average turnover rate which is based on historical data on employees' turnover at the VUB Group for the last three years. The average age-specific turnover rate is calculated as the ratio of number of terminations and the average number of employees. All employees of the VUB Group are covered by the retirement and jubilee employee benefits program.

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Jubilee benefits** | **Retirement benefits** | **Jubilee benefits** | **Retirement benefits** |
| Discount rate | (0.28%) | 1.23% | (0.35%) | 0.94% |
| Growth of wages* | - | 4.00% | - | 3.50% |
| Future growth of wages* | - | 4.00% | - | 3.50% |
| Fluctuation of employees (based on age) | 6.1% – 41.6% | 6.1% – 41.6% | 5.7% – 36.8% | 5.7% – 36.8% |
| Retirement age | Based on valid legislation | | Based on valid legislation | |
| Mortality | Based on mortality tables issued by the Statistical Office of the Slovak Republic | | 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.

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

| **2018**<br>**€ '000** | **1 January** | **Creation (note 32)** | **Use** | **31 December** |
|---|---|---|---|---|
| Social fund | 614 | 3,919 | (1,733) | 2 801 |

| **2017**<br>**€ '000** | **1 January** | **Creation (note 32)** | **Use** | **31 December** |
|---|---|---|---|---|
| Social fund | 702 | 1,483 | (1,571) | 614 |

## 22. Movements in impairment losses

| **2018**<br>**€ '000** | **Note** | **31 December 2017** | **FTA** | **1 January** | **Net creation (note 34)** | **Assets written-off/sold** | **Exchange difference** | **Other*** | **31 December** |
|---|---|---|---|---|---|---|---|---|---|
| Financial assets at FVOCI | | - | 226 | 226 | (92) | - | - | - | 134 |
| Financial assets at AC: | 12 | | | | | | | | |
| Due from other banks | | 73 | 482 | 555 | 130 | - | 69 | - | 754 |
| Due from customers | | 373,577 | 45,604 | 419,181 | 59,375 | (61,877) | (1,271) | (10,496) | 404,912 |
| | | 373,650 | 46,086 | 419,736 | 59,505 | (61,877) | (1,202) | (10,496) | 405,666 |
| Property and equipment and Non-current assets classified as held for sale | 15 | 91 | - | 91 | 7,126 | - | - | - | 7,217 |
| Other assets | 19 | 2,669 | 32 | 2,701 | 205 | - | - | 432 | 3,338 |
| Financial guarantees and commitments | 20, 35 | 19,781 | (1,498) | 18,283 | (5,347) | - | 1,450 | - | 14,386 |
| | | 396,191 | 44,846 | 441,037 | 61,397 | (61,877) | 248 | (10,064) | 430,741 |

## 22. Movements in impairment losses (continued)

| 2017<br>€ '000 | Note | 1 January | Net creation (note 34) | Assets written-off/sold | Exchange difference | Other* | 31 December |
|---|---|---|---|---|---|---|---|
| Financial assets at AC: | 12 | | | | | | |
| Due from other banks | | 18 | 55 | - | - | - | 73 |
| Due from customers | | 394,136 | 65,614 | (74,119) | (1,662) | (10,392) | 373,577 |
| | | 412,136 | 248,618 | (74,119) | (1,662) | (10,392) | 373,650 |
| Property and equipment and Non-current assets classified as held for sale | 15 | 10,549 | (1,498) | - | - | (8,960) | 91 |
| Other assets | 18 | 2,483 | 187 | - | - | (1) | 2,669 |
| Financial guarantees and commitments | 20, 35 | 20,552 | (1,391) | - | 620 | - | 19,781 |
| | | 445,720 | 245,916 | (74,119) | (1,042) | (19,353) | 396,191 |

* 'Other' represents:

- The elimination of impairment losses to 'Buildings and land' due to application of revaluation model (note 14);
- Change in reporting due to merger with CFH the on the line 'Other assets'.

## 23. Movements in provisions

| 2018<br>€ '000 | Note | 1 January | Net creation | Use | Other | 31 December |
|---|---|---|---|---|---|---|
| Litigation | 20, 25, 34 | 8,991 | 390 | (14) | 41 | 9,408 |
| Restructuring provision | 20, 34 | 924 | 1,210 | (1,210) | - | 924 |
| Other provisions | 20, 34 | 47 | 11 | (47) | - | 11 |
| | | 28,239 | 1,611 | (1,271) | 41 | 10,343 |

| 2017<br>€ '000 | Note | 1 January | Net creation | Use | Other | 31 December |
|---|---|---|---|---|---|---|
| Litigation | 20, 25, 34 | 25,514 | (16,425) | (98) | - | 8,991 |
| Restructuring provision | 20, 34 | 425 | 710 | (238) | - | 924 |
| Other provisions | 20, 34 | 35 | 12 | - | - | 47 |
| | | 25,974 | (15,703) | (336) | - | 9,962 |

## 24. Equity

| **€ '000** | **2018** | **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 | 116,472 | 127,548 |
| Retained earnings (excluding net profit for the year) | 892,625 | 885,503 |
| | 1,453,635 | 1,421,589 |

In accordance with the law and statutes of the VUB Group, the VUB Group 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 VUB Group.

| **€ '000** | **2018** | **2017** |
|---|---|---|
| Net profit for the year attributable to shareholders | 160,318 | 174,997 |

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** | **2018** | **2017** |
|---|---|---|
| Intesa Sanpaolo Holding International S. A. | 97.03% | 97.03% |
| Domestic shareholders | 2.08% | 2.08% |
| Foreign shareholders | 0.89% | 0.89% |
| | 100.00% | 100.00% |

The rights and responsibilities of shareholders are set out in the legal regulations and the Articles of Association of the Company. The right of a shareholder to participate in the management of the Bank, the right to a share of the profits and the right to a share of the liquidation balance, in the event of the winding up of the Bank with liquidation, are attached to a registered share. Each shareholder is entitled to attend the General Meeting, to vote, to request information and seek explanations and submit proposals. The number of votes allocated to each shareholder is determined by the ratio of the nominal value of its share to the amount of registered capital. A shareholder may exercise the shareholder rights attached to book-entered shares at the General Meeting if the shareholder is entitled to exercise these rights as of the decisive date specified in the invitation to the General Meeting. The exercise of a shareholder's voting rights may only be restricted or suspended by the law. The shares are freely transferable by registration of transfer in line with relevant regulation. The General Meeting of the Company as the main decision making body of the Company is entitled to decide on share issues or on the acquisition of the Company's own shares.

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

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

## 24. Equity (continued)

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

| **€ '000** | **2018** | **2017** |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | 430,819 | 430,819 |
| Share premium | 13,719 | 13,719 |
| Retained earnings* | 883,379 | 877,040 |
| Other reserves | 98,232 | 108,517 |
| Accumulated other comprehensive income | 27,493 | 26,056 |
| Fair value gains and losses arising from the VUB Group's own credit risk related to derivative liabilities | (6) | 531 |
| Other transitional adjustments to CET 1 Capital | 42,633 | - |
| CET 1 capital elements or deductions – other | (2,872) | - |
| Less goodwill and intangible assets | (122,168) | (109,405) |
| | 1,371,229 | 1,347,277 |
| **Tier 2 capital** | | |
| IRB excess of provisions over expected losses eligible | 21,091 | 10,736 |
| Subordinated debt | 200,000 | 200,000 |
| Other transitional adjustments to T2 Capital | (9,767) | - |
| | 211,323 | 210,736 |
| **Total regulatory capital** | 1,582,552 | 1,558,013 |

* Excluding net profit for the year and other capital funds.

| **€ '000** | **2018** | **2017** |
|---|---|---|
| Retained earnings | 883,379 | 877,040 |
| Net profit for the year | 160,318 | 174,997 |
| Other capital funds | 8,464 | 8,464 |
| | 1,052,943 | 1,060,501 |

| **€ '000** | **2018** | **2017** | **2018 Required** | **2017 Required** |
|---|---|---|---|---|
| Tier 1 capital | 1,371,229 | 1,347,277 | 736,961 | 683,392 |
| Tier 2 capital | 211,323 | 210,736 | 211,323 | 210,736 |
| **Total regulatory capital** | 1,582,552 | 1,558,013 | 736,961 | 894,128 |
| **Total Risk Weighted Assets** | 9,212,015 | 8,542,395 | 9,212,015 | 8,542,395 |
| CET 1 capital ratio | 14.89% | 15.77% | 12.50% | 11.75% |
| Total capital ratio | 17.18% | 18.24% | 15.00% | 14.25% |

## 24. Equity (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, accumulated other comprehensive income, foreign currency translation and reserves. The distracted amounts in Tier 1 capital are goodwill, intangible assets and IPC commitments (contribution to SRF). 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 December 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 2018, the overall capital requirement the VUB Group has to meet in terms of Common Equity Tier 1 ratio is 10.25%. This is the result of:

- 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;
- 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%.

For the sake of completeness, please note that 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% and 1.25% since 1 August 2018 (bringing the total CET 1 capital requirement to 11.75% since 1 January 2018 and 12.5% since 1 August 2018 including Pillar 2 Capital Guidance buffer of 1%).

The Overall Capital Requirement was as of 1 January 2018 set at 14.25%, 15% from 1 August 2018 and 15.25% from 1 August 2019.

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

Internally, within Risk Appetite framework, the VUB Group has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

## 25. Financial commitments and contingencies

### 25.1. Issued guarantees and Commitments and undrawn credit facilities

| € '000 | 2018 | 2017 |
|---|---|---|
| Issued guarantees | 772,588 | 783,667 |
| Commitments and undrawn credit facilities | 3,165,991 | 2,779,312 |
| of which revocable | 310,169 | 293,630 |
| | 3,938,579 | 3,562,979 |

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

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

## 25. Financial commitments and contingencies (continued)

### 25.2. Lease obligations

The VUB Group enters into operating lease agreements for cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 December 2018 and 31 December 2017 was as follows:

| € '000 | 2018 | 2017 |
|---|---|---|
| Up to 1 year | - | 33 |

### 25.3. Operating lease – the Group as a lessor

The VUB Group has entered into a number of non-cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 31 December 2018 and 31 December 2017 are as follows:

| € '000 | 2018 | 2017 |
|---|---|---|
| Up to 1 year | 3,531 | 3,122 |
| 1 to 5 years | 4,074 | 3,980 |
| | 7,605 | 7,102 |

### 25.4. Legal proceedings

In the normal course of business, the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2018. Pursuant to this review, management has recorded total provisions of € 9,408 thousand (31 December 2017: € 8,991 thousand) in respect of such legal proceedings (see also note 20). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 32,039 thousand, as at 31 December 2018 (31 December 2017: € 27,909 thousand). This amount represents existing legal proceedings against the VUB Group that will most probably not result in any payments due by the VUB Group.

| € '000 | 2018 | 2017 |
|---|---|---|
| Legal proceedings for damages | 5,589 | 5,390 |
| Legal proceedings related to leasing contracts | 2,833 | 2,660 |
| Legal proceedings on credit collection | 593 | 583 |
| Legal proceedings related to credit contracts | 392 | 336 |
| Legal proceedings to rates, interests calculation and other economic conditions applied | 1 | 1 |
| Legal proceedings related to credit positions sold | - | 21 |
| | 9,408 | 8,991 |

## 26. Net interest income

| **€ '000** | **2018** | **2017** |
|---|---|---|
| **Interest and similar income** | | |
| Financial assets at fair value through other comprehensive income | 17,838 | - |
| Available-for-sale financial assets | - | 8,749 |
| Held-to-maturity investments | - | 17,209 |
| Financial assets at amortized cost: | | |
| Due from other banks | 12,159 | 3,207 |
| Due from customers | 394,156 | 412,995 |
| | 406,315 | 416,202 |
| Derivatives - Hedge accounting | (9,912) | (9,515) |
| Interest income on liabilities | 2,157 | 1,496 |
| | 416,398 | 434,140 |
| **Interest and similar expense** | | |
| Financial liabilities measured at amortized cost: | | |
| Due to banks | (2,766) | (3,498) |
| Due to customers and subordinated debt | (19,197) | (20,412) |
| Debt securities in issue | (33,697) | (32,748) |
| | (55,660) | (56,658) |
| Derivatives - Hedge accounting | 7,177 | 6,803 |
| Interest expense on assets | (1,216) | (372) |
| | (49,699) | (50,227) |
| | 366,699 | 383,913 |

Interest income on impaired loans and advances to customers for 2018 amounted to € 12,802 thousand (2017: € 19,291 thousand).

## 27. Net fee and commission income

Nature and timing of satisfaction of performance obligations, including significant payment terms:

**Current accounts**

Fees for ongoing account management are charged to the customer's account on a monthly basis. The VUB Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.

**Cards**

Credit card and debit card fees relate to both fees for issuance of credit card for the period of card's validity as well as fees for specific transactions.

**Payments and cash management**

Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.

**Loans**

Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration.

They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the VUB Group.

**Indirect deposits**

These fees mainly relate to providing VUB Group's retail network for the mediation of investments into funds. These fees are paid to the VUB Group by VÚB Asset Management, správ. spol., a. s. Since the VUB Group does not have any ongoing performance obligation regarding these fees, they are recognised in full when charged.

**Insurance**

The VUB Group provides insurance mediation along with selling its products. Except for life insurance mediation, only aliquote part of commission is sent by the insurance company on monthly basis, therefore the Bank only recognises aliquot part of commission as income with the passage of time. In case client cancels insurance contract with insurance company, the insurance company stops paying the aliquot part of the commission and the VUB Group therefore stops to recognise these fees. The VUB Group is not liable to return aliquote part of commissions recognised in fees to insurance company.

Regarding life insurance mediation the VUB Group is exposed to clawbacks if client cancels the insurance contract within certain periods. The Bank calculated effect of IFRS 15 impact and evaluated this impact as non-material and continues to recognise income on these fees as the related mediation service is provided.

**Trade finance, Structured finance**

Fees for loan commitments which are not expected to result in the draw-down of a loan are recognised on a straight-line basis over the commitment period.

Administration of a loan syndication, execution of client transactions with exchanges and securities underwriting, charges for premature termination of loans and other are charged when transaction takes place.

**Factoring**

Services related to factoring include:
- Facility commitment, where fee is recognised on a straight-line basis over the commitment period;
- Invoice processing fee, where fixed amount for each processed invoice is charged;
- Factoring fee, where fee represent a percentage on total receivable amount factored.

## 27. Net fee and commission income (continued)

Revenue recognition under IFRS 15 (applicable from 1 January 2018):

| | |
|---|---|
| **Current accounts** | Revenue from account service and servicing fees is recognised over time as the services are provided. |
| **Cards** | Revenue from card issuance is recognised over time as the services are provided. |
| | Revenue related to transactions is recognised at the point in time when the transaction takes place. |
| **Payments and cash management** | Revenue related to transactions is recognised at the point in time when the transaction takes place. |
| **Loans** | Overdraft fee is recognised on a straight-line basis over the overdraft duration. |
| | Revenue related to transactions is recognised at the point in time when the transaction takes place. |
| **Indirect deposits** | Revenue related to transactions is recognised at the point in time when the transaction takes place. |
| **Insurance** | Revenue from insurance mediation services is recognised over time for the duration of contract, except for life insurance mediation where service fee is recognised when service is provided and clawbacks are recognised when they occur. |
| **Trade finance, Structured finance** | Loan commitment fee is recognised on a straight-line basis over the commitment period. |
| | Revenue related to transactions is recognised at the point in time when the transaction takes place. |
| **Factoring** | Facility fee is recognised on a straight-line basis over the commitment period. |
| | Revenues related to invoice processing and factoring fee are recognised at the point in time when the transaction takes place. |

## 27. Net fee and commission income (continued)

| 2018<br>€ '000 | Retail Banking | Corporate Banking | Central Treasury | Other | Total |
|---|---|---|---|---|---|
| **Fee and commission income** | | | | | |
| Current accounts | 39,029 | 3,108 | - | 7 | 42,144 |
| Cards | 38,901 | 349 | - | - | 39,250 |
| Payments and cash management | 11,037 | 6,485 | 372 | 5 | 17,899 |
| Loans | 7,606 | 7,463 | - | 863 | 15,932 |
| Indirect deposits | 15,006 | - | - | - | 15,006 |
| Insurance | 11,730 | 5 | - | - | 11,735 |
| Trade finance | 19 | 6,971 | 2,738 | - | 9,728 |
| Structured finance | - | 1,677 | - | - | 1,677 |
| Factoring | - | 1,503 | - | - | 1,503 |
| Other | 681 | 1,799 | 30 | 305 | 2,815 |
| | 124,009 | 29,360 | 3,140 | 1,180 | 157,689 |
| **Fee and commission expense** | | | | | |
| Cards | (23,125) | - | - | - | (23,125) |
| Payments and cash management | (31) | (8) | (874) | (449) | (1,362) |
| Current accounts | - | - | - | (517) | (517) |
| Insurance | (376) | - | - | - | (376) |
| Factoring | - | (295) | - | - | (295) |
| Indirect deposits | (9) | (30) | - | - | (39) |
| Other | (223) | - | (99) | (3,715) | (4,037) |
| | (23,764) | (333) | (973) | (4,681) | (29,751) |
| **Net fee and commission income** | 100,245 | 29,027 | 2,167 | (3,501) | 127,938 |

| 2017<br>€ '000 | Retail Banking | Corporate Banking | Central Treasury | Other | Total |
|---|---|---|---|---|---|
| **Fee and commission income** | | | | | |
| Current Accounts | 39,430 | 3,044 | - | 10 | 42,484 |
| Cards | 37,816 | 270 | - | - | 38,086 |
| Loans | 6,766 | 8,265 | - | 26 | 15,057 |
| Payments & Cash management | 9,364 | 5,057 | 410 | 1 | 14,832 |
| Indirect Deposits | 13,257 | - | - | - | 13,257 |
| Insurance | 12,575 | 1 | - | - | 12,576 |
| Trade Finance | 6 | 8,279 | 1,740 | - | 10,025 |
| Factoring | - | 1,475 | - | - | 1,475 |
| Structured Finance | - | 1,102 | - | - | 1,102 |
| Other | 491 | 346 | 1,297 | - | 2,134 |
| | 119,705 | 27,839 | 3,447 | 37 | 151,028 |
| **Fee and commission expense** | | | | | |
| Cards | (14,180) | - | - | - | (14,180) |
| Payments & Cash management | (31) | (2) | (319) | (432) | (784) |
| Current Accounts | - | - | - | (555) | (555) |
| Loans | (8,143) | - | - | (4) | (8,147) |
| Insurance | (408) | - | - | - | (408) |
| Structured Finance | - | - | - | (46) | (46) |
| Other | (10,146) | - | - | (3,113) | (13,259) |
| | (32,908) | (2) | (319) | (4,150) | (37,379) |
| **Net fee and commission income** | 86,797 | 27,837 | 3,128 | (4,113) | 113,649 |

## 28. Net trading result

| € '000 | 2018 | 2017 |
|---|---|---|
| Financial assets at FVOCI | 32,193 | - |
| Available-for-sale financial assets | - | 2,510 |
| Held-to-maturity investments | - | 1,208 |
| Customer foreign exchange margins | 7,431 | 6,361 |
| Interest rate derivatives | 1,278 | 2,249 |
| Financial assets held for trading - debt securities | 429 | (165) |
| Cross currency swaps | 266 | 17,466 |
| Net result from hedging transactions | 172 | 66 |
| Dividends from equity shares held in FVOCI | 168 | 172 |
| Interest income from financial assets HFT | 113 | 47 |
| Dividends from equity shares held in FVTPL | 55 | 40 |
| Equity derivatives | (7) | (9) |
| Other derivatives | (67) | (4) |
| Non-trading financial assets at FVTPL | (151) | 83 |
| Foreign currency derivatives and transactions | (1,992) | 10,367 |
| | 39,888 | 40,391 |

## 29. Other operating income

| € '000 | 2018 | 2017 |
|---|---|---|
| Income from leasing | 4,293 | 4,413 |
| Rent | 698 | 664 |
| Net profit from sale of fixed assets | 244 | 751 |
| Financial revenues | 68 | 554 |
| Services | 37 | 3 |
| Sales of consumer goods | - | 47 |
| Other | 1,019 | 2,074 |
| | 6,359 | 8,506 |

## 30. Other operating expenses

| € '000 | 2018 | 2017 |
|---|---|---|
| Resolution fund* | (6,336) | (4,489) |
| Contribution to the Deposit Protection Fund** | (541) | (488) |
| Other damages | (98) | (39) |
| Net loss from sale of fixed assets | (90) | - |
| Other | (8,730) | (10,502) |
| | (16,092) | (15,518) |

* 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 banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of a bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023.

** The annual contribution for 2018 was determined by the Deposit Protection Fund under the valid methodology. As at 30 June 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.

## 31. Special levy of selected financial institutions

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

| € '000 | 2018 | 2017 |
|---|---|---|
| Special levy of selected financial institutions | (26,286) | (24,823) |

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. 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. 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.

## 32. Salaries and employee benefits

| € '000 | 2018 | 2017 |
|---|---|---|
| Remuneration | (89,610) | (89,189) |
| Social security costs | (35,010) | (34,658) |
| Social fund | (3,919) | (1,483) |
| Severance and Jubilee benefits | (684) | (857) |
| Net restructuring provision | - | (472) |
| | (129,223) | (126,659) |

At 31 December 2018, the total number of employees of the VUB Group was 3,809 (31 December 2017: 3,942). The average number of employees of the VUB Group during the period ended 31 December 2018 was 3,868 (31 December 2017: 3,941).

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

## 33. Other administrative expenses

| € '000 | 2018 | 2017 |
|---|---|---|
| Information technologies systems maintenance | (22,485) | (25,139) |
| Rental of buildings and related expenses | (8,782) | (9,428) |
| Maintenance and repairs | (7,428) | (7,366) |
| Advertising and sponsorship | (7,142) | (8,484) |
| Third parties' services | (6,665) | (6,543) |
| Telephone and telecommunication costs | (5,998) | (5,547) |
| Postage costs | (3,888) | (4,955) |
| Forms and office supplies | (3,471) | (3,961) |
| Indirect personnel costs and compensation | (2,828) | (2,737) |
| Energy costs | (2,709) | (2,934) |
| Transport | (1,739) | (1,954) |
| Cleaning of premises | (1,621) | (1,024) |
| Security | (1,555) | (1,633) |
| Information and research | (1,545) | (1,538) |
| Other rentals | (1,525) | (1,559) |
| Cost of legal services | (1,384) | (1,527) |
| Electronic data processing system leasing | (1,310) | (181) |
| Insurance | (1,161) | (1,184) |
| Archives and documents | (968) | (698) |
| Consultations and other fees* | (900) | (873) |
| Other expenses | (2,431) | (2,175) |
| Value added tax and other taxes | (333) | (342) |
| Recovery | 2,075 | 956 |
| | (85,793) | (90,826) |

* 'Consultations and other fees' includes the fee for the statutory audit of € 259 thousand (2017: € 328 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 VUB Group'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 VUB Group's compliance with the covenants of the loan agreement between the VUB Group 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 VUB Group for bankruptcy procedure purposes and agreed-upon procedures on the merger of a Bank's subsidiary with the VUB Group amounted to € 369 thousand (2017: € 348 thousand).

## 34. Provisions

| € '000 | Note | 2018 | 2017 |
|---|---|---|---|
| Provisions for Litigations | 19, 22, 24 | (376) | 16,523 |
| Provisions for Other provisions | 19, 22 | 36 | (12) |
| | | (340) | 16,511 |

## 35. Impairment losses and Net gain arising from the derecognition of financial assets measured at amortised cost

| € '000 | Note | 2018 |
|---|---|---|
| Impairment losses | | (66,744) |
| Net provisions for financial guarantees and commitments | 20, 22 | 5,347 |
| | | (61,397) |
| Net gain arising from the derecognition of financial assets measured at AC: | | |
| Net write-off/sale | | (22,527) |
| Proceeds from receivables written-off | | 4,753 |
| Proceeds from receivables sold | | 21,299 |
| | | 3,525 |

| € '000 | Note | 2017 |
|---|---|---|
| Impairment losses | 22 | (64,358) |
| Provisions for financial guarantees and commitments | 20, 22 | 1,391 |
| Net write-off/sale | | (20,568) |
| Proceeds from receivables written-off | | 5,580 |
| Proceeds from receivables sold | | 18,750 |
| | | (59,205) |

## 36. Income tax expense

| € '000 | Note | 2018 | 2017 |
|---|---|---|---|
| Current income tax | 17 | (51,559) | (44,221) |
| Deferred income tax | 17 | 7,724 | (3,917) |
| | | (43,835) | (48,138) |

The movement in deferred taxes in the statement of profit or loss and other comprehensive income is as follows:

| € '000 | 2018 | 2017 |
|---|---|---|
| Due from other banks | 42 | 12 |
| Due from customers | 12,189 | (4,919) |
| Property and equipment | 5,333 | 135 |
| Provisions | (137) | (7) |
| Other liabilities | 536 | 107 |
| Other | (10,239) | (1,003) |
| | 7,724 | (3,917) |

## 36. Income tax expense (continued)

The effective tax rate differs from the statutory tax rate in 2018 and in 2017. The reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

| € '000 | Note | 2018 Tax base | 2018 Tax at applicable tax rate (21%) | 2017 Tax base | 2017 Tax at applicable tax rate (21%) |
|---|---|---|---|---|---|
| Profit before tax | | 204,153 | (42,872) | 223,135 | (46,583) |
| Tax effect of expenses that are not deductible in determining taxable profit: | | | | | |
| Creation of provisions and other reserves | | 73,923 | (15,524) | 97,288 | (20,430) |
| Creation of impairment losses | | 257,970 | (54,174) | 277,001 | (58,170) |
| Write-off and sale of assets | | 14,653 | (3,077) | 11,068 | (2,324) |
| Other | | 36,020 | (7,564) | 14,387 | (3,021) |
| | | 382,566 | (80,339) | 399,744 | (83,945) |
| Tax effect of revenues that are deductible in determining taxable profit: | | | | | |
| Release of provisions and other reserves | | (71,664) | 15,049 | (104,191) | 21,880 |
| Release of impairment losses | | (256,111) | 53,783 | (303,789) | 63,796 |
| Dividends | | (223) | 47 | - | - |
| Other | | (9,687) | 2,034 | (4,280) | 899 |
| | | (337,685) | 70,914 | (412,260) | 86,575 |
| Adjustments for current tax of prior periods | | (3,524) | 740 | (85) | 18 |
| Withholding tax paid abroad - settlement of advance payments | | 10 | (2) | 54 | (11) |
| Current income tax | | 245,520 | (51,559) | 210,588 | (44,221) |
| Deferred income tax at 21 % | 18 | | 7,724 | | (3,917) |
| Income tax expense | | | (43,835) | | (48,138) |
| Effective tax rate | | | 21.47% | | 21.57% |

## 37. Other comprehensive income

| € '000 | 2018 | 2017 |
|---|---|---|
| **Items that shall not be reclassified to profit or loss in the future** | | |
| Net revaluation gain from property and equipment | 3 | 27,804 |
| Change in value of financial assets at FVOCI (equity instruments): | | |
| Revaluation gains arising during the period | 680 | - |
| | 683 | 27,804 |
| **Items that may be reclassified to profit or loss in the future** | | |
| Change in value of cash flow hedges: | | |
| Revaluation (losses)/gains arising during the year | (689) | 1,744 |
| Change in value of financial assets at FVOCI (debt instruments): | | |
| Losses arising during the year | (13,894) | - |
| Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss | (36,435) | - |
| | (50,329) | - |
| Change in value of available-for-sale financial assets: | | |
| Gains arising during the year | - | 1,780 |
| Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss | - | (1,072) |
| | - | 708 |
| Exchange difference on translating foreign operation | (400) | 269 |
| | (51,418) | 2,721 |
| **Total other comprehensive income** | (50,735) | 30,525 |
| Income tax relating to components of other comprehensive income (note 38) | 10,654 | (6,306) |
| **Other comprehensive income for the year after tax** | (40,081) | 24,219 |

## 38. Income tax effects relating to other comprehensive income

| € '000 | 2018 Before tax amount | 2018 Tax (expense)/ benefit | 2018 Net of tax amount | 2017 Before tax amount | 2017 Tax expense | 2017 Net of tax amount |
|---|---|---|---|---|---|---|
| **Items that shall not be reclassified to profit or loss in the future** | | | | | | |
| Net revaluation gain from property and equipment | 3 | (1) | 2 | 27,804 | (5,838) | 21,966 |
| Change in value of financial assets at FVOCI (equity instruments) | 680 | (143) | 537 | - | - | - |
| | 683 | (144) | 539 | 27,804 | (5,838) | 21,966 |
| **Items that may be reclassified to profit or loss in the future** | | | | | | |
| Change in value of cash flow hedges | (689) | 145 | (544) | 1,744 | (366) | 1,378 |
| Change in value of financial assets at FVOCI (debt instruments) | (50,329) | 10,569 | (39,760) | - | - | - |
| Change in value of Available-for-sale financial assets | - | - | - | 708 | (102) | 606 |
| Exchange differences on translating foreign operations | (400) | 84 | (316) | 269 | - | 269 |
| | (51,418) | 10,798 | (40,620) | 2,721 | (468) | 2,253 |
| | (50,735) | 10,654 | (40,081) | 30,525 | (6,306) | 24,219 |

## 39. 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 VUB Group that gives them significant influence over the VUB Group, and anyone expected to influence, or be influenced by, that person in their dealings with the VUB Group;

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

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

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.

In 2018, the remuneration and other benefits provided to members of the Management Boards were € 3,497 thousand (2017: € 4,102 thousand), of which the severance benefits € 30 thousand (2017: € 66 thousand), and to members of the Supervisory Board € 94 thousand (2017: € 126 thousand).

## 39. Related parties (continued)

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

| € '000 | Key management personnel ('KMP') | Joint ventures | Associates | Intesa Sanpaolo | ISP Group companies | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Financial assets at FVTPL: | | | | | | |
| Financial assets held for trading | - | - | - | 124 | 28,540 | 28,664 |
| Non-trading financial assets at FVTPL | - | - | - | 440 | - | 440 |
| Derivatives - Hedge accounting | - | - | - | - | 26,638 | 26,638 |
| Financial assets at FVOCI | - | - | - | 1,112 | - | 1,112 |
| Financial assets at AC: | | | | | | |
| Due from other banks | - | - | - | 8,641 | 31,908 | 40,549 |
| Due from customers | 291 | 4 | - | - | - | 295 |
| Other assets | - | 7 | - | 6 | 2,518 | 2,531 |
| | 291 | 11 | - | 10,323 | 89,604 | 100,229 |
| **Liabilities** | | | | | | |
| Financial liabilities at FVTPL: | | | | | | |
| Financial liabilities held for trading | - | - | - | 3,998 | 30,645 | 34,643 |
| Derivatives - Hedge accounting | - | - | - | - | 11,010 | 11,010 |
| Financial liabilities at AC: | | | | | | |
| Due to banks | - | - | - | 580,743 | 180,883 | 761,626 |
| Due to customers | 1,821 | - | 228 | - | 80,736 | 82,785 |
| Subordinated debt | - | - | - | - | 200,181 | 200,181 |
| Debt securities in issue | - | - | - | - | 80,073 | 80,073 |
| Other liabilities | 440 | - | - | - | 4,387 | 4,827 |
| | 2,261 | - | 228 | 584,741 | 587,915 | 1,175,145 |

## 39. Related parties (continued)

| € '000 | Key management personnel ('KMP') | Joint ventures | Associates | Intesa Sanpaolo | ISP Group companies | Total |
|---|---|---|---|---|---|---|
| Commitments and undrawn credit facilities | - | - | - | 3,848 | - | 3,848 |
| Issued guarantees | - | - | - | 15,024 | 1,819 | 16,843 |
| Received guarantees | - | - | - | 32,542 | 14,783 | 47,325 |
| Derivative transactions (notional amount – receivable) | - | - | - | 1,118,191 | 8,781,977 | 9,900,168 |
| Derivative transactions (notional amount – payable) | - | - | - | 1,123,156 | 8,778,591 | 9,901,747 |

For the year ended 31 December 2018, the outstanding balances with related parties comprised:

| € '000 | KMP | Joint ventures | Associates | Intesa Sanpaolo | ISP Group companies | Total |
|---|---|---|---|---|---|---|
| **Income and expense items** | | | | | | |
| Interest and similar income | 3 | - | - | 173 | 47 | 223 |
| Interest and similar expense | (3) | - | - | (590) | (10,218) | (10,811) |
| Fee and commission income | 1 | - | - | 90 | 13,364 | 13,455 |
| Fee and commission expense | - | - | - | (449) | (23) | (472) |
| Net trading result | - | - | - | 1,605 | 275 | 1,880 |
| Other operating income | - | - | - | - | 306 | 306 |
| Other operating expenses | - | 39 | - | (220) | - | (181) |
| Other administrative expenses | - | - | - | 367 | (10,021) | (9,654) |
| | 1 | 39 | - | 976 | (6,270) | (5,254) |

## 39. Related parties (continued)

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

| € '000 | KMP | 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 | 1 | - | - | - | 252 |
| Other assets | - | 7 | - | 95 | 1,509 | 1,611 |
| | 251 | 8 | - | 13,750 | 76,105 | 90,114 |
| **Liabilities** | | | | | | |
| Derivative financial instruments | - | - | - | 1,130 | 20,855 | 21,985 |
| Financial liabilities at AC: | | | | | | |
| Due to banks | - | - | - | 201,605 | 77,412 | 279,017 |
| Due to customers | 2,651 | - | 214 | - | 78,199 | 81,064 |
| Subordinated debt | - | - | - | - | 200,164 | 200,164 |
| Debt securities in issue | - | - | - | - | 281,064 | 281,064 |
| Other liabilities | 850 | - | - | - | 2,644 | 3,494 |
| | 3,501 | - | 214 | 202,735 | 660,338 | 866,788 |
| **Commitments and undrawn credit facilities** | - | - | - | 3,460 | - | 3,460 |
| **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 |

## 39. Related parties (continued)

For the year ended 31 December 2017, the outstanding balances with related parties comprised:

| € '000 | KMP | Joint ventures | Associates | Intesa Sanpaolo | ISP Group companies | Total |
|---|---|---|---|---|---|---|
| **Income and expense items** | | | | | | |
| Interest and similar income | 4 | - | - | 161 | - | 165 |
| Interest and similar expense | (5) | - | - | (1,316) | (7,178) | (8,499) |
| Fee and commission income | 1 | - | - | 121 | 12,433 | 12,555 |
| Fee and commission expense | - | - | - | (446) | (25) | (471) |
| Net trading result | - | - | - | (5,590) | (9,850) | (15,440) |
| Other operating income | - | 71 | - | - | 533 | 604 |
| Other operating expenses | - | - | - | (137) | (270) | (407) |
| Other administrative expenses | - | - | - | (86) | (8,475) | (8,561) |
| | - | 71 | - | (7,293) | (12,832) | (20,054) |

## 40. Events after the end of the reporting period

From 31 December 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 by the Management Board on 22 February 2019.

| | |
|---|---|
| Alexander Resch | Antonio Bergalio |
| Chairman of the Management Board | Member of the Management Board |

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