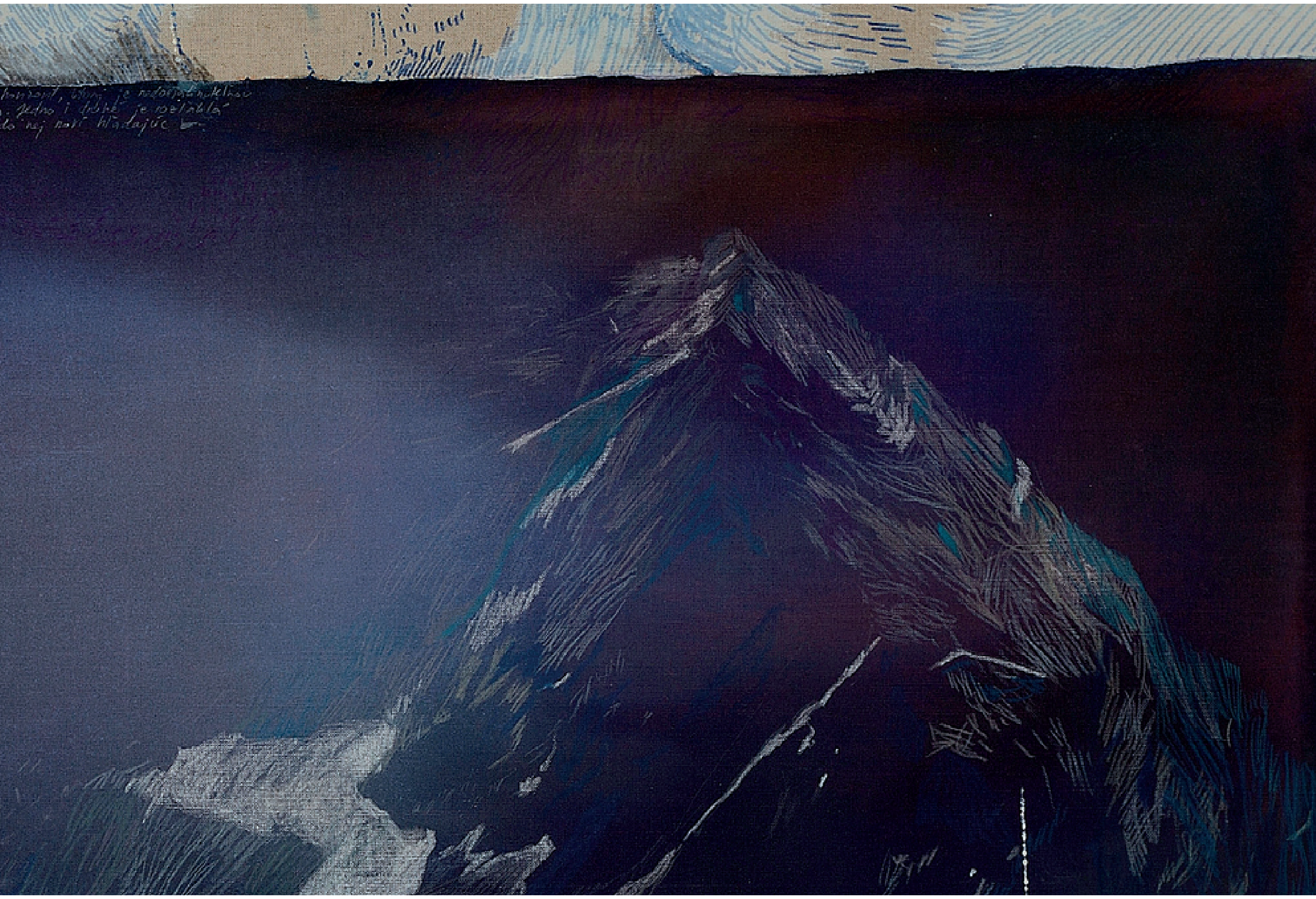
VÚB BANKA

Consolidated Annual Report 2017



VUB, a bank of INTESA SANPAOLO

Contents

Address by the Chairman of the VUB Supervisory Board

Dear Shareholders, Clients and Business Partners, Employees,

VUB had in 2017 a very good year. In the commercial area, the Group has grown loan volumes by nearly 12% and in terms of financial results, VUB Group was able to increase its net profit over a year ago, as only a handful of banks on the market were. Even when judged by independent outside observers, VUB's superior performance clearly stands out. In particular, last year, VUB has regained a prestigious award of the Bank of the Year by local weekly Trend. On behalf of Supervisory Board, I would like to thank the management and employees for these excellent achievements.

To fully appreciate VUB's ability to improve on its already outstanding profitability, one must realize the change of fortunes in the Slovak operating environment that occurred in recent years, especially the squeeze in interest rate margins. Indeed, interest rate revenues of the sector are falling three years in row now even as loan volume has grown by 30% over the same time period. For the market, which still derives nearly 80% of net revenues from net interest income, this development represents a formidable challenge.

VUB has worked really hard on many fronts to face this challenge. Growing business volumes and gaining critical mass more aggressively than competitors, while still keeping a very high attention to credit risks, was one. Improving quality and further strengthening efficiency and effectiveness of its operations model was another. And taking advantage of market opportunities in Treasury was yet another way to stave off the revenue pressure.

Going forward, though, there inevitably will have to come a comprehensive change in the banking business model to address the changed market fortunes. And VUB waits no time, working hard to consolidate its banking and nonbanking consumer lending operations (through the merger of CFH and VUB Factoring) and prepare to implement a new, modern core banking system as it draws its new four-year strategy. Strategy that should help VUB over time to lessen the traditional dependence on interest income in favour of fee and commission-based income. Having gone through a similar transformation in recent past, Intesa Sanpaolo remains committed to help VUB in any respect.

Ezio Salvai
Chairman of the Supervisory Board

Address by the Chairman of the VUB Management Board

Dear Shareholders, Clients and Business Partners,

the year 2017 has been very successful for VUB. I am particularly pleased to say that we delivered great commercial results and increased our share of the loan market. I am also pleased with the operational efficiency and the quality of our loan portfolio. These developments enabled us to deliver the best possible financial performance, offsetting to an extent the negative impact of decreasing margins. And last, but not least, I am very pleased that after the hard work of the past three years, our commercial and financial results have improved to such an extent that in 2017 we regained the award of the Bank of the Year by local weekly Trend.

Before evaluating VUB's achievements in detail, I believe it is instructive to review first the developments in the external environment. Starting with the real economy, it remained positive for the banking industry. GDP grew over 3% and labor market continued to improve further, with unemployment rate declining to historic lows. Increased job security and consumer confidence boosted demand for housing, which in turn led to increased demand for mortgages and other financial products. Improved financial position of households also manifested in further growth of bank deposits and other financial assets. Corporates have also seen improvement of their economic and financial situation, which led them to increase volumes of their loans and deposits as well.

The interest rate environment, though, continued to play against banking sector profitability. To be sure, neither official ECB rates nor bond yields were falling in 2017. Yet, the intense competition on the Slovak banking market has compressed margins yet further and brought rates on new mortgages, in particular, below the Eurozone levels. Coupled with repricing of existing loan portfolio, this development resulted in sizable loss of interest income for the sector, including VUB. Indeed, not even the massive, nearly 12% growth in total loans, which we were able to achieve, was sufficient to offset the impact of shrinking margins on interest revenues. Clearly though, without growth of volumes, the negative impact of falling margins on profitability would have been even bigger. Hence, I am more than pleased that also in 2017 we were able to increase our market share of loans, to 20.4% in December, from 19.9% at the end of 2016.

I am particularly proud that we have succeeded to increase our share of the retail market, fending off the attacks from the competition both in the mortgage and consumer loan market. In production of new mortgages, frankly, we could not sustain the volumes delivered in 2016 during the "tsunami" refinancing campaign, which sometimes was a multiple of previous years and strained our colleagues in sales but also risk and back office functions to limits. Still, we did well defending our portfolio and as of December 2017 held a market share in mortgage-type loans of 23.5%, compared to 22.8% in December 2016. In consumer loans, we held 19.9% share in December 2017, up from 19.6% a year ago, resp.

In the corporate market, we also have succeeded to increase our market share, to new all-time high of 18.7% from 18.3% gained in 2016. Importantly, we have increased our share despite our decision not to participate in some of the big corporate transactions on the market, particularly in the commercial real estate and project finance segment, which we did not deem attractive enough from the risk-reward perspective. Instead, we concentrated on growing primarily our relationship with small and medium-sized enterprises, to whom we grew loans by 7.9% compared to prior period. Growing relationship with small and medium sized enterprises also we were through our leasing and factoring subsidiaries, VUB Leasing and VUB Factoring, which continued to grow in key balance sheet and financial indicators. Last year was particularly successful for VUB Factoring, which has reached the historic highest turnover of purchased receivables.

Turning to the deposit market, our results had been less satisfactory as we have seen our share of total primary deposits to slide a bit, to 17.6%, from 17.8% in December 2016. Besides higher volumes overall, we also should aspire to have more even distribution across business segments. This holds especially for the household deposit base, in which we held 14.7% share of the market. To be sure, we were able to increase it from 14.5% a year ago. Yet, compared to our share of the household loan market of 21.6%, we clearly need to focus more on retail deposits. This is important to fund our growth aspirations in the mortgage market and comply with regulatory-prescribed funding profile in the future. In the latter respect, I am particularly pleased that our Treasury unit was able also in 2017 to successfully place sizable volume of mortgage bonds on the market. We issued bonds worth in total 750 million euro, up to 10-year maturity, mainly to foreign institutional investors. Proud also I am of our Treasury unit for identifying an extraordinary business opportunity on the Czech interest-rate market, which has delivered a positive trading result for the Bank that compensated for the extraordinary income from the sale of VISA shares in 2016.

Now, turning back to the deposit market, I strongly believe that focus on deposits and even more so on other personal financial assets, such as asset management but also pension funds and life insurance should be our priority going forward. This relates not only to securing a healthy funding profile and potentially a source of fee-based income from advisory services for the Bank but also fits with the changing lifestyle and demography of Slovak population. People in Slovakia namely get older, their needs will change, from securing their first housing, or second, to what to do with savings as they build wealth. And I do not speak of a generation time, but rather the horizon of the next three to five years, which, according to our analysis, may see volume of personal financial assets of Slovak households grow by 50% from present levels.

In this respect, I am pleased that we already build a solid presence in the mutual funds and pension markets and offer our clients alternative ways to look after their savings. In asset management, we are active with the strong support from Eurizon Capital, the leading European asset management company of Intesa Sanpaolo, while in pension savings, we are active together with our joint venture partner Generali Slovensko. Both continued to offer superior value for clients also in 2017 and substantially increased volume of assets under their management. In particular, VUB AM, the asset management company, has accumulated total volume of mutual funds in excess of € 1.7 billion in 2017, which represents more than 10% growth compared to prior period. Its market share stands at around 21%, which places it on the second position on the Slovak fund market. VUB Generali, the pension company, has meanwhile accumulated total volume of funds under management in excess of € 1.3 billion in 2017, which represents nearly 13% growth compared to prior period. Its market share increased by 0.5 percentage point, to 17.2%, solidifying position of VUB Generali as the third largest player on this market. Importantly, the number of clients in our pension saving schemes increased by nearly 23 thousand, the most from among all players on the market.

As regards financial results, on the consolidated basis, in 2017 VUB Group posted an operating income of € 547.4 million, down 1.5% from a year ago. On the costs front, our personnel expenses grew by 5.2%, yet our overall operating expenses decreased by 2.3% over a year ago, due to release of the provision for litigation in other operating expense. Our cost to income ratio thus declined further, by one percentage point over a year ago, to 44.2%, and remained thus well below the market average, which as of November 2017 stood at 54.8%. Our operating profit before impairment was € 280.4 million, down 0.7% compared to prior period. Adjusted for lower impairments, provisions, and taxes than a year ago, the Group booked net profit of € 175 million, up 11.6% compared to prior period.

Looking ahead, the operating environment will see significant changes in 2018. Real economy, to be sure, should remain benign, with GDP growth even accelerating as big investment projects in automotive industry start to roll out. Household confidence and financial position also should continue to improve as the labor market tightens further. The space for banks to lend to households, however, will become constrained. Household indebtedness namely rose to such levels that boosting it any further is now deemed very risky by the regulator. The central bank thus aims to soon administer a real slowdown in household borrowing, either by further tightening of hitherto implemented limits on loan-to-value and debt-burden-ratios or possibly also by introducing an outright limits on total debt-to-income levels of individual clients. One leg of the recent growth of the Slovak banking sector, and indeed also VUB – mortgages and consumer loans – might thus start to limb in 2018.

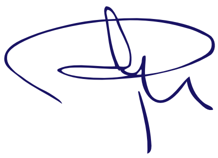
In consumer loans, moreover, regulator has recently evened out the playing field for the bank and nonbank markets. The non-banking business model has thus changed and many players left the market. It also was necessary to review performance of our non-bank Consumer Finance Holding (CFH) and we decided to incorporate it from 2018 into the Bank (apart from car leasing, to be merged into VUB Leasing) to bring our strengths together and also to simplify our internal infrastructure and systems. Similar reasons have driven the decision of merging VUB Factoring into the Bank since 2018.

Interest-wise, the environment will remain challenging. Yields, to be sure, will no longer be declining as the ECB is gradually removing the monetary stimulus and the next move in official rates will be up, not down. That is, however, still far away, with a rate hike not foreseen before mid-2019. In the meantime, we will have to cope with repricing pressure on our assets and also the gradual increase of our funding costs. In the foreseeable future therefore we do not expect any relief in margin pressure.

The regulatory environment will meanwhile continue to tighten. Regulatory initiatives such as Markets in Financial Instruments Regulation, General Data Protection Regulation, and the Revised Payments Services Directive (PSD2) all enter into force in 2018. Especially PSD2 will present a big change and pose substantial economic challenges. Opening platforms and access to our customers' accounts to third parties will fundamentally change the competition in the payments services, while increasing our IT costs due to new security requirements.

Against these market and regulatory pressure, we must reshape our strategy, and rely on the following priorities going forward: On the revenue front, we must not only grow in absolute terms but also improve our revenue composition to increase fee-based business. To improve customer experience, we will further focus on digitalization. We have recently invested a lot into mobile banking and will continue to do so, because we believe that extending digital services and leveraging on new technologies is the right way to face new banking future. On the cost front, the focus will remain on proper resource allocation and simplification. The latter will include reduction in the Group perimeter with the mentioned mergers of CFH and VUB Factoring. A key project over the forthcoming years will also be replacement of the core banking system with a new one, industry-best.

Clearly, we must be ready for a tough and demanding year(s). Nonetheless, I firmly believe that the VUB team will continue to deliver. With this in mind, let me thank our employees for their commitment, hard work and great achievements of the past year. I would also like to thank VUB clients and business partners for the trust they hold in the Bank, and the shareholders for their support. I wish all of us the best in the year 2018.



Alexander Resch
CEO and Chairman of the Management Board

VUB Management Board Report on the business activities of the Company

Development of the External Environment

External environment

Slovak economy through 2017 continued to grow at a stable growth rate exceeding 3% in real terms. Growth was driven primarily by domestic demand. Especially vibrant was household consumption, which geared up to 4.0% growth, its fastest pace since pre-2008 boom. Investments also contributed positively to GDP growth, thanks mainly to residential boom in Bratislava which compensated for slow rollout of EU-funded projects in the public sector.

Robust consumption of households owes primarily to extraordinary progress on the labor market. Number of employed people in Slovakia increased more than 2% compared to prior period, to yet-another all-time high. Concurrent with rising jobs number, the unemployment rate continued to decline, below EU average, for the first time ever. On the comprehensive survey measure, the jobless rate declined in 3Q to 8.0%, down 1.5 points over a year ago. On claimant measure with labor offices, the jobless rate by November even dropped below 6% – historic low rate.

Tightening labor market unsurprisingly has been exerting upward pressure on wages. By third quarter, nominal year-on-year average growth in the economy has exceeded 5%, which was the pace last seen in 2008. Rising job security and fast wage growth meanwhile lifted consumer confidence to the highest level in a decade and boosted thus demand for financial intermediation. Besides loans, also markets for deposits and other personal financial assets benefitted as the saving rate has continued to gradually recover and is now approaching 10% - level last seen in the millennium year.

For employers, including those in the financial services, though, rising labor costs and lack of qualified personnel has become an ever bigger headache. In response, some companies cut their production and investment plans while others began to import foreign labour – roughly one quarter of newly created jobs in the economy in 2017 were taken by foreign workers.

For the banking sector, nonetheless, the key challenge remained margin pressure. Rates on new mortgages in Slovakia continued in 2017 to further decline below Eurozone average as competitive battle continued to rage on. Declining also had been rates on consumer loans and pricing remained very tight in the corporate segment too. The result has been a decline in interest income of the sector by over 7% even as loan volume grew by 10%. Banks tried but could not fully compensate for the lost interest income by boosting fees and commission and further repricing of their liabilities.

Outlook for 2018

Looking ahead, in 2018, we project overal GDP growth to accelerate to nearly 4%. Growth should continue be driven by household consumption but investments, particularly in the automotive sector, should be the decisive force taking GDP growth above the pace of 2017. Prospects for exports meanwhile remain benign. Our colleagues in Intesa Sanpaolo research expect 2018 to be yet another year of above-trend growth of the global economy, with Eurozone continuing to do well and grow above 2%.

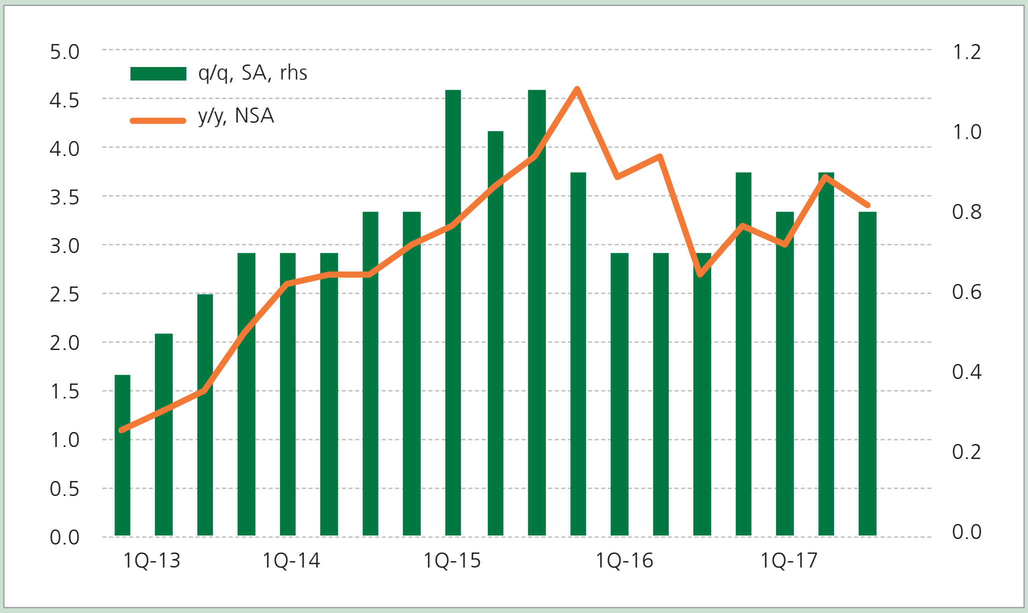
On the domestic front, growth of wages will remain a hot topic. Concerns of shortage of labor will not abate any-time soon as this is a phenomenon now set in all countries in Central Europe. Wages are thus likely to continue grow fast. In Slovakia, we look for 5% increase in wages, taking the average gross nominal wage in the economy to 1,000 euro.

Along wage growth, prices also are likely to pick up. Pushed higher by rising fuel and food costs as well as core, demand-driven inflation, the overall consumer price inflation will likely increase to above 2% in the beginning of 2018. Thereafter, though, we expect it to stabilize. Stabilization also we foresee of property price inflation, albeit at a higher level than for the consumer price inflation. Double-digit growth of residential property seen in some segments in 2017 should namely cool down a bit as new supply of housing, under construction, hits the market and mortgage lending slows.

Slowdown of mortgage lending will be the result of both market and regulatory forces. Indebtedness of Slovak households, measured by debt-to-income namely has now reached the highest level in Central Europe and overtook even some Western European countries, such as Italy. The central bank will thus likely step up efforts to administer slowdown of household borrowing. In addition to asking banks' clients to put more of their own money to apply for a mortgage as well as observe stricter debt service limits, it seems likely that hard limits on debt-to-income ratio will be introduced at some point in 2018.

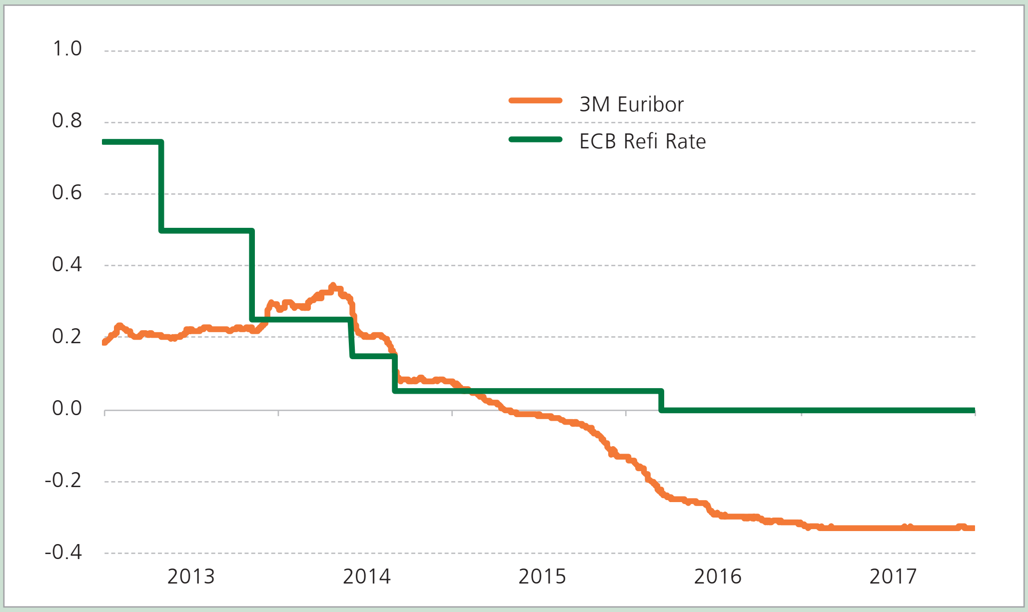
Interest rate environment should remain low also in 2018, but the trend should gradually be shifting up. The ECB has started to gradually remove monetary stimulus: the asset purchase programme has been cut to 60 billion euros per month starting in April 2017, and a further reduction to 30 billion has been announced from January 2018 onward. The programme could therefore be terminated in September 2018, or shortly thereafter. Even though the ECB policy rates will probably be left unchanged until 2019, tapering of asset purchases will gradually start pushing longer-term yields in Eurozone, including Slovakia, higher.

Real GDP growth in y/y and q/q terms



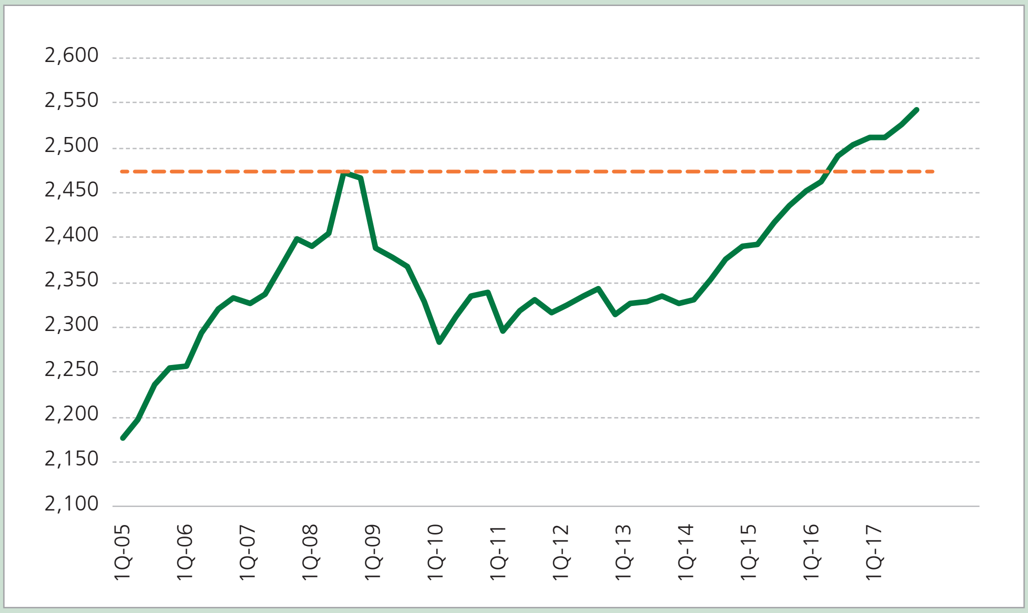
Source: Eurostat, VUB

3M Euribor and ECB's refi rate (%)



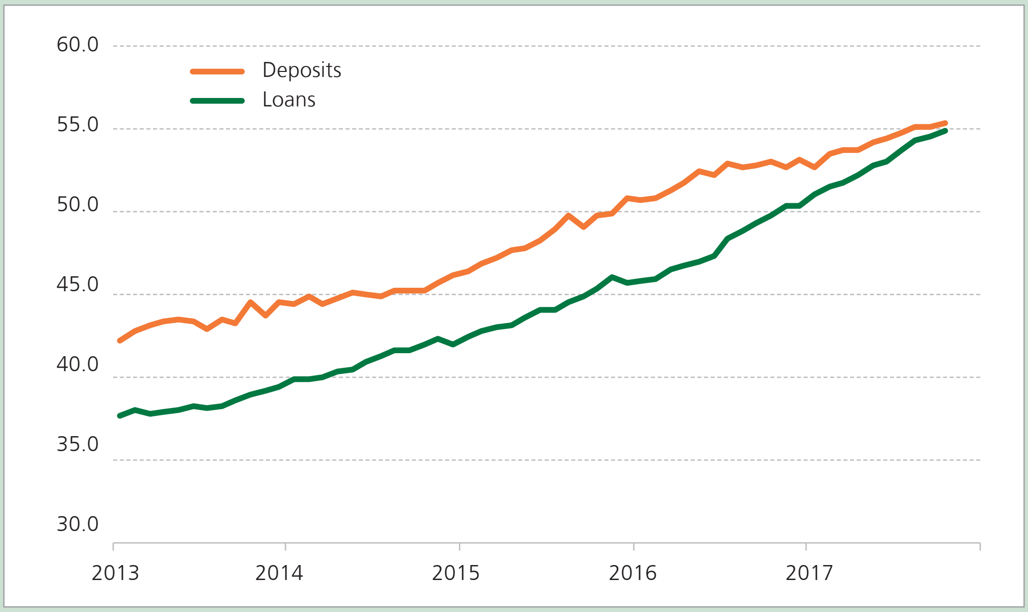
Source: Bloomberg, VUB
Note: For non-trading intervals carry over last value

Employment: number of employees in thousands



Source: Macrobond, VUB

Development of bank volumes (€ bn)



Source: National Bank of Slovakia, VUB

VUB's 2017 Commercial Performance

As described on the previous pages, several factors influenced the banking environment in 2017. The overall macroeconomic growth rate was slightly above 3%, driven predominantly by the domestic demand. The household consumption for instance geared up to 4.0% growth, which is the fastest pace since pre-2008 boom. In terms of labor market, the unemployment rate continued to decline, below EU average, for the first time ever. On the other hand, the key challenge remained the pressure on margins. Rates on new mortgages and consumer loans in Slovakia further continued to decline in 2017 as the competitive battle continued to rage on.

Thanks to our flexible reactions to the new challenges, we have achieved a very satisfactory performance in the commercial area. In retail lending, we continued with significant increase of market share (by 70 bps), driven mainly by the 20.1% growth of mortgages. In consumer loans, we have achieved almost 5% y/y increase; it is worth mentioning that the new regulations with respect to credit risk had a negative impact on the new production. In corporate lending, we succeeded to increase our market position from 18.3% in December 2016 to 18.7% in December 2017. On top of that, we increased our loan portfolio to SMEs by 7.9%. On the deposit front, we retained stable position in non-term deposits. The banking environment of historically lowest interest rates influences the decreased demand for term deposits in both VUB and whole market.

Deposits

The volume of clients' deposits in VUB at the end of 2017 amounted to € 9.9 billion, 3.9% up against the previous year due to both retail and corporate deposits. On retail market, current accounts rose again in this year, while term deposits kept its deteriorating trend. Customers' assets under management posted solid development compared to the previous year (growth by 9.2% over the year), yet below the market growth (14.4%). Market share in mutual funds thus weakened by 73 bps in 2017. The market share of total deposits received from retail clients incl. mutual funds amounted to 15.7%, which means stable position in comparison with December 2016 (15.7%). In corporate segment, VUB recorded a satisfactory year resulting into nearly 1% y/y growth of, corporate deposits.

Electronic Banking

In 2017, VUB Bank continued to expand the functionalities and improve the quality of electronic banking. The tools to enhance paperless activity were in the main focus, mainly the Sign Pads with positive feedback from our clients and fully rolled-out. We have extended the possibilities of internet banking and also introduced possibility of opening accounts for non-clients via our web page (together with Nonstop banking activation and debit card application).

Our VUB mobile banking app received several awards and we reached almost 120 thousand active users in 2017 (70 thousand users in 2016). Thanks to this, the ratio of loans sold via alternative distribution channels has improved to almost 15% from total loans sold. In 2017 we have started cooperation with two new affiliate partners.

Bank Cards

During 2017, the main topic in card business has been the migration of American Express to Mastercard. The reason for migration was the cancellation of the contract from the side of American Express, due to changes in their business model. The final decision was done at the end of 2016 and in 2017 we successfully migrated client's cards from American Express to Mastercard with minimal impact on our customers. In the first quarter we changed and upgraded Mastercard Standard and Mastercard World cards. We introduced new and better travel insurance and for MC World cards also LoungeKey service. During summer (second and third quarter) there were lot of campaigns on clients to support voluntary migrations. Clients were able to choose suitable time and also product for migration. In the last quarter we started the final migration for the rest of the clients.

VUB successfully realized other activities as well: during summer we introduced new version of Visa Wave2Pay application with new design and also with new feature, i.e. the possibility to do money withdrawals from VUB ATMs, as well as improvements in efficiency, with the introduction of E-statements and progressive abandonment of paper statements. Our cooperation with charity organization Dobrý Anjel continued also during 2017. VUB was sending 0.5% of monthly volumes done with Dobrý Anjel debit cards to charity Dobrý Anjel and this year it was again more than € 300,000 together for the whole year.

ATMs and EFT POS

VUB ranks 2nd (21%) in the Slovak market share also in 2017 with its 577 ATMs. The main focus during the last year was on ATMs with cash-in possibility. At the end of 2017 we had together 37 ATM with cash-in module, that means increase by 19 ATM during 2017.

During 2017 we also completed the reshaping of the POS portfolio that is 100% contactless now. We installed more than 1,700 new POS terminals from which more than 100 virtual terminals used at internet merchants (e-commerce terminals). In the field of new products we introduced un-attended terminals that can be used at different kinds of vending machines (like parking, public transport ticket terminals …) or at self-service fuel stations.

Contact centre

In 2017, the Call Centre continued providing services to its clients, which resulted in 344 thousand served calls, 100 thousand processed e-mails. Our clients communicated with VUB Bank also through chat (5 thousand requests) and we have responded to more than one thousand Facebook messages via social networks in this year. We have also provided answers and advices via www.vubotvorene.sk. The existing portfolio of products that can be granted to clients via phone was expanded by insurance of personal belongings.

Loans

Individuals – Mortgage and Consumer Loans

In 2017, the substantial demand for mortgage loans did not exceed the 2016 market growth. Yet in VUB we recorded considerable increase above the market growth rate. Total mortgages of VUB (including 'American mortgages') grew by 20.1% over the year. With a market share 23.5% the Bank increased its already strong position on the mortgage loan market. More precisely, we have recorded the highest improvement of market position over the year among the peers.

Consumer loans continued to grow with satisfactory rate in spite of the new adjustments in approval process. Consumer loans growth thus reached the level 4.7% YoY in VUB. However, on a bank level, VUB posted better development than the market and our market share in consumer loans improved by 26 bps to 19.9%.

Corporate Financing

In 2017, VUB Group was outperformed by the rest of the market in corporate loans segment. While corporate loans grew by 6.2% on the market, VUB increased by 8.1% on the bank level and 6.0% on Group level. However, loans to nonfinancial corporations increased by 10.6% and VUB's market share in these loans to went up to 16.3% over the year. Real estate finance fell by 7%, project finance loans decreased by 6%, while trade finance loans fell by 18%. VUB Leasing, VUB's subsidiary, achieved considerable results on the leasing market with the growth of leasing assets by 2.1% last year.

Review of VUB's Economic and Financial Position

GDP growth over 3%, labor market improving further, unemployment rate declining to historic lows, increased job security and strong consumer confidence were among the main factors behind the favorable development of Slovak banking sector in 2017. Improved financial position of households also manifested in further growth of bank deposits and other financial assets. Corporates have also seen improvement of their economic and financial situation, which led them to increase volumes of their loans and deposits as well.

On the consolidated basis, VUB posted operating revenues of € 547.4 million. Compared to previous year bank fell by 1.5% as the increase of loan volumes only partially compensated the decrease of interest rates and thus interest revenues went down compared to previous year. Operating costs meanwhile decreased by 2.3% to the level € 267 million (incl. bank levy) at the end of 2017.

VUB Group achieved operating profit of € 280.4 million and profit adjusted by impairment losses of € 221.2 million. The Group kept its profit before tax on satisfactory level € 223.1 million (up by 5.4%). Cost-income ratio of VUB Group (excl. bank levy) amounted to 44.2%, which was down by 96 basis points.

With regard to business development, VUB Group delivered substantial development with respect to loan portfolio, which grew by 11.9%, resulting into the increase of market share by 0.5%. Total assets of the whole VUB Group increased by 6.7% as well. Nevertheless this increase did not negatively affect our portfolio quality as NPL ratio went down by 0.7%. Moreover, VUB remained outperforming the market in terms of loan quality. Indeed, NPLs from banking operations on the bank-level in VUB at end-2017 amounted to a mere 3.3% of the total gross loan volume, compared to market's 4.0%, respectively. Accounting in loans provided by VUB's consumer finance and leasing arms, CHF and VUB Leasing, the Group's non-performing loan ratio went down throughout the year to approximately 4.1%.

At the same time, the bank was able to increase its primary deposits by 3.9%, keeping sound liquidity position which is represented by the loan to deposit ratio of 98.4%.

To bolster stability of business growth onwards, capital of the group increased to one of the highest capital adequacy on the Slovak market with the ratio amounting to 18.24% high above the minimum requirements set by the central bank. This gives us a solid base for continued business growth.

Consumer Finance Holding (CFH) increased its loans by 9.7%. VUB Leasing, VUB's subsidiary, continued to achieve good performance on the leasing market with the growth of leased assets by 2.2%.

Information on the Expected Economic and Financial Situation for 2018

As described on previous pages, during the last year, the real economy remained positive for the banking industry. In 2017 GDP grew over 3% and labor market continued to improve further, with unemployment rate declining to historic lows. In 2018 we are expecting slightly stronger growth of the real economy, with marginally higher yield of key indicators. On the other hand, interest rate environment will continue to play against banking sector profitability. Even though, neither official ECB rates nor bond yields are expected to fall in 2018 and also the intense competition on the Slovak banking market will force rates at their minimums.

Therefore VUB will continue its path in reducing the dependency from "interest income-based" business and improve fee-based business, towards the levels of western European countries, through innovation and introducing new products which will fulfil the new needs of our clients. After the merger of CFH with VUB Bank, we are also going to focus on leveraging on synergy potential with CFH as the non-banking market leader and VUB Group.

With the award for best mobile banking in 2017, we received further confirmation that our direction to boost digital channels is right and we shall continue to improve the existing ones and introduce new solutions for our clients. For instance, we will expand the usage of Sign Pad more and more in branches for all kinds of loans and deposit products as well. Our aim is to eliminate most, if not all, paper in the processes. Moreover, we will apply all PSD2 activities in digital channels.

In line with continuing to improve customer experience and satisfaction we shall, on retail front, focus on customer acquisition and activation of customers (active C/A through transactions), increase product penetration and bring some new services adding value to the customer and the bank. We want to achieve this by, as mentioned above, improving retail service model (leaner and simpler contact with client such as paperless interaction and digital signature), favoring self-servicing through digital channels (internet banking and mobile banking) or contact center (virtual branch). The key role of branches should focus on high added value services, which are either complex or include a great deal of advising.

Fundamentals are showing significant growth of financial assets held by Slovak households in upcoming years and saving rate is expected to increase significantly. Therefore, VUB is developing wealth management concept in line with our strategy to "teach" people save and invest their resources as Slovakia has the least ratio of saving/income from EU countries.

Within corporate banking, VUB is bound to keep market position as leader and focus on additional services within regional global transaction banking and treasury. On top of focusing on operational efficiency, increasing productivity in the distribution network and allocating sources where it creates value, we shall focus also on relevant opportunities in project and real estate finance on the market given an adequate risk return. We are going to cooperate closer with our mother company Intesa Sanpaolo on acquisition of new customers.

VUB is going to continue in laying significant emphasis on risk management, keep high quality of the loan portfolio in 2018 and hold strong liquidity position. Moreover VUB Group will pay great attention to proactive capital management in order to support targeted growth.

In 2017, our ability to identify and react on the needs of customer, was awarded by magazine Trend as Bank of the Year. This showed us, that VUB is modern and flexible institution able to promptly react on new challenges in the environment. All of us know, that 2018 will bring new and maybe even greater challenges and VUB will face them with even higher dedication.

Registered Share Capital and the Structure of VUB Shareholders

Registered Share Capital of VÚB, a.s.

The registered share capital of VÚB, a.s. amounts to € 430,819,063.81 and was created by the contribution of the founder designated in the deed of foundation as of the day of its establishment.

The registered share capital is divided into 4,078,108 book-entered registered shares, having the nominal value of € 33.20 each and 89 book-entered registered shares, having the nominal value of € 3,319,391.89 each.

Shareholders' rights

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 VÚB, a.s., 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 VÚB, a.s. 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.

Structure of VUB Shareholders

Information regarding VUB shareholders is published quarterly, within 30 days of the end of the relevant quarter. Below is the status as of 31 December 2017.

Structure by Owner Type	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Other legal entities	5,440	1.26
Individuals	7,345	1.71
Total Registered Share Capital of VÚB, a.s.	**430,819**	**100.00**

Structure by Nationality	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Domestic shareholders	8,975	2.08
Other foreign shareholders	3,810	0.89
Total Registered Share Capital of VÚB, a.s.	**430,819**	**100.00**

* Shares (€) mean a value of shares of VÚB, a.s. expressed in the nominal value of euro multiplied by the number of shares held.

There were 28,686 shareholders as at 31 December 2017. Foreign VUB shareholders come from the following countries with the following stake in the bank's registered capital (in %): Luxembourg (97.032%), Germany (0.733%), Czech Republic (0.118%), Austria (0.028%), United Kingdom (0.004%), U.S.A., Canada, Romania, Poland and Cyprus.

A qualified participation in the company's registered capital is held by the majority shareholder Intesa Sanpaolo Holding International S.A. Luxemburg, with its Registered Office in Luxembourg L-1724, 35 Boulevard du Prince Henri that holds a 97.03% stake in the registered capital.

Further, the company during the accounting year 2017 held in its assets the shares of the parent company (Art. 22, sec. 3 of the Act no. 431/2002 Coll. on Accounting as amended), Intesa Sanpaolo S.p.A. (ISP), registered office Piazza San Carlo 156, Turin, Italy, ISIN IT0000072618, book-entered registered ordinary shares, with a nominal value of € 0.52 each, in a total number of 961,205 shares. This represents 0.116% of the nominal value of the Bank's registered capital. These shares have been acquired by the Bank in order to adopt and implement ISP Group Remuneration Policies in line with the Capital Directive 'CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). In 2017, the Bank transferred 75,656 shares in accordance with ISP Group Remuneration Policies.

Subsidiaries of VUB

Consumer Finance Holding, a.s.*

Registered office:	Hlavné nám. 12, 060 01 Kežmarok
Shareholders:	VÚB, a.s.
VUB's stake in registered capital:	100%
Core business:	Non-banking loans
Tel:	+421 52 787 1760
Fax:	+421 52 786 1764
General Manager:	Ing. Jaroslav Kiska

VÚB Leasing, a.s.

Registered office:	Mlynské nivy 1, 820 05 Bratislava
Shareholders:	VÚB, a.s.
VUB's stake in registered capital:	100%
Core business:	Financial and operating leasing
Tel:	+421 2 4855 3647
Fax:	+421 2 5542 3176
General Manager:	Ing. Branislav Kováčik

VÚB Factoring, a.s.**

Registered office:	Mlynské nivy 1, 829 90 Bratislava
Shareholders:	VÚB, a.s.
VUB's stake in registered capital:	100%
Core business:	Factoring and forfeiting
Tel:	+421 2 5055 2784
Fax:	+421 2 5055 2012
General Manager:	Ing. Štefan Homola

* On 11 December 2017, VUB Bank 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, a. s. and VÚB Leasing, a. s. as successor companies as at 1 January 2018.

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

Statement on Compliance with the Corporate Governance Code for Slovakia

A. Company Organization

The structure of VÚB, a.s. bodies:

a) the General Meeting;
b) the Supervisory Board;
c) the Management Board.

General Meeting

The General Meeting is the main decision-making body of VÚB, a.s. The General Meeting has the power to decide on issues that are in line with the mandatory provisions of legal regulations and VUB Articles of Association.

The Ordinary General Meeting of the company was held on 24 March 2017. The shareholders at this meeting approved the 2016 Annual Report of VÚB, a.s., the 2016 Statutory Separate Financial Statements and the 2016 Consolidated Financial Statements, both statements were prepared in accordance with IFRS as amended by the EU, as submitted by the Management Board of the Bank. The General Meeting also decided on distributing the profit earned in 2016 in the amount of € 265,171,063.99 to shareholders in dividends amounting to € 72,020,143.19 and to the retained earnings in the amount of € 193,150,920.80. Further, the General Meeting decided on the 2016 dividend to be paid to shareholders in the amount of € 5.55 per share with a nominal value of € 33.20.

The General Meeting approved the amendments to the Articles of Association of VÚB, a.s. as proposed and approved the external auditor for the bank for 2017.

VUB Supervisory Board and Management Board in general

1. Supervisory Board members are elected by the General Meeting. The VUB Management Board is elected by the Supervisory Board.
2. All relevant information is available to all members of the Management Board and Supervisory Board in time. In the course of the financial year 2017, the VUB Management Board held 25 meetings and adopted 11 decisions on a per rollam basis. The VUB Supervisory Board held 4 meetings and adopted 7 decisions on a per rollam basis during the 2017 financial year. Documents with detailed information are distributed sufficiently in advance – in the case of the Management Board no less than 3 working days, in the case of the Supervisory Board no less than 10 days prior to the meeting, ensuring the ability of members of the Supervisory and Management Boards to decide on individual matters competently.
3. None of the Supervisory Board members is a member of the VUB Management Board nor holds any other top managerial position in the Bank. With the exception of members of the Supervisory Board elected by VUB employees, a Supervisory Board member may not be an employee of VUB.

Supervisory Board

Members of the Supervisory Board in 2017

Ezio Salvai	Chairman of the Supervisory Board
Ignacio Jaquotot	Vice Chairman of the Supervisory Board
Luca Finazzi	Member of the Supervisory Board
Paolo Sarcinelli	Member of the Supervisory Board
Christian Schaack	Member of the Supervisory Board
Andrej Straka	Member of the Supervisory Board, employee representative
Róbert Szabo	Member of the Supervisory Board, employee representative (since 23 January 2017)
Ján Gallo	Member of the Supervisory Board, employee representative (until 22 January 2017)

Upon the Management Board's proposal, the Supervisory Board:

a) reviews the annual report, the ordinary, extraordinary, individual and consolidated accounts and recommends the annual report, the ordinary, extraordinary, individual and consolidated accounts to the General Meeting for approval;
b) approves the proposed distribution of current and/or past profits;
c) approves rules for the creation and use of other funds created by VÚB, a.s.;
d) approves the draft plan for the settlement of unsettled loss and/or unsettled losses from past years;
e) approves proposed changes to the internal audit and internal control system;
f) approves the annual audit plan and the annual report on the results of the activities of the Internal Audit and Control Unit;
g) reviews and approves the following matters before their submission to the General Meeting by the Management Board:
   i. proposals for changes to the Articles of Association; and
   ii. proposals for an increase or decrease in the registered share capital of VÚB, a.s. and/or for the issue of preference or convertible bonds, according to the relevant provisions of the Commercial Code;
h) elects members of VÚB, a.s., Management Board and approves agreements on the performance of function with the members of the Management Board;
i) approves any proposal for an increase or decrease in the registered capital of VÚB, a.s.;
j) approves any substantial change in the nature of the business of VÚB, a.s. or the way in which the business of VÚB, a.s. is carried out, if it is not already approved in the printed forecasts for the business and financial conditions in any relevant year;
k) approves remuneration policies for rewarding the managers who are directly under the responsibility of the Management Board and the Supervisory Board;
l) decides on other issues falling within the authority of the Supervisory Board under the cogent provisions of legal regulations and the Articles of Association.

The Supervisory Board is authorized to review the following issues, in particular:

a) a Management Board proposal regarding the termination of trading in Company securities on the stock exchange, and a decision on whether the Company should cease to operate as a public joint-stock company;
b) information from the Management Board on the major objectives related to the Company business management for the upcoming period, and expected development in VUB assets, liabilities and revenues;
c) the report by the Management Board on the business activities and assets of the Company, with related projected developments.

Committees of the Supervisory Board

Audit Committee

The Audit Committee was comprised of five members (including the Chairman) as of 31 December 2017. The Audit Committee held four meetings during 2017 financial year. The issues discussed at the meetings mainly related to: preparation of the financial statements and observation of the special regulations; efficiency of internal control and risk management system at the Bank; compliance with regulatory requirements; the audit of the separate financial statements and the audit of the consolidated financial statements. Further, the Audit Committee examines and monitors the independence of the auditor, especially services provided by the auditor according to a special regulation, recommends the appointment of an auditor for carrying out the audit of the Bank, and sets a date for an auditor to submit a statutory declaration about his independence. The Audit Committee regularly invited an external auditor to attend its meetings.

The Internal Audit and Control Department, the authorities and duties of which are defined by the Supervisory Board, excluding those defined by law, performs the control function in the Bank. The Head of the Internal Audit and Control Department may be appointed to/removed from the position upon a recommendation and prior consent issued by the Supervisory Board. Furthermore, the Supervisory Board also defines the remuneration and compensation scheme for this position. In 2017, the Chairman of the Audit Committee and the Head of the Internal Audit and Control Department were invited to attend the meetings of the Supervisory Board.

Members of the Audit Committee in 2017:

Francesco Ciccarelli	Chairman of the Audit Committee
Christian Schaack	Member of the Audit Committee
Luca Finazzi	Member of the Audit Committee
Dario Bertoncini	Member of the Audit Committee
Antonio Furesi	Member of the Audit Committee

Remuneration Committee

The Remuneration Committee was founded in VUB in July 2012. It has 3 members who are members of the Supervisory Board. The committee meets at least once a year. Its main responsibilities are to independently assess the compensation principles of the selected positions (according to the Act on Banks) and the effects of remuneration on the management of risk, capital and liquidity; be responsible for preparation of decisions concerning the compensation of the selected positions, including decisions affecting the risks and the management of risks in the Bank, which are to be made by the Management Board of VUB; take into account long-term interests of shareholders, investors and other stakeholders when preparing its decisions and supervise remuneration of the selected positions.

Risk Committee

The Risk Committee was established by a decision of the Supervisory Board of VUB in September 2015. It has 3 members who are members of the Supervisory Board. The committee meets at least twice a year. The Risk Committee is part of risk management and has supervisory, advisory and supportive functions primarily for the monitoring of the risk management system and strategy and its implementation.

Management Board

Management Board Members in 2017

Alexander Resch	Chairman of the Management Board and Chief Executive Officer
Roberto Vercelli	Member of the Management Board and Deputy Chief Executive Officer (since 1 November 2017)
Antonio Bergalio	Member of the Management Board and Chief Financial Officer
Andrej Viceník	Member of the Management Board and Head of Corporate and SME Division (since 1 December 2017)
Peter Magala	Member of the Management Board and Head of Risk Management Division
Peter Novák	Member of the Management Board and Chief Operating Officer
Martin Techman	Member of the Management Board and Head of Retail Division
Elena Kohútiková	Member of the Management Board and Deputy Chief Executive Officer (until 31 October 2017)
Jozef Kausich	Member of the Management Board and Head of Corporate and SME Division (until 30 November 2017)

Alexander Resch – Chairman of the Management Board and CEO

Alexander Resch has worked for Intesa Sanpaolo Group for his entire career. He became the Chief Executive Officer and Chairman of the Management Board of VÚB, a.s., on 1 October 2013 returning from Albania where he managed Intesa Sanpaolo Bank Albania. Before leaving for Albania, he held the position of Management Board Member and Chief Risk Officer of VUB. Alexander Resch first arrived in Slovakia in 2004 to coordinate the acquisition of the TatraCredit Group by VÚB Bank, which was subsequently transformed into Consumer Finance Holding, VÚB's sales finance subsidiary. He studied economics at Università Cattolica del Sacro Cuore in Milan and also holds a double Executive MBA degree from the University of Minnesota - Carlson School of Management and the Vienna University of Economics and Business. Alexander Resch is the President of the Slovak Banking Association and the Italian-Slovak Chamber of Commerce.

Roberto Vercelli – Member of the Management Board and Deputy CEO

Roberto Vercelli has been a member of the Management Board and Deputy CEO of VÚB, a.s. since 1 November 2017. He is responsible primarily for regulatory and support departments of the bank.

Prior to accepting the DCEO function at VÚB, a.s. for the last year and a half he was managing in the International Subsidiary Banks Division of Intesa Sanpaolo the credit program for international subsidiaries and was responsible for monitoring projects in the area of risks, credit and accounting within the Group. He has been working for Intesa Sanpaolo since 1981. He started his professional career in Turin and in the past years he held several managing positions, among the other he headed the internal audit of Group's subsidiaries and acted as the Chief Executive Officer of Alex Bank in Egypt. Furthermore he managed a special coordination office in Pravex Bank in Ukraine, where he was also a permanent invitee to the discussions of the Management Board and a member of several internal committees. He graduated from the G.A. Giobert Institute in Asti, Italy – High School Diploma in Accounting Studies.

Antonio Bergalio – Member of the Management Board and Chief Financial Officer

Antonio Bergalio has been a member of the Management Board and Chief Financial Officer since 1 October 2014. He is in charge of controlling, accounting, management of assets and liabilities, real estate, procurement and internal services. Before joining VUB, Antonio Bergalio was a member of the Management Board and CFO of the Ukrainian Pravex Bank, a member of the Intesa Sanpaolo Group. He was in charge of reporting, planning and controlling, treasury, investment banking and procurement. Before that he worked as a manager at several banks and consultancy firms focusing on finance. Antonio Bergalio studied Economics at the University of Genoa. He was also a member of the Committee of Italian Entrepreneurs in Ukraine from 2012 to 2014.

Andrej Viceník– Member of the Management Board and Head of the Corporate and SME Division

Andrej Viceník became a member of the Management Board and Head of the Corporate and SME Division and Chairman of the Supervisory Board of VÚB Leasing, a. s. in December 2017. He joined VÚB bank in 2006. Before his appointment he had been the Head of Corporate Customer Department until 2010 and later the Head of SME Department until November 2017. He worked in Executive positions in Česká poisťovňa, Zürich poisťovňa and HVB Bank Slovakia. Andrej Viceník is a graduate of Faculty of Business Management of University of Economics in Bratislava and holds an Executive MBA degree from the Webster University as well.

Peter Magala – Member of the Management Board and Head of the Risk Management Division

Peter Magala has been a member of the VUB Management Board and Executive Director of the Risk Management Division since 1 March 2012. Before his appointment to his current position he was the Head of VUB Internal Audit and Control Department responsible for the internal auditing of the entire VUB Group. Having graduated from the University of Economics in Bratislava, Faculty of National Economy, he started his career with Deloitte, Bratislava. Peter Magala gained further banking experience at Citibank, Bratislava and in Tatrabanka/Raiffeisen International mostly participating in an international IT project in Slovenia. He holds an internationally recognized professional qualification in risk management – Financial Risk Manager (FRM), and is a Fellow Member of the Association of Chartered Certified Accountants (FCCA).

Peter Novák – Member of the Management Board and Chief Operating Officer

Peter Novák became a member of the VUB Management Board and Chief Operating Officer on 1 October 2014. He joined VUB after leaving Raiffeisen Bank International AG in Austria where he was Managing Director of International Operations and IT since 2011 and was responsible for directing Operations and IT for 15 banks in Central and Eastern Europe – plus regional offices in Beijing, Hong Kong, Singapore, New York and London. Prior to Raiffeisen, he held senior management positions in both banking and telecommunications in Slovakia and abroad. Peter Novák graduated from the Technical University in Košice.

Martin Techman - Member of the Management Board and Head of the Retail Division

Martin Techman became Member of the VUB Management Board and Head of the Retail Division in March 2015. At VUB, he is in charge of the management of the retail branch network and client relationship, bank products for individuals and small business, payment cards and private banking. He came to VUB from Česká sporiteľňa, where he was the director of business development and later managed the branch network in the Czech Republic. Martin Techman started his career in the field of banking and financial services at the company Multiservis, which was acquired by GE Capital. From 2004 to 2005 he was the head of development and administration of products at VUB. Martin Techman is a Nottingham Trent University graduate, with an MBA degree in Business Administration (Executive MBA).

Elena Kohútiková – Member of the Management Board and Deputy CEO

Elena Kohútiková acted in the position of Member of the VUB Management Board and Deputy Chief Executive Officer since 1 March 2009 until 31 October 2017.

Jozef Kausich – Member of the Management Board and Executive Director of the Corporate and SME Division

Jozef Kausich acted in the position of Member of the VUB Management Board and Executive Director of the Corporate and SME Division since 15 April 2005 until 30 November 2017.

Competencies of the Management Board

The Management Board is authorized to manage the activities of VÚB, a. s. and to take decisions on any matters related to VUB which, under legal regulations or the Articles of Association have not been reserved for the authority of other VUB bodies. The Management Board is primarily responsible for the following matters:

a) exercising the executive management of VÚB, a.s. and employer rights;
b) implementing decisions taken by the General Meeting and the Supervisory Board;
c) ensuring the accuracy of the mandatory bookkeeping and other records, trade books and other documentation of VÚB, a. s.;
d) after prior approval by and upon a proposal by the Supervisory Board, submitting the following matters to the General Meeting for approval:
   - amendments to the Articles of Association of the bank;
   - proposals for increasing / decreasing registered capital and bond issues;
   - proposals for issuing shares or redemption of shares;
   - ordinary, extraordinary, individual or consolidated financial statements;
   - proposals for distribution of current or retained profits and/or proposals for settlement of outstanding losses from the current and/or previous years; and
   - the annual report;
   - a proposal for approval or withdrawal of the auditor of VÚB, a.s. for the relevant accounting period;
e) approval and regular investigation of Bank Remuneration Policies.

The conditions for the performance of the function of a Management Board Member are defined by an Agreement on the performance of the function with the member of the Management Board in line with the relevant provisions of the Commercial Code, Act No. 483/2001 Coll. on Banks, adopted Remuneration Policies and other relevant legislation.

Committees of the Management Board

The Credit Committee

The Credit Committee is the highest permanent decision-making committee of the Bank regarding performing counterparties, whose main responsibility consists of adopting credit decisions in line with the issued strategic guidelines and credit policies, while acting within the credit prerogatives of the Bank and in compliance with the applicable laws and Group regulations.

The Credit Risk Governance Committee

The Credit Risk Governance Committee (CRGC) is a permanent decision-making and advisory committee, whose mission is to ensure a qualified and coordinated management of credit risk within the exercise of credit prerogatives of the Bank and in compliance with the applicable laws, ISP Group regulations and Parent Company strategic decisions. The Committee's main responsibility is to define and update credit risk strategic guidelines and credit management policies based on the constant credit portfolio monitoring.

The Assets and Liabilities Committee

The Asset and Liabilities Committee (ALCO) is a permanent decision-making and consultative committee, focused on financial risks governance, on the active value management issues, on the strategic and operative management of assets and liabilities and on financial products governance. The main objective of ALCO is to protect the Bank's equity and its allocation, to harmonize the assets and liabilities of the Bank taking into consideration pricing structures and maturity profiles, in compliance with Parent Company guidelines, Bank's internal regulations, laws, rules and regulations set by the competent Authorities.

The Operational Risk Committee

The Operational Risk Committee (ORC) supports the Management Board of the Bank by reviewing the Bank´s overall operational risk profile. Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk that is the risk of losses deriving from breach of laws or regulations, contractual/out of-contract responsibilities or other disputes; strategic and reputational risks are not included. ORC coordinates the implementation of strategies and guidelines regarding operational risk, as well as methodologies, tools and procedures of the measurement and the control of risk, in cooperation with the parent company.

Internal Controls Coordination Committee

The aim of the Internal Controls Coordination Committee is to strengthen the coordination and the cooperation among the various Bank's control functions, facilitating the integration of risk management processes.

The Project Portfolio Committee

The Project Portfolio Committee (PPC) provides a platform that links both Business and IT strategy with operational management of business priorities with respect to IT resource planning and capacities. PPC works as an urgent escalation and decision-making body in case of issues and conflicts in business priorities, solving conflicts of allocation of resources to the business requirements.

The New Product Committee

The aim of the New Product Committee (NPC) is to discuss and approve proposed new products related to the financial and capital markets, corporate banking and retail banking. NPC takes into consideration submitted documentation according to valid rules defined in the Market Risk Charter and New Product Implementation in the Corporate & SME Division and in the Retail Division. Both policies define the New Product Policy in detail.

The Problem Asset Committee

The Problem Asset Committee is the highest permanent decision-making committee of the Bank regarding risky and non-performing counterparties, whose main responsibility consists in taking the necessary measures in order to prevent and mitigate credit losses connected with risky and deteriorated assets, while acting within the credit prerogatives of the Bank and in compliance with the applicable laws and ISP Group regulations.

The Crisis Committee
The Crisis Committee is management and coordination body that issues orders for key bank areas with the aim to prevent, mitigate and remove the impact of extraordinary events or crisis situations on business activity and the goodwill of the Bank. Crisis Committee has a right to be informed about BIA results, creation, implementation and testing of Business Continuity Plan for system and critical processes.

B. Relations between the Company and its Shareholders

The Bank observes the provisions of the Commercial Code and other relevant valid legislation applicable to the protection of shareholders' rights, as well as the regulation on the timely provision of all relevant information on the company and provisions on convening and conducting its General Meetings.

The Company applies the principle of shareholders' rights, equal access to information for all shareholders and other relevant principles pursuant to the Corporate Governance Code for Slovakia.

C. The Company's Approach to Shareholders

The Bank's corporate governance principles ensure, facilitate and protect the exercising of shareholders' rights. The Company duly and timely performs all its duties and obligations towards shareholders in compliance with relevant legislation and the Corporate Governance Code for Slovakia. The Company enables shareholders to duly and transparently exercise their rights in compliance with relevant valid legislation.

D. Disclosure of Information and Transparency

1. The Bank applies strict rules in the area of insider dealing, and continually maintains and updates a list of insiders.
2. Information about corporate governance is published on the VUB web site www.vub.sk in the section "About VÚB". Information for shareholders is available on the VUB web site www.vub.sk in the "Information for Shareholders" section.
3. Members of the Management Board and Supervisory Board do not have any personal interest in the business activities of the Bank. The Bank strictly observes the provisions of the Banking Act No. 483/2001 Coll. (hereinafter the 'Banking Act') as amended, applicable to the provision of deals to the Bank's related parties. Under the Banking Act, the closing of such a deal requires the unanimous consent of all the Management Board members based on a written analysis of the deal concerned; a person with a personal interest in the given deal is excluded from a decision-making role. The Bank does not carry out with its related parties such deals, which owing to their nature, purpose or risk, would not be performed with other clients.
4. The Bank abides by both the Corporate Governance Code for Slovakia and the rules of the Bratislava Stock Exchange governing disclosure of all substantial information. The fact that the company observes the mentioned regulations ensures that all the shareholders and potential shareholders have access to information on the financial standing, performance, ownership and management of the company, enabling them to take competent investment decisions. The Corporate Governance Code for Slovakia is available on the Central European Corporate Governance Association – CECGA web site www.cecga.org. The Bratislava Stock Exchange Rules are available on the Bratislava Stock Exchange web site www.bsse.sk in the section "BSSE Regulations".
5. The Company actively supports a constructive dialogue with institutional investors and promptly informs all shareholders at General Meetings and notices via its webpage www.vub.sk in Slovak and English. Thus, it enables both foreign and local investors to participate actively in the meetings.
6. The Bank applies changes arising from Act No. 566/2001 Coll. on Securities and Investment Services, as amended (hereinafter the 'Securities Act'), at a European level, and the MiFID directive (Markets in Financial Instruments Directive), and undertakes activities directed at investor protection and strengthening client trust in the provision of investment services. The main objective of the MiFID directive is to enhance financial consumer protection in the field of investment services. The essence of the MiFID directive lies in the new categorization of clients according to their knowledge and experience in the field of investment in order to provide clients with an adequate level of protection, and in the bank's obligation to act in the best interests of the client in carrying out their orders in relation to their financial instruments (best execution), in higher requirements as regards market transparency, and organization of the Bank as a securities trader, to be ensured by internal control systems and the prevention of conflict of interests.
7. The Bank continuously informs clients on concluded deals related to quoted shares and bonds on its webpage www.vub.sk.
8. The Bank continues to provide payment services according to the payment law, PSD (Payment Services Directive). The aim of this law is to provide high level clear information about payment services for consumers to allow them to make well-informed choices and be able to shop around within the EU. In the interests of transparency, the harmonized requirements are laid down in order to ensure the necessary and sufficient information to payment service users with regard to the payment service contract and payment transactions.

Selected Aspects of VUB Bank's Corporate Responsibility

Introduction

VUB Bank has issued a separate *Corporate Responsibility Report* since 2006, i.e. thus far it has issued it eleven times. In this report, it presented its approach to corporate responsibility, strategy, principles and values, methodology, relationship with individual partners (shareholders, employees, clients, the environment, and the community), individual projects and achievements, as well as subsequent ways of measuring and reporting.
Currently, Intesa Sanpaolo, the parent company of VUB Bank, processes and issues such a report on the basis of Europe-wide changes in reporting and mainly under the new European Directive 2014/95/EU on Non-financial and Diversity Information and will do so in accordance with international law for all of its subsidiaries and foreign affiliates.

VUB Bank is proud of its activities in corporate social responsibility and corporate responsibility, which it has been building and developing for 11 years, and therefore it wants to inform Slovak shareholders of them at least in the following way: information on selected aspects of its corporate responsibility for 2017. We want to introduce our shareholders to activities and projects that helped us achieve our excellent business results in 2017, highlighting the fact that it is also thanks to our employees and our approach to society, the community and the environment. Because we are convinced that doing business responsibly means achieving success in ways that respect ethical values, hold people in high esteem, enhance the community, and protect the environment.

Business Ethics

VUB Bank follows such rules that are not imposed on us by any law or supervised by any authority. However, we consider such rules to be indispensable.
The main pillars of our corporate responsibility are represented by ethics and transparency, which also our shareholders expect of us. VUB Bank has its own **Code of Ethics**, which helps implement ethics into our business activities through the specific steps taken. The Code of Ethics is a set of principles that have a strategic meaning for us and regulate the behaviour of our employees. Everybody, without any exception, is required to become familiarised with it. Observance of the Code of Ethics is continuously monitored and its breach penalised. This Code of Ethics is followed up by a corporate anti-corruption programme with specific system and organisational measures, including an internal audit control system.

VUB Code of Ethics

The VUB Code of Ethics, one of the pillars of our corporate culture, derives from the Code of Ethics of Intesa Sanpaolo. It is a binding document, which represents a framework of ethical and moral values. It defines the principles of conduct in relation to all stakeholders of VUB Bank. As a management tool and a part of a wider vision of the Group's social and environmental responsibility, the Code of Ethics attributes the highest importance to all stakeholder relations. An electronic version of the document is published at https://www.vub.sk/sk/spolocenska-zodpovednost/. Failure to observe the Code of Ethics can be penalised and its breaches may be reported to etickykodex@vub.sk.

Internal Code of Conduct

The Code of Ethics also sets the basic principles of conduct for the company's representatives, employees and external agents, who are obliged to execute their functions responsibly, honestly, fairly and professionally, to promote the Bank and Group's interests as well as to take into consideration the interests of clients and shareholders. Therefore, the execution of decision-making authorities and each business activity alike must reflect all values and principles contained in the Code. Employees are informed of the principles by means of information systems and internal communication, and their observance is monitored by an adequate system of internal control.
VUB bank has diversity policy implementation in progress and plans to introduce it in 2018.

Query Resolution Policy (the so-called Whistle Blower Policy)

If an employee of VUB Bank in performing his/her work duties identifies a breach of internal and/or legal regulations, based on this policy, he/she has the right and possibility of sharing his/her inquiry via podnety@vub.sk and etickykodex@vub.sk. The regulation also enables each Bank's supplier or potential supplier in the procurement process or in connection with it to send an inquiry, including an anonymous inquiry, for the purpose of achieving rectification. The regulation governs the procedure and method of attending to employee and client inquiries and to the inquiries of suppliers and/or potential suppliers.

Gift Acceptance Policy

This internal policy derives from the Code of Ethics of VUB Bank and it forms its annex. It governs the principles and limitations with regard to the behaviour of the Bank's representatives and employees in accepting gifts. It also sets the limits and rules for behaviour in gift acceptance, the handling of gifts and it introduces a Register of Accepted Gifts.

Non-Armament Policy

VUB Bank took over this policy from the parent bank Intesa Sanpaolo. In accordance with the values and principles of the Code of Ethics, it defines a ban on financing and carrying out transactions related to the import and export of arms and armament systems. Group members can assist clients in transactions concerning existing intergovernmental agreements or other transactions for national armies, police or other armed forces of the state, which can be considered compatible with the spirit of an "unarmed bank – a bank non-supportive of arms" based on an authorisation by the competent unit of the Intesa Sanpaolo Group.

Policy for the Management of Relations with Political Parties and Politically Engaged Parties, Clients Operating in the Armament Industry and Risk Industries

The policy mainly stipulates the management of relations with political parties and politically engaged parties in the interest of preserving the impartiality and independence of the bank (the aim is to prevent potential reputational risk; companies belonging to the VUB Group must approach the starting of business relations with political parties and politically engaged persons with the utmost prudence), the management of relations with clients operating in the armament industry (the aim is to prevent VUB Bank and its subsidiaries from participating in the financing of activities and transactions concerning the manufacturing of arms equipment as well as the trading of this equipment for military purposes), and the management of relations with clients operating in risky business fields (e.g. bars, night clubs, casinos, exchange offices and pawnshops, debt collecting agencies, brokerage companies, betting offices).

Anti-money Laundering and Anti-terrorism

In the field of anti-money laundering (AML) and anti-terrorist financing, we are progressing in line with Slovak and also European legislation, ensuring the protection of our clients as well as of the Bank itself. We do not want to support these negative phenomena, not even indirectly by enabling financial flows through our products, services or in any way connected with the Bank. Therefore, we follow strictly set internal rules to prevent money-laundering and terrorist financing in the form of detecting unusual business transactions. For this purpose, the Bank has developed and implemented its Programme for Anti-money Laundering and Anti-terrorist Financing Activities.

Conflict of Interest Policy

VUB Bank has committed itself to avoiding a conflict between the private interests of its employees and the interests of the Bank. The employees are liable to take all required measures in order to avoid a conflict of interest. In case a conflict of interest occurs, employees shall solve such a conflict to the benefit of the Bank. The employees may never misuse their connection with the Bank to promote their personal interests or harm the Bank's reputation by their actions nor can they misuse their position or confidential information to provide preferential treatment towards a job applicant or a person aiming to start a business relationship with the Bank. VUB Bank also applies and adheres to special measures designed to prevent conflicts of interests in the area of investment services.

Discrimination Ban

On all levels and in relation to all of its stakeholders, VUB Bank observes the non-discrimination principles that are firmly enshrined in our Code of Ethics and system of values. One of VUB's values is that "*We do not discriminate – we commit that we shall exclude from our actions any discrimination and shall respect differences based on sex, age, race, faith, political opinion, participation in unions, language skills or impairment*".

Corruption and Fraudulent Actions

The Bank has a specialised unit dedicated to the disclosure of fraud and corruption, which is a part of the Risk Management Division. It closely cooperates primarily with the Internal Audit and Control Department and the Compliance Department. All bank employees are informed of internal ethical standards and the zero tolerance principle, while having access to the basic information on the steps that are necessary to be taken in the case of any suspicion of corruption or fraud. The Bank does not conceal the detected corruption and fraud cases from its employees, but on the contrary, it has decided to inform and educate its managers in order to constantly improve their work and eliminate shortcomings and errors in this area in the future. Within initial trainings, all new hires in the retail network are given a special presentation on fraud and corruption risks, including the typical signs of risky behaviour. The main objective of this training activity is to increase the prevention and/or minimise the occurrence of these cases.

Measures for Reducing Corruption and Fraud

1. Internal Control System – the Bank has various control mechanisms incorporated into its processes in order to reduce the risk of corruption and fraud to the minimum level possible. The Bank clearly sets the necessity of a control mechanism for each process where a risk of corruption and fraud is imminent (e.g. verification of decisions, 4-eyes control, access rights management, etc.). The internal control system consists of three levels: statutory, executive and control.
2. Internal Audit – the Bank has an Internal Audit and Control Unit, which is an independent supervising body (unit directly reporting to the Bank's Supervisory Board, not to the Management Board). One of its main roles is to verify the functioning of the internal control system, compliance with external and internal legislation including the Bank's Code of Ethics, verification of internal control failures and suspicions of internal fraud.

Zero Tolerance

VUB Bank clearly proclaims its absolute zero tolerance principle regarding corruption and fraud. All bank employees are informed about the following principles: 1. The Bank shall not accept any form of fraudulent or corrupt action, therefore each case will be thoroughly examined and relevant measures drawn from it. 2. Any participation in fraud or attempted fraud shall lead to dismissal and potential criminal charges. 3. Necessary investigations shall be performed irrespective of the relationship of the given person to this organisation; his/her work position or employment duration.

Community

VUB Bank feels responsible for the society where it operates and which it impacts with its business activities. The main channels of assistance include the corporate foundation – VUB Foundation financed by the tax assignment of VUB Bank, the employees themselves and their volunteering activities.

Charity

Good Angel

We have supported this humanitarian project by means of charity debit cards for 11 years already. Half a per cent of all the payments made with a *Good Angel Charity Debit Card* goes to the account of the non-profit organisation Dobrý anjel (Good Angel), which helps oncologic patients and families with seriously ill children. This money is not donated by the cardholder, but by VUB Bank on his/her behalf. In 2017, the number of issued *Good Angel Charity Debit Cards* increased to 51,025, which is 5,195 cards more than in the previous year, and the **contribution from VUB Bank** (0.5% of the payments made by client cards) **amounted to EUR 328,140.20**, which is a year-on-year increase of EUR 21,383.29. In addition, the organisation Good Angel was awarded an extra grant of **EUR 64,000.00** by the VUB Foundation before Christmas. Other forms of assistance include Internet banking – the Bank's clients have the option to set up the rounding of their payments up to 1.00 Euro in favour of Good Angel, or to set up a standing order to send payments to Good Angel's account.

Cooperation with Sheltered Workshops

VUB Bank realises the significance of inclusion of disabled people, and therefore it purchases products and services from sheltered workshops that employ these people. In 2017, we purchased goods and services from them in the total amount of **EUR 39,385.00**. This amount represented, for example, catering for some events organised by VUB Bank, the purchase of promotional gifts designed for clients, employees or their family members, or printing services (having the Bank's logo on representative merchandise). The money invested is perceived as a value added for the Bank, its clients and employees alike. It presents an opportunity to interconnect corporate responsibility and the Bank's everyday business.
In December, VUB Bank's Head Office building hosted the traditional Christmas Market, to which employees could also bring their children. Together, they enjoyed a festive atmosphere and the products sold there by 8 sheltered workshops from around Slovakia. The products were made and sold by handicapped people. The employees had the opportunity to buy gifts for their relatives and simultaneously support a good cause.

Blood Drive

It has already become a tradition that each year employees donate blood during the mobile blood collection *"VUB Blood Drive"* organised as part of a long-term cooperation with the National Transfusion Service. In 2017, 108 donors participated in collections, having donated 54 litres of the life-saving liquid. Before Christmas, part of the blood was specially collected and given to young patients of the Children's Heart Centre, who were awaiting surgical intervention.

Clothing Drive

A charitable *Spring and Autumn Collection of Clothes and Other Necessary Items* was organised under the auspices of the Pontis Foundation. Together we collected more than two tonnes of quality clothes; the collection involved not only employees from Bratislava, but also from Banská Bystrica, where the Bank has its Customer Centre. The proceeds from the collection were donated to the civic associations *Home for Everyone (Domov pre každého)* and *Home of Dawning (Dom svitania)*.

Art

Within the field of art, we have been focused over the long-term on the protection of cultural heritage and support for contemporary art with an emphasis on the fine arts. Last year, VUB Bank by means of the VUB Foundation enabled the saving of several monuments and continued in the restoration of the Calvary of Banská Štiavnica. In 2017, VUB Bank showed its interest in the arts by supporting the *Cirkul'art 2016*, which is an international exhibition of creative and genre-rich artistic productions with a focus on contemporary theatre and modern circus from various parts of the world, the *White Night* festival which brought a portion of contemporary art to Bratislava and Košice in the form of visually interesting art installations, digital art, mapping, performance, concerts and dance, and the *Grape* festival which brings world-wide stars from indie, pop/rock and the electronic scene to Slovakia every year.

Education

Cooperation with Schools and Support for Education

One of VUB Bank's priorities is education in the main area of our business – economy and finance. Our projects offer talented students the possibility of putting forward their original ideas and demonstrating their talent. Their goal is to improve the quality of research and university education in the field of finance and develop economic science and research. VUB Bank has long been cooperating with secondary schools and universities mainly in the economic, mathematical and IT specialisations. In the interest of making education more attractive in the finance, economy and banking fields, we:

– provide consultation activities for the elaboration of a thesis or annual school project;
– give secondary school and university students an opportunity to perform their expert, bachelor and thesis internship with us;
– hold technical topical lectures at secondary schools and universities;
– organise an international student competition.

We offer university students the opportunity to become employed within our *"Internship and Work"* programme *(Stážuj a pracuj)*. For the Internship and Work 2016/2017 trainee programme, we published 12 areas by means of a popular Slovak job portal, offering enrolment for 4th and 5th year university students. More than 60 applicants showed interest in the programme. We selected 10 trainees, who could get acquainted with the Bank's environment and activities. The trainees had the opportunity to become part of the Marketing, Audit, HR, Credit Risk, Standard and Premium Clients, Administrative and Financial Supervision Departments. The programme starts with a 3-month orientation internship with an elaborated adaptation plan for gradually managing tasks in the specific unit. Another 5 months of the programme are dedicated to an individually performed activity, as well as the engagement of trainees in the daily working environment of their unit. The Internship and Work programme also brings the trainees many benefits related to internal training, such as in time management, assertiveness and effective communication. After completing the internship, those who show their skills are offered the opportunity to apply for a job with the Bank.

Financial Education

VUB Bank is aware of the importance of financial education and increasing financial literacy within various communities. Support in the field of education is annually provided by lectures hosted by our Bank's managers at secondary schools and universities, professional lectures at universities specialising in economics and finance and by providing assistance in elaborating bachelor's, master's and doctoral theses. On the occasion of World Savings Day on October 30, we prepared a financial education project for children from primary schools in cooperation with the parent company Intesa Sanpaolo. The all-day programme, thematically focused on the topic of saving, included interactive lectures tailored to individual age groups and an excursion to the Bank.

Impact HUB

We work with the organisation *Impact HUB*, which is an international platform for co-working aimed at supporting ideas that are innovative and beneficial for society; it supports beginning entrepreneurs, projects beneficial for society and education in the area of entrepreneurial skills.

Support for Start-ups

VUB Bank also supports beginning entrepreneurs and start-ups in manners other than the provision of specific bank products or services. The most significant forms of support include direct cooperation, the provision of know-how and the provision of grants or financial donations for education for beginning entrepreneurs. In 2017, we provided know-how mainly to women – beginning entrepreneurs – through the project *VUB Academy for Businesswomen (VÚB Akadémia pre podnikavé ženy*). These female leaders with emerging business ideas and meaningful community activities, but also students and women longing for education, took part in a series of 22 workshops focused on the acquisition of practical skills in the areas of marketing, online communication, management and IT. VUB Bank also supported start-ups through the foundation grant programme *For Communities*, in which the VUB Foundation awarded a grant of EUR 8,000.00 for 2 *projects from the area of community business*.

Financial and Material Aid

VUB tries to help in various ways. The greatest amount of financial assistance is represented by the **financial aid** provided to the VUB Foundation, which then distributes it to different communities, non-governmental organisations, local self-governments, and state-owned organisations (schools, hospitals, museums) in the form of grants. In 2017, VUB Bank provided financial aid of EUR 236,000.00 and EUR 47,400.00 to the VUB Foundation and other entities, respectively.

VUB Bank also strives to support organisations non-financially. Within this kind of help, it sells off mainly discarded desktop **computers** at a symbolic 3 cents per unit to organisations that submit a request. In 2017, 60 computers with accessories, including licensed software, were donated.
In 2017, due to the modernisation of branches and office premises, VUB Bank helped many non-profit organisations and schools by donating **office furniture**.

Engaging Employees in Community Life

Employee Grants

In cooperation with the VUB Foundation, VUB Bank supports the engagement of employees into activities beneficial for the communities in which they work and live. It appreciates their willingness and effort to help by means of employee programmes, which are very popular among employees. During its 11-year history, more than 1,500 colleagues have joined in projects and 385 projects have been supported. In 2017, the employee grant programme *Help Your Community (Pomôžte svojej komunite)* financially supported 27 organisations with an amount of EUR 29,980.00. The financial support was provided to organisations in which VUB Group employees are volunteering: non-governmental non-profit organisations, schools or local self-governments. Projects in the area of charity, education and leisure time activities for children and youth were supported.

Volunteering

In 2017, employees participated in traditional volunteering services at the Calvary of Banská Štiavnica and in activities within the *Our Town (Naše mesto)* project, in which they helped a new community partner of the Bank and VUB Foundation – the creative and cultural centre Cvernovka.

VUB Foundation

The VUB Foundation is an independent legal entity; however, it executes some of its activities and projects in close managerial and financial cooperation with VUB Bank, therefore we also publish them in this report. All activities of the VUB Foundation in 2017 are presented comprehensibly and in detail on www.nadaciavub.sk and in its annual report.

The VUB Foundation has carried out its activities in the field of philanthropy since 2003. It is financed *by the assignment of income tax from the VUB Group* (in 2017, it obtained EUR 48,220.08 from the Bank's subsidiaries and from the Bank itself EUR 943,074.28) and *by financial donations from VUB Bank* (EUR 236,000.00). Moreover, VUB Bank provides its foundation with personnel, material and administrative support. In 2017, the VUB Foundation contributed to several community projects in the amount of EUR 1,020,206.70, whereof the majority of funds went to support for art and cultural heritage (50.04%) and to the area of charity (13.57%). The area of education received 9.33% of the funds; the area of community was allocated 13.38% of the funds.

The VUB Foundation focuses on the following areas:

- education – *For Education* Foundation Programme;
- art and cultural heritage – *For Art* Foundation Programme;
- charity – *For Hope* Foundation Programme;
- active communities – *For Community* Foundation Programme.

For Education Foundation Programme

The ***Guest Professor*** grant programme enables universities with economic specialisations to invite guest experts from abroad for a semester. Besides the pedagogical engagement of significant international experts at Slovak universities, the programme brings students the opportunity to work with a foreign professor on scientific papers according to the methodology implemented by foreign universities. It also motivates students in economics, doctoral graduates and pedagogues to actively engage in the field of economic science. During the winter semester of the 2017/2018 academic year, the University of Economy in Bratislava in Slovakia hosted Professor Edward M. Bergman, PhD., who gave students an insight into the area of regional development. The 2016/2017 summer semester saw Professor John Gilbert visit the University of Economy in Bratislava, where he modelled the Slovak economy with students.

In the interest of supporting and developing economic science and research in Slovakia, especially focusing on the education and training of young economists and increasing their publishing activities, every year the VUB Foundation announces a competition for all scientific papers in the area of economic sciences called ***Economicus***. The competition is connected with an award for the best-published scientific paper in the field of economy and finance published in renowned international magazines and a financial reward of 10,000 Euros. In 2017, the award for 2016 was given to Štefan Lyócsa and Peter Molnár for their work "Volatility Forecasting of Strategically Linked Commodity ETFs: Gold - Silver". The winner for 2017 will be announced in spring 2018.

For Art Foundation Programme

The activities of the VUB Foundation focusing on cultural heritage and the fine arts derive from the tradition of enhancing the country's artistic and historical heritage, which is also characteristic of the Italian owner of VUB Bank, the banking group Intesa Sanpaolo.

Preservation of Cultural Heritage

Besides restoration, our objective is also to raise awareness for the treasures of our country. In 2017, within the *Treasures of My Heart* competition, the restoration of works by Master Paul of Levoča was financially supported. Moreover, since 2008 VUB Bank and the VUB Foundation have been supporting the restoration of the Banská Štiavnica Calvary, one of the most precious monuments in Slovakia. This UNESCO protected national monument has been in a dilapidated condition for a long period of time, and in 2007 it was put on the list of 100 world's most endangered monuments. In 2017, the VUB Foundation supported its restoration with an amount of 200,000 Euros.

Support for Contemporary Fine Arts

Inspired by the example of its parent bank, VUB Bank also engages itself as a supporter of art. In cooperation with the VUB Foundation, each year it organises an artistic competition entitled *Painting – the VUB Foundation's Award to Young Artists for an Artwork*. The winners, besides the recognition of an expert international jury, receive prize money for the further development of their talent. Each year, the competition is connected with an exhibition of the finalists, through which the foundation tries to introduce young Slovak art to the public. In 2017, within the 12th annual competition, the exhibition of the competition's finalists and winners was held in the Nedbalka Gallery. The admission was free thanks to the VUB Foundation. The exhibition of the competition's finalists was also incorporated into the *White Night* festival. Talents from the painting competition are presented in the virtual gallery at www.malbaroka.sk.

For Hope Foundation Programme

Within this programme, the VUB Foundation engages mainly in the area of classic charity and healthcare. It helps disadvantaged individuals and groups to equalise their chances in life. It supports the development of sheltered workplaces, sheltered housing, finances the therapies for the physically and mentally disabled and helps foster families.

For Community Foundation Programme

The tremendous interest of people in the environment they live in confirmed once again that community projects needed more support. In order to execute these projects, the participation of activists and volunteers who are willing to dedicate their time, experience and expertise, know-how and efforts for the good of others is inevitable. In 2017, the VUB Foundation again announced the programme titled **80,000 Euros for communities, where we live**.

Employees

We realise that our success is based on the expertise of our employees and the quality of services provided to our clients, therefore we consider the creation of interesting work and a stimulating working environment a key role in the development of human capital. In relation to employees, we follow the principles of the Code of Ethics of Intesa Sanpaolo Group and have committed ourselves to excluding any discrimination from our actions and respecting differences based on sex, age, race, faith, political opinion, participation in unions, language skills or impairment. We appreciate the value, benefits and professionalism of each individual.

Employee Engagement Survey

At VUB bank, we take the opinions of our employees seriously. Employee surveys ranked among the important activities to which the Bank devoted itself at the level of the Board of Directors in 2017.

Employee satisfaction and engagement are periodically examined in the form of employee surveys. The employees of VUB Group take part in a Group-wide employee survey (Climate Survey), which already since 2009 Intesa Sanpaolo Group has been conducting in all foreign subsidiary banks at regular two-year intervals. However, it provides only a general view of the bank. VUB Bank needed to get a better idea about its current situation, about what should be improved in each department. Therefore, we conducted an in-depth survey in 2016.

The Employee Engagement Survey revealed areas perceived by employees as strong, such as communication of clear goals by immediate superiors, but also those needed to be further worked on. The identified areas formed the basis for drafting an action plan, in which we detailed the sub-areas and activities. The action plans were compiled bottom-up and the key areas included:

– compensation and recognition;
– favourable infrastructure;
– cooperation and communication among teams.

In order to verify the effectiveness and accuracy of the action plan, another Employee Survey was carried out in October 2017, which mapped progress in the respective areas. The aggregate result of this survey was presented to the Bank's Board of Directors and, on the basis of recommendations and conclusions, the management took measures that led to the re-establishment of some action steps. The results showed a shift in some mapped areas, especially at the level of individual departments. The results were subsequently distributed to the directors in charge as well as line managers; the overall shift was presented by the CEO at the annual meeting of all bank managers.
In December 2017, 500 employees of the Bank, mainly from the retail business network and the network of corporate business centres, were involved in the Group-wide survey for the purposes of drawing up the Business Plan for 2018-2021. The opinions and recommendations of the Group's employees served as a source of inspiration for drawing up the Group Business Plan.

Climate Survey

In 2017, we implemented several action measures agreed after the climate survey had been conducted in 2016. They focused on the areas of remuneration, support for informal communication among departments and the improvement of internal premises for employees (kitchenettes, meeting rooms). Subsequently, at the end of the year, the climate survey was repeated, confirming the need to continue in the identified areas of the action plan in the next year as well.

Recruitment

In recruiting and hiring new employees, we follow the rules based on the assessment of individual knowledge, skills and personal prerequisites relevant to the vacant position being staffed. We pay due care to adhering to the principles of impartiality and to avoid favouritism, misuse or discrimination. Job applicants interested in working with us can refer to our Internet page in the "*Career*" section, which provides an overview of the current vacancies. In 2017, we hired 481 new employees and 397 temporary workers.

The VUB employee base itself is one of the most important sources in staffing vacant positions. Open or newly created positions present an opportunity not only for external candidates, but they are also a challenge for internal employees in their further career growth. Managerial positions in the retail branch network were staffed mainly by internal candidates who are being prepared for the role of a manager within the *Managerial Bench* programme. It is a development programme aimed at the identification, development and preparation of future managers of the retail business network from among the employees and managers of small branches. A total of 20 retail colleagues were enrolled in this programme. We would like to continue with the Managerial Bench even more in the coming year.

As a matter of tradition, also in 2017 we continued the *Find Your Colleague* programme. This activity is aimed at engaging all of our employees in searching for and recommending candidates for vacancies. For all proposed candidates, we always assess their suitability for the given position. Only the best of the best make it through the standard recruitment process. After six months and subsequently also after the candidate's full year in the position, the recommending employee is paid out a motivational reward.

For new employees, each month we organise the so-called *Welcome Day*, apart from the CEO's initial welcome, which is very motivational. Its aim is to give a basic overview of the Bank – information on the history of the Bank and the Intesa Sanpaolo Group, its market position, retail and corporate banking business, portfolio of products and services it provides, company structure, but also on employee rights, obligations and benefits. Retail and corporate business network employees receive an obligatory training on Anti-money Laundering and Anti-terrorism issues. They are also trained on another obligatory topic – Fraud Prevention.

Retention and Motivational Programme

In 2017, we continued nominating Bank employees for the *Key Employees* programme with the aim of keeping the turnover of this target category at a desired level. A total of 355 employees, accounting for ca. 8% of the Bank's employees, including managers, were nominated into the programme in individual categories: talents, key employees and successors. These colleagues were offered several development programmes aimed at professional and personal development.

This programme also includes the development programme *Managerial Bench*, which prepares future managers from among employees. In June 2016, we ran the second year of the Managerial Bench. At the end of year, we evaluated the success rate of this programme at 60%, i.e. 60% of all participants achieved career growth in the managerial line during or after the completion of the development programme.

Training and Development

VUB Bank creates the conditions for the continuous and systematic improvement of its employees' qualifications, supporting their training in the areas crucial from the perspective of the Bank's needs and their personal development. Specific training requirements are addressed according to individual needs in collaboration with external training organisations in the Slovak Republic and abroad mainly in the form of internships or participation in selected training activities. On one hand, the training activities are aimed at developing the knowledge and skills necessary for the performance of the employees' jobs, but on the other hand, many employees perceive such activities as important motivators.

In 2017, we used a new training management information system titled *VUB Academy (VÚB Akadémia)*. This new system, the so-called *VUB Academy Education Application*, is built on modern technology and allows for the transparent and easy planning and organisation of training and development programmes. It also provides opportunities for e-learning, webinars and other online forms of training.
In 2017, we provided an average of 6.7 training days per 1 VUB Bank employee in the form of both classroom learning and e-learning.

Career Development

We provide all our employees with the opportunity to express their individuality in the best way possible, which leads to a higher creativity at work. We support innovative ideas that help us move forward. In VUB Bank, we guarantee equal opportunities regarding jobs and development tools within the professional development and growth covered by the Performance and Development Management System. All of our employees have a chance to develop their careers and grow within the company. The point of this development path is to ensure that each employee would receive targeted support. The development path starts with an adaptation orientation, which is later followed by trainings specified according to the type of position, knowledge and skills required to accomplish the work tasks.

The evaluation process is an important part of the Performance and Development Management System. Last year, we continued with the GPS (Global Performance System) evaluation system, which is common for all subsidiaries of the Intesa Sanpaolo Group. Its main task is not only to evaluate the employee's targets, but also to plan his/her key tasks and targets supporting the Bank's strategy for the upcoming period. Each year, all employees are evaluated by their immediate superiors subject to their work position and classification. Within the whole process, an important role is played by the employee himself/herself, who declares his/her ambitions and ideas regarding his/her future career. The superior, based on the employee's performance, motivation and potential, coordinates his/her further development and growth.

Benefits

Irrespective of their job classification, VUB Bank provides all of its employees with a wide range of benefits (i.e. financial and non-financial benefits). VUB Bank has been fully financing the food allowance and continuing to provide financial assistance to employees facing complex life situations for many years. Retail network employees who are in daily contact with the clients receive a clothing allowance. A high amount of funds spent on employee benefits represent the contributions to supplementary pension savings, and the ratio of contributions made by the employees and employer is 1:1.

Employees can also use some banking products under more favourable conditions, e.g. free-of-charge bank account maintenance, favourable interest rates on term and savings accounts, consumer or mortgage loans at favourable interest rates or discount rates on insurance. The benefits also include a commuting allowance. Moreover, each year we focus on supporting the families of our employees, which is proven, for example, by the allowance given for a child's birth, popular gifts on the occasion of the International Children's Day or an allowance for children's summer camp. Also, in 2017 we continued with the strategy of employees' health care and balance between their work and private life. We provide a contribution for preventive screenings, a paid leave day before a wedding, leave for the parents of first graders on their child's first school day, for fresh fathers a day off after the birth of their child or a day off on the occasion of a jubilee. We inform our employees on the current offer of benefits primarily via the Intranet and also other communication channels.

VUB Bank tries to maintain the balance between the work and personal life of its employees. By means of several measures, it accommodates its employees in order to achieve the best harmonisation of these two "lives" possible. The major measures include flexible working hours (optional start between 7.00 a.m. – 9.00 a.m. and end between 3.00 p.m. – 7.30 p.m.) and four days off annually for intensified healthcare provided by the Bank beyond the statutory entitlement for holidays. Women from the 4th month of pregnancy and single employees caring for a child up to the age of 15 (in case of disabled children up to the age of 26) have the possibility of taking annually additional two days off. *Days off beyond the legal framework* are very popular among employees. In 2017, our employees used 12,001 days off determined for healthcare. Paid leave on a working day before their wedding helped 75 colleagues prepare for their big day. The opportunity to have a rest and celebrate one's jubilee with a day off on the occasion of a 50th and 60th birthday was used by 101 people. On the first day of compulsory school attendance, 135 employees accompanied their first-year pupils using a day off for accompanying a child to his/her first school day. 51 dads found a day off for fathers useful during the first weeks after their child's birth.

Internal Communication and Dialogue

Attentive listening and dialogue are also important in relation to employees. In the Bank, we understand that if we expect our employees to deliver the best possible performance, we must regularly inform them of what is happening, why and where the company is heading and what is the place of each of them in this fulfilment. At the same time, we give them an opportunity to voice their own opinions and ideas and also engage them in the decision-making processes. Internal communication is based on seven values common for the whole Intesa Sanpaolo Group and also VUB brand values. It helps in delivering our vision and mission and promoting the principles enshrined in the Code of Ethics.

The corporate Intranet is being built as the key and most efficient tool for internal communication, whereas employees themselves are drawn into the creation of its content. Each piece of information on the Intranet has its author, so the employees know at any moment whom they should turn to in case of need. In total, about 5% of all employees from various units take care of the content. Understanding the message is the key element of well-established internal communication. Over the course of the entire year, we also run internal surveys on the Intranet on various topics and competitions motivating employees to take an interest in internal themes.

If people are to understand what, why and how is happening in the company, dialogue and two-way communication are a must. Employees therefore always have the option to ask the CEO questions by means of an Intranet form, comment on topics important for the Bank and the employee as such, e.g. on the system of benefits, but also have the opportunity to exchange experience and information through a discussion forum. Employees also have the opportunity to discuss, share their experience and opinions and obtain first-hand information at regular breakfasts with the Bank's CEO. The CEO uses these informal meetings to get feedback from employees and verify that the information to be communicated from top to bottom is being delivered correctly.

Active Engagement of Employees in the Bank's Life

Throughout the year, we prepare various *internal campaigns* for the employees of VUB Group focused on motivating employees towards active engagement and interactivity. In supporting the company's brand perception, values and naturally also the business, we make use of all internal communication channels, including posters, Intranet, newsletters, personal e-mails and computer screen savers or LCD TVs located at VUB Bank's Head Office.

We were building team spirit and informal relations by attending various sports and nomination-based events, such as the *Intesa Sanpaolo Running Event 2017* held in the Slovenian town of Portorož in April 2017 or *ISBD Sports Event 2017* also held in Portorož in September 2017, where employees represented VUB Bank in football, basketball and also volleyball. Next year, Intesa Sanpaolo is preparing, besides the sport events already mentioned, other new events such as the ISBD Tennis and Badminton Cup 2018, which will take place in February with the host country being the Slovak Republic, as well as a cycling race. The two running teams composed of our employees traditionally took part in the relay race *From the Tatras to the Danube* held in August, during which they proudly represented their employer. Even in 2017, at VUB Bank's Head Office there was the popular *VUB FoosCup* table football tournament, which is also regularly joined by the CEO and other members of the Board of Directors and top management of the Bank.

We in VUB Bank help our employees spend free time with their children. In cooperation with the parent bank Intesa Sanpaolo, we organised for the children of our employees the May *ISBD JUNIOR SPORTS EVENT 2017*, with coaches and coordinators being volunteers and bank employees, and in June we welcomed the *ITALIA SOCCER CAMP* to Bratislava, which gave the opportunity to 50 children of VUB Group employees to try out the training practice from Italian coaches. In addition, we celebrate Children's Day at the bank, during which employees can order small gifts for their youngest family members; as children enjoy visiting their parents at work, we also prepared for them a mini-celebration at VUB Bank's Head Office. Children are welcome at VUB Bank's Head Office during the *VUB Christmas Market* organised by the Bank on a regular basis; 2017 was no exception to the rule.

Caring for Employees' Health

We realise that only healthy employees full of energy can perform their work duties efficiently and contribute to the fulfilment of the Bank's targets. Therefore, VUB Bank sought to address this issue more efficiently throughout the year 2017. We introduced morning yoga workouts and afternoon workouts with a trainer at the VUB Bank Head Office.

A healthy life style should also include a healthy diet. At the Head Office, we have a healthy snack machine "Zdravomat", a machine with fresh, healthy and quality food offering salads, cereal baguettes, mineral waters and fruit juices or healthy snacks. During damp and cold weather, VUB Bank was handing out apples to all employees during the entire week with the instructive slogan "An apple a day keeps the doctor away". Employees were thus motivated to boost their immunity also in an amusing way. Several times over the year, VUB Bank welcomed *healthy stands* located in the premises of the reception office, where employees could buy healthy bio products, consult with an herbal specialist, taste fruit juices, learn how to prevent diseases or tackle them by using grandmother's recipes.

In 2017, we introduced a new, more casual *dress code* in the bank. We strive to ensure that our employees make a more open and more humane impression on clients and that they themselves feel like professionals, yet comfortable. Thanks to cooperation with ZOOT.sk, VUB Bank employees have a year-round discount on this shopping portal for clothing, in addition to the various winnings associated with this internal campaign.

Employee Recognition and Appreciation

In 2017, VUB Bank not only cared for the physical health of its employees. The feeling of being useful and important and/or self-realisation have positive impacts on the mental condition and health of a person. Sometimes it only takes a little for a person to realise his/her importance in the company he/she works for. Therefore, VUB Bank decided to launch a system of internal appreciation for branch network employees, *Staffino – A Star of Clients.* Feedback is very important; thus we, as the employer, are trying to appreciate those employees who received the most positive feedback from clients in the Staffino appreciation programme in a given month. Besides public thanks on the Intranet network, they are also given a certificate and a small reward in the form of a voucher.

The year-round retail business network competition *2017 VUB CHAMPIONS LEAGUE (VÚB LIGA MAJSTROV 2017)* also continued in 2017. Every year, the competition culminates with a gala evening, during which we celebrate the biggest stars of this competition, focusing not only on achieving sales results, but also quality and customer satisfaction results. The annual competition has a positive influence on healthy competition among branches and employees' motivation to constantly improve.

The mutual appreciation of employees - *VUB VIP AWARDS* also takes place in the Bank, where the directors of individual departments can nominate employees from other departments in two separate categories for their approach in terms of bank values, such as Humanity and Humour or Simplicity and Usefulness, as well as in the team category Project of the Year. This is followed by a vote involving the whole Bank. Ideas are appreciated through a special category "Idea of the Year"; they are entered through a special platform – a box of ideas called "Turn on" ("Zapni"). We realise that a high work pace requires a lot of energy. We also know that if we are better acquainted with each other and have well-established relationships, it is easier to cooperate. Therefore, in 2017 we introduced a new concept of informal employee meetings called "Connect" ("Napoj sa"), where we gave employees an opportunity to better know each other or deepen mutual relationships. At the end of every year, we hold the traditional Christmas meetings *VUB Life*. In 2017, we held two meetings in Košice and Bratislava. An extraordinary meeting was held in Bratislava; it was attended by employees from the other Slovak regions for the first time, thus allowing them to meet their colleagues from the Bank's Head Office. During these Christmas parties, at which the Bank celebrated its "Bank of the Year" award which it won again in 2017, employees could not only meet the entire company management and build new friendships, but could mainly recharge their batteries for the next year. Through activities, experiences and employee benefits, we try to maintain a good work-life balance. Just to enable a better work-life balance, we introduced a novelty in 2017, allowing our employees to work from home for 2 days a month. This benefit has been met with very good response, motivating us and committing ourselves to constantly increasing employee satisfaction and engagement.

Environment

VUB Bank is not a production company or a direct polluter of the environment, and therefore the environmental impacts of our business are minimal.
Despite this fact, we consider environmental protection and permanently sustainable growth a natural part of our operations in the market and country where we operate, and therefore we have committed ourselves to reduce our negative impact on the environment to the lowest level possible. As a company, we run our activities both internally and externally. We monitor ecological risks and threats and try to prevent them by taking various measures. We strive not only to consistently fulfil our obligations under the law, but also to voluntarily commit ourselves to mitigating the negative impacts of our business on the environment. We look for solutions beyond the scope of the legislation; we are interested in our active and also passive environmental performance, mapping the relevant environmental indicators, and we constantly go in search of new ways for conducting the Bank's environmental approach.

Ecological Responsibility

The respectfulness of our company and also our employees is reflected in many activities: the use of weight-reduced office paper, use of office supplies with ecological liquidation, reduced production of office waste and its separation, cooperation with suppliers that hold certificates confirming the observance of environmental standards, sleep mode for personal computers which will automatically switch to the mode with the minimum amount of electricity consumption after 30 minutes of inactivity, and many more.

The measures for reducing direct (resulting from our activities) and indirect (generated by clients and suppliers) environmental waste are stipulated in the ***VUB Group's Environmental Policy***. As a member of an international banking group, we adhere to the ***Equator Principles*** and ***UN Global Compact***. We have firmly defined internal regulations, and when taking decisions on investments and lending we take into account both social and environmental risks.

Also in 2017, VUB Bank's main activities in environmental protection ensued from:

1. Applicable *Environmental Policy* aimed at:
   - support for investment projects focused on energy saving and renewable sources;
   - saving measures for the reduction of energy and consumer material consumption;
   - waste separation and measures for the reduction of its production;
   - raising employees' environmental awareness.
2. *Environmental Sustainability Action Plan* with priorities for energy savings focused on:
   - replacement of obsolete electrical appliances with new ones featuring the highest ecological parameters;
   - complex introduction of LED technologies;
   - optimisation of heating systems;
   - replacement of measuring and control systems and technologies.

Environmental Policy

The Environmental Policy represents a written commitment to environmental protection, which sets out a mission and objectives in the area of environmental management. The policy defines the VUB Group's approach to prevention, management and, where possible, also the reduction of the direct and indirect environmental impacts it generates as a result of its business activity. Within its corporate responsibility, VUB Bank commits itself to minimise the impacts of its business activity and reduce the impacts of its activities on the environment also in cooperation with its stakeholders. Although we do not rank among significant direct polluters of the environment, we realise the issue of environmental pollution exists, thus we strive to reduce our potential negative impact on the environment to the lowest level possible.

UN Global Compact

VUB Bank undertook to act in accordance with the international *UN Global Compact* standard, to which it acceded in 2009. It also includes environmental protection principles which we strive to observe to the maximum extent possible.

Equator Principles

We take a responsible approach to project financing and lending. Managing a great volume of funds, we significantly impact the flows of capital. Therefore, it is important for us that projects we decide to finance do not have a negative impact on the environment we live in. Voluntary compliance with the *Equator Principles* as well as the strict implementation of the principles applied in all levels of our credit policy confirms this commitment of ours.

Environmental Initiatives and Events

VUB Bank is actively involved in the celebration of *World Environmental Day* held on June 5 every year. "Connected with Nature" was the theme for 2017, which we also declared to be the subject of a *photography competition* for VUB employees. Moreover, employees could compete in a number of entertaining *ECO disci-*

plines – they tested their knowledge of mathematics taught at secondary schools (all environmental mathematical problems concerned ecology, environmental conservation, separation, etc., and were derived from a Mathematics textbook for fifth year students).

We realise that also such a small thing as the correct selection of a means of transport contributes to sustaining or even improving the environment that surrounds us all. This is the reason we motivated our employees according to the slogan *Going to Work on a Bike (Do práce na bicykli)* to use this ecological means of transport and engage in the national project. The VUB Bank teams saved an incredible amount of about 1,566 kg of CO2 (kg).

Basic indicators

Selected Indicators (in € thousand)

	Separate financial statements prepared in accordance with IFRS as adopted by the EU			Consolidated financial statements prepared in accordance with IFRS as adopted by the EU		
	2017	2016	2015	2017	2016	2015
Statement of financial position						
Loans and advances to customers	11,487,518	10,188,485	8,553,701	12,000,729	10,725,281	9,125,909
Due to customers	9,855,433	9,494,921	8,543,134	9,939,121	9,564,560	8,552,684
Equity	1,555,980	1,444,174	1,323,449	1,632,586	1,505,256	1,498,106
Balance sheet total	14,469,293	13,509,349	12,055,419	14,970,876	14,037,154	12,625,464
Statement of profit or loss						
Operating income	467,047	595,369	451,080	547,415	555,754	552,838
Operating expenses	(225,813)	(236,895)	(229,220)	(267,040)	(273,358)	(264,419)
Operating profit before impairment	241,234	358,474	221,860	280,375	282,396	288,419
Profit before tax	203,187	311,528	170,433	223,135	211,742	213,575
Income tax expense	(43,166)	(46,357)	(40,076)	(48,138)	(54,972)	(49,692)
Net profit for the year	160,021	265,171	130,357	174,997	156,770	163,883

Commercial indicators	2017	2016	2015
ATMs	577	575	572
EFT POS Terminals	9,760	8,875	8,063
Payment cards	1,190,270	1,247,560	1,296,733
of which credit cards	261,105	311,897	346,040
Mortgage loans (gross, € thousand, VUB Bank)	5,341,959	4,446,721	3,556,990
Consumer loans (gross, € thousand, VUB Bank)	1,252,101	1,210,008	1,059,465
Number of employees (VUB Group)	3,942	4,098	3,987
Number of branches in Slovakia (VUB Bank)	236	239	234

Key ratios of VUB Group	2017	2016	2015
Return on assets	1.17%	1.12%	1.30%
Cost-Income Ratio (without bank levy)	44.25%	45.20%	44.20%
Tier 1 capital ratio	15.77%	14.73%	16.13%
Total capital ratio	18.24%	17.18%	16.30%

Rating (status as at 31 December 2017)	
Moody's	
Long-term deposits	A2
Short-term deposits	P-1
Baseline credit assessment	baa2
Stable outlook	

Consolidated financial statements

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 2017

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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 2017, 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 2017, 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 ("IFRS EU").

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 Company 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 2017: € 12,000,729 thousand; impairment loss recognised in 2017: € 65,614 thousand; total impairment loss as at 31 December 2017: € 373,577 thousand.

Refer to Note 2 (Summary of significant accounting policies) and Notes 12, 13 and 34 (Loans and advances to customers, Impairment losses on assets and Impairment losses) to the consolidated financial statements.

Key audit matter	*Our response*
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. We focused on this area as the determination of impairment allowances requires the Management Board to make complex and subjective judgements over both the timing of impairment recognition and the amounts of any such impairment. *Loans and advances include corporate as well as retail exposures. For corporate loans and advances, the impairment assessment is made on an individual basis, based on the knowledge of each individual borrower and often on estimation of the value of the related collateral. For retail loans and advances impairment is determined by modelling techniques for portfolios of loans and advances. The Group routinely makes adjustments to the key model parameters whose assessment also requires increased attention in our audit.*	*Our audit procedures included, among others:* • *Assessing and testing controls over the approval and monitoring of loans and advances, including, but not limited to, those relating to the identification of loss events, appropriateness of classification to delinquency buckets and calculation of the related impairment.* *For individually calculated impairment:* • *Selecting a sample of loans and advances, with focus on those with the greatest potential impact on the consolidated financial statements due to their magnitude and/or risk characteristics, such as watchlisted and forborne exposures;* • *For the sample selected, critically assessing, by reference to the underlying loan files and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2017; and* • *Where impairment triggers were identified, challenging the Group's cash flow projections and key assumptions used by reference to our knowledge of the industry and the counterparty. We also assessed the reasonableness of the collateral valuation.*

For collective impairment:

- Testing the underlying impairment models, including model approval, backtesting and validation processes and, using our internal IT specialists, the completeness and accuracy of underlying data for the calculation and validation of the key parameters such as the probability of default, loss given default and emergence period; and

- Critically assessing the rationale for the changes made to the model parameters in 2017, by reference to our understanding of the business, current economic trends and market practices.
  Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage, by benchmarking them against publicly available industry data.

Revaluation of property and equipment

The carrying amount of the Group's property and equipment: € 126,848 thousand as at 31 December 2017 (the carrying amount of property and equipment as at 31 December 2016: € 104,853); the revaluation gain recorded in other comprehensive income: € 21,966 thousand as at 31 December 2017.

Refer to Note 2.20 Summary of significant accounting policies and Note 18 Property and equipment to the consolidated financial statements.

Key audit matter	Our response
As discussed in the notes to the consolidated financial statements, in the current year the Group changed its accounting policy in respect of property and equipment, including primarily buildings and related land, whereby it adopted the revaluation model for subsequent measurement of buildings and land to replace the cost model, as previously applied. Pursuant to the new	Our procedures in the area, performed with the assistance of our valuation specialists and external appraisal experts engaged by us, included: • Evaluating the competence, capabilities and objectivity of the external appraisers engaged by the Group, obtaining an understanding of

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model, the carrying amount of buildings and land is determined as its fair value at the date of the most recent revaluation less subsequent depreciation and any subsequent impairment losses.

The Group estimated the fair value of the assets in question as at the reporting date with the assistance of contracted external appraisers. The valuations were based on the income method and incorporated certain key assumptions that require significant professional judgement including estimation of market rents and required yields. Due to the inherent uncertainty in these valuations and to the significance of the balance of property and equipment to the consolidated financial statements, we have identified this matter as a key audit matter.

the scope of their engagement and limitations therein, if any;

- *Assessing the fair value measurement methodology used by the Group's external appraisers against the requirements of the relevant financial reporting standards;*

- *Evaluating, for a sample of individual items of property and land, the accuracy and relevance of the input data provided by the Group to its external appraisers, such as, among other things, the purpose, age, condition and location of the assets;*

- *For a sample of individual items of property and land:*

  - *assessing the reasonableness of the key assumptions underpinning the valuations, including market rents and required yields, and*

  - *developing an independent estimate of fair value,*

  by reference to relevant external market statistics and research performed independently by us and the external valuation experts engaged by us;

- *Evaluating the reliability of the Group's forecasting process by comparing key assumptions it applied in the prior year's impairment test for property and land to the actual outcomes in the current year, and seeking management explanations for significant discrepancies;*

- *Considering the adequacy and appropriateness of the financial statement disclosures about the change in accounting policy in respect of the measurement of property and equipment, as well as about the judgments and assumptions used by the Group in that respect.*

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. *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 procedures included, among others:* • *Using our internal IT specialists, updating our understanding of the Group's IT environment and the framework of governance over the IT organisation, including the understanding of the controls over program development and changes, access to programs and data and IT operations;* • *Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting;* • *Testing certain aspects of the security of the IT systems, including access management and segregation of duties; and* • *Where relevant, assessing whether compensating controls were effective in mitigating deficiencies identified either by the Group or by us independently.*

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

The Management Board is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as 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:

- the information given in the consolidated annual report for the year 2017 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 2017 on the basis of the approval by the General Meeting of the Bank on

24 March 2017. 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 six 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 12 February 2018.

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.

15 February 2018
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 for the year ended 31 December 2017

(In thousands of euro)

	Note	2017	2016
Assets			
Cash and balances with central banks	7	1,595,097	1,029,103
Due from banks	8	90,913	112,468
Financial assets at fair value through profit or loss	9	5,783	474
Derivative financial instruments	10	49,856	47,249
Available-for-sale financial assets	11	520,416	1,289,979
Loans and advances to customers	12	12,000,729	10,725,281
Held-to-maturity investments	14	376,472	530,019
Associates and joint ventures	15	8,972	8,788
Intangible assets	16	80,100	68,888
Goodwill	17	29,305	29,305
Property and equipment	18	126,848	104,853
Current income tax assets	19	9,478	1,464
Deferred income tax assets	19	53,779	64,002
Other assets	20	23,128	25,281
		14,970,876	14,037,154
Liabilities			
Due to central and other banks	21	768,781	855,244
Derivative financial instruments	10	52,184	65,354
Due to customers	22	9,939,121	9,564,560
Subordinated debt	23	200,164	200,165
Debt securities in issue	23	2,252,380	1,715,308
Provisions	24	9,962	26,001
Other liabilities	25	115,698	105,266
		13,338,290	12,531,898
Equity			
Equity (excluding net profit for the year)	26	1,457,589	1,348,486
Net profit for the year	26	174,997	156,770
		1,632,586	1,505,256
		14,970,876	14,037,154
Financial commitments and contingencies	27	3,562,979	3,658,239

The accompanying notes on pages 55 to 153 form an integral part of these financial statements.

These financial statements were authorised for issue by the Management Board on 15 February 2018.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
Member of the Management Board

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 (In thousands of euro)

	Note	2017	2016
Interest and similar income		434,187	449,361
Interest and similar expense		(50,227)	(49,962)
Net interest income	28	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	29	113,649	107,947
Net trading result	30	40,344	38,783
Other operating income	31	9,462	9,625
Operating income		547,415	555,754
Salaries and employee benefits	32	(126,659)	(119,710)
Other operating expenses	33	(90,789)	(103,759)
Special levy of selected financial institutions	33	(24,823)	(22,143)
Amortisation	16	(12,635)	(14,539)
Depreciation	18	(12,134)	(13,207)
Operating expenses		(267,040)	(273,358)
Operating profit before impairment		280,375	282,396
Impairment losses	34	(59,205)	(75,764)
Profit from operations		221,170	206,632
Share of profit of associates and joint ventures	15	1,965	5,110
Profit before tax		223,135	211,742
Income tax expense	35	(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, net of tax	36, 37	24,219	(22,746)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		199,216	134,024

The Net profit and Total comprehensive income are fully attributable to owners of the parent.

The accompanying notes on pages 55 to 153 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2017

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus from property and equipment	Available-for-sale financial assets	Cash flow hedges	Translation of foreign operation	Total
At 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 (Note 15)	–	–	(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)
At 31 December 2016	430,819	13,719	100,054	957,389	–	4,134	(840)	(19)	1,505,256
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
Total transactions with owners	–	–	–	(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

The accompanying notes on pages 55 to 153 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2017 (In thousands of euro)

	Note	2017	2016
Cash flows 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)
Tax paid		(45,929)	(71,151)
Decrease in 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 the disposal of the associate		–	10,851
Net cash used from/(used in) 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)
Dividends paid		(72,020)	(130,334)
Net cash used 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 the beginning of the year	6	1,065,848	491,586
Cash and cash equivalents at 31 December	6	1,620,309	1,065,848

The accompanying notes on pages 55 to 153 form an integral part of these financial statements.

1. General information

1.1 The Bank

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

At 31 December 2017, the Bank had a network of 236 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2016: 239). The Bank also has one branch in the Czech Republic (31 December 2016: 1).

At 31 December 2017, the members of the Management Board are: Alexander Resch (Chairman), Antonio Bergalio, Peter Magala, Peter Novák, Martin Techman, Roberto Vercelli (from 1 December 2017) and Andrej Viceník (from 1 December 2017).

Other members of the Management Board were Jozef Kausich (until 30 November 2017) and Elena Kohútiková (until 31 October 2017).

At 31 December 2017, the members of the Supervisory Board are: Ezio Salvai (Chairman), Ignacio Jaquotot (Vice Chairman), Luca Finazzi, Paolo Sarcinelli, Christian Schaack, Andrej Straka and Róbert Szabo (from 8 February 2017).

Another member of the Supervisory Board was Ján Gallo (until 22 January 2017).

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 2017	Share 2016	Principal business activity
Subsidiaries			
Consumer Finance Holding, a. s. ('CFH')	100%	100%	Consumer finance business
VÚB Leasing, a. s. ('VÚB Leasing')	100%	100%	Finance and operating leasing
VÚB Factoring, a. s. ('VÚB Factoring')	100%	100%	Factoring of receivables
Associates			
Slovak Banking Credit Bureau, s. r. o. ('SBCB')	33.33%	33.33%	Credit database administration
Joint ventures			
VÚB Generali DSS, a. s. ('VÚB Generali DSS')	50%	50%	Pension fund administration

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

At 3 December 2015, Consumer Finance Holding Česká republika, a. s. was registered in the Commercial Register of Companies in Czech Republic. This company is a 100% subsidary of CFH.

In December 2016, the Bank sold its stake in VÚB Asset Management, správ. spol., a. s. to the major shareholder Eurizon SA for cash of € 13,673 thousand. The intragroup reorganization goal was to achieve the separation and independence of asset management companies from distributors, in line both with the model adopted by Intesa Sanpaolo Group and with the indications of the supervisory authorities and the simplification of decision-making and governance processes.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the VUB Group ('the financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ('IFRIC') as approved by the 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 Collection on Accounting.

The consolidated financial statements of the VUB Group for the year ended 31 December 2016 were authorised for issue by the Management Board on 15 February 2017.

The separate financial statements of the Bank for the year ended 31 December 2017 were issued on 15 February 2018 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 buildings and land to fair value, by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss, all 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.

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies and presentation

At 31 December 2017, VUB Group implemented a new accounting policy concerning measurement of buildings and land at fair value, following the Intesa Sanpaolo Group ('ISP Group') policy. This policy is described in note '2.20 Property and equipment'.

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

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

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these separate financial statements. The VUB Group plans to adopt these pronouncements when they become effective.

IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)
(Effective for annual periods beginning on or after 1 January 2018.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:
– over time, in a manner that depicts the entity's performance; or
– at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:
- identify a performance obligation, the promise to transfer a good or a service to a customer, in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:
- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

It is expected that the new Standard, when initially applied, will have an impact on the financial statements, since the timing and the measurement of the VUB Group's fee and commission income from life insurance mediation are expected to change. According to IFRS 15 the VUB Group will need to take into account possible clawbacks from insurance companies on the basis of historical statistics, when recognising this type of revenue.

The VUB Group has decided to apply the standard retrospectively with the cumulative effect reflected in retained earnings.

The VUB Group has estimated the expected impact of the initial application of IFRS 15 on its equity as at 1 January 2018 at approximately € 2 million.

Except for revenues related to mediation of life insurance, the timing and measurement of other VUB Group's revenues are not expected to change materially under IFRS 15 due to the nature of the VUB Group's operations and the types of revenues it earns.

The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 15 on 1 January 2018 may change because it will require the VUB Group to revise its accounting processes and internal controls and these changes are not yet complete and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the VUB Group finalizes its first financial statements that include the date of initial application.

IFRS 9 Financial Instruments (2014)
(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required.)

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

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

A financial asset is measured at amortized cost if the following two conditions are met:
- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

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

Under IFRS 9, loss allowances will be measured on either of the following bases:
- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

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.

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:
- Loans and advances to banks and customers that are measured under amortized cost under IAS 39, will also be generally measured at amortized cost under IFRS 9;
- Debt investment securities that are classified as available-for-sale under IAS 39 will be generally measured at FVOCI;
- Held to maturity investments that are measured under amortized cost under IAS 39 will be to a large extent classified as held to collect and sale and measured at FVOCI;
- Trading assets and hedging derivatives, which are measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.

Definition of default

Under IFRS 9, the VUB Group will consider a financial asset to be in default 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 will consider both quantitative and qualitative indicators when assessing whether a borrower is in default.

Significant increase in credit risk

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

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) 2017/2395 amending Regulation (EU) 575/2013 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 CET 1 a decreasing quota of the impact of IFRS 9 in a five year transitional period (2018 – 2022). That amount shall be determined using the static approach which will be adopted by the Bank. It refers only to the impact of First Time Adoption (FTA) resulting from the comparison of IAS impairments as at 31/12/2017 and IFRS 9 impairments as at 1/1/2018 – including both performing loans classified in Stages 1 and 2 and adjustments to NPLs (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 CET1. 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 C&M – Classification and Measurement).

Furthermore, under paragraph 7 of Article 473 of the 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 IRB exposures;
- determination of EAD using the scaling factor to assess the RWA of Standard exposures;
- Tier 2 elements relating to IRB weighted exposures.

The assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:
- IFRS 9 will require the VUB Group to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in 2017, the new systems and associated controls in place have not been operational for an extended period;
- the VUB Group has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the VUB Group is refining and finalizing its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the VUB Group finalizes its first financial statements that include the date of initial application.

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

				Remeasurement		
IAS 39 categories	IFRS 9 categories	IAS 39 measu-rement	Reclas-sification	ECL	Other	IFRS 9 measu-rement
Assets	**Assets**					
Cash and balances with central banks	Cash, cash balances at central banks	1,595,097	–	(108)	–	1,594,989
Due from banks	Financial assets at amortised cost: due from banks	90,913	–	(482)	–	90,431
Financial assets at fair value through profit or loss		5,783	(5,783)	–	–	–
	Financial assets held for trading		4,933	–	–	4,933
	Non–trading financial assets mandatorily at fair value through profit or loss		850	–	–	850
Derivative financial instruments		49,856	(49,856)	–	–	–
	Financial assets held for trading		25,491	–	–	25,491
	Derivatives – Hedge accounting		24,365	–	–	24,365
Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	520,416	–	(178)	178	520,416
Loans and advances to customers	Financial assets at amortised cost: due from customers	12,000,729	–	(45,496)	–	11,955,233
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	–	10,047	(10,652)	53,174
Other assets	Other assets	23,128	–	(32)	–	23,096
		14,970,876	–	(36,298)	40,074	14,974,652

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

IAS 39 categories	IFRS 9 categories	IAS 39 measurement	Reclassification	Remeasurement ECL	Remeasurement Other	IFRS 9 measurement
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 held for trading	52,184	–	–	–	52,184
Due to customers	Financial liabilities measured at amortised cost: due to customers	9,939,121	–	–	–	9,939,121
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	9,962	–	–	–	9,962
Other liabilities	Other liabilities	115,698	–	1,498	–	117,196
		13,338,290	–	1,498	–	13,339,788
Equity	**Equity**					
Equity (excluding net profit for the year)	Equity (excluding net profit for the year)	1,457,589	–	(37,796)	40,074	1,459,867
Net profit for the year	Net profit for the year	174,997	–	–	–	174,997
		1,632,586	–	(37,796)	40,074	1,634,864
		14,970,876	–	(36,298)	40,074	14,974,652

IFRS 16 Leases
(Effective for annual periods beginning on or after 1 January 2019.)

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, and
– 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.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it 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 Group has not yet finished its analysis of the expected quantitative impact of the new Standard.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
(The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
– a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
– a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The VUB Group does not expect that the amendments, when initially applied, will have a material impact on the financial statements due to the extent and nature of the VUB Group's transactions involving an associate or joint venture.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
(Effective for annual periods beginning on or after 1 January 2018. This interpretation is not yet endorsed by the EU.)

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. These amendments are not yet endorsed by the EU.)

The amendments clarify share-based payment accounting in the following areas:
- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because the VUB Group does not enter into material share-based payment transactions.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
(Issued on 12 October 2017. Effective for annual periods beginning on or after 1 January 2019. These amendments are not yet endorsed by the EU.)

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 amortized cost some prepayable financial assets with so-called negative compensation.

The Group has started the portfolio analysis and does not expect that the amendments will have a material impact on the financial statements.

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

(c) 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 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.

2.4 Segment reporting

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

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

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

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

2.5 Foreign currency transactions

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

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

2.6 Foreign operations

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

2.7 Cash and cash equivalents

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

2.8 Cash and balances with central banks

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

2.9 Treasury bills and other eligible bills

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

2.10 Due from banks

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

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

2.11 Securities

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

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

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

(a) Securities at fair value through profit or loss

This portfolio comprises the following subcategories:

(i) Securities held for trading
These securities are financial assets acquired by the VUB Group for the purpose of generating profits from short-term fluctuations in prices.

(ii) Securities designated at fair value through profit or loss on initial recognition
Securities classified in this category are those that have been designated by management on initial recognition. This designation may be used only when at least one of the following conditions is met:
- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis;
- the assets and financial liabilities are part of a group of financial assets, financial liabilities or both that are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contains one or more embedded derivatives that significantly modify the cash flows that otherwise would be required by the contract.

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

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

(b) Available-for-sale securities

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

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

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

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

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

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

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

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

(c) Held-to-maturity investments

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

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

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

2.12 Repurchase and reverse repurchase agreements

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

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

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

2.13 Derivative financial instruments

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

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

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

Embedded derivatives

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 under IAS 39. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract-with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

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

Hedging derivatives

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

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

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

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised in other comprehensive income as 'Cash flow hedges'. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately as gain or loss in the statement of profit or loss and other comprehensive income in 'Net trading result'.
When the hedged cash flow affects profit or loss, the gain or loss on the hedging instrument is reclassified from other comprehensive income to profit or loss as a reclassification adjustment. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income remains separately in equity and is reclassified from other comprehensive income to profit or loss as a reclassification adjustment when the hedged expected transaction is ultimately recognised. When an expected transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Fair value hedges

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

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

2.14 Offsetting financial instruments

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

2.15 Non-current assets held for sale

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

2.16 Loans and advances to customers and impairment losses

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

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

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

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

2.17 Associates and joint ventures

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

2.18 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

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

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

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

2.19 Goodwill

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

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

2.20 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 from the cost to the revaluation model for subsequent measurement, following the Intesa Sanpaolo Group policy.

This is 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 amortized 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. A new depreciation schedule will be implemented starting from January 2018.

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

Other components of 'Property and equipment' were 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, 5, 6, 12

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

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

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

2.21 Leasing

The determination of whether an arrangement is a finance lease is based on the substance of the arrangement and requires an assessment of whether:
- the fulfilment of the arrangement is dependent on the use of a specific asset or assets that could only be used by the lessee without major modifications being made;

– the lease transfers ownership of the asset at the end of the lease term;
– the VUB Group has the option to purchase the asset at a price sufficiently below fair value at exercise date;
– it is reasonably certain the option will be exercised;
– the lease term is for a major part of the asset's economic life even if title is not transferred;
– the present value of minimum lease payments substantially equals the asset's fair value at inception.

VUB Group as a lessee

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

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

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

VUB Group as a lessor

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

2.22 Deposits, debt securities issued and subordinated liabilities

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.

2.23 Provisions

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

2.24 Provisions for employee benefits

The Group's obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Employee benefit reserves are disclosed in the statement of financial position in 'Other liabilities'. All gains or losses in relation to the employee benefits are recognised in 'Salaries and employee benefits'.

2.25 Financial guarantees

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

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

2.26 Equity reserves

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

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

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

'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.

2.27 Net interest income

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

2.28 Net fee and commission income

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

2.29 Net trading result

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

2.30 Dividend income

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

2.31 Current and deferred income tax

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

Deferred tax assets and liabilities are recognised, using the balance sheet method, for all temporary differences arising between 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 Group is also subject to various indirect operating taxes, which are included in 'Other operating expenses'.

2.32 Fiduciary assets

Assets held in a fiduciary capacity are not reported in the balance sheet, as such are not the assets of the VUB Group. They are recorded in the off-balance sheet.

2.33 Significant accounting judgements and estimates

Judgements

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

Held-to-maturity investments

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

Financial assets held for trading

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

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

The VUB Group uses the category 'at fair value through profit or loss on initial recognition' to recognize equity shares of the parent company acquired as part of the incentive plan based on which the amount due to employees benefiting from the plan recognized under share remuneration scheme in 'Other liabilities' (see also note 25) is proportional to the fair value of these shares.

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

Estimates

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

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

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

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

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

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

On-balance impairment losses = EAD x PD x LGD x LCP
Off-balance reserves = EAD x PD x LGD x CCF

For risk portfolios which PD and LGD parameters cannot be estimated, i.e. portfolios without sufficient time series data minimum requirements are used.

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

3. Financial and operational risk management

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
(a) Credit risk,
(b) Market risk,
(c) Liquidity risk,
(d) Operational risk.

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

Risk management framework

The Management Board is the statutory body governing the executive management of the Bank, and has absolute authority over all matters concerning risk. The Management Board has primary responsibility for the creation and dissolution of risk related governance bodies. The primary governance bodies overseeing risk issues are:
- Asset/Liability Committee ('ALCO'),
- Credit Risk Committee ('CRC'),
- Operational Risk Committee ('ORC').

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

(a) Credit risk

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

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

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

Management of credit risk

The Risk Management Division is established within the Bank as a Control Unit and managed by the Chief Risk Officer, who is a member of the Bank's Management Board. The Risk Management Division is organisationally structured to provide support to the Business Units, as well as to provide reporting of credit, market and operational risks to the Supervisory Board and Management Board. The Risk Management Division is responsible for overseeing the Group's credit risk including:
- The development of credit risk strategies, policies, processes and procedures covering rules for credit assessment, collateral requirements, risk grading and reporting;
- Setting limits for the concentration of exposure to counterparties, related parties, countries and total assets and monitoring compliance with those limits;
- Establishment of the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are set in the Credit Risk Charter;
- Credit risk assessment according to defined policy;
- Monitoring of quality portfolio performance and its compliance with set limits (regulatory, internal). Regular reports are provided to the Management Board and the CRC on the credit quality of 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.

Impairment losses

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

If there is evidence of impairment for any individually significant client of the Group, such as a breach of contract, problems with repayments or collateral, the Group Bank includes such a client to management of the Recovery Department for pursuing collection activities. Such clients exceeding significant thresholds are considered to be individually impaired. For collective impairment, the 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 split of the credit portfolio to individually and portfolio assessed is shown below:

€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
			2017			2016
Portfolio assessed						
Banks	90,986	(73)	90,913	112,486	(18)	112,468
Customers						
Sovereigns	128,594	(98)	128,496	132,154	(101)	132,053
Corporate	4,435,096	(42,556)	4,392,540	4,135,747	(40,944)	4,094,803
Retail	7,670,047	(242,166)	7,427,881	6,666,357	(253,288)	6,413,069
	12,233,737	(284,820)	11,948,917	10,934,258	(294,333)	10,639,925
Securities						
FVTPL	5,783	–	5,783	474	–	474
AFS	520,416	–	520,416	1,289,979	–	1,289,979
HTM	376,472	–	376,472	530,019	–	530,019
	902,671	–	902,671	1,820,472	–	1,820,472
Individually assessed						
Customers						
Corporate	135,386	(84,812)	50,574	176,091	(94,652)	81,439
Retail	5,183	(3,945)	1,238	9,068	(5,151)	3,917
	140,569	(88,757)	51,812	185,159	(99,803)	85,356

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

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

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

Capital requirement calculation

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

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

				2017			2016
€ '000	Category	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks							
	Performing	90,986	(73)	90,913	112,486	(18)	112,468
Sovereigns							
	Performing	128,593	(98)	128,495	132,153	(101)	132,052
	Doubtful	1	–	1	1	–	1
		128,594	(98)	128,496	132,154	(101)	132,053
Corporate							
	Performing	4,413,296	(35,648)	4,377,648	4,121,667	(33,816)	4,087,851
	Past due	1,750	(245)	1,505	387	(151)	236
	Unlikely to pay	84,671	(29,865)	54,806	92,566	(22,033)	70,533
	Doubtful	70,765	(61,610)	9,155	97,218	(79,596)	17,622
		4,570,482	(127,368)	4,443,114	4,311,838	(135,596)	4,176,242
Retail							
	Performing	7,326,886	(47,066)	7,279,820	6,330,199	(57,168)	6,273,031
	Past due	15,468	(8,227)	7,241	19,424	(10,418)	9,006
	Unlikely to pay	53,875	(25,239)	28,636	54,361	(27,602)	26,759
	Doubtful	279,001	(165,579)	113,422	271,441	(163,251)	108,190
		7,675,230	(246,111)	7,429,119	6,675,425	(258,439)	6,416,986
Securities							
	Performing	902,671	–	902,671	1,820,472	–	1,820,472

Credit risk of financial derivatives

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

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 Group that has a positive exposure to the counterparty. In these scenarios the Group suffers a loss equal to the cost of replacing the derivative,
- The DVA (positive) takes into account scenarios whereby the Group fails before the counterparty and has a negative exposure to the counterparty. In these scenarios the 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 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, issued guarantees, commitments and undrawn credit facilities. To express the maximum amount of credit risk, the fair value of derivative financial assets is increased by the value of the potential credit exposure ('add on') calculated as the nominal value of the derivative financial instrument multiplied by the respective coefficient depending on the type of the instrument. The credit risk of the remaining financial assets not reported in the table below approximates their carrying amounts.

€ '000	2017	2016
Financial assets		
Derivative financial instruments	121,142	94,970
Financial commitments and contingencies		
Issued guarantees	783,667	764,156
Commitments and undrawn credit facilities	2,779,312	2,894,083
	3,562,979	3,658,239

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

DPD = Banking Date – Due Date for repayment

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

			2017			2016
€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	90,986	(73)	90,913	112,486	(18)	112,468
Sovereigns						
No delinquency	127,891	(98)	127,793	132,106	(101)	132,005
1 – 30 days	702	–	702	47	–	47
Over 181 days	1	–	1	1	–	1
	128,594	(98)	128,496	132,154	(101)	132,053
Corporate						
No delinquency	4,410,022	(62,344)	4,347,678	4,137,344	(52,617)	4,084,727
1 – 30 days	69,764	(2,188)	67,576	63,843	(4,223)	59,620
31 – 60 days	16,008	(2,530)	13,478	9,427	(661)	8,766
61 – 90 days	4,479	(1,786)	2,693	6,170	(347)	5,823
91 – 180 days	5,696	(2,777)	2,919	4,000	(3,062)	938
Over 181 days	64,513	(55,743)	8,770	91,054	(74,686)	16,368
	4,570,482	(127,368)	4,443,114	4,311,838	(135,596)	4,176,242
Retail						
No delinquency	7,062,054	(33,393)	7,028,661	6,091,367	(41,309)	6,050,058
1 – 30 days	258,143	(13,862)	244,281	227,267	(17,029)	210,238
31 – 60 days	45,368	(5,291)	40,077	45,402	(6,158)	39,244
61 – 90 days	28,669	(4,526)	24,143	28,538	(5,160)	23,378
91 – 180 days	43,736	(20,890)	22,846	50,438	(25,280)	25,158
Over 181 days	237,260	(168,149)	69,111	232,413	(163,503)	68,910
	7,675,230	(246,111)	7,429,119	6,675,425	(258,439)	6,416,986
Securities						
No delinquency	902,671	–	902,671	1,820,472	–	1,820,472

Loans with renegotiated terms and forbearance policy

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the 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 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:

		Performing forborne			Non-performing forborne	
31 December 2017 € '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
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

		Performing forborne			Non-performing forborne	
31 December 2016 € '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Corporate	39,653	(933)	38,720	134,919	(58,028)	76,891
Retail	50,101	(2,038)	48,063	21,197	(9,976)	11,221
	89,754	(2,971)	86,783	156,116	(68,004)	88,112

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 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.

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 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 Group in its lending activities. The rules, as the minimum, describe and state:

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

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

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 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 Group updates the fair value on a regular basis.

The 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.

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

		2017		2016
€ '000	**Clients**	**Banks**	**Clients**	**Banks**
Property	6,365,878	–	5,486,882	–
Debt securities	33,952	–	35,793	–
Other	1,042,009	44,655	1,092,965	28,948
	7,441,839	44,655	6,615,640	28,948

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 Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The 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.

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'):

				Related amounts not offset in SOFP		
31 December 2017 € '000	**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrum. and non-cash collateral**	**Cash collateral (received)/ provided**	**Net amount**
Financial assets						
Cash and balances with central banks (Loans and advances)	724,427	–	724,427	(724,494)	–	(67)
Derivative financial instruments	47,277	–	47,277	–	(11,629)	35,648
Financial liabilities						
Derivative financial instruments	(43,449)	–	(43,449)	–	39,918	(3,531)

				Related amounts not offset in SOFP		
31 December 2016 € '000	**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrum. and non-cash collateral**	**Cash collateral (received)/ provided**	**Net amount**
Financial assets						
Derivative financial instruments	38,419	–	38,419	–	(20,835)	17,584
Financial liabilities						
Derivative financial instruments	(56,007)	–	(56,007)	–	55,083	(924)

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	2017 Total carrying amount presented in SOFP	2017 In scope of offsetting disclosure	2017 Not in scope of offsetting disclosure	2016 Total carrying amount presented in SOFP	2016 In scope of offsetting disclosure	2016 Not in scope of offsetting disclosure
Financial assets							
Cash and balances with central banks	8	1,595,097	724,427	870,670	1,029,103	–	1,029,103
Derivative financial instruments	10	49,856	47,277	2,579	47,249	38,419	8,830
Financial liabilities							
Derivative financial instruments	10	(52,184)	(43,449)	(8,735)	(65,354)	(56,007)	(9,347)

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

€ '000	2017 Amortised cost	2017 Impairment losses	2017 Carrying amount	2016 Amortised cost	2016 Impairment losses	2016 Carrying amount
Europe						
Banks	59,942	(15)	59,927	109,930	(13)	109,917
Sovereigns	128,594	(98)	128,496	132,154	(101)	132,053
Corporate	4,526,662	(127,076)	4,399,586	4,216,749	(135,113)	4,081,636
Retail	7,671,893	(245,939)	7,425,954	6,672,586	(258,307)	6,414,279
Securities	896,362	–	896,362	1,795,305	–	1,795,305
	13,283,453	(373,128)	12,910,325	12,926,724	(393,534)	12,533,190
America						
Banks	30,370	(57)	30,313	2,197	(5)	2,192
Corporate	42,577	(127)	42,450	94,600	(418)	94,182
Retail	495	(3)	492	339	(3)	336
Securities	6,309	–	6,309	25,167	–	25,167
	79,751	(187)	79,564	122,303	(426)	121,877
Asia						
Banks	607	(1)	606	186	–	186
Corporate	1,243	(165)	1,078	489	(65)	424
Retail	2,305	(148)	2,157	1,927	(102)	1,825
	4,155	(314)	3,841	2,602	(167)	2,435
Rest of the World						
Banks	67	–	67	173	–	173
Retail	537	(21)	516	573	(27)	546
	604	(21)	583	746	(27)	719

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

€ '000	Amortised cost	Impairment losses	2017 Carrying amount	Amortised cost	Impairment losses	2016 Carrying amount
Europe						
Slovakia	629,706	–	629,706	1,019,478	–	1,019,478
Italy	266,591	–	266,591	753,595	–	753,595
Other	65	–	65	17,300	–	17,300
	896,362	–	896,362	1,790,373	–	1,790,373
America						
USA	6,309	–	6,309	4,932	–	4,932

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

31 December 2017 € '000	Banks	Sovereigns	Corporate	Retail*	Securities
Agriculture	–	–	165,701	21,645	–
Automotive	–	–	86,835	8	–
Commodity Traders	–	–	107,687	3,927	–
Construction	–	–	82,901	26,393	–
Retail Customers	–	–	31,765	7,139,497	–
Financial institutions**	88,642	–	396,773	194	81,523
Government	–	123,246	9	24	821,148
Manufacturing	–	–	667,649	25,137	–
Real estate	–	–	539,533	6,511	–
Retail and Wholesale Trade	–	–	583,170	76,291	–
Services	–	–	576,675	103,912	–
Transportation	–	397	276,679	13,874	–
Utilities	–	4,430	820,558	4,448	–
Other	2,271	423	107,179	7,258	–
	90,913	128,496	4,443,114	7,429,119	902,671

* 'Retail' includes Small Business and Flat Owners Associations among other things.
** 'Financial institutions' involves financial services, leasing and insurance.

31 December 2016 € '000	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	–	–	146,128	23,630	–
Automotive	–	–	28,684	10	–
Commodity Traders	–	–	86,476	448	–
Construction	–	–	80,041	20,059	–
Retail Customers	–	–	23,406	6,168,800	–
Financial institutions	112,468	–	396,974	189	243,691
Government	–	125,331	38	–	1,576,781
Manufacturing	–	–	788,313	24,309	–
Real estate	–	–	658,995	4,028	–
Retail and Wholesale Trade	–	–	453,269	61,644	–
Services	–	366	490,304	90,985	–
Transportation	–	444	200,710	12,613	–
Utilities	–	5,813	728,248	3,172	–
Other	–	99	94,656	7,099	–
	112,468	132,053	4,176,242	6,416,986	1,820,472

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances. Past due but not impaired financial assets are more than one day overdue.

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
31 December 2017 € '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	90,986	(73)	90,913	–	–	–	–	–	–
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 Fin. 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

	Neither past due nor impaired			Impaired (non–performing)			Past due but not impaired		
31 December 2017 € '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Securities									
FVTPL	5,784	–	5,784	–	–	–	–	–	–
AFS	520,415	–	520,415	–	–	–	–	–	–
HTM	376,472	–	376,472	–	–	–	–	–	–
	902,671	–	902,671	–	–	–	–	–	–

	Neither past due nor impaired			Impaired (non-performing)			Past due but not impaired		
31 December 2016 € '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks	112,486	(18)	112,468	–	–	–	–	–	–
Sovereigns									
Municipalities	131,724	(100)	131,624	1	–	1	47	–	47
Municipalities – Leasing	382	(1)	381	–	–	–	–	–	–
	132,106	(101)	132,005	1	–	1	47	–	47
Corporate									
Large Corporates	1,477,274	(4,757)	1,472,517	23,884	(19,176)	4,708	1	–	1
Specialized Lending	789,331	(11,713)	777,618	79,948	(22,551)	57,397	1,251	(35)	1,216
SME	1,267,968	(13,608)	1,254,360	59,430	(41,286)	18,144	18,145	(884)	17,261
Other Fin. Institutions	256,068	(1,051)	255,017	4	(1)	3	–	–	–
Public Sector Entities	1,187	(3)	1,184	7	–	7	6	–	6
Leasing	225,058	(974)	224,084	24,391	(17,584)	6,807	18,412	(389)	18,023
Factoring	35,653	(331)	35,322	2,507	(1,182)	1,325	31,313	(71)	31,242
	4,052,539	(32,437)	4,020,102	190,171	(101,780)	88,391	69,128	(1,379)	67,749
Retail									
Small Business	188,131	(2,680)	185,451	14,193	(12,190)	2,003	27,503	(520)	26,983
Small Business – Leasing	7,860	(28)	7,832	1,376	(473)	903	797	(25)	772
Consumer Loans	1,291,821	(21,287)	1,270,534	204,441	(133,676)	70,765	141,350	(13,688)	127,662
Mortgages	4,307,191	(8,058)	4,299,133	74,266	(18,312)	55,954	65,264	(4,313)	60,951
Credit Cards	156,799	(2,964)	153,835	37,074	(26,384)	10,690	14,088	(1,802)	12,286
Overdrafts	78,874	(632)	78,242	13,650	(10,054)	3,596	16,196	(816)	15,380
Leasing	3,921	(12)	3,909	224	(182)	42	253	(23)	230
Flat Owners Associations	24,536	(318)	24,218	–	–	–	–	–	–
Other	5,580	(2)	5,578	2	–	2	35	–	35
	6,064,713	(35,981)	6,028,732	345,226	(201,271)	143,955	265,486	(21,187)	244,299

31 December 2016 € '000	Neither past due nor impaired Amortised cost	Neither past due nor impaired Impairment losses	Neither past due nor impaired Carrying amount	Impaired (non-performing) Amortised cost	Impaired (non-performing) Impairment losses	Impaired (non-performing) Carrying amount	Past due but not impaired Amortised cost	Past due but not impaired Impairment losses	Past due but not impaired Carrying amount
Securities									
FVTPL	474	–	474	–	–	–	–	–	–
AFS	1,289,979	–	1,289,979	–	–	–	–	–	–
HTM	530,019	–	530,019	–	–	–	–	–	–
	1,820,472	–	1,820,472	–	–	–	–	–	–

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

€ '000	Amortised cost	Impairment losses	2017 Carrying amount	Amortised cost	Impairment losses	2016 Carrying amount
Sovereigns						
1 – 30 days	702	–	702	47	–	47
Corporate						
1 – 30 days	67,514	(1,195)	66,319	55,970	(902)	55,068
31 – 60 days	13,265	(225)	13,040	8,105	(286)	7,819
61 – 90 days	2,403	(146)	2,257	5,053	(191)	4,862
91 – 180 days	68	(13)	55	–	–	–
	83,250	(1,579)	81,671	69,128	(1,379)	67,749
Retail						
1 – 30 days	232,272	(10,378)	221,894	202,599	(11,526)	191,073
31 – 60 days	35,713	(3,710)	32,003	35,066	(4,146)	30,920
61 – 90 days	17,703	(2,404)	15,299	18,177	(2,634)	15,543
91 – 180 days	5,973	(1,319)	4,654	9,613	(2,871)	6,742
Over 181 days	40	(14)	26	31	(10)	21
	291,701	(17,825)	273,876	265,486	(21,187)	244,299

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

Large Corporates above € 500 million turnover	Large Corporates below € 500 million turnover and SME	Retail Small Business ('SB') and Flat Owners Associations ('FOA')	Risk Profile	Description
LC_I1 – LC_I4	I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
LC_I5 – LC_I6	I5 – I6	I5 – I6	Low	Satisfactory quality and chargeability of assets, market penetration and managerial quality on the average; well set solvency, capital structure and debt composition; above average debt coverage capacity.
LC_M1 – LC_M2	M1 – M2	M1 – M2	Lower – Intermediate	Acceptable quality and chargeability of available assets, even if with a not negligible degree of risk; well–balanced solvency, capital structure and debt composition with slight liquidity surplus and weaker debt coverage capacity.
LC_M3 – LC_M4	M3 – M4	M3 – M4	Intermediate	Acceptable quality and chargeability of available assets even if with a significant degree of risk; vulnerable margin at times, capital structure and debt composition that show worsening signals; low level of liquidity and short debt coverage margin.
LC_R1 – LC_R3	R1 – R3	R1 – R3	Upper – Intermediate	Still acceptable asset quality even if with possible liquidity stress; high level of gearing; managerial weakness, little market penetration and positioning; margins and competitiveness under pressure.
LC_R4 – LC_R5	R4 – R5	R4 – R5	High	In addition to riskiness features for R1-R3 rating, there are evident difficulties as well as problematic debt management.
D	D	D	Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: – the obligor is past due more than 90 days on any material credit obligation to the Bank, the parent undertaking or any of its subsidiaries (absolute threshold is set according to NBS directive); – the VUB Group considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

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

Specialized Lending – SPV and RED
- Strong
- Good
- Satisfactory
- Weak
- Default

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

Retail Mortgages	Unsecured Retail	Risk Profile	Description
L1a – L4	U01a – U02	Very Low	High level of client's socio-demographic information and financial discipline.
N1	U03	Low	Above average level of client's socio-demographic information and financial discipline.
N2 – W1	U04 – U07	Lower – Intermediate	Acceptable level of client's socio-demographic information and financial discipline.
W2	U08 – U09	Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there are some signals of worsening credit quality.
-	U10 – U11	Upper – Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there is worsening credit quality.
W3	U12	High	Acceptable level of client's socio-demographic information and financial discipline, but there is negative credit behaviour.
D	D	Default	A default is considered to have occurred with regard to a particular mortgage/obligor when either or both of the two following events have taken place: – the obligor is past due more than 90 days on any material credit obligation to the Groups (absolute threshold is set according to NBS directive); – the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

The following table shows the quality of the VUB Group's credit portfolio in terms of internal ratings used for IRB purposes and the sensitivity analyses by improvement and deterioration by one internal rating grade:

31 December 2017 € '000	Internal rating ('IR')	Amortised cost	Impairment losses	Carrying amount	Sensitivity analysis: Impact of IR deterio-ration	Sensitivity analysis: Impact of IR impro-vement
Banks	Unrated	90,986	(73)	90,913	–	–
Sovereigns						
Municipalities, Munici-palities – Leasing	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 Fin. Inst. Public Sector Entities	I1 – I6	(77,684)	(89)	(77,773)	(48)	30
	M1 – M4	182,957	(763)	182,194	(592)	178
	Unrated	189,043	(537)	188,506	–	–
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

31 December 2017 € '000	Internal rating ('IR')	Amortised cost	Impairment losses	Carrying amount	Sensitivity analysis Impact of IR deterio–ration	Impact of IR impro–vement
Retail						
SB and FOA	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	–	–

During the year 2017, the rating scale was extended by internal ratings for Large Corporations above € 500 million turnover, so the comparable period was restated accordingly:

31 December 2016 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	112,486	(18)	112,468
Sovereigns				
Municipalities, Municipalities – Leasing	Unrated	132,154	(101)	132,053
Corporate				
Large Corporates, SME	I1 – I6	653,263	(725)	652,538
	M1 – M4	846,596	(5,493)	841,103
	R1 – R5	312,754	(11,353)	301,401
	LC_I1 – LC_I6	382,816	(261)	382,555
	LC_M1 – LC_M4	439,103	(1,420)	437,683
	LC_R1 – LC_R5	13,247	(312)	12,935
	D (default)	68,710	(57,151)	11,559
	Unrated	104,941	(1,120)	103,821
Specialized Lending – SPV, RED	Strong	221,336	(1,344)	219,992
	Good	335,073	(2,674)	332,399
	Satisfactory	213,930	(6,631)	207,299
	Weak	72,193	(11,139)	61,054
	D (default)	27,998	(12,511)	15,487
Other Financial Institutions, Public Sector Entities	I1 – I6	100,453	(112)	100,341
	M1 – M4	155,619	(365)	155,254
	R1 – R5	–	–	–
	D (default)	1	–	1
	Unrated	1,200	(578)	622
Other	Unrated	25,271	(1,876)	23,395
Leasing, Factoring	Unrated	337,334	(20,531)	316,803
		4,311,838	(135,596)	4,176,242

31 December 2016 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Retail				
SB and FOA	I3 – I6	32,063	(55)	32,008
	M1 – M4	141,447	(1,431)	140,016
	R1 – R5	55,450	(1,992)	53,458
	D (default)	13,964	(12,163)	1,801
	Unrated	11,439	(67)	11,372
Mortgages	L1 – L4	3,328,301	(661)	3,327,640
	N1	360,192	(475)	359,717
	N2 – W1	505,713	(1,729)	503,984
	W2	67,210	(1,068)	66,142
	W3	137,483	(8,361)	129,122
	D (default)	47,822	(18,389)	29,433
Unsecured Retail	U01a – U02	415,594	(392)	415,202
	U3	81,989	(196)	81,793
	U04 – U07	336,039	(2,311)	333,728
	U08 – U09	88,026	(2,103)	85,923
	U10 – U11	59,498	(3,391)	56,107
	U12	60,493	(9,976)	50,517
	D (default)	141,791	(98,349)	43,442
	Unrated	770,863	(94,585)	676,278
Small Business – Leasing, Leasing	Unrated	14,431	(743)	13,688
Other	Unrated	5,617	(2)	5,615
		6,675,425	(258,439)	6,416,986
Securities	Unrated	1,820,472	–	1,820,472

(b) Market risk

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

Management of market risk

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

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

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

Exposure to market risk – trading portfolios

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

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

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

				2017				2016
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	13	32	102	4	11	24	150	2
Interest rate risk	1,492	2,122	4,094	41	132	376	792	40
Overall	1,493	2,123	4,102	43	137	378	781	32

Although VaR is a popular and widely used risk management tool, there are known limitations, among 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 Group uses a wide range of stress tests, to model the financial impact of a variety of exceptional market scenarios on the Group's position.

Exposure to interest rate risk

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

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

The Risk Management division is responsible for monthly monitoring of these gaps. The management of interest rate risk is measured by shift sensitivity analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and uniform shift of +/- 100 basis points of the rate curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and uniform shift of +/-200 basis points, and additionally non-parallel steeper and flatter scenarios. These standard scenarios are applied on a monthly basis. Furthermore, 6 regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision ('BCBS') 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. The interest margin sensitivity methodology, specifically sight models repricing structure used for products with no contractual maturity, has been reviewed during 2017.

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

Models applied for the interest rate risk calculation

Each financial and non-financial instrument is mapped to a gap based on its contractual or behavioural re-pricing date:

Contractual

This category includes instruments where the 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 2017, the interest margin sensitivity on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 16,505 thousand (31 December 2016: € -17,653 thousand).

At 31 December 2017, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € -11,180 thousand (31 December 2016: € -42,725 thousand).

The main reason for change in shift sensitivity analyses is due to closing the negative sensitivity via hedge accounting (Interest Rate Swaps).

At 31 December 2017, the interest margin sensitivity on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € -25,585 thousand.

At 31 December 2017, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € -5,569 thousand.

At 31 December 2017, the sensitivity of the AFS reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € -673 thousand (31 December 2016: € -1,444 thousand).

At 31 December 2017, the sensitivity of the CF hedges reserve in equity to 100 basis points rise in interest rates was € 10,568 thousand (31 December 2016: € 4,203 thousand).

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:

31 December 2017 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,595,097	–	–	–	–		1,595,097
Due from banks	56,422	27,453	7,025	13	–	–	90,913
Financial assets at fair value through profit or loss	–	–	–	–	4,933	850	5,783
Available-for-sale financial assets	–	42,329	357,392	109,717	10,978	–	520,416
Loans and advances to customers	1,347,229	1,612,697	2,019,011	6,001,471	835,117	185,204	12,000,729
Held-to-maturity investments	–	–	11,749	264,821	99,902	–	376,472
	2,998,748	1,682,479	2,395,177	6,376,022	950,930	186,054	14,589,410
Liabilities							
Due to central and other banks	(181,813)	(50,605)	(120,651)	(402,982)	(12,730)		(768,781)
Due to customers	(7,923,912)	(686,670)	(1,008,243)	(320,296)	–	–	(9,939,121)
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)	–	(13,160,446)
Net position of financial instruments	(5,215,508)	641,580	1,155,475	4,881,592	(220,229)	186,054	1,428,964
Cumulative net position of financial instruments	(5,215,508)	(4,573,928)	(3,418,453)	1,463,139	1,242,910	1,428,964	–

31 December 2016 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,029,104	–	–	–	–	–	1,029,104
Due from banks	92,150	18,566	17,811	–	47	–	128,574
Financial assets at fair value through profit or loss	–	–	–	–	–	474	474
Available-for-sale financial assets	84,332	42,148	503,644	388,289	271,566	–	1,289,979
Loans and advances to customers	1,146,822	1,770,553	1,709,784	5,089,690	848,621	321,281	10,886,751
Held-to-maturity investments	–	–	163,680	266,401	99,938	–	530,019
	2,352,408	1,831,267	2,394,919	5,744,380	1,220,172	321,755	13,864,901
Liabilities							
Due to central and other banks	(105,649)	(206,437)	(254,205)	(332,597)	–	–	(898,888)
Due to customers	(7,597,135)	(402,880)	(1,261,932)	(263,892)	–	–	(9,525,839)
Subordinated debt	–	(200,165)	–	–	–	–	(200,165)
Debt securities in issue	(209,828)	(144,706)	(130,440)	(503,513)	(726,822)	–	(1,715,309)
	(7,912,612)	(954,188)	(1,646,577)	(1,100,002)	(726,822)	–	(12,340,201)
Net position of financial instruments	(5,560,204)	877,079	748,342	4,644,378	493,350	321,755	1,524,700
Cumulative net position of financial instruments	(5,560,204)	(4,683,125)	(3,934,783)	709,595	1,202,945	1,524,700	–

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

	2017	2016
Assets		
Cash and balances with central banks	0.00%	0.05%
Due from banks	0.45%	0.41%
Financial assets at fair value through profit or loss	1.45%	0.59%
Available-for-sale financial assets	0.47%	0.74%
Loans and advances to customers	3.47%	4.06%
Held-to-maturity investments	4.46%	4.35%
Liabilities		
Due to central and other banks	0.29%	0.76%
Due to customers	0.20%	0.21%
Debt securities in issue	1.23%	1.48%

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.

31 December 2017 € '000	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	123,615	1,109	1,467,216	3,157	1,595,097
Due from banks	85,239	2,172	422	3,080	90,913
Financial assets at fair value through profit or loss	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
Loans and advances to customers	11,371,011	265,239	314,663	49,816	12,000,729
Held-to-maturity investments	376,472	–	–	–	376,472
	12,518,537	279,123	1,785,553	56,053	14,639,266
Liabilities					
Due to central and other banks	(715,363)	(83)	(53,063)	(272)	(768,781)
Derivative financial instruments	(45,474)	(633)	(4,471)	(1,606)	(52,184)
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	1,538,910	(25,434)	1,426,636

31 December 2016 € '000	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	167,687	1,238	857,853	2,325	1,029,103
Due from banks	73,723	19,400	2,033	17,312	112,468
Financial assets at fair value through profit or loss	474	–	–	–	474
Derivative financial instruments	42,772	2,766	1,334	377	47,249
Available-for-sale financial assets	1,274,703	15,276	–	–	1,289,979
Loans and advances to customers	10,091,926	359,967	271,821	1,567	10,725,281
Held-to-maturity investments	530,019	–	–	–	530,019
	12,181,304	398,647	1,133,041	21,581	13,734,573
Liabilities					
Due to central and other banks	(840,538)	(9,825)	(4,005)	(876)	(855,244)
Derivative financial instruments	(57,215)	(6,862)	(94)	(1,183)	(65,354)
Due to customers	(9,173,280)	(214,314)	(96,399)	(80,567)	(9,564,560)
Subordinated debt	(200,165)	–	–	–	(200,165)
Debt securities in issue	(1,599,874)	(66,803)	(48,631)	–	(1,715,308)
	(11,871,072)	(297,804)	(149,129)	(82,626)	(12,400,631)
Net position	310,232	100,843	983,912	(61,045)	1,333,942

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

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 ('ILAAP').

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 (EU) Regulation 575/2013 (CRR), 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 Bank and the subsidiaries is regularly presented by Enterprise Risk Management Department and discussed during the ALCO meetings.

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

31 December 2017 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,595,412	–	–	–	–	–	1,595,412
Due from banks	33,379	1,197	4,682	12,735	42,672	–	94,665
Financial assets at fair value through profit or loss	–	–	–	–	4,933	850	5,783
Available-for-sale financial assets	–	874	260,972	246,526	–	–	508,372
Loans and advances to customers	630,230	416,308	1,469,723	5,234,668	6,922,418	217,738	14,891,085
Held-to-maturity investments	–	–	18,474	294,379	117,531	–	430,384
	2,259,021	418,379	1,753,851	5,788,308	7,087,554	218,588	17,525,701
Liabilities							
Due to central and other 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)	–	(9,942,191)
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
Commitments and undrawn credit facilities	(2,779,313)	–	–	–	–	–	(2,779,313)
Issued guarantees	(783,667)	–	–	–	–	–	(783,667)
Net position from financial commitments and contingencies	(3,562,980)	–	–	–	–	–	(3,562,980)

31 December 2016 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,029,104	–	–	–	–	–	1,029,104
Due from banks	97,323	121	3,140	–	31,204	–	131,788
Financial assets at fair value through profit or loss	–	–	–	–	–	474	474
Available-for-sale financial assets	31,870	3,667	252,871	745,834	286,748	–	1,320,990
Loans and advances to customers	542,642	528,929	1,397,652	4,781,886	5,878,356	198,071	13,327,536
Held-to-maturity investments	–	–	152,777	302,874	134,565	–	590,216
	1,700,939	532,717	1,806,440	5,830,594	6,330,873	198,545	16,400,108
Liabilities							
Due to central and other banks	(85,339)	(131,828)	(160,331)	(412,226)	(108,512)	–	(898,236)
Due to customers	(7,584,174)	(414,993)	(1,214,648)	(312,072)	(5,167)	–	(9,531,054)
Subordinated debt	–	(1,466)	(4,029)	(22,000)	(242,895)	–	(270,390)
Debt securities in issue	(3,467)	(46,180)	(164,875)	(870,766)	(843,955)	–	(1,929,243)
	(7,672,980)	(594,467)	(1,543,883)	(1,617,064)	(1,200,529)	–	(12,628,923)
Net position of financial instruments	(5,972,041)	(61,750)	262,557	4,213,530	5,130,344	198,545	3,771,185
Cash inflows from derivatives	995,200	159,826	226,607	119,435	41,630	–	1,542,698
Cash outflows from derivatives	(993,311)	(158,921)	(230,557)	(124,017)	(41,728)	–	(1,548,534)
Net position from derivatives	1,889	905	(3,950)	(4,582)	(98)	–	(5,836)
Commitments and undrawn credit facilities	(2,894,083)	–	–	–	–	–	(2,894,083)
Issued guarantees	(764,156)	–	–	–	–	–	(764,156)
Net position from financial commitments and contingencies	(3,658,239)	–	–	–	–	–	(3,658,239)

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:

31 December 2017 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	1,595,097	–	1,595,097
Due from banks	37,105	53,808	90,913
Financial assets at fair value through profit or loss	–	5,783	5,783
Derivative financial instruments	5,902	43,954	49,856
Available-for-sale financial assets	262,952	257,464	520,416
Loans and advances to customers	2,206,047	9,794,682	12,000,729
Held-to-maturity investments	11,750	364,722	376,472
Associates and joint ventures	–	8,972	8,972
Intangible assets	–	80,100	80,100
Goodwill	–	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			
Due to central and other banks	(255,026)	(513,755)	(768,781)
Derivative financial instruments	(24,278)	(27,906)	(52,184)
Due to customers	(1,783,792)	(8,155,329)	(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)
	(2,412,333)	(10,925,957)	(13,338,290)
	1,739,126	(106,540)	1,632,586

31 December 2016 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	1,029,103	–	1,029,103
Due from banks	94,678	17,790	112,468
Financial assets at fair value through profit or loss	–	474	474
Derivative financial instruments	4,225	43,024	47,249
Available-for-sale financial assets	264,958	1,025,021	1,289,979
Loans and advances to customers	2,166,207	8,559,074	10,725,281
Held-to-maturity investments	151,930	378,089	530,019
Associates and joint ventures	–	8,788	8,788
Intangible assets	–	68,888	68,888
Goodwill	–	29,305	29,305
Property and equipment	–	104,853	104,853
Current income tax assets	1,464	–	1,464
Deferred income tax assets	–	64,002	64,002
Other assets	25,281	–	25,281
	3,737,846	10,299,308	14,037,154
Liabilities			
Due to central and other banks	(290,946)	(564,298)	(855,244)
Derivative financial instruments	(39,013)	(26,341)	(65,354)
Due to customers	(1,757,512)	(7,807,048)	(9,564,560)
Subordinated debt	(165)	(200,000)	(200,165)
Debt securities in issue	(198,648)	(1,516,660)	(1,715,308)
Provisions	–	(26,001)	(26,001)
Other liabilities	(101,432)	(3,834)	(105,266)
	(2,387,716)	(10,144,182)	(12,531,898)
	1,350,130	155,126	1,505,256

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the 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.

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 Group Operational Risk Committee, which identifies risk management policies. The Supervisory and Management Boards of the Group ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of AML Department, Head of Corporate & SME Division, Head of Retail Division, Head of Enterprise Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Internal Audit Department, Head of Security and Business Continuity Management, Head of Retail Branch Management, Member of the Management Board of Consumer Finance Holding, a. s., Member of the Management Board of VUB Factoring, a. s., Member of the Management Board of VUB Leasing, a. s.)), has the task of periodically reviewing the Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

Organisational structure of the associated risk management function

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

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

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

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

For the use of the AMA, the VUB Group has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank and VUB Group Companies that fall within the scope of AMA and TSA. This 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.

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.

4. Estimated fair value of financial assets and liabilities

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

The 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 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 Group are based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, 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 Group for debt instruments involves the method of discounting forecast cash flows. The calculation takes into account the time value of money (risk-free rate of interest) and the credit risk expressed in the form of credit spreads applied to the bonds' yield and representing the risk premium the investor claims against a risk free investment. In the case of derivative financial instruments the 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 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 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 Group's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with central banks

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

(b) Due from banks

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

(c) Loans and advances to customers

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

(d) Held-to-maturity investments

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

(e) Due to banks and customers

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

(f) Subordinated debt

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

(g) Debt securities in issue

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

31 December 2017 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and balances with central banks	7	1,595,097	–	1,595,097	–	1,595,097	–	1,595,097
Due from banks	8	90,913	–	90,913	–	90,913	–	90,913
Financial assets at fair value through profit or loss	9	–	5,783	5,783	850	4,933	–	5,783
Derivative financial instruments	10	–	49,856	49,856	–	49,856	–	49,856
Available-for-sale financial assets	11	–	520,416	520,416	265,742	248,365	6,309	520,416
Loans and advances to customers	12	12,000,729	–	12,000,729	–	–	13,170,161	13,170,161
Held-to-maturity investments	14	376,472	–	376,472	–	426,970	–	426,970
		14,063,211	576,055	14,639,266	266,592	2,416,134	13,176,470	15,859,196
Financial liabilities								
Due to central and other banks	21	(768,781)	–	(768,781)	–	(768,781)	–	(768,781)
Derivative financial instruments	10	–	(52,184)	(52,184)	–	(52,184)	–	(52,184)
Due to customers	22	(9,939,121)	–	(9,939,121)	–	(9,947,677)	–	(9,947,677)
Subordinated debt	23	(200,164)	–	(200,164)	–	(199,693)	–	(199,693)
Debt securities in issue	23	(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)

31 December 2016 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and balances with central banks	7	1,029,103	–	1,029,103	–	1,029,103	–	1,029,103
Due from banks	8	112,468	–	112,468	–	112,468	–	112,468
Financial assets at fair value through profit or loss	9	–	474	474	474	–	–	474
Derivative financial instruments	10	–	47,249	47,249	–	47,249	–	47,249
Available-for-sale financial assets	11	–	1,289,979	1,289,979	805,871	479,176	4,932	1,289,979
Loans and advances to customers	12	10,725,281	–	10,725,281	–	–	11,959,494	11,959,494
Held-to-maturity investments	14	530,019	–	530,019	–	598,206	–	598,206
		12,396,871	1,337,702	13,734,573	806,345	2,266,202	11,964,426	15,036,973
Financial liabilities								
Due to central and other banks	21	(855,244)	–	(855,244)	–	(855,244)	–	(855,244)
Derivative financial instruments	10	–	(65,354)	(65,354)	–	(65,354)	–	(65,354)
Due to customers	22	(9,564,560)	–	(9,564,560)	–	(9,579,377)	–	(9,579,377)
Subordinated debt	23	(200,165)	–	(200,165)	–	(200,165)	–	(200,165)
Debt securities in issue	23	(1,715,308)	–	(1,715,308)	–	(1,781,512)	–	(1,781,512)
		(12,335,277)	(65,354)	(12,400,631)	–	(12,481,652)	–	(12,481,652)

There were no transfers of financial instruments among the levels during the 2017 and 2016.

5. Segment reporting

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

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

The Group comprises the following main operating segments:
- Retail Banking,
- Corporate Banking,
- Central Treasury.

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

Corporate Banking comprises Small and Medium Enterprises ('SME') and the Corporate Customer Desk ('CCD'). SME includes loans, deposits and other transactions and balances with small and medium enterprises (company revenue in the range of € 1 million to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes loans, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

Central Treasury undertakes the Group's funding, issues of debt securities as well as trading book. The 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.

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

31 December 2017 € '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	(10,573)	(5,338)	(24,893)	(9,423)	(50,227)
Inter-segment revenue	(17,086)	(11,923)	23,445	5,564	–
Net interest income	280,351	77,808	18,423	7,378	383,960
Net fee and commission income	65,502	49,132	3,128	(4,113)	113,649
Net trading result	3,709	5,331	30,983	321	40,344
Other operating income	55	5,068	326	4,013	9,462
Total segment operating income	349,617	137,339	52,860	7,599	547,415
Depreciation and amortisation	(13,941)	(3,734)	(9)	(7,085)	(24,769)
Operating expenses*					(242,271)
Operating profit before impairment					280,375
Impairment losses	(51,420)	(7,840)	(1,432)	(1,487)	(59,205)
Share of profit of associates and joint ventures					1,965
Income tax expense					(48,138)
Net profit for the year					174,997
Segment assets	7,463,880	4,236,117	2,778,733	492,146	14,970,876
Segment liabilities and equity	6,126,804	3,967,952	2,968,081	1,908,039	14,970,876

* The Group does not allocate the 'Operating expenses' to the individual segments.

31 December 2016 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	312,123	91,989	35,159	10,090	449,361
Interest and similar expense	(15,290)	(5,969)	(26,888)	(1,815)	(49,962)
Inter–segment revenue	(24,406)	(6,654)	35,553	(4,493)	–
Net interest income	272,427	79,366	43,824	3,782	399,399
Net fee and commission income	51,941	55,520	2,888	(2,402)	107,947
Net trading result	3,361	5,458	29,854	110	38,783
Other operating income	8,730	5,448	(6)	(4,547)	9,625
Total segment operating income	336,459	145,792	76,560	(3,057)	555,754
Depreciation and amortisation	(17,308)	(4,284)	(11)	(6,143)	(27,746)
Operating expenses					(245,612)
Operating profit before impairment					282,396
Impairment losses	(62,274)	(12,332)	(375)	(783)	(75,764)
Share of profit of associates and joint ventures					5,110
Income tax expense					(54,972)
Net profit for the year					156,770
Segment assets	6,449,442	4,165,215	2,963,498	458,999	14,037,154
Segment liabilities and equity	5,821,343	4,115,112	2,353,542	1,747,157	14,037,154

6. Cash and cash equivalents

€ '000	Note	2017	2016
Cash and balances with central banks	7	1,595,097	1,029,103
Current accounts in other banks	8	25,212	34,710
Term deposits with other banks	8	–	2,035
		1,620,309	1,065,848

7. Cash and balances with central banks

€ '000	2017	2016
Balances with central banks:		
Compulsory minimum reserves	7,264	810,409
Current accounts	1,753	961
Term deposits	736,103	119,912
Loans and advances	724,427	–
	1,469,547	931,282
Cash in hand	125,550	97,821
	1,595,097	1,029,103

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

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

At 31 December 2017 the balance of 'Loans and advances' comprised of one reverse repo trade concluded with Česká národní banka in the total nominal amount of CZK 18,500 million (€ 724,354 thousand). The repo trade was secured by four treasury bills of Česká národní banka. At 31 December 2016 there was no reverse repo trade concluded.

8. Due from banks

€ '000	Note	2017	2016
Current accounts in other banks	6	25,212	34,710
Term deposits:			
with contractual maturity less than 90 days	6	–	2,035
with contractual maturity over 90 days		–	63
Loans and advances:			
with contractual maturity over 90 days		34,028	8,551
Cash collateral		31,746	67,127
Impairment losses on assets	13	(73)	(18)
		90,913	112,468

At 31 December 2016 the balance of 'Term deposits' includes one deposit with Intesa Sanpaolo S. p. A. in the nominal amount of € 2,035 thousand.

9. Financial assets at fair value through profit or loss

€ '000	2017	2016
Financial assets held for trading:		
State bonds		
with contractual maturity over 90 days	4,933	–
Financial assets designated at fair value through profit or loss on initial recognition:		
Equity shares	850	474
	5,783	474

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

10. Derivative financial instruments

€ '000	2017 Assets	2016 Assets	2017 Liabilities	2016 Liabilities
Trading derivatives	27,961	12,923	37,542	11,732
Cash flow hedges of interest rate risk	1,312	–	631	5,428
Fair value hedges of interest rate and inflation risk	20,583	34,326	14,011	48,194
	49,856	47,249	52,184	65,354

Trading derivatives can include hedging instruments that are non-qualifying according to IAS 39 and are held for risk management purposes rather than for trading. At 31 December 2017, trading derivatives do not include such hedging instruments. At 31 December 2016, these instruments consisted of one cross-currency interest rate swap with a negative fair value € 845 thousand.

€ '000	2017 Assets	2016 Assets	2017 Liabilities	2016 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Swaps	21,385	7,452	18,403	5,675
Options	51	325	51	357
	21,436	7,777	18,454	6,032
Foreign currency instruments:				
Forwards and swaps	4,296	3,725	16,896	3,352
Cross currency swaps	26	–	–	845
Options	42	272	42	391
	4,364	3,997	16,938	4,588
Equity and commodity instruments:				
Equity options	2,146	922	2,137	904
Commodity swaps	–	227	–	208
Commodity forwards	15	–	13	–
	2,161	1,149	2,150	1,112
	27,961	12,923	37,542	11,732

€ '000	2017 Assets	2016 Assets	2017 Liabilities	2016 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Swaps	1,974,174	625,151	1,974,174	625,151
Options	49,014	115,342	49,014	115,342
Futures	3,431	–	3,431	–
	2,026,619	740,493	2,026,619	740,493
Foreign currency instruments:				
Forwards and swaps	1,832,019	1,331,195	1,842,027	1,326,896
Cross currency swaps	5,917	29,606	5,917	30,449
Options	7,201	45,482	7,201	45,091
	1,845,137	1,406,283	1,855,145	1,402,436
Equity and commodity instruments:				
Equity options	7,087	7,087	7,087	7,091
Commodity swaps	–	5,149	–	5,060
Commodity forwards	7,407	–	7,407	–
	14,494	12,236	14,494	12,151
	3,886,250	2,159,012	3,896,258	2,155,080

Cash flow hedges of interest rate risk

At 31 December 2017 the Bank uses four interest rate swaps to hedge the interest rate risk arising from the issuance of three variable rate mortgage bonds. The cash flows on the floating legs of these interest rate swaps substantially match the cash flow profiles of the variable rate mortgage bonds.

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

Below is a schedule indicating as at 31 December 2017 and 31 December 2016, the periods when the hedged cash flows are expected to occur. The cash flows of mortgage bonds represent the future undiscounted value of coupons. and the cash flows from subordinated debt undiscounted repayments:

€ '000	Up to 1 year	1 to 5 years	2017 Over 5 years	Up to 1 year	1 to 5 years	2016 Over 5 years
Mortgage bonds – interest rate risk	(4,078)	(1,414)	–	(5,343)	(7,057)	–
Subordinated debt – interest rate risk	(6,010)	(25,326)	–	–	–	–

Fair value hedges of interest rate and inflation risk

The Bank uses eighteen interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans, both in relation to changes of interest rates.

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

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

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

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

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

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

In 2017, the Bank recognised a net loss of € 11,801 thousand (2016: net gain of € 18,648 thousand) in relation to the fair value hedging instruments above. The net gain on hedged items attributable to the hedged risks amounted to € 11,867 thousand (2016: net loss of € 18,419 thousand). Both items are disclosed within 'Net trading result'.

During 2017, interest and similar income from hedged AFS securities in the amount of € 11,647 thousand (2016: € 19,046 thousand) was compensated by interest expense from interest rate swap and asset swap hedging instruments in the amount of € 4,921 thousand (2016: € 7,966 thousand).

In 2017, interest expense from the hedged mortgage bonds in the amount of € 10,345 thousand (2016: € 15,577 thousand) was compensated by interest income from the interest rate swap hedging instruments in the amount of € 8,472 thousand (2016: € 7,133 thousand).

11. Available-for-sale financial assets

€ '000	Share 2017	Share 2016	2017	2016
State bonds of EU countries			439,744	1,046,763
Bank bonds			72,467	236,197
Equity shares at fair value			8,140	6,959
Equity shares at cost:				
S.W.I.F.T.	0.01%	0.01%	65	60
			520,416	1,289,979

This table shows the reconciliation from opening balance to closing balance for recurring 3 level of fair value (note 4):

€ '000	1 Jan 2017	Purchase	Sale	Revaluation	Exchange differences	31 Dec 2017
Visa Inc.	4,932	–	–	1,663	(286)	6,309

	1 Jan 2016	Purchase	Sale	Revaluation	Exchange differences	31 Dec 2016
Visa Europe LTD	14,690	–	(14,690)	–	–	–
Visa Inc.	–	4,575	–	22	335	4,932

On 21 December 2015, Visa Europe and Visa Inc. officially announced the plan to become a unique entity, through the sale of 100% of share capital of Visa Europe to Visa Inc. VUB Bank as a stakeholder had the right to take part in the distribution of value generated by the deal, so the fair value was adjusted equal to cash part of the up-front consideration in amount of € 14,690 thousand net of tax in 2016.

Following confirmation on 3 June 2016 that the European Commission approved the proposed purchase of Visa Europe Limited by Visa Inc., the fair value of the closing transaction was evaluated consisting of three elements in the total amount of € 21,509 thousand. Apart from the cash consideration, the Bank will be receiving Visa Inc. preferred shares Series C and also a deferred cash payment that will be due after the third anniversary of the closing date of the transaction.

12. Loans and advances to customers

31 December 2017 € '000	Amortised cost	Impairment losses (note 13)	Carrying 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
Small and Medium Enterprises ('SME')	1,452,374	(62,640)	1,389,734
Other 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

31 December 2016 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	131,772	(100)	131,672
Municipalities – Leasing	382	(1)	381
	132,154	(101)	132,053
Corporate			
Large Corporates	1,501,159	(23,933)	1,477,226
Specialized Lending	870,530	(34,299)	836,231
Small and Medium Enterprises ('SME')	1,345,543	(55,778)	1,289,765
Other Financial Institutions	256,072	(1,052)	255,020
Public Sector Entities	1,200	(3)	1,197
Leasing	267,861	(18,947)	248,914
Factoring	69,473	(1,584)	67,889
	4,311,838	(135,596)	4,176,242
Retail			
Small Business	229,827	(15,390)	214,437
Small Business – Leasing	10,033	(526)	9,507
Consumer Loans	1,637,612	(168,651)	1,468,961
Mortgages	4,446,721	(30,683)	4,416,038
Credit Cards	207,961	(31,150)	176,811
Overdrafts	108,720	(11,502)	97,218
Leasing	4,398	(217)	4,181
Flat Owners Associations	24,536	(318)	24,218
Other	5,617	(2)	5,615
	6,675,425	(258,439)	6,416,986
	11,119,417	(394,136)	10,725,281

At 31 December 2017, the 20 largest corporate customers represented a total balance of € 1,470,348 thousand (31 December 2016: € 1,466,321 thousand) or 11.88% (31 December 2016: 13.19%) of the gross loan portfolio.

Maturities of gross finance lease receivables are as follows:

€ '000	2017	2016
Up to 1 year	97,241	105,564
1 to 5 years	172,570	169,810
Over 5 years	20,244	28,689
	290,055	304,063
Unearned future finance income on finance leases	(17,195)	(21,389)
Impairment losses	(16,365)	(19,691)
	256,495	262,983

Maturities of net finance lease receivables are as follows:

€ '000	2017	2016
Up to 1 year	90,534	97,813
1 to 5 years	162,953	157,873
Over 5 years	19,373	26,988
	272,860	282,674
Impairment losses	(16,365)	(19,691)
	256,495	262,983

13. Impairment losses on assets

€ '000	Note	1 Jan 2017	Creation (note 34)	Reversal (note 34)	Assets written-off/sold (note 34)	FX diff	Other*	31 Dec 2017
Due from banks	8	18	71	(16)	–	–	–	73
Loans and advances to customers	12	394,136	315,216	(249,602)	(74,119)	(1,662)	(10,392)	373,577
Property and equipment	18	10,549	44	(1,542)	–	–	(8,960)	91
Other assets	20	2,483	1,099	(912)	–	–	(1)	2,669
		407,186	316,430	(252,072)	(74,119)	(1,662)	(19,353)	376,410

* 'Other' represents:
- the interest portion (unwinding of interest)`
- the elimination of impairment losses to 'Buildings and land' due to application of revaluation model (note 18).

€ '000	Note	1 Jan 2016	Creation (note 34)	Reversal (note 34)	Assets written-off/sold (note 34)	FX diff	Other*	31 Dec 2016
Due from banks	8	25	2	(30)	–	21	–	18
Available-for-sale financial assets	11	574	–	–	–	–	(574)	–
Loans and advances to customers	12	379,290	249,330	(171,679)	(54,016)	420	(9,209)	394,136
Property and equipment	18	10,585	24	(60)	–	–	–	10,549
Other assets	20	4,818	2,240	(1,374)	(1,107)	2	(2,096)	2,483
		395,292	251,596	(173,143)	(55,123)	443	(11,879)	407,186

* 'Other' represents the following movements:
- the interest portion (unwinding of interest);
- reclassification of impairment losses to receivables from repossessed asset 'Other assets' to 'Loans and advances to customers';
- sale of RVS, a. s.

Impairment loss recognised in 2017 for Loans and advances to customers was € 65,614 thousand (2016: € 77,651 thousand).

14. Held-to-maturity investments

€ '000	Note	2017	2016
State bonds		376,472	530,019

At 31 December 2017, bonds in the total nominal amount of € 362,147 thousand from the held-to-maturity portfolio were pledged by the Bank to secure collateralized transactions (31 December 2016: € 509,428 thousand).

15. Associates and joint ventures

€ '000	Share	Cost	Revalua-tion	Carrying amount
At 31 December 2017				
VÚB Generali d. s. s., a. s.	50.00%	16,597	(7,692)	8,905
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	64	67
		16,600	(7,628)	8,972

€ '000	Share	Cost	Revalua-tion	Carrying amount
At 31 December 2016				
VÚB Generali d. s. s., a. s.	50.00%	16,597	(7,858)	8,739
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	46	49
		16,600	(7,812)	8,788

Slovak Banking Credit Bureau, s.r.o. ('SBCB') is associate of the VUB Group for which equity method of consolidation is used.

VÚB Generali DSS, a. s. 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 DSS, a. s. as a joint venture which is also equity-accounted.

The following is summarised selected financial information of the Group's associates and joint ventures together with the reconciliation to the carrying amount of the Group's interest in these companies:

€ '000	VÚB Generali d. s. s. 2017	SBCB 2017	VÚB Generali d. s. s. 2016	SBCB 2016
Net profit for the year*	3,895	52	3,924	(12)
Other comprehensive income	437	–	(44)	–
Total comprehensive income for the year	4,332	52	3,880	(12)
Assets**	18,745	225	18,160	365
Liabilities	(936)	(25)	(682)	(217)
Equity	17,809	200	17,478	148
Group's interest on equity at 1 January	8,739	49	8,404	53
Share of profit/(loss)	1,948	18	1,962	(4)
Share of other comprehensive income	218	–	(22)	–
Dividends received during the year	(2,000)	–	(1,605)	–
Group's interest on equity at 31 December	8,905	67	8,739	49
Carrying amount at 31 December	8,905	67	8,739	49
* *includes: Interest income*	327	–	225	–
Depreciation and amortization	(85)	(8)	(79)	(8)
Income tax expense	(1,042)	(3)	(1,090)	(3)
** *includes: Cash and cash equivalents*	3	3	7	4

16. Intangible assets

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2017	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 2017	239,425	19,483	24,238	283,146
Accumulated amortisation				
At 1 January 2017	(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 2017	(184,525)	(18,521)	–	(203,046)
Carrying amount				
At 1 January 2017	46,793	1,086	21,009	68,888
At 31 December 2017	54,900	962	24,238	80,100

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2016	219,102	55,203	17,481	291,786
Additions	114	–	19,278	19,392
Disposals	(8,885)	–	(105)	(8,990)
Transfers	15,515	236	(15,645)	106
Exchange differences	(1)	1	–	–
At 31 December 2016	225,845	55,440	21,009	302,294
Accumulated amortisation				
At 1 January 2016	(173,866)	(53,812)	–	(227,678)
Amortisation for the year	(13,997)	(542)	–	(14,539)
Disposals	8,811	–	–	8,811
At 31 December 2016	(179,052)	(54,354)	–	(233,406)
Carrying amount				
At 1 January 2016	45,236	1,391	17,481	64,108
At 31 December 2016	46,793	1,086	21,009	68,888

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

At 31 December 2017, the gross book value of fully amortised intangible assets that are still used by the VUB Group amounted to € 138,033 thousand (31 December 2016: € 138,112 thousand).

At 31 December 2017, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € 1,833 thousand (31 December 2016: € 2,191 thousand).

17. Goodwill

€ '000	2017	2016
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. ('CFH') arose in 2005 on the acquisition of CFH, the VUB Group's sales finance subsidiary.

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

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

The following rates are used by the Group for both VUB Leasing and CFH:

€ '000	2017	2016
Discount rate – cash flows	7.66%	9.95%
Discount rate – terminal value	8.62%	9.95%
Projected growth rate	4.40%	4.91%

The calculation of value in use for both VÚB Leasing and CFH considers the following key assumptions:
- interest margins,
- discount rates,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local Gross Domestic Product (GDP),
- local inflation rates.

Interest margins

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

Discount rates

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

18. Property and equipment

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value						
At 1 January 2017		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		1,120	1,640	3,150	(11,576)	(5,666)
FX differences		6	5	4	–	15
Revaluation		27,805	–	–	–	27,805
Other*		(123,853)	–	–	–	(123,853)
At 31 December 2017		103,635	62,138	49,609	4,042	219,424
Accumulated depreciation						
At 1 January 2017		(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
Transfers		–	–	872	–	872
FX differences		(6)	(4)	(4)	–	(14)
Other*		114,893	–	–	–	114,893
At 31 December 2017		–	(57,328)	(35,157)	–	(92,485)
Impairment losses	13					
At 1 January 2017		(10,502)	–	(47)	–	(10,549)
Creation		–	–	(44)	–	(44)
Release		1,542	–	–	–	1,542
Other*		8,960	–	–	–	8,960
At 31 December 2017		–	–	(91)	–	(91)
Carrying amount						
At 1 January 2017		79,717	6,440	14,578	4,118	104,853
At 31 December 2017		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.

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost						
At 1 January 2016		202,007	67,033	49,546	3,106	321,692
Additions		7	–	–	13,889	13,896
Disposals		(2,652)	(2,125)	(6,092)	–	(10,869)
Transfers		2,444	3,026	7,407	(12,877)	–
At 31 December 2016		201,806	67,934	50,861	4,118	324,719
Accumulated depreciation						
At 1 January 2016		(107,765)	(59,877)	(37,540)	–	(205,182)
Depreciation for the year		(6,009)	(3,734)	(3,464)	–	(13,207)
Disposals		2,187	2,122	6,090	–	10,399
Transfers		–	(5)	(1,322)	–	(1,327)
At 31 December 2016		(111,587)	(61,494)	(36,236)	–	(209,317)
Impairment losses	13					
At 1 January 2016		(10,543)	–	(42)	–	(10,585)
Creation		–	–	(24)	–	(24)
Release		41	–	19	–	60
At 31 December 2016		(10,502)	–	(47)	–	(10,549)
Carrying amount						
At 1 January 2016		83,699	7,156	11,964	3,106	105,925
At 31 December 2016		79,717	6,440	14,578	4,118	104,853

In 2017 the 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 Group recognized an impairment loss in total amount of € 8,960 thousand as at 31 December 2017 (31 December 2016: € 10,502 thousand).

At 31 December 2017, the 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 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 carrying amount of the assets subject to the revaluation model at 31 December 2017 would have been € 74,309 thousand, should the assets be carried under the cost model.

The impact of the revaluation model on equity is positive in total amount of € 21,966 thousand and positive on income statement in amount of € 1,521 thousand due to release of previously booked impairment.

At 31 December 2017, the gross book value of fully depreciated tangible assets that are still used by the Group amounted to € 92,881 thousand (31 December 2016: € 94,888 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

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

19. Current and deferred income taxes

€ '000	2017	2016
Current income tax assets	9,478	1,464

€ '000	2017	2016
Deferred income tax assets	53,779	64,002

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2016: 21%) as follows:

€ '000	2017	Profit/ (loss) (note 35)	Equity	2016
Due from banks	16	12	–	4
Derivative financial instruments designated as cash flow hedges	(143)	–	(366)	223
Available-for-sale financial assets	(1,181)	–	(102)	(1,079)
Loans and advances to customers	56,515	(4,919)	–	61,434
Property and equipment	(10,749)	(7)	(5,838)	(4,904)
Provisions	185	107	–	78
Other liabilities	10,132	1,893	–	8,239
Other	(996)	(1,003)	–	7
Deferred income tax assets	53,779	(3,917)	(6,306)	64,002

20. Other assets

€ '000	Note	2017	2016
Operating receivables and advances		15,013	15,223
Inventories (incl. repossessed leased assets)		1,819	2,075
Prepayments and accrued income		7,008	8,630
Other tax receivables		1,315	1,609
Settlement of operations with financial instruments		7	7
Receivables from termination of leasing		3	–
Other		632	220
		25,797	27,764
Impairment losses	13	(2,669)	(2,483)
		23,128	25,281

21. Due to central and other banks

€ '000	2017	2016
Due to central banks		
Current accounts	1,147	993
Loans received from central banks	248,874	149,791
	250,021	150,784
Due to other banks		
Current accounts	37,991	22,699
Term deposits	16,137	109,909
Loans received from other banks	453,003	551,017
Cash collateral received	11,629	20,835
	518,760	704,460
	768,781	855,244

At 31 December 2017, '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 2016: two loans in the nominal amount of € 100,000 thousand and € 50,000 thousand). The interest rate for all loans is - 0.4% (31 December 2016: - 0.4%) and the maturity is in 2020 and 2021 (31 December 2016: in 2020). The principal and interests are due at maturity of loans.

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

€ '000	2017	2016
European Investment Bank	185,599	207,685
Intesa Sanpaolo S. p. A.	144,689	235,784
Intesa Sanpaolo Bank Ireland P. L. C.	35,025	–
Intesa Sanpaolo Bank Luxembourg S. A.	30,124	30,019
Tatra banka, a. s.	25,002	18,000
European Bank for Reconstruction and Development	21,898	24,596
Council of Europe Development Bank	10,646	14,846
Komerční banka, a. s.	–	15,019
ING Bank N. V.	–	5,057
Other	20	11
	453,003	551,017

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 2017, the balance comprised of 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 (31 December 2016: fourteen loans in the nominal amount of € 50,000 thousand, € 23,333 thousand, € 23,067 thousand, € 17,500 thousand, € 16,250 thousand, € 14,989 thousand, € 14,536 thousand, € 14,063 thousand, € 9,992 thousand, € 7,857 thousand, € 4,996 thousand, € 4,759 thousand, € 4,444 and € 1,875 thousand) with interest rates between 0.00% and 1.73% (31 December 2016: -0.004% - 1.73%) and with maturity between 2018 and 2028 (31 December 2016: 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.

Intesa Sanpaolo S. p. A.

At 31 December 2017, there were eleven loan arrangements concluded with the ultimate parent company Intesa Sanpaolo S. p. A. (31 December 2016: sixteen loan arragements) in the nominal amount of € 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 (31 December 2016: € 25,000 thousand, € 20,000 thousand, € 20,000 thousand, € 20,000 thousand, € 20,000 thousand, € 20,000 thousand, € 20,000 thousand, € 15,000 thousand, € 13,000 thousand, € 10,000 thousand, € 10,000 thousand, € 10,000 thousand, € 10,000 thousand, € 9,000 thousand, € 8,000 thousand and € 5,000 thousand) maturing between 2018 and 2019 (31 December 2016: 2017 – 2019) and with the interest rates in the range of -0.31% to 3.45% (31 December 2016: -0.31% to 3.45%). The frequency of the repayment of the principal and the interests varies for each loan contract.

Intesa Sanpaolo Bank Ireland P. L. C.

Loans received in 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 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.

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, both maturing in 2019. The agreed interest rates were 1.52% and 2.10%, respectively, the interest is payable quarterly and the principal is payable at the maturity of the loan contracts.

Tatra banka, a. s.

Loan received from the Tatra banka, a. s. was in the nominal amount of € 25,000 thousand with maturity in 2018 and the interest rate 0.65% (31 December 2016: two loans in the nominal amount of € 15,000 thousand and € 3,000 thousand with maturity in 2017 and 2018 and interest rates 1.52% and 1.65%). The principal is payable at maturity of the loan and the interest is payable on a monthly basis.

European Bank for Reconstruction and Development

Loans received from the European Bank for Reconstruction and Development represented funds granted to support the energy savings in large corporations. At 31 December 2017, there were five loan arrangements concluded in the nominal amount of € 5,000 thousand, € 5,000 thousand, € 5,000 thousand, € 3,571 thousand and € 3,285 thousand (31 December 2016: four loan arrangements in the nominal amount of € 9,545 thousand, € 5,000 thousand, € 5,000 thousand and € 5,000 thousand). The maturity of the loans is between 2020 and 2023 (31 December 2016: 2020 – 2023). At 31 December 2017 the interest rates are in the range between 0.35% and 1.63% (31 December 2016: 0.55% - 1.69%). The frequency of the repayment of both the interest and the principal is semi-annual.

Council of Europe Development Bank

At 31 December 2017, loans from the Council of Europe Development Bank comprised of four loans in the nominal amount of € 3,333 thousand, € 3,000 thousand, € 3,000 thousand and € 1,311 thousand (31 December 2016: five loans in the nominal amount of € 4,500 thousand, € 4,000 thousand, € 4,000 thousand, € 1,748 thousand and € 596 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 0.14% and 0.31% at 31 December 2017 (31 December 2016: 0.15% - 0.31%). The maturity of the individual loans is between 2019 and 2022 (31 December 2016: 2017 – 2022). The interest is payable quarterly and the principal is payable on an annual basis.

22. Due to customers

€ '000	2017	2016
Current accounts	6,407,771	5,948,945
Term deposits	2,576,930	2,641,739
Savings accounts	238,263	226,951
Government and municipal deposits	513,664	573,527
Loans received	76,201	60,050
Promissory notes	9,988	9,976
Other deposits	116,304	103,372
	9,939,121	9,564,560

23. Subordinated debt and Debt securities in issue

Subordinated debt

At 31 December 2017 and 31 December 2016, the subordinated debt recognized by the VUB Group was as follows:

€ '000	2017	2016
Subordinated debt	200,164	200,165

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

Debt securities in issue

€ '000	2017	2016
Bonds	–	47
Mortgage bonds	262,037	597,377
Mortgage bonds subject to cash flow hedges	281,063	281,120
Mortgage bonds subject to fair value hedges	1,696,454	808,674
	2,239,554	1,687,171
Revaluation of fair value hedged mortgage bonds	8,465	28,022
Amortisation of revaluation related to terminated fair value hedges	4,361	68
	2,252,380	1,715,308

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

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

				Non-cash changes			
€ '000	1 Jan 2017	Cash flow	Accruals	Revaluation of hedged mortgage bonds	Unrealised exchange differences	Other	31 Dec 2017
Subordinated debt	200,165	–	(1)	–	–	–	200,164
Mortgage bonds	1,715,308	563,845	(1,754)	(19,557)	(5,415)	(47)	2,252,380

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2017	Nominal value in CCY per piece	Issue date	Maturity date	2017 € '000	2016 € '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	33,457	33,438
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,724	19,710
Mortgage bonds VÚB, a. s. 32.	1.870	CZK	–	1,000,000	17.12.2007	17.12.2017	–	29,976
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	560	33,194	31.3.2008	31.3.2020	19,140	19,091
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,067	15,970
Mortgage bonds VÚB, a. s. 53.	0.400	EUR	–	1,000,000	8.4.2010	8.4.2017	–	100,096
Mortgage bonds VÚB, a. s. 57.	1.037	EUR	100	1,000,000	30.9.2010	30.9.2018	100,262	100,280
Mortgage bonds VÚB, a. s. 58.	1.529	EUR	80	1,000,000	10.12.2010	10.12.2019	80,071	80,074
Mortgage bonds VÚB, a. s. 62.	1.718	EUR	100	1,000,000	28.7.2011	28.7.2018	100,730	100,766
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. 70.	3.750	EUR	–	100,000	7.3.2012	7.3.2017	–	41,221
Mortgage bonds VÚB, a. s. 71.	3.900	EUR	–	20,000	2.5.2012	2.5.2017	–	15,127
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,463	25,446
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	50,795	50,752
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	71,967	71,921
Mortgage bonds VÚB, a. s. 75.	2.000	EUR	300	100,000	5.4.2013	5.4.2019	30,456	30,466
Mortgage bonds VÚB, a. s. 76.	2.400	EUR	309	10,000	22.4.2013	22.4.2018	3,141	3,142
Mortgage bonds VÚB, a. s. 77.	1.800	CZK	5,000	100,000	20.6.2013	20.6.2018	19,759	18,655
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	905	10,000	3.3.2014	3.3.2020	9,227	9,234
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	31,704	31,786
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	39,556	39,687
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	50,088	50,023
Mortgage bonds VÚB, a. s. 84.	0.600	EUR	500	100,000	29.9.2014	30.9.2019	49,996	49,949
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,581	49,533

(Table continues on the next page)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2017	Nominal value in CCY per piece	Issue date	Maturity date	2017 € '000	2016 € '000
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	1,000	100,000	27.4.2015	27.4.2020	99,135	98,620
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	97,916	97,545
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	965	100,000	11.9.2015	11.9.2020	96,733	96,822
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,338	99,213
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,011	97,831
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	99,972	99,878
Mortgage bonds VÚB, a. s. 92.	1.700	USD	700	100,000	27.6.2016	27.6.2019	58,779	66,802
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	248,139	–
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	247,830	–
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	248,401	–
							2,239,555	1,687,171

24. Provisions

€ '000	2017	2016
Litigation	8,991	25,514
Restructuring provision	924	452
Other provisions	47	35
	9,962	26,001

The movements in provisions were as follows:

€ '000	Note	1 Jan 2017	Creation	Reversal	Use	31 Dec 2017
Litigation	27, 33	25,514	2,973	(19,398)	(98)	8,991
Restructuring provision	32	452	710	–	(238)	924
Other provisions	33	35	12	–	–	47
		26,001	3,695	(19,398)	(336)	9,962

€ '000	Note	1 Jan 2016	Creation	Reversal	Use	31 Dec 2016
Litigation	27, 33	25,116	1,243	(8)	(837)	25,514
Restructuring provision	32	180	450	–	(178)	452
Other provisions	33	17	18	–	–	35
		25,313	1,711	(8)	(1,015)	26,001

25. Other liabilities

€ '000	2017	2016
Various creditors	43,448	37,492
Settlement with employees	27,493	24,524
Financial guarantees and commitments	19,781	20,552
Factoring	9,096	7,786
Accruals and deferred income	5,367	5,615
Severance and Jubilee benefits	4,729	3,872
VAT payable and other tax payables	2,583	1,993
Settlement with shareholders	1,508	1,480
Share remuneration scheme	850	474
Investment certificates	449	471
Settlement with securities	25	6
Other	369	1,001
	115,698	105,266

At 31 December 2017 and 31 December 2016 there were no overdue balances within 'Other liabilities'.

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

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

	2017 Jubilee benefits	2017 Retirement benefits	2016 Jubilee benefits	2016 Retirement benefits
Discount rate	–0.35%	0.94%	0.00%	1.33%
Growth of wages in 2018/2017*	–	3.50%	–	1.00%
Future growth of wages after 2019/2018*	–	3.50%	–	1.00%
Fluctuation of employees (based on age)	5.7% – 36.8%	5.7% – 36.8%	5% – 43%	5% – 43%
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 Financial guarantees and commitments, Severance and Jubilee benefits were as follows:

€ '000	Note	1 Jan 2017	Creation/ (Reversal)	FX diff	Other	31 Dec 2017
Financial guarantees and commitments	34	20,552	(1,391)	620	–	19,781
Severance and Jubilee benefits	32	3,872	857	–	–	4,729
		24,424	(534)	620	–	24,510

€ '000	Note	1 Jan 2016	Creation/ (Reversal)	FX diff	Other	31 Dec 2016
Financial guarantees and commitments	34	21,476	(902)	(22)	–	20,552
Severance and Jubilee benefits	32	3,397	480	–	(5)	3,872
		24,873	(422)	(22)	(5)	24,424

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

€ '000	1 Jan 2017	Creation (note 32)	Use	31 Dec 2017
Social fund	702	1,483	(1,571)	614

€ '000	1 Jan 2016	Creation (note 32)	Use	31 Dec 2016
Social fund	787	1,449	(1,534)	702

26. Equity

€ '000	2017	2016
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	127,548	103,329
Retained earnings (excluding net profit for the year)	885,503	800,619
	1,457,589	1,348,486

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

€ '000	2017	2016
Net profit for the year attributable to shareholders	174,997	156,770

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	2017	2016
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.08%	2.17%
Foreign shareholders	0.89%	0.80%
	100.00%	100.00%

The primary objectives of the VUB Group's capital management are to ensure that the 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 Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities. No changes have yet been made in the objectives, policies and processes from the previous years.

The VUB Group's regulatory capital position at 31 December 2017 and 31 December 2016 was determined based on the rules for capital adequacy calculation set by the CRR regulation:

€ '000	2017	2016
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings without net profit for the year	885,503	800,619
Other reserves	100,054	100,054
Accumulated other comprehensive income	26,056	2,165
Fair value gains and losses arising from the Group's own credit risk related to derivative liabilities	531	(531)
Less goodwill and intangible assets	(109,405)	(98,193)
Less IRB shortfall of credit risk adjustments to expected losses	–	(11)
	1,347,277	1,248,641
Tier 2 capital		
IRB excess of provisions over expected losses eligible	10,736	7,855
Subordinated debt	200,000	200,000
	210,736	207,855
Total regulatory capital	1,558,013	1,456,496

€ '000	2017	2016
Tier 1 capital	1,347,277	1,248,641
Tier 2 capital	210,736	207,855
Total regulatory capital	1,558,013	1,456,496
Total Risk Weighted Assets	8,542,395	8,476,135
Tier 1 capital ratio	15.77%	14.73%
Total capital ratio	18.24%	17.18%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, foreign currency translation and reserves. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the CRR regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and IRB excess of provisions over expected losses.

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2017 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU ('CRD IV') and in (EU) Regulation 575/2013 ('CRR') of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

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

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

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

27. Financial commitments and contingencies

€ '000	2017	2016
Issued guarantees	783,667	764,156
Commitments and undrawn credit facilities	2,779,312	2,894,083
	3,562,979	3,658,239

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

The VUB Group enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 December 2017 and 31 December 2016 was as follows:

€ '000	2017	2016
Up to 1 year	33	339
1 to 5 years	–	72
	33	411

(d) Operating lease – the Group as a lessor

The VUB Group has entered into a number of non-cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 31 December 2017 and 31 December 2016 are as follows:

€ '000	2017	2016
Up to 1 year	3,122	3,873
1 to 5 years	3,980	6,024
	7,102	9,897

(e) Legal proceedings

In the normal course of business, the VUB Group is subject to a variety of legal actions. The Group conducted a review of legal proceedings outstanding against it as of 31 December 2017. Pursuant to this review, management has recorded total provisions of € 8,991 thousand (31 December 2016: € 25,514 thousand) in respect of such legal proceedings (see also note 24).

The 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 € 27,909 thousand, as at 31 December 2017 (31 December 2016: € 6,634 thousand). This amount represents existing legal proceedings against the Group that will most probably not result in any payments due by the Group.

Provisions for legal cases have decreased by € 19,398 thousand compared to the previous period. On the basis of success in litigation and mainly as a result of an independent assessment, based on which management revised the expected probability of success, the provision was released (note 24).

28. Net interest income

€ '000	2017	2016
Interest and similar income		
Due from banks	2,238	885
Loans and advances to customers	410,892	414,163
of which interest expense from hedging instruments	(4,880)	(1,266)
Bonds, treasury bills and other securities:		
Financial assets at fair value through profit or loss	46	779
Available-for-sale financial assets	3,802	10,674
of which interest expense from hedging instruments	(4,921)	(7,966)
Held-to-maturity investments	17,209	22,860
	434,187	449,361
Interest and similar expense		
Due to banks	(3,610)	(4,981)
Due to customers	(21,337)	(18,969)
of which interest income from hedging instruments	373	–
Debt securities in issue	(25,280)	(26,012)
of which interest income from hedging instruments	7,468	6,310
	(50,227)	(49,962)
	383,960	399,399

Interest income on impaired loans and advances to customers for 2017 amounted to € 19,291 thousand (2016: € 30,962 thousand).

29. Net fee and commission income

€ '000	2017	2016
Fee and commission income		
Received from banks	8,154	6,109
Received from customers:		
Current accounts	57,925	55,024
Loans and guarantees	27,311	30,269
Transactions and payments	22,769	20,822
Insurance mediation	12,866	13,579
Securities	12,434	9,877
Overdrafts	3,319	4,874
Securities – Custody fee	2,408	1,861
Term deposits	159	285
Other	3,683	3,611
	151,028	146,311
Fee and commission expense		
Paid to banks	(14,589)	(14,063)
Paid to mediators:		
Services	(11,895)	(14,476)
Credit cards	(8,864)	(8,599)
Securities	(965)	(636)
Other	(1,067)	(590)
	(37,379)	(38,364)
Net fee and commission income	113,649	107,947

30. Net trading result

€ '000	2017	2016
Foreign currency derivatives and transactions	10,366	13,220
Customer FX margins	6,361	5,587
Interest rate derivatives*	(10,932)	16,825
Cross currency swaps*	17,734	(9,411)
Equity derivatives	(9)	16
Other derivatives	(4)	15
Dividends from equity shares held in FVTPL portfolio	212	163
Securities:		
Financial assets at fair value through profit or loss:		
Held for trading	(165)	1,038
Designated at fair value through profit or loss on initial recognition	83	(3)
Available-for-sale financial assets*	770	27,096
Held-to-maturity investments	1,208	–
Debt securities in issue*	14,720	(15,763)
	40,344	38,783

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

31. Other operating income

€ '000	2017	2016
Income from leasing	4,413	4,780
Net profit from sale of fixed assets	751	566
Rent	664	722
Financial revenues	554	353
Services	461	366
Sales of consumer goods	47	25
Other	2,572	2,813
	9,462	9,625

32. Salaries and employee benefits

€ '000	Note	2017	2016
Remuneration		(89,190)	(85,870)
Social security costs		(34,658)	(31,639)
Social fund	25	(1,483)	(1,449)
Severance and Jubilee benefits	25	(857)	(480)
Restructuring provision	24	(472)	(272)
		(126,659)	(119,710)

At 31 December 2017, the total number of employees of the VUB Group was 3,942 (31 December 2016: 4,098). The average number of employees of the Group during the period ended 31 December 2017 was 3,941 (31 December 2016: 4,012).

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 operating expenses and Special levy of selected financial institutions

€ '000	Note	2017	2016
IT systems maintenance		(25,173)	(21,426)
Property related expenses		(19,373)	(19,026)
Post and telecom		(10,885)	(12,111)
Advertising and marketing		(10,245)	(10,670)
Resolution fund*		(4,489)	(5,438)
Stationery		(3,973)	(4,849)
Equipment related expenses		(3,919)	(3,524)
Professional services		(3,197)	(1,716)
Third parties' services		(2,887)	(2,030)
Security		(2,788)	(2,884)
Insurance		(2,031)	(2,074)
Travelling		(985)	(1,052)
Training		(867)	(1,313)
Audit **		(733)	(725)
Litigations paid		(810)	(1,567)
Transport		(683)	(785)
Contribution to the Deposit Protection Fund ***		(488)	(1,486)
VAT and other taxes		(448)	(542)
Provisions for litigation	24, 26	16,523	(398)
Other damages		(39)	(36)
Other provisions	24	(12)	(18)
Other operating expenses		(13,287)	(10,089)
		(90,789)	(103,759)

* Starting from 1 January 2015 the new Bank Recovery and Resolution Directive 2014/59/EU ('BRRD') is effective for all EU member states. The Directive was implemented to Slovak legislation by Act No. 371/2014 on Resolution. The Directive sets an obligation for the banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of the bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023.

** The fee for the statutory audit was € 328 thousand (2016: € 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 Bank's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development, agreed upon proceedure on compliance with articles 71h - 71k of the Act No. 566/2001 Coll on securities, audit of receivables towards a client of the bank for bankruptcy procedure purposes and agreed-upon procedures on the merger of a Bank's subsidiary with the Bank. These fees amounted to € 348 thousand (2016: € 316 thousand). Other audit fee not conducted by statutory auditor were in the amount of € 57 thousand (2016: € 81 thousand).

*** The annual contribution for 2017 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2017, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2017 was set at 0.0075% p. q. of the amount of protected deposits.

At 31 December 2017 and 31 December 2016, the special levy recognized by the Bank was as follows:

€ '000	2017	2016
Special levy of selected financial institutions	(24,823)	(22,143)

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

As at 25 July 2014, the total amount of the levy paid by the financial institutions subject to levy exceeded the threshold of € 500,000 thousand and therefore, based on the amendment to the Act on the Special levy of selected financial institutions effective from 2015, the levy rate has been decreased to 0.2% p.a.

34. Impairment losses

€ '000	Note	2017	2016
Creation of impairment losses	13	(316,430)	(251,596)
Reversal of impairment losses	13	252,072	173,143
Net creation of impairment losses		(64,358)	(78,453)
Creation of liabilities – financial guarantees and commitments		(38,134)	(32,961)
Reversal of liabilities – financial guarantees and commitments		39,525	33,863
Net reversal of liabilities – financial guarantees and commitments	25	1,391	902
Nominal value of assets written-off/sold		(94,687)	(86,635)
Release of impairment losses to assets written-off/sold	13	74,119	55,123
		(20,568)	(31,512)
Proceeds from receivables written-off		5,580	6,982
Proceeds from receivables sold		18,750	26,317
		24,330	33,299
		(59,205)	(75,764)

35. Income tax expense

€ '000	Note	2017	2016
Current income tax		(44,221)	(53,708)
Deferred income tax	19	(3,917)	(1,264)
		(48,138)	(54,972)

The movement in deferred taxes in the statement of profit or loss and other comprehensive income is as follows:

€ '000	2017	2016
Due from banks	12	(1)
Available-for-sale financial assets	–	(126)
Loans and advances to customers	(4,919)	299
Property and equipment	(7)	544
Provisions	107	49
Other liabilities	1,893	(633)
Other	(1,003)	(1,396)
	(3,917)	(1,264)

The effective tax rate differs from the statutory tax rate in 2017 and in 2016. The reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

€ '000	Note	2017 Tax base	2017 Tax at applicable tax rate (21%)	2016 Tax base	2016 Tax at applicable tax rate (21%)
Profit before tax		223,135	(46,858)	211,742	(46,583)
Tax effect of expenses that are not deductible in determining taxable profit:					
Creation of provisions and other reserves		97,288	(20,430)	101,659	(22,365)
Creation of impairment losses		277,001	(58,170)	476,942	(104,927)
Write-off and sale of assets		11,068	(2,324)	8,898	(1,958)
Other		14,387	(3,021)	22,868	(5,031)
		399,744	(83,945)	610,367	(134,281)
Tax effect of revenues that are deductible in determining taxable profit:					
Release of provisions and other reserves		(104,191)	21,880	(102,005)	22,441
Release of impairment losses		(303,789)	63,796	(464,437)	102,176
Other		(4,280)	899	(880)	194
		(412,260)	86,575	(567,322)	124,811
Adjustments for current tax of prior periods		(85)	18	(10,639)	2,341
Withholding tax paid abroad – settlement of advance payments		54	(11)	(18)	4
Current income tax		210,588	(44,221)	244,130	(53,708)
Deferred income tax at 21 %	19		(3,917)		(1,264)
Income tax expense			(48,138)		(54,972)
Effective tax rate			21.57%		25.96%

36. Other comprehensive income

€ '000	2017	2016
Items that will not be reclassified to profit or loss in the future		
Revaluation surplus from property and equipment		
Buildings and land	27,804	–
Items that may be reclassified to profit or loss in the future		
Cash flow hedges:		
Revaluation gains arising during the year	1,744	539
Available-for-sale financial assets:		
Revaluation gains/(losses) arising during the year	1,780	(21,068)
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	(1,072)	(8,660)
	708	(29,728)
Exchange differences on translating foreign operation	269	(19)
Total other comprehensive income	30,525	(29,208)
Income tax relating to components of other comprehensive income (note 37)	(6,306)	6,462
Other comprehensive income for the year	24,219	(22,746)

37. Income tax effects relating to other comprehensive income

€ '000	2017 Before tax amount	2017 Tax (expense)	2017 Net of tax amount	2016 Before tax amount	2016 Tax (expense)/ benefit	2016 Net of tax amount
Items that will not be reclassified to profit or loss in the future						
Revaluation surplus from property and equipment	27,804	(5,838)	21,966	–	–	–
Items that may be reclassified to profit or loss in the future						
Net movement on cash flow hedges	1,744	(366)	1,378	539	(129)	410
Available-for-sale financial assets	708	(102)	606	(29,728)	6,591	(23,137)
Exchange differences on transl. foreign operations	269	–	269	(19)	–	(19)
	2,721	(468)	2,253	(29,208)	6,462	(22,746)
	30,525	(6,306)	24,219	(29,208)	6,462	(22,746)

38. Related parties

Related parties are those counterparties that represent:

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

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

In 2017, the remuneration and other benefits provided to members of the Management Board were € 4,102 thousand (2016: € 3,612 thousand), of which the severance benefits € 66 thousand, and to members of the Supervisory Board € 126 thousand (2016: € 116 thousand).

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

31 December 2017 € '000	KMP*	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo Group companies	Total
Assets						
Due from banks	–	–	–	9,978	32,659	42,637
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
Loans and advances to customers	251	1	–	–	–	252
Other assets	–	7	–	95	1,509	1,611
	251	8	–	13,750	76,105	90,114
Liabilities						
Due to central and other banks	–	–	–	201,605	77,412	279,017
Derivative financial instruments	–	–	–	1,130	20,855	21,985
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

2017 € '000	KMP*	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo 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	–	712	882	1,665
Other operating expenses	–	–	–	(340)	(8,972)	(9,312)
	–	71	–	(6,698)	(12,710)	(19,337)

* Key management personnel

At 31 December 2016, the outstanding balances with related parties comprised:

31 December 2016 € '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo Group companies	Total
Assets						
Due from banks	–	–	–	5,859	25,797	31,656
Derivative financial instruments	–	–	–	400	35,787	36,187
Loans and advances to customers	165	–	–	–	–	165
Financial assets at fair value through profit or loss	–	–	–	2,501	–	2,501
Other assets	–	7	–	39	1,428	1,474
	165	7	–	8,799	63,012	71,983
Liabilities						
Due to central and other banks	–	–	–	352,903	59,288	412,191
Derivative financial instruments	–	–	–	834	5,150	5,984
Due to customers	2,899	–	105	–	260,907	263,911
Debt securities in issue:	–	–	–	–	381,216	381,216
Other liabilities	474	–	–	6	522	1,002
	3,373	–	105	353,743	707,083	1,064,304
Issued guarantees	–	–	–	2,945	27,682	30,627
Received guarantees	–	–	–	84,723	43,415	128,138
Derivative transactions (notional amount – receivable)	–	–	–	514,156	1,904,111	2,418,267
Derivative transactions (notional amount – payable)	–	–	–	512,993	614,008	1,127,001

2016 € '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo Group companies	Total
Income and expense items						
Interest and similar income	4	–	–	269	27	300
Interest and similar expense	(7)	–	–	(2,159)	(6,572)	(8,738)
Fee and commission income	2	–	–	50	9,943	9,995
Fee and commission expense	–	–	–	(458)	(415)	(873)
Net trading result	–	–	–	117	32,217	32,334
Other operating income	–	103	–	660	526	1,289
Other operating expenses	–	–	–	(497)	(2,469)	(2,966)
	(1)	103	–	(2,018)	33,257	31,341

39. Events after the end of the reporting period

From 31 December 2017, up to the date when these financial statements were approved by the Management Board, there the following events were identified that require disclosure in these financial statements.

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

On 11 December 2017, VUB Bank 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, a. s. and VÚB Leasing, a. s. as successor companies as at 1 January 2018.

From 31 December 2017, up to the date when these financial statements were approved by the Management Board, there were no further events identified that would require adjustments to these financial statements.

Separate financial statements

Separate 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 2017

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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 Separate Financial Statements

Opinion

We have audited the separate financial statements of Všeobecná úverová banka, a. s. ("the Bank"), which comprise the separate statement of financial position as at 31 December 2017, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

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 Separate Financial Statements* section. We are independent of the Bank 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 separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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

KPMG

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2017: € 11,487,518 thousand; impairment loss recognised in 2017: € 42,216 thousand; total impairment loss as at 31 December 2017: € 272,505 thousand.

Refer to Note 2 (Summary of significant accounting policies) and Notes 12, 13 and 33 (Loans and advances to customers, Impairment losses on assets and Impairment losses) to the separate financial statements.

Key audit matter	*Our response*
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. We focused on this area as the determination of impairment allowances requires the Management Board to make complex and subjective judgements over both the timing of impairment recognition and the amounts of any such impairment. *Loans and advances include corporate as well as retail exposures. For corporate loans and advances, the impairment assessment is made on an individual basis, based on the knowledge of each individual borrower and often on estimation of the value of the related collateral. For retail loans and advances impairment is determined by modelling techniques for portfolios of loans and advances. The Bank routinely makes adjustments to the key model parameters whose assessment also requires increased attention in our audit.*	*Our audit procedures included, among others:* • *Assessing and testing controls over the approval and monitoring of loans and advances, including, but not limited to, those relating to the identification of loss events, appropriateness of classification to delinquency buckets and calculation of the related impairment.* *For individually calculated impairment:* • *Selecting a sample of loans and advances, with focus on those with the greatest potential impact on the separate financial statements due to their magnitude and/or risk characteristics, such as watchlisted and forborne exposures;* • *For the sample selected, critically assessing, by reference to the underlying loan files and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2017; and* • *Where impairment triggers were identified, challenging the Bank's cash flow projections and key assumptions used by reference to our knowledge of the industry and the counterparty. We also assessed the reasonableness of the collateral valuation.*

For collective impairment:

- Testing the underlying impairment models, including model approval, backtesting and validation processes and, using our internal IT specialists, the completeness and accuracy of underlying data for the calculation and validation of the key parameters such as the probability of default, loss given default and emergence period; and

- Critically assessing the rationale for the changes made to the model parameters in 2017, by reference to our understanding of the business, current economic trends and market practices.
  Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage, by benchmarking them against publicly available industry data.

Revaluation of property and equipment

The carrying amount of the Bank's property and equipment: € 111,512 thousand as at 31 December 2017 (the carrying amount of property and equipment as at 31 December 2016: € 88,402); the revaluation gain recorded in other comprehensive income: € 21,700 thousand as at 31 December 2017.

Refer to Note 2.18 Summary of significant accounting policies and Note 17 Property and equipment to the separate financial statements.

Key audit matter	*Our response*
As discussed in the notes to the separate financial statements, in the current year the Bank changed its accounting policy in respect of property and equipment, including primarily buildings and related land, whereby it adopted the revaluation model for subsequent measurement of buildings and land to replace the cost model, as previously applied. Pursuant to the new model, the carrying amount of buildings	Our procedures in the area, performed with the assistance of our valuation specialists and external appraisal experts engaged by us, included: • Evaluating the competence, capabilities and objectivity of the external appraisers engaged by the Bank, obtaining an understanding of the scope of their engagement and limitations therein, if any;

and land is determined as its fair value at the date of the most recent revaluation less subsequent depreciation and any subsequent impairment losses.

The Bank estimated the fair value of the assets in question as at the reporting date with the assistance of contracted external appraisers. The valuations were based on the income method and incorporated certain key assumptions that require significant professional judgement including estimation of market rents and required yields. Due to the inherent uncertainty in these valuations and to the significance of the balance of property and equipment to the separate financial statements, we have identified this matter as a key audit matter.

- *Assessing the fair value measurement methodology used by the Bank's external appraisers against the requirements of the relevant financial reporting standards;*
- *Evaluating, for a sample of individual items of property and land, the accuracy and relevance of the input data provided by the Bank to its external appraisers, such as, among other things, the purpose, age, condition and location of the assets;*
- *For a sample of individual items of property and land:*
  - *assessing the reasonableness of the key assumptions underpinning the valuations, including market rents and required yields, and*
  - *developing an independent estimate of fair value,*

  by reference to relevant external market statistics and research performed independently by us and the external valuation experts engaged by us;
- *Evaluating the reliability of the Bank's forecasting process by comparing key assumptions it applied in the prior year's impairment test for property and land to the actual outcomes in the current year, and seeking management explanations for significant discrepancies;*
- *Considering the adequacy and appropriateness of the separate financial statement disclosures about the change in accounting policy in respect of the measurement of property and equipment, as well as about the judgments and assumptions used by the Bank in that respect.*

IT systems and controls over financial reporting

Key audit matter	*Our response*
The Bank has a complex information technology ("IT") environment and operates various IT systems and applications. *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 procedures included, among others:* • *Using our internal IT specialists, updating our understanding of the Bank's IT environment and the framework of governance over the IT organisation, including the under-standing of the controls over program development and changes, access to programs and data and IT operations;* • *Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting;* • *Testing certain aspects of the security of the IT systems, including access management and segre-gation of duties; and* • *Where relevant, assessing whether compensating controls were effective in mitigating deficiencies identified either by the Bank or by us independently.*

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

The Management Board is responsible for the preparation of separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Management Board is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Bank'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 Bank'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 separate 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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 Separate Annual Report

The Management Board is responsible for the information in the separate annual report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). The Management Board presented the disclosures in respect of the separate annual report required by the Act on Accounting in the consolidated annual report ("the annual report") of the Bank and we will therefore refer to this report further on. Our opinion on the separate financial statements does not cover other information in the annual report.

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

With respect to the annual report of the Bank, 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 separate financial statements, in our opinion:

- the information given in the annual report for the year 2017 is consistent with the separate financial statements prepared for the same financial year; and
- the annual report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the Bank and its environment obtained in the course of audit, we are required to report if we have identified material misstatement in the 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 Bank on 10 July 2017 on the basis of the approval by the General Meeting of the Bank on 24 March 2017. 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 six 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 Bank, which was issued on 12 February 2018.

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 Bank in conducting the audit.

In addition to the statutory audit services and services disclosed in the Separate Annual Report or the separate financial statements of the Bank, we did not provide any other services to the Bank or accounting entities controlled by the Bank.

15 February 2018
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

Separate statement of financial position at 31 December 2017 (In thousands of euro)

	Note	2017	2016
Assets			
Cash and balances with central banks	7	1,595,078	1,029,081
Due from banks	8	90,744	112,295
Financial assets at fair value through profit or loss	9	5,783	474
Derivative financial instruments	10	49,856	47,249
Available-for-sale financial assets	11	520,416	1,289,979
Loans and advances to customers	12	11,487,518	10,188,485
Held-to-maturity investments	14	376,472	530,019
Subsidiaries, associates and joint ventures	15	92,745	92,745
Intangible assets	16	74,882	63,062
Property and equipment	17	111,512	88,402
Current income tax assets	18	5,813	–
Deferred income tax assets	18	38,626	47,544
Other assets	19	19,848	20,014
		14,469,293	13,509,349
Liabilities			
Due to central and other banks	20	449,815	474,571
Derivative financial instruments	10	52,184	65,354
Due to customers	21	9,855,433	9,494,921
Subordinated debt	22	200,164	200,165
Debt securities in issue	22	2,252,380	1,715,308
Current income tax liabilities	18	–	3,176
Provisions	23	7,302	25,952
Other liabilities	24	96,035	85,728
		12,913,313	12,065,175
Equity			
Equity (excluding net profit for the year)	25	1,395,959	1,179,003
Net profit for the year	25	160,021	265,171
		1,555,980	1,444,174
		14,469,293	13,509,349
Financial commitments and contingencies	26	3,642,125	3,785,114

The accompanying notes on pages 167 to 254 form an integral part of these financial statements.

These financial statements were authorised for issue by the Management Board on 15 February 2018.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
Member of the Management Board

Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2017 (In thousands of euro)

	Note	2017	2016
Interest and similar income		366,226	379,612
Interest and similar expense		(47,169)	(46,295)
Net interest income	27	319,057	333,317
Fee and commission income		148,614	144,204
Fee and commission expense		(48,967)	(58,049)
Net fee and commission income	28	99,647	86,155
Net trading result	29	40,355	38,795
Other operating income	30	5,988	3,141
Dividend income	30	2,000	133,961
Operating income		467,047	595,369
Salaries and employee benefits	31	(110,913)	(105,938)
Other operating expenses	32	(70,014)	(85,990)
Special levy of selected financial institutions	32	(24,823)	(22,143)
Amortisation	16	(10,892)	(13,225)
Depreciation	17	(9,171)	(9,599)
Operating expenses		(225,813)	(236,895)
Operating profit before impairment		241,234	358,474
Impairment losses	33	(38,047)	(46,946)
Profit before tax		203,187	311,528
Income tax expense	34	(43,166)	(46,357)
NET PROFIT FOR THE YEAR		160,021	265,171
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		21,700	–
Items that may be reclassified to profit or loss in the future:			
Cash flow hedges		1,378	410
Available-for-sale financial assets		387	(23,137)
Exchange difference on translating foreign operation		210	2
Other comprehensive income for the year, net of tax	35, 36	23,675	(22,725)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		183,696	242,446
Basic and diluted earnings per € 33.2 share in €	25	12.33	20.43

The accompanying notes on pages 167 to 254 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2017

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus from property and equipment	Available-for-sale financial assets	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2016	430,819	13,719	87,493	765,454	–	27,192	(1,250)	22	1,323,449
Total comprehensive income for the year, net of tax	–	–	–	265,171	–	(23,137)	410	2	242,446
Gain on disposal of an investment in associate under common control (Note 15)	–	–	–	8,464	–	–	–	–	8,464
Exchange difference	–	–	–	22	–	–	–	(22)	–
Transactions with owners, recorded directly in equity									
Dividends to shareholders	–	–	–	(130,334)	–	–	–	–	(130,334)
Reversal of dividends distributed but not collected	–	–	–	149	–	–	–	–	149
Total transactions with owners	–	–	–	(130,185)	–	–	–	–	(130,185)
At 31 December 2016	430,819	13,719	87,493	908,926	–	4,055	(840)	2	1,444,174
At 1 January 2017	430,819	13,719	87,493	908,926	–	4,055	(840)	2	1,444,174
Total comprehensive income for the year, net of tax	–	–	–	160,021	21,700	387	1,378	210	183,696
Exchange difference	–	–	–	2	–	–	–	(2)	–
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)
At 31 December 2017	430,819	13,719	87,493	997,059	21,700	4,442	538	210	1,555,980

The accompanying notes on pages 167 to 254 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2017

(In thousands of euro)

	Note	2017	2016
Cash flows from operating activities			
Profit before tax		203,187	311,528
Adjustments for:			
Amortisation		10,892	13,225
Depreciation		9,171	9,599
Securities at fair value through profit or loss, debt securities in issue and FX differences		(25,018)	17,043
Interest income		(366,226)	(379,612)
Interest expense		47,169	46,295
Dividend income		(2,000)	(133,961)
Sale of property and equipment		(542)	(403)
Impairment losses and similar charges		35,579	75,748
Interest received		374,041	402,841
Interest paid		(50,686)	(52,900)
Dividends received		2,000	133,961
Tax paid		(43,237)	(57,712)
Decrease in 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		775,872	532,286
Increase in Loans and advances to customers		(1,363,417)	(1,706,748)
Decrease/(increase) in Other assets		111	(455)
(Decrease)/increase in Due to central and other banks		(23,848)	62,665
(Decrease)/increase in Derivative financial instruments (liabilities)		(13,170)	2,795
Increase in Due to customers		361,367	1,155,536
Increase in Other liabilities		10,841	5,929
Net cash (used in)/used from operating activities		(53,430)	615,817
Cash flows from investing activities			
Repayments of held-to-maturity investments		147,282	–
Purchase of intangible assets and property and equipment		(32,427)	(22,138)
Disposal of property and equipment		1,218	872
Increase resulting from the disposal of the associate		–	10,851
Net cash used from/ (used in) investing activities		116,073	(10,415)
Cash flows from financing activities			
Proceeds from issue of debt securities		750,000	249,848
Repayments of debt securities		(186,155)	(150,618)
Dividends paid		(72,020)	(130,334)
Net cash used from/ (used in) financing activities		491,825	(31,104)
Net change in cash and cash equivalents		554,468	574,298
Cash and cash equivalents at the beginning of the year	6	1,065,653	491,355
Cash and cash equivalents at 31 December	6	1,620,121	1,065,653

The accompanying notes on pages 167 to 254 form an integral part of these financial statements.

1. General information

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

At 31 December 2017, the Bank had a network of 236 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2016: 239). The Bank also has one branch in the Czech Republic (31 December 2016: 1).

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

At 31 December 2017, the members of the Management Board are: Alexander Resch (Chairman), Antonio Bergalio, Peter Magala, Peter Novák, Martin Techman, Roberto Vercelli (from 1 December 2017) and Andrej Viceník (from 1 December 2017).

Other members of the Management Board were Jozef Kausich (until 30 November 2017) and Elena Kohútiková (until 31 October 2017).

At 31 December 2017, the members of the Supervisory Board are: Ezio Salvai (Chairman), Ignacio Jaquotot (Vice Chairman), Luca Finazzi, Paolo Sarcinelli, Christian Schaack, Andrej Straka and Róbert Szabo (from 8 February 2017).

Another member of the Supervisory Board was Ján Gallo (until 22 January 2017).

2. Summary of significant accounting policies

2.1 Basis of preparation

The separate financial statements of the Bank ('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 the European Parliament and the Council of European Union and in accordance with the Act No. 431/2002 Collection on Accounting.

The separate financial statements of the Bank for the year ended 31 December 2016 were authorised for issue by the Management Board on 15 February 2017.

The consolidated financial statements of the VUB Group for the year ended 31 December 2017 were issued on 15 February 2018 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 available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial instruments and buildings and land in property and equipment to fair value and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

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

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies and presentation

At 31 December 2017, Bank implemented a new accounting policy concerning measurement of buildings and land at fair value, following the Intesa Sanpaolo Group policy. This policy is described in note '2.18 Property and equipment'.

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

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

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these separate financial statements. The Bank plans to adopt these pronouncements when they become effective.

IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)
(Effective for annual periods beginning on or after 1 January 2018.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:
– over time, in a manner that depicts the entity's performance; or
– at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:
– identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
– determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
– determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:
– An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities using the full retrospective method only);
– For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

It is expected that the new Standard, when initially applied, will have an impact on the financial statements, since the timing and the measurement of the Bank's fee and commission income from life insurance mediation are expected to change. According to IFRS 15 the Bank will need to take into account possible clawbacks from insurance companies on the basis of historical statistics, when recognising this type of revenue.

The Bank has decided to apply the standard retrospectively with the cumulative effect reflected in retained earnings.

The Bank has estimated the expected impact of the initial application of IFRS 15 on its equity as at 1 January 2018 at approximately € 2 million.

Except for revenues related to mediation of life insurance, the timing and measurement of other Bank's revenues are not expected to change materially under IFRS 15 due to the nature of the Bank's operations and the types of revenues it earns.

The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 15 on 1 January 2018 may change because it will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalizes its first financial statements that include the date of initial application.

IFRS 9 Financial Instruments (2014)
(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required.)

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

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

A financial asset is measured at amortized cost if the following two conditions are met:
– the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
– its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

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

Under IFRS 9, loss allowances will be measured on either of the following bases:
– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
– Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

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

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

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

Definition of default

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

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

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

Significant increase in credit risk

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

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) 2017/2395 amending Regulation (EU) 575/2013 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 CET 1 a decreasing quota of the impact of IFRS 9 in a five year transitional period (2018-2022). That amount shall be determined using the static approach which will be adopted by the Bank. It refers only to the impact of First Time Adoption (FTA) resulting from the comparison of IAS impairments as at 31/12/2017 and IFRS 9 impairments as at 1/1/2018 – including both performing loans classified in Stages 1 and 2 and adjustments to NPLs (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 CET1. 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 C&M – Classification and Measurement).

Furthermore, under paragraph 7 of Article 473 of the 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 IRB exposures;
- determination of EAD using the scaling factor to assess the RWA of Standard exposures;
- Tier 2 elements relating to IRB weighted exposures.

The assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in 2017, the new systems and associated controls in place have not been operational for an extended period;
- the Bank has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Bank is refining and finalizing its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalizes its first financial statements that include the date of initial application.

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

IAS 39 categories	IFRS 9 categories	IAS 39 measu-rement	Reclas-sification	Remeasurement ECL	Remeasurement Other	IFRS 9 measu-rement
Assets	**Assets**					
Cash and balances with central banks	Cash, cash balances at central banks	1,595,078	–	(108)	–	1,594,970
Due from banks	Financial assets at amortised cost: due from banks	90,744	–	(482)	–	90,262
Financial assets at fair value through profit or loss		5,783	(5,783)	–	–	–
	Financial assets held for trading		4,933	–	–	4,933
	Non-trading financial assets mandatorily at fair value through profit or loss		850	–	–	850
Derivative financial instruments		49,856	(49,856)	–	–	–
	Financial assets held for trading		25,491	–	–	25,491
	Derivatives – Hedge accounting		24,365	–	–	24,365
Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	520,416	–	(178)	178	520,416
Loans and advances to customers	Financial assets at amortised cost: due from customers	11,487,518	–	(38,723)	–	11,448,795
Held-to-maturity investments	Financial assets at fair value through other comprehensive income	376,472	–	(49)	50,548	426,971
Subsidiaries, associates and joint ventures	Investments in subsidiaries, joint ventures and associates	92,745	–	–	–	92,745
Intangible assets	Intangible assets	74,882	–	–	–	74 882
Property and equipment	Property and equipment	111,512	–	–	–	111,512
Current income tax assets	Current income tax assets	5,813	–	–	–	5,813
Deferred income tax assets	Deferred income tax assets	38,626	–	8,625	(10,652)	36,599
Other assets	Other assets	19,848	–	(32)	–	19,816
		14,469,293	–	(30,947)	40,074	14,478,420

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

				Remeasurement		
IAS 39 categories	**IFRS 9 categories**	**IAS 39 measu-rement**	**Reclas-sification**	**ECL**	**Other**	**IFRS 9 measu-rement**
Liabilities	**Liabilities**					
Due to central and other banks	Financial liabilities measured at amortised cost: due to banks	449,815	–	–	–	449,815
Derivative financial instruments	Financial liabilities held for trading	52,184	–	–	–	52,184
Due to customers	Financial liabilities measured at amortised cost: due to customers	9,855,433	–	–	–	9,855,433
Subordinated debt	Financial liabilities measured at amortised cost: subordinated debt	200,164	–	–	–	200,164
Debt securities in issue	Financial liabilities measured at amortised cost: debt securities in issue	2,252,380	–	–	–	2,252,380
Provisions	Provisions	7,302	–	–	–	7,302
Other liabilities	Other liabilities	96,035	–	1,498	–	97,533
		12,913,313	–	1,498	–	12,914,811
Equity	**Equity**					
Equity (excluding net profit for the year)	Equity (excluding net profit for the year)	1,395,959	–	(32,445)	40,074	1,403,588
Net profit for the year	Net profit for the year	160,021	–	–	–	160,021
		1,555,980	–	(32,445)	40,074	1,563,609
		14,469,293	–	(30,947)	40,074	14,478,420

IFRS 16 Leases
(Effective for annual periods beginning on or after 1 January 2019.)

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, and
– 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.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will require the Bank to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Bank acts as a lessee.

The Bank has not yet finished its analysis of the expected quantitative impact of the new Standard.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
(The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
– a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
– a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Bank does not expect that the amendments, when initially applied, will have a material impact on the financial statements due to the extent and nature of the Bank's transactions involving an associate or joint venture.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
(Effective for annual periods beginning on or after 1 January 2018. This interpretation is not yet endorsed by the EU.)

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Bank does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Bank uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. These amendments are not yet endorsed by the EU.)

The amendments clarify share-based payment accounting in the following areas:
– the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
– share-based payment transactions with a net settlement feature for withholding tax obligations; and
– a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because the Bank does not enter into material share-based payment transactions.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
(Issued on 12 October 2017. Effective for annual periods beginning on or after 1 January 2019. These amendments are not yet endorsed by the EU.)

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 amortized cost some prepayable financial assets with so-called negative compensation.

The Bank has started the portfolio analysis and does not expect that the amendments will have a material impact on the financial statements.

2.3 Segment reporting

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

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

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

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

2.4 Foreign currency transactions

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

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

2.5 Foreign operations

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

2.6 Cash and cash equivalents

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

2.7 Cash and balances with central banks

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

2.8 Treasury bills and other eligible bills

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

2.9 Due from banks

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

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

2.10 Securities

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

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

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

(a) Securities at fair value through profit or loss

This portfolio comprises the following subcategories:

(i) Securities held for trading

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

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

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

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

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

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

(b) Available-for-sale securities

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

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

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

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

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

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

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

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

(c) Held-to-maturity investments

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

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

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

2.11 Repurchase and reverse repurchase agreements

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

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

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

2.12 Derivative financial instruments

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

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

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

Embedded derivatives

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

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

Hedging derivatives

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

2.13 Offsetting financial instruments

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

2.14 Non-current assets held for sale

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

2.15 Loans and advances to customers and impairment losses

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

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

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

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

2.16 Subsidiaries, associates and joint ventures

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

Dividend discount model

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

Transactions under common control

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

2.17 Intangible assets

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

	Years
Software and Other intangible assets	7

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

2.18 Property and equipment

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

This is 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 amortized 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. A new depreciation schedule will be implemented starting from January 2018.

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

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

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

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

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

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

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

2.19 Provisions

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

2.20 Provisions for employee benefits

The Bank's obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Employee benefit reserves are disclosed in the statement of financial position in 'Other liabilities'. All gains or losses in relation to the employee benefits are recognised in 'Salaries and employee benefits'.

2.21 Deposits, debt securities issued and subordinated liabilities

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

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

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

2.22 Financial guarantees

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

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

2.23 Equity reserves

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

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

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

'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.

2.24 Net interest income

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

2.25 Net fee and commission income

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

2.26 Net trading result

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

2.27 Dividend income

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

2.28 Current and deferred income tax

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

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

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

2.29 Fiduciary assets

Assets held in a fiduciary capacity are not reported in the balance sheet, as such are not the assets of the Bank. They are recorded in the off-balance sheet.

2.30 Significant accounting judgements and estimates

Judgements

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

Held-to-maturity investments

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

Financial assets held for trading

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

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

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

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

Estimates

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

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

The individual assessment of exposures is based on the detailed review and analysis of the borrower's situation, including the critical review of the following sources of information, without limitation to:
– the latest financial statements available (including consolidated ones, if any) accompanied by the report on operations and audit report, if any, as well as previous years' financial statements;
– information on specific corporate events (e.g. extraordinary transactions);
– the current and forecast financial position and results, analysis of variances between forecasts and actuals;
– for borrowers belonging to economic groups, information on their internal and external relationships (to assess the risk of contamination or its deterioration);
– the list of bank relationships (credit lines/utilisation/transaction status);
– the customer's short- and medium-term plans and strategies supplemented by financial projections (at least three-year), the statement of expected cash flows, product analysis, sector and market studies, etc.;
– any documentation by third-party experts on the reasons for the borrower's deterioration, and potential actions to reorganise the company and exit from the crisis;
– updated business profiles from the Chamber of Commerce / Corporate Registry or equivalent, cadastral surveys concerning all debtors and guarantors;
– nature and validity of the collaterals, appraisal for each asset, presence of mortgage/pledge registrations other than the Banks;
– latest and historical Credit Bureau reports.

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

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

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

On-balance impairment losses = EAD x PD x LGD x LCP
Off-balance provisions = EAD x PD x LGD x CCF

For risk portfolios which PD and LGD parameters cannot be estimated, i.e. portfolios without sufficient time series data minimum requirements are used.

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

3. Financial and operational risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:
(a) Credit risk,
(b) Market risk,
(c) Liquidity risk,
(d) Operational risk.

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

Risk management framework

The Management Board is the statutory body governing the executive management of the Bank, and has absolute authority over all matters concerning risk. The Management Board has primary responsibility for the creation and dissolution of risk related governance bodies. The primary governance bodies overseeing risk issues are:
- Asset/Liability Committee ('ALCO'),
- Credit Risk Committee ('CRC'),
- Operational Risk Committee ('ORC').

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

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

(a) Credit risk

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

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

More specifically, the Credit Risk Charter defines both the general and specific (retail, corporate) credit risk requirements for applied methodologies and procedures, and includes, as separate sections, the policies governing the key aspects of the Bank's credit risk management process:
- Authorized Approval Authority,
- Collateral Management Policy,
- Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

Management of credit risk

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

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

Impairment losses

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

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

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

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

			2017			2016
€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Portfolio assessed						
Banks	90,817	(73)	90,744	112,313	(18)	112,295
Customers						
Sovereigns	128,144	(97)	128,047	131,760	(100)	131,660
Corporate	4,339,142	(37,491)	4,301,651	3,966,244	(36,141)	3,930,103
Retail	7,178,152	(162,187)	7,015,965	6,214,207	(165,902)	6,048,305
	11,645,438	(199,775)	11,445,663	10,312,211	(202,143)	10,110,068
Securities						
FVTPL	5,783	–	5,783	474	–	474
AFS	520,416	–	520,416	1,289,979	–	1,289,979
HTM	376,472	–	376,472	530,019	–	530,019
	902,671	–	902,671	1,820,472	–	1,820,472
Individually assessed						
Customers						
Corporate	110,253	(69,136)	41,117	151,651	(76,314)	75,337
Retail	4,332	(3,594)	738	7,757	(4,677)	3,080
	114,585	(72,730)	41,855	159,408	(80,991)	78,417

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

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

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

Capital requirement calculation

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

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

€ '000	Category	Amortised cost 2017	Impairment losses 2017	Carrying amount 2017	Amortised cost 2016	Impairment losses 2016	Carrying amount 2016
Banks							
	Performing	90,817	(73)	90,744	112,313	(18)	112,295
Sovereigns							
	Performing	128,143	(97)	128,046	131,759	(100)	131,659
	Doubtful	1	–	1	1	–	1
		128,144	(97)	128,047	131,760	(100)	131,660
Corporate							
	Performing	4,323,654	(33,392)	4,290,262	3,958,212	(31,487)	3,926,725
	Past due	2	–	2	3	–	3
	Unlikely to pay	73,411	(27,269)	46,142	85,980	(21,243)	64,737
	Doubtful	52,328	(45,966)	6,362	73,700	(59,725)	13,975
		4,449,395	(106,627)	4,342,768	4,117,895	(112,455)	4,005,440
Retail							
	Performing	6,922,721	(33,080)	6,889,641	5,974,922	(42,267)	5,932,655
	Past due	5,635	(1,878)	3,757	7,639	(2,859)	4,780
	Unlikely to pay	45,748	(20,147)	25,601	43,257	(20,778)	22,479
	Doubtful	208,380	(110,676)	97,704	196,146	(104,675)	91,471
		7,182,484	(165,781)	7,016,703	6,221,964	(170,579)	6,051,385
Securities							
	Performing	902,671	–	902,671	1,820,472	–	1,820,472

Credit risk of financial derivatives

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

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

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

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

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

€ '000	2017	2016
Financial assets		
Derivative financial instruments	121,142	94,970
Financial commitments and contingencies		
Issued guarantees	783,667	764,156
Commitments and undrawn credit facilities	2,858,458	3,020,958
	3,642,125	3,785,114

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

DPD = Banking Date – Due Date for repayment

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

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

			2017			2016
€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	90,817	(73)	90,744	112,313	(18)	112,295
Sovereigns						
No delinquency	127,441	(97)	127,344	131,712	(100)	131,612
1 – 30 days	702	–	702	47	–	47
Over 181 days	1	–	1	1	–	1
	128,144	(97)	128,047	131,760	(100)	131,660
Corporate						
No delinquency	4,368,194	(58,938)	4,309,256	4,026,775	(50,791)	3,975,984
1 – 30 days	28,496	(1,662)	26,834	18,799	(3,789)	15,010
31 – 60 days	1,021	(811)	210	2,028	(437)	1,591
61 – 90 days	1,988	(1,581)	407	1	–	1
91 – 180 days	2	–	2	608	(418)	190
Over 181 days	49,694	(43,635)	6,059	69,684	(57,020)	12,664
	4,449,395	(106,627)	4,342,768	4,117,895	(112,455)	4,005,440
Retail						
No delinquency	6,704,945	(24,864)	6,680,081	5,778,467	(31,365)	5,747,102
1 – 30 days	223,982	(10,353)	213,629	194,975	(13,231)	181,744
31 – 60 days	34,373	(3,315)	31,058	35,237	(4,304)	30,933
61 – 90 days	22,316	(3,010)	19,306	22,659	(3,710)	18,949
91 – 180 days	34,160	(14,371)	19,789	39,020	(17,532)	21,488
Over 181 days	162,708	(109,868)	52,840	151,606	(100,437)	51,169
	7,182,484	(165,781)	7,016,703	6,221,964	(170,579)	6,051,385
Securities						
No delinquency	902,671	–	902,671	1,820,472	–	1,820,472

Loans with renegotiated terms and forbearance policy

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

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

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

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

			Performing forborne			Non-performing forborne
31 December 2016 € '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Corporate	22,064	(731)	21,333	126,607	(54,832)	71,775
Retail	49,181	(1,980)	47,201	17,613	(7,681)	9,932
	71,245	(2,711)	68,534	144,220	(62,513)	81,707

Write-off Policy

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

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

Collateral Policy

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

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

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

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

The Bank mainly uses the following means of enforcement of collateral:
– Voluntary auction,
– Foreclosure procedure,
– Realization of the collateral for the receivable in a bankruptcy procedure,
– Sale of receivables including collateral.

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

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

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

		2017		2016
€ '000	**Clients**	**Banks**	**Clients**	**Banks**
Property	6,331,722	–	5,452,726	–
Debt securities	33,952	–	35,793	–
Other	559,883	44,655	640,163	28,948
	6,925,557	44,655	6,128,682	28,948

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 Bank or the counterparties or following other predetermined events. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Bank 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.

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'):

				Related amounts not offset in SOFP		
31 December 2017 € '000	**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrument and non-cash collateral**	**Cash collateral (received)/ provided**	**Net amount**
Financial assets						
Cash and balances with central banks (Loans and advances)	724,427	–	724,427	(724,494)	–	(67)
Derivative financial instruments	47,277	–	47,277	–	(11,629)	35,648
Financial liabilities						
Derivative financial instruments	(43,449)	–	(43,449)	–	39,918	(3,531)

				Related amounts not offset in SOFP		
31 December 2016 € '000	**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrument and non-cash collateral**	**Cash collateral (received)/ provided**	**Net amount**
Financial assets						
Derivative financial instruments	38,419	–	38,419	–	(20,835)	17,584
Financial liabilities						
Derivative financial instruments	(56,007)	–	(56,007)	–	55,083	(924)

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	2017 Total carrying amount presented in SOFP	2017 In scope of offsetting disclosure	2017 Not in scope of offsetting disclosure	2016 Total carrying amount presented in SOFP	2016 In scope of offsetting disclosure	2016 Not in scope of offsetting disclosure
Financial assets							
Cash and balances with central banks		1,595,078	724,427	870,651	1,029,081	–	1,029,081
Derivative financial instruments	10	49,856	47,277	2,579	47,249	38,419	8,830
Financial liabilities							
Derivative financial instruments	10	(52,184)	(43,449)	(8,735)	(65,354)	(56,007)	(9,347)

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

€ '000	2017 Amortised cost	2017 Impairment losses	2017 Carrying amount	2016 Amortised cost	2016 Impairment losses	2016 Carrying amount
Europe						
Banks	59,773	(15)	59,758	109,757	(13)	109,744
Sovereigns	128,144	(97)	128,047	131,760	(100)	131,660
Corporate	4,405,575	(106,335)	4,299,240	4,022,806	(111,972)	3,910,834
Retail	7,179,147	(165,609)	7,013,538	6,219,125	(170,447)	6,048,678
Securities	896,362	–	896,362	1,795,305	–	1,795,305
	12,669,001	(272,056)	12,396,945	12,278,753	(282,532)	11,996,221
America						
Banks	30,370	(57)	30,313	2,197	(5)	2,192
Corporate	42,577	(127)	42,450	94,600	(418)	94,182
Retail	495	(3)	492	339	(3)	336
Securities	6,309	–	6,309	25,167	–	25,167
	79,751	(187)	79,564	122,303	(426)	121,877
Asia						
Banks	607	(1)	606	186	–	186
Corporate	1,243	(165)	1,078	489	(65)	424
Retail	2,305	(148)	2,157	1,927	(102)	1,825
	4,155	(314)	3,841	2,602	(167)	2,435
Rest of the World						
Banks	67	–	67	173	–	173
Retail	537	(21)	516	573	(27)	546
	604	(21)	583	746	(27)	719

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

€ '000	Amortised cost	Impairment losses	2017 Carrying amount	Amortised cost	Impairment losses	2016 Carrying amount
Europe						
Slovakia	629,706	–	629,706	1,019,478	–	1,019,478
Italy	266,591	–	266,591	753,595	–	753,595
Other	65	–	65	17,300	–	17,300
	896,362	–	896,362	1,790,373	–	1,790,373
America						
USA	6,309	–	6,309	4,932	–	4,932

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

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

* 'Retail' includes Small Business and Flat Owners Associations among other things.
** 'Financial institutions' involves financial services, leasing and insurance.

31 December 2016 € '000	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	–	–	126,084	20,927	–
Automotive	–	–	26,061	10	–
Commodity Traders	–	–	86,476	448	–
Construction	–	–	57,847	18,228	–
Retail Customers	–	–	–	5,824,059	–
Financial institutions	112,295	–	647,394	22	243,691
Government	–	124,960	38	–	1,576,781
Manufacturing	–	–	734,919	22,815	–
Real estate	–	–	639,409	3,587	–
Retail and Wholesale Trade	–	–	378,550	57,969	–
Services	–	366	442,633	88,143	–
Transportation	–	444	103,900	10,252	–
Utilities	–	5,813	710,590	3,151	–
Other	–	77	51,539	1,774	–
	112,295	131,660	4,005,440	6,051,385	1,820,472

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances. Past due but not impaired financial assets are more than one day overdue.

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

31 December 2016 € '000	Neither past due nor impaired: Amortised cost	Neither past due nor impaired: Impairment losses	Neither past due nor impaired: Carrying amount	Impaired (non-performing): Amortised cost	Impaired (non-performing): Impairment losses	Impaired (non-performing): Carrying amount	Past due but not impaired: Amortised cost	Past due but not impaired: Impairment losses	Past due but not impaired: Carrying amount
Banks	112,313	(18)	112,295	–	–	–	–	–	–
Sovereigns									
Municipalities	131,712	(100)	131,612	1	–	1	47	–	47
Corporate									
Large Corporates	1,477,274	(4,757)	1,472,517	23,884	(19,176)	4,708	1	–	1
Specialized Lending	789,331	(11,713)	777,618	79,948	(22,551)	57,397	1,251	(35)	1,216
SME	1,148,552	(13,019)	1,135,533	55,840	(39,240)	16,600	10,939	(523)	10,416
Other Fin. Institutions	511,344	(1,051)	510,293	4	(1)	3	–	–	–
Public Sector Entities	1,187	(3)	1,184	7	–	7	6	–	6
Factoring	17,910	(331)	17,579	–	–	–	417	(55)	362
	3,945,598	(30,874)	3,914,724	159,683	(80,968)	78,715	12,614	(613)	12,001
Retail									
Small Business	177,360	(2,648)	174,712	14,164	(12,176)	1,988	26,877	(502)	26,375
Consumer Loans	1,003,336	(12,105)	991,231	107,886	(61,386)	46,500	98,786	(8,107)	90,679
Mortgages	4,307,191	(8,058)	4,299,133	74,266	(18,312)	55,954	65,264	(4,313)	60,951
Credit Cards	156,799	(2,964)	153,835	37,074	(26,384)	10,690	14,088	(1,802)	12,286
Overdrafts	78,874	(632)	78,242	13,650	(10,054)	3,596	16,196	(816)	15,380
Flat Owners Associations	24,536	(318)	24,218	–	–	–	–	–	–
Other	5,580	(2)	5,578	2	–	2	35	–	35
	5,753,676	(26,727)	5,726,949	247,042	(128,312)	118,730	221,246	(15,540)	205,706
Securities									
FVTPL	474	–	474	–	–	–	–	–	–
AFS	1,289,979	–	1,289,979	–	–	–	–	–	–
HTM	530,019	–	530,019	–	–	–	–	–	–
	1,820,472	–	1,820,472	–	–	–	–	–	–

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

€ '000	Amortised cost	Impairment losses	2017 Carrying amount	Amortised cost	Impairment losses	2016 Carrying amount
Sovereigns						
1 – 30 days	702	–	702	47	–	47
Corporate						
1 – 30 days	27,138	(910)	26,228	11,330	(502)	10,828
31 – 60 days	1	–	1	1,283	(111)	1,172
61 – 90 days	77	(10)	67	1	–	1
	27,216	(920)	26,296	12,614	(613)	12,001
Retail						
1 – 30 days	199,036	(7,193)	191,843	172,000	(8,321)	163,679
31 – 60 days	25,574	(2,062)	23,512	26,235	(2,712)	23,523
61 – 90 days	12,295	(1,295)	11,000	13,431	(1,668)	11,763
91 – 180 days	5,789	(1,192)	4,597	9,550	(2,829)	6,721
Over 181 days	31	(11)	20	30	(10)	20
	242,725	(11,753)	230,972	221,246	(15,540)	205,706

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

Large Corporates above € 500 million turnover	Large Corporates below € 500 million turnover and SME	Retail Small Business ('SB') and Flat Owners Associations ('FOA')	Risk Profile	Description
LC_I1 – LC_I4	I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
LC_I5 – LC_I6	I5 – I6	I5 – I6	Low	Satisfactory quality and chargeability of assets, market penetration and managerial quality on the average; well set solvency, capital structure and debt composition; above average debt coverage capacity.
LC_M1 – LC_M2	M1 – M2	M1 – M2	Lower – Intermediate	Acceptable quality and chargeability of available assets, even if with a not negligible degree of risk; well-balanced solvency, capital structure and debt composition with slight liquidity surplus and weaker debt coverage capacity.
LC_M3 – LC_M4	M3 – M4	M3 – M4	Intermediate	Acceptable quality and chargeability of available assets even if with a significant degree of risk; vulnerable margin at times, capital structure and debt composition that show worsening signals; low level of liquidity and short debt coverage margin.
LC_R1 – LC_R3	R1 – R3	R1 – R3	Upper – Intermediate	Still acceptable asset quality even if with possible liquidity stress; high level of gearing; managerial weakness, little market penetration and positioning; margins and competitiveness under pressure.
LC_R4 – LC_R5	R4 – R5	R4 – R5	High	In addition to riskiness features for R1 – R3 rating, there are evident difficulties as well as problematic debt management.
D	D	D	Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: – the obligor is past due more than 90 days on any material credit obligation to the Bank, the parent undertaking or any of its subsidiaries (absolute threshold is set according to NBS directive); – the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

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

Specialized Lending – SPV and RED
- Strong
- Good
- Satisfactory
- Weak
- Default

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

Retail Mortgages	Unsecured Retail	Risk Profile	Description
L1a – L4	U01a – U02	Very Low	High level of client's socio-demographic information and financial discipline.
N1	U03	Low	Above average level of client's socio-demographic information and financial discipline.
N2 – W1	U04 – U07	Lower – Intermediate	Acceptable level of client's socio-demographic information and financial discipline.
W2	U08 – U09	Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there are some signals of worsening credit quality.
-	U10 – U11	Upper – Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there is worsening credit quality.
W3	U12	High	Acceptable level of client's socio-demographic information and financial discipline, but there is negative credit behaviour.
D	D	Default	A default is considered to have occurred with regard to a particular mortgage/obligor when either or both of the two following events have taken place: – the obligor is past due more than 90 days on any material credit obligation to the Bank (absolute threshold is set according to NBS directive); – the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

The following table shows the quality of the Bank's credit portfolio in terms of internal ratings used for IRB purposes and the sensitivity analyses by improvement and deterioration by one internal rating grade:

31 December 2017 € '000	Internal rating ('IR')	Amortised cost	Impairment losses	Carrying amount	Sensitivity analysis Impact of IR deterioration	Sensitivity analysis Impact of IR improvement
Banks	Unrated	90,817	(73)	90,744	–	–
Sovereigns						
Municipalities	Unrated	128,144	(97)	128,047	–	–
Corporate						
Large Corporates, SME	I1 – I6	883,885	(690)	883,195	(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	–	–
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 Fin. Inst., Public Sector Entities	I1 – I6	289,143	(89)	289,054	(48)	30
	M1 – M4	182,957	(763)	182,194	(592)	178
	Unrated	189,043	(537)	188,506	–	–
Factoring	Unrated	21,598	(370)	21,228	–	–
		4,449,395	(106,627)	4,342,768	(16,721)	26,873
Retail						
SB and FOA	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	997	(3)	994	–	–
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	277,002	(5,174)	271,828	–	–
Other	Unrated	12,403	(1)	12,402	–	–
		7,182,484	(165,781)	7,016,703	(13,894)	14,219
Securities	Unrated	902,671	–	902,671	–	–

During the year 2017, the rating scale was extended by internal ratings for Large Corporations above € 500 million turnover, so the comparable period was restated accordingly:

31 December 2016 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	112,313	(18)	112,295
Sovereigns				
Municipalities	Unrated	131,760	(100)	131,660
Corporate				
Large Corporates, SME	I1 – I6	653,263	(725)	652,538
	M1 – M4	846,596	(5,493)	841,103
	R1 – R5	312,754	(11,353)	301,401
	LC_I1 – LC_I6	382,816	(261)	382,555
	LC_M1 –LC_M4	439,103	(1,420)	437,683
	LC_R1 –LCR5	13,247	(312)	12,935
	D (default)	68,710	(57,151)	11,559
Specialized Lending – SPV, RED	Strong	221,336	(1,344)	219,992
	Good	335,073	(2,674)	332,399
	Satisfactory	213,930	(6,631)	207,299
	Weak	72,193	(11,139)	61,054
	D (default)	27,998	(12,511)	15,487
Other Financial Institutions, Public Sector Entities	I1 – I6	355,729	(112)	355,617
	M1 – M4	155,619	(365)	155,254
	D (default)	1	–	1
	Unrated	1,200	(578)	622
Factoring	Unrated	18,327	(386)	17,941
		4,117,895	(112,455)	4,005,440
Retail				
Small Business, Flat Owners Associations	I3 – I6	32,063	(55)	32,008
	M1 – M4	141,447	(1,431)	140,016
	R1 – R5	55,450	(1,992)	53,458
	D (default)	13,964	(12,163)	1,801
	Unrated	13	(3)	10
Mortgages	L1 – L4	3,328,301	(661)	3,327,640
	N1	360,192	(475)	359,717
	N2 – W1	505,713	(1,729)	503,984
	W2	67,210	(1,068)	66,142
	W3	137,483	(8,361)	129,122
	D (default)	47,822	(18,389)	29,433
Unsecured Retail	U01a – U02	415,594	(392)	415,202
	U3	81,989	(196)	81,793
	U04 – U07	336,039	(2,311)	333,728
	U08 – U09	88,026	(2,103)	85,923
	U10 – U11	59,498	(3,391)	56,107
	U12	60,493	(9,976)	50,517
	D (default)	141,791	(98,349)	43,442
	Unrated	343,259	(7,532)	335,727
Other	Unrated	5,617	(2)	5,615
		6,221,964	(170,579)	6,051,385
Securities	Unrated	1,820,472	–	1,820,472

(b) Market risk

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

Management of market risk

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

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

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

Exposure to market risk – trading portfolios

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

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

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

				2017				2016
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	13	32	102	4	11	24	150	2
Interest rate risk	1,492	2,122	4,094	41	132	376	792	40
Overall	1,493	2,123	4,102	43	137	378	781	32

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

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

Exposure to interest rate risk

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

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

The Risk Management division is responsible for monthly monitoring of these gaps. The management of interest rate risk is measured by shift sensitivity analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and uniform shift of +/- 100 basis points of the rate curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and uniform shift of +/-200 basis points, and additionally non-parallel steeper and flatter scenarios. These standard scenarios are applied on a monthly basis. Furthermore, six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision ('BCBS') 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. The interest margin sensitivity methodology, specifically sight models repricing structure used for products with no contractual maturity, has been reviewed during 2017.

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

Models applied for the interest rate risk calculation

Each financial and non-financial instrument is mapped to a gap based on its contractual or behavioural re-pricing date:

Contractual

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

Behavioural

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

At 31 December 2017, the interest margin sensitivity on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 15,862 thousand (31 December 2016: € -17,653 thousand).

At 31 December 2017, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € 3,241 thousand (31 December 2016: € -30,073 thousand).

The main reason for change in shift sensitivity analyses is due to closing the negative sensitivity via hedge accounting (Interest Rate Swaps).

At 31 December 2017, the interest margin sensitivity on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € -24,861 thousand.

At 31 December 2017, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € -24,277 thousand.

At 31 December 2017, the sensitivity of the AFS reserve in equity related to the non-hedged part of the portfolio to a 100 basis points rise in interest rates was € -673 thousand (31 December 2016: € -1,444 thousand).

At 31 December 2017, the sensitivity of the CF hedges reserve in equity to a 100 basis points rise in interest rates was € 10,568 thousand (31 December 2016: € 4,203 thousand).

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:

31 December 2017 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,595,078	–	–	–	–		1,595,078
Due from banks	56,266	27,453	7,025	–	–	–	90,744
Financial assets at fair value through profit or loss	–	–	–	–	4,933	850	5,783
Available-for-sale financial assets	–	42,329	357,392	109,717	10,978	–	520,416
Loans and advances to customers	1,362,411	1,560,528	1,972,042	5,671,826	735,507	185,204	11,487,518
Held-to-maturity investments	–	–	11,749	264,821	99,902	–	376,472
	3,013,755	1,630,310	2,348,208	6,046,364	851,320	186,054	14,076,011
Liabilities							
Due to central and other banks	(84,283)	(27,081)	(87,329)	(251,122)	–	–	(449,815)
Due to customers	(7,925,994)	(676,713)	(1,008,305)	(244,421)	–	–	(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)
	(8,118,808)	(1,007,418)	(1,206,442)	(1,266,695)	(1,158,429)	–	(12,757,792)
Net position of financial instruments	(5,105,053)	622,892	1,141,766	4,779,669	(307,109)	186,054	1,318,219
Cumulative net position of financial instruments	(5,105,053)	(4,482,161)	(3,340,395)	1,439,274	1,132,165	1,318,219	–

31 December 2016 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,029,082	–	–	–	–	–	1,029,082
Due from banks	91,977	18,566	17,811	–	47	–	128,401
Financial assets at fair value through profit or loss	–	–	–	–	–	474	474
Available-for-sale financial assets	84,332	42,148	503,644	388,289	271,566	–	1,289,979
Loans and advances to customers	1,181,230	1,717,196	1,519,573	4,663,625	785,581	321,281	10,188,486
Held-to-maturity investments	–	–	163,680	266,401	99,938	–	530,019
	2,386,621	1,777,910	2,204,708	5,318,315	1,157,132	321,755	13,166,441
Liabilities	–	–	–	–	–	–	–
Due to central and other banks	(44,670)	(174,690)	(117,234)	(154,081)	–	–	(490,675)
Due to customers	(7,597,522)	(402,880)	(1,271,441)	(223,076)	–	–	(9,494,919)
Subordinated debt	–	(200,165)	–	–	–	–	(200,165)
Debt securities in issue	(209,828)	(144,706)	(130,440)	(503,513)	(726,822)	–	(1,715,309)
	(7,852,020)	(922,441)	(1,519,115)	(880,670)	(726,822)	–	
Net position of financial instruments	(5,465,399)	855,469	685,593	4,437,645	430,310	321,755	1,265,373
Cumulative net position of financial instruments	(5,465,399)	(4,609,930)	(3,924,337)	513,308	943,618	1,265,373	–

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

	2017	2016
Assets		
Cash and balances with central banks	0.00%	0.05%
Due from banks	0.45%	0.39%
Financial assets at fair value through profit or loss	1.45%	0.59%
Available-for-sale financial assets	0.47%	0.74%
Loans and advances to customers	3.07%	3.62%
Held-to-maturity investments	4.46%	4.35%
Liabilities		
Due to central and other banks	0.24%	0.53%
Due to customers	0.20%	0.21%
Debt securities in issue	1.23%	1.48%

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

31 December 2017 € '000	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	123,596	1,109	1,467,216	3,157	1,595,078
Due from banks	85,070	2,172	422	3,080	90,744
Financial assets at fair value through profit or loss	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
Loans and advances to customers	10,873,743	265,150	298,812	49,813	11,487,518
Held-to-maturity investments	376,472	–	–	–	376,472
	12,021,081	279,034	1,769,702	56,050	14,125,867
Liabilities					
Due to central and other banks	(412,639)	(83)	(36,821)	(272)	(449,815)
Derivative financial instruments	(45,474)	(633)	(4,471)	(1,606)	(52,184)
Due to customers	(9,447,968)	(158,499)	(169,357)	(79,609)	(9,855,433)
Subordinated debt	(200,164)	–	–	–	(200,164)
Debt securities in issue	(2,173,842)	(58,779)	(19,759)	–	(2,252,380)
	(12,280,087)	(217,994)	(230,408)	(81,487)	(12,809,976)
Net position	(259,006)	61,040	1,539,294	(25,437)	1,315,891

31 December 2016 € '000	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	167,665	1,238	857,853	2,325	1,029,081
Due from banks	73,442	19,400	2,141	17,312	112,295
Financial assets at fair value through profit or loss	474	–	–	–	474
Derivative financial instruments	42,772	2,766	1,334	377	47,249
Available-for-sale financial assets	1,274,703	15,276	–	–	1,289,979
Loans and advances to customers	9,561,128	359,704	266,107	1,546	10,188,485
Held-to-maturity investments	530,019	–	–	–	530,019
	11,650,203	398,384	1,127,435	21,560	13,197,582
Liabilities					
Due to central and other banks	(462,519)	(9,825)	(1,351)	(876)	(474,571)
Derivative financial instruments	(57,215)	(6,862)	(94)	(1,183)	(65,354)
Due to customers	(9,103,639)	(214,314)	(96,401)	(80,567)	(9,494,921)
Subordinated debt	(200,165)	–	–	–	(200,165)
Debt securities in issue	(1,599,874)	(66,803)	(48,631)	–	(1,715,308)
	(11,423,412)	(297,804)	(146,477)	(82,626)	(11,950,319)
Net position	226,791	100,580	980,958	(61,066)	1,247,263

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit.

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

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

The departments of the Bank responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department responsible for liquidity management and the Enterprise Risk Management Department responsible for monitoring indicators and verifying the observation of limits.

These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process ('ILAAP').

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 (EU) Regulation 575/2013(CRR), more precisely defined in Delegated Regulation (EU) 2015/61. Main content of the LCR: Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows.

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

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

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

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

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

31 December 2017 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,595,393	–	–	–	–	–	1,595,393
Due from banks	33,222	1,197	4,682	12,723	42,672	–	94,496
Financial assets at fair value through profit or loss	–	–	–	–	4,933	850	5,783
Available-for-sale financial assets	–	874	260,972	246,526	–	–	508,372
Loans and advances to customers	683,354	368,208	1,377,495	4,770,716	6,796,322	217,738	14,213,833
Held-to-maturity investments	–	–	18,474	294,379	117,531	–	430,384
	2,311,969	370,279	1,661,623	5,324,344	6,961,458	218,588	16,848,261
Liabilities							
Due to central and other banks	(66,394)	(1,699)	(16,723)	(295,472)	(64,299)	–	(444,587)
Due to customers	(7,811,394)	(750,740)	(965,882)	(327,159)	(469)	–	(9,855,644)
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)
	(7,882,247)	(757,151)	(1,230,005)	(1,576,946)	(1,514,259)	–	(12,960,608)
Net position of financial instruments	(5,570,278)	(386,872)	431,618	3,747,398	5,447,199	218,588	3,887,653
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
Commitments and undrawn credit facilities	(2,858,458)	–	–	–	–	–	(2,858,458)
Issued guarantees	(783,667)	–	–	–	–	–	(783,667)
Net position from financial commitments and contingencies	(3,642,125)	–	–	–	–	–	(3,642,125)

31 December 2016 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,029,082	–	–	–	–	–	1,029,082
Due from banks	97,150	121	3,140	–	31,204	–	131,615
Financial assets at fair value through profit or loss	–	–	–	–	–	474	474
Available-for-sale financial assets	31,870	3,667	252,871	745,834	286,748	–	1,320,990
Loans and advances to customers	612,017	472,508	1,217,863	4,351,737	5,804,213	198,071	12,656,409
Held-to-maturity investments	–	–	152,777	302,874	134,565	–	590,216
	1,770,119	476,296	1,626,651	5,400,445	6,256,730	198,545	15,728,786
Liabilities							
Due to central and other banks	(49,907)	(109,595)	(12,929)	(214,446)	(113,858)	–	(500,735)
Due to customers	(7,584,561)	(414,993)	(1,224,157)	(271,256)	(5,167)	–	(9,500,134)
Subordinated debt	–	(1,466)	(4,029)	(22,000)	(242,895)	–	(270,390)
Debt securities in issue	(3,467)	(46,180)	(164,875)	(870,766)	(843,955)	–	(1,929,243)
	(7,637,935)	(572,234)	(1,405,990)	(1,378,468)	(1,205,875)	–	(12,200,502)
Net position of financial instruments	(5,867,816)	(95,938)	220,661	4,021,977	5,050,855	198,545	3,528,284
Cash inflows from derivatives	995,200	159,826	226,607	119,435	41,630	–	1,542,698
Cash outflows from derivatives	(993,311)	(158,921)	(230,557)	(124,017)	(41,728)	–	(1,548,534)
Net position from derivatives	1,889	905	(3,950)	(4,582)	(98)	–	(5,836)
Commitments and undrawn credit facilities	(3,020,958)	–	–	–	–	–	(3,020,958)
Issued guarantees	(764,156)	–	–	–	–	–	(764,156)
Net position from financial commitments and contingencies	(3,785,114)	–	–	–	–	–	(3,785,114)

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:

31 December 2017 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and balances with central banks	1,595,078	–	1,595,078
Due from banks	36,936	53,808	90,744
Financial assets at fair value through profit or loss	–	5,783	5,783
Derivative financial instruments	5,902	43,954	49,856
Available-for-sale financial assets	262,952	257,464	520,416
Loans and advances to customers	2,148,102	9,339,416	11,487,518
Held-to-maturity investments	11,750	364,722	376,472
Subsidiaries, associates and joint ventures	–	92,745	92,745
Intangible assets	–	74,882	74,882
Property and equipment	–	111,512	111,512
Current income tax assets	5,813	–	5,813
Deferred income tax assets	–	38,626	38,626
Other assets	19,848	–	19,848
	4,086,381	10,382,912	14,469,293
Liabilities			
Due to central and other banks	(50,297)	(399,518)	(449,815)
Derivative financial instruments	(24,278)	(27,906)	(52,184)
Due to customers	(1,750,104)	(8,105,329)	(9,855,433)
Subordinated debt	(164)	(200,000)	(200,164)
Debt securities in issue	(238,066)	(2,014,314)	(2,252,380)
Provisions	–	(7,302)	(7,302)
Other liabilities	(91,344)	(4,691)	(96,035)
	(2,154,253)	(10,759,060)	(12,913,313)
	1,932,128	(376,148)	1,555,980

31 December 2016 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	1,029,081	–	1,029,081
Due from banks	94,505	17,790	112,295
Financial assets at fair value through profit or loss	–	474	474
Derivative financial instruments	4,225	43,024	47,249
Available-for-sale financial assets	264,958	1,025,021	1,289,979
Loans and advances to customers	2,067,645	8,120,840	10,188,485
Held-to-maturity investments	151,930	378,089	530,019
Subsidiaries, associates and joint ventures	–	92,745	92,745
Intangible assets	–	63,062	63,062
Property and equipment	–	88,402	88,402
Deferred income tax assets	–	47,544	47,544
Other assets	20,014	–	20,014
	3,632,358	9,876,991	13,509,349
Liabilities			
Due to central and other banks	(166,890)	(307,681)	(474,571)
Derivative financial instruments	(39,013)	(26,341)	(65,354)
Due to customers	(1,737,873)	(7,757,048)	(9,494,921)
Subordinated debt	(165)	(200,000)	(200,165)
Debt securities in issue	(198,648)	(1,516,660)	(1,715,308)
Current income tax liabilities	(3,176)	–	(3,176)
Provisions	–	(25,952)	(25,952)
Other liabilities	(81,894)	(3,834)	(85,728)
	(2,227,659)	(9,837,516)	(12,065,175)
	1,404,699	39,475	1,444,174

(d) Operational risk

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

Operational risk management strategies and processes

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

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

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of AML Department, Head of Corporate & SME Division, Head of Retail Division, Head of Enterprise Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Internal Audit Department, Head of Security and Business Continuity Management), has the task of periodically reviewing the Bank's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

Organisational structure of the associated risk management function

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

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

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

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

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

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

Policies for hedging and mitigating risk

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

4. Estimated fair value of financial assets and liabilities

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

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

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

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

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

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

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

(a) Cash and balances with central banks

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

(b) Due from banks

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

(c) Loans and advances to customers

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

(d) Held-to-maturity investments

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

(e) Due to banks and customers

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

(f) Subordinated debt

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

(g) Debt securities in issue

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

31 December 2017 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and balances with central banks	7	1,595,078	–	1,595,078	–	1,595,078	–	1,595,078
Due from banks	8	90,744	–	90,744	–	90,744	–	90,744
Financial assets at fair value through profit or loss	9	–	5,783	5,783	850	4,933	–	5,783
Derivative financial instruments	10	–	49,856	49,856	–	49,856	–	49,856
Available-for-sale financial assets	11	–	520,416	520,416	265,742	248,365	6,309	520,416
Loans and advances to customers	12	11,487,518	–	11,487,518	–	–	12,552,785	12,552,785
Held-to-maturity investments	14	376,472	–	376,472	–	426,970	–	426,970
		13,549,812	576,055	14,125,867	266,592	2,415,946	12,559,094	15,241,632
Financial liabilities								
Due to central and other banks	20	(449,815)	–	(449,815)	–	(449,815)	–	(449,815)
Derivative financial instruments	10	–	(52,184)	(52,184)	–	(52,184)	–	(52,184)
Due to customers	21	(9,855,433)	–	(9,855,433)	–	(9,863,989)	–	(9,863,989)
Subordinated debt	22	(200,164)	–	(200,164)	–	(199,693)	–	(199,693)
Debt securities in issue	22	(2,252,380)	–	(2,252,380)	–	(2,336,806)	–	(2,336,806)
		(12,757,792)	(52,184)	(12,809,976)	–	(12,902,487)	–	(12,902,487)

31 December 2016 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and balances with central banks	7	1,029,081	–	1,029,081	–	1,029,081	–	1,029,081
Due from banks	8	112,295	–	112,295	–	112,295	–	112,295
Financial assets at fair value through profit or loss	9	–	474	474	474	–	–	474
Derivative financial instruments	10	–	47,249	47,249	–	47,249	–	47,249
Available-for-sale financial assets	11	–	1,289,979	1,289,979	805,871	479,176	4,932	1,289,979
Loans and advances to customers	12	10,188,485	–	10,188,485	–	–	11,335,169	11,335,169
Held-to-maturity investments	14	530,019	–	530,019	–	598,206	–	598,206
		11,859,880	1,337,702	13,197,582	806,345	2,266,007	11,340,101	14,412,453
Financial liabilities								
Due to central and other banks	20	(474,571)	–	(474,571)	–	(474,571)	–	(474,571)
Derivative financial instruments	10	–	(65,354)	(65,354)	–	(65,354)	–	(65,354)
Due to customers	21	(9,494,921)	–	(9,494,921)	–	(9,559,752)	–	(9,559,752)
Subordinated debt	22	(200,165)	–	(200,165)	–	(200,165)	–	(200,165)
Debt securities in issue	22	(1,715,308)	–	(1,715,308)	–	(1,781,512)	–	(1,781,512)
		(11,884,965)	(65,354)	(11,950,319)	–	(12,081,354)	–	(12,081,354)

There were no transfers of financial instruments among the levels during 2017 and 2016.

5. Segment reporting

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

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

The Bank comprises the following main operating segments:
- Retail Banking,
- Corporate Banking,
- Central Treasury.

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

Corporate Banking comprises Small and Medium Enterprises ('SME') and the Corporate Customer Desk ('CCD'). SME includes loans, deposits and other transactions and balances with small and medium enterprises (company revenue in the range of € 1 million to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes loans, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

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

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

2017 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	251,454	83,664	19,871	11,237	366,226
Interest and similar expense	(10,573)	(5,265)	(23,717)	(7,614)	(47,169)
Inter-segment revenue	(17,086)	(11,923)	23,445	5,564	–
Net interest income	223,795	66,476	19,599	9,187	319,057
Net fee and commission income	74,464	26,357	2,939	(4,113)	99,647
Net trading result	3,712	5,339	30,983	321	40,355
Other operating income	(970)	2,914	31	4,013	5,988
Dividend income	–	–	–	2,000	2,000
Total segment operating income	301,001	101,086	53,552	11,408	467,047
Depreciation and amortisation	(12,060)	(909)	(9)	(7,085)	(20,063)
Operating expenses*					(205,750)
Operating profit before impairment					241,234
Impairment losses	(32,328)	(5,774)	(1,432)	1,487	(38,047)
Income tax expense					(43,166)
Net profit for the year					160,021
Segment assets	6,978,913	4,149,354	2,844,700	496,326	14,469,293
Segment liabilities and equity	5,864,057	3,959,208	2,829,933	1,816,095	14,469,293

* The Bank does not allocate the 'Operating expenses' to the individual segments.

2016 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	254,602	79,761	35,159	10,090	379,612
Interest and similar expense	(15,290)	(5,946)	(24,907)	(152)	(46,295)
Inter-segment revenue	(24,406)	(6,654)	35,553	(4,493)	–
Net interest income	214,906	67,161	45,805	5,445	333,317
Net fee and commission income	61,167	24,502	2,888	(2,402)	86,155
Net trading result	3,371	5,453	29,861	110	38,795
Other operating income	6,712	982	(6)	(4,547)	3,141
Dividend income	–	–	–	133,961	133,961
Total segment operating income	286,156	98,098	78,548	132,567	595,369
Depreciation and amortisation	(15,761)	(909)	(11)	(6,143)	(22,824)
Operating expenses					(214,071)
Operating profit before impairment					358,474
Impairment losses	(35,822)	(9,966)	(375)	(783)	(46,946)
Income tax expense					(46,357)
Net profit for the year					265,171
Segment assets	6,013,354	3,998,629	3,029,473	467,893	13,509,349
Segment liabilities and equity	5,529,599	4,086,436	2,180,774	1,712,540	13,509,349

6. Cash and cash equivalents

€ '000	Note	2017	2016
Cash and balances with central banks	7	1,595,078	1,029,081
Current accounts in other banks	8	25,043	34,537
Term deposits with other banks	8	–	2,035
		1,620,121	1,065,653

7. Cash and balances with central banks

€ '000	2017	2016
Balances with central banks:		
Compulsory minimum reserves	7,264	810,409
Current accounts	1,753	961
Term deposits	736,103	119,912
Loans and advances	724,427	–
	1,469,547	931,282
Cash in hand	125,531	97,799
	1,595,078	1,029,081

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and Česká národní banka. 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 Česká národní banka. 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 2017 the balance of 'Loans and advances' comprised of one reverse repo trade concluded with Česká národní banka in the total nominal amount of CZK 18,500 million (€ 724,354 thousand). The repo trade was secured by four treasury bills of Česká národní banka. At 31 December 2016 there was no reverse repo trade concluded.

8. Due from banks

€ '000	Note	2017	2016
Current accounts in other banks	6	25,043	34,537
Term deposits:			
with contractual maturity less than 90 days	6	–	2,035
with contractual maturity over 90 days		–	63
Loans and advances:			
with contractual maturity over 90 days		34,028	8,551
Cash collateral		31,746	67,127
Impairment losses on assets	13	(73)	(18)
		90,744	112,295

At 31 December 2016 the balance of 'Term deposits' includes one deposit with Intesa Sanpaolo S. p. A. in the nominal amount of € 2,035 thousand.

9. Financial assets at fair value through profit or loss

€ '000	2017	2016
Financial assets held for trading:		
State bonds		
with contractual maturity over 90 days	4,933	–
Financial assets designated at fair value through profit or loss on initial recognition:		
Equity shares	850	474
	5,783	474

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

10. Derivative financial instruments

€ '000	2017 Assets	2016 Assets	2017 Liabilities	2016 Liabilities
Trading derivatives	27,961	12,923	37,542	11,732
Cash flow hedges of interest rate risk	1,312	–	631	5,428
Fair value hedges of interest rate and inflation risk	20,583	34,326	14,011	48,194
	49,856	47,249	52,184	65,354

Trading derivatives can include hedging instruments that are non-qualifying according to IAS 39 and are held for risk management purposes rather than for trading. At 31 December 2017, trading derivatives do not include such hedging instruments. At 31 December 2016, these instruments consisted of one cross-currency interest rate swap with a negative fair value € 845 thousand.

€ '000	2017 Assets	2016 Assets	2017 Liabilities	2016 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Swaps	21,385	7,452	18,403	5,675
Options	51	325	51	357
	21,436	7,777	18,454	6,032
Foreign currency instruments:				
Forwards and swaps	4,296	3,725	16,896	3,352
Cross currency swaps	26	–	–	845
Options	42	272	42	391
	4,364	3,997	16,938	4,588
Equity and commodity instruments:				
Equity options	2,146	922	2,137	904
Commodity swaps	–	227	–	208
Commodity forwards	15	–	13	–
	2,161	1,149	2,150	1,112
	27,961	12,923	37,542	11,732

€ '000	2017 Assets	2016 Assets	2017 Liabilities	2016 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Swaps	1,974,174	625,151	1,974,174	625,151
Options	49,014	115,342	49,014	115,342
Futures	3,431	–	3,431	–
	2,026,619	740,493	2,026,619	740,493
Foreign currency instruments:				
Forwards and swaps	1,832,019	1,331,195	1,842,027	1,326,896
Cross currency swaps	5,917	29,606	5,917	30,449
Options	7,201	45,482	7,201	45,091
	1,845,137	1,406,283	1,855,145	1,402,436
Equity and commodity instruments:				
Equity options	7,087	7,087	7,087	7,091
Commodity swaps	–	5,149	–	5,060
Commodity forwards	7,407	–	7,407	–
	14,494	12,236	14,494	12,151
	3,886,250	2,159,012	3,896,258	2,155,080

Cash flow hedges of interest rate risk

At 31 December 2017 the Bank uses four interest rate swaps to hedge the interest rate risk arising from the issuance of three variable rate mortgage bonds. The cash flows on the floating legs of these interest rate swaps substantially match the cash flow profiles of the variable rate mortgage bonds.

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

Below is a schedule indicating as at 31 December 2017 and 31 December 2016, the periods when the hedged cash flows are expected to occur. The cash flows of mortgage bonds represent the future undiscounted value of coupons and the cash flows from subordinated debt undiscounted repayments:

€ '000			2017			2016
	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Mortgage bonds – interest rate risk	(4,078)	(1,414)	–	(5,343)	(7,057)	–
Subordinated debt – interest rate risk	(6,010)	(25,326)	–	–	–	–

Fair value hedges of interest rate and inflation risk

The Bank uses eighteen interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans, both in relation to changes of interest rates.

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

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

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

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

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

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

In 2017, the Bank recognised a net loss of € 11,801 thousand (2016: net gain of € 18,648 thousand) in relation to the fair value hedging instruments above. The net gain on hedged items attributable to the hedged risks amounted to € 11,867 thousand (2016: net loss of € 18,419 thousand). Both items are disclosed within 'Net trading result'.

During 2017, interest and similar income from hedged AFS securities in the amount of € 11,647 thousand (2016: € 19,046 thousand) was compensated by interest expense from interest rate swap and asset swap hedging instruments in the amount of € 4,921 thousand (2016: € 7,966 thousand).

In 2017, interest expense from the hedged mortgage bonds in the amount of € 10,345 thousand (2016: € 15,577 thousand) was compensated by interest income from the interest rate swap hedging instruments in the amount of € 8,472 thousand (2016: € 7,133 thousand).

11. Available-for-sale financial assets

€ '000	Share 2017	Share 2016	2017	2016
State bonds of EU countries			439,744	1,046,763
Bank bonds			72,467	236,197
Equity shares at fair value			8,140	6,959
Equity shares at cost:				
S.W.I.F.T.	0.01%	0.01%	65	60
			520,416	1,289,979

This table shows the reconciliation from opening balance to closing balance for recurring Level 3 of fair value (note 4):

€ '000	1 Jan 2017	Purchase	Sale	Revaluation	Exchange differences	31 Dec 2017
Visa Inc.	4,932	–	–	1,663	(286)	6,309

	1 Jan 2016	Purchase	Sale	Revaluation	Exchange differences	31 Dec 2016
Visa Europe LTD	14,690	–	(14,690)	–	–	–
Visa Inc.	–	4,575	–	22	335	4,932

On 21 December 2015, Visa Europe LTD and Visa Inc. officially announced the plan to become a unique entity, through the sale of 100% of share capital of Visa Europe to Visa Inc. VUB Bank as a stakeholder had the right to take part in the distribution of value generated by the deal, so the fair value was adjusted equal to cash part of the up-front consideration in amount of € 14,690 thousand net of tax in 2016.

Following confirmation on 3 June 2016 that the European Commission approved the proposed purchase of Visa Europe Limited by Visa Inc., the fair value of the closing transaction was evaluated consisting of three elements in the total amount of € 21,509 thousand. Apart from the cash consideration, the Bank will be receiving Visa Inc. preferred shares Series C and also a deferred cash payment that will be due after the third anniversary of the closing date of the transaction.

12. Loans and advances to customers

31 December 2017 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	128,144	(97)	128,047
Corporate			
Large Corporates	1,720,127	(5,677)	1,714,450
Specialized Lending	748,099	(40,322)	707,777
Small and Medium Enterprises ('SME')	1,298,428	(58,869)	1,239,559
Other Financial Institutions	659,985	(1,386)	658,599
Public Sector Entities	1,158	(3)	1,155
Factoring	21,598	(370)	21,228
	4,449,395	(106,627)	4,342,768
Retail			
Small Business	243,051	(12,822)	230,229
Consumer Loans	1,252,101	(85,587)	1,166,514
Mortgages	5,341,959	(25,402)	5,316,557
Credit Cards	203,609	(32,265)	171,344
Overdrafts	101,710	(9,346)	92,364
Flat Owners Associations	27,651	(358)	27,293
Other	12,403	(1)	12,402
	7,182,484	(165,781)	7,016,703
	11,760,023	(272,505)	11,487,518

31 December 2016 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	131,760	(100)	131,660
Corporate			
Large Corporates	1,501,159	(23,933)	1,477,226
Specialized Lending	870,530	(34,299)	836,231
Small and Medium Enterprises ('SME')	1,215,331	(52,782)	1,162,549
Other Financial Institutions	511,348	(1,052)	510,296
Public Sector Entities	1,200	(3)	1,197
Factoring	18,327	(386)	17,941
	4,117,895	(112,455)	4,005,440
Retail			
Small Business	218,401	(15,326)	203,075
Consumer Loans	1,210,008	(81,598)	1,128,410
Mortgages	4,446,721	(30,683)	4,416,038
Credit Cards	207,961	(31,150)	176,811
Overdrafts	108,720	(11,502)	97,218
Flat Owners Associations	24,536	(318)	24,218
Other	5,617	(2)	5,615
	6,221,964	(170,579)	6,051,385
	10,471,619	(283,134)	10,188,485

At 31 December 2017, the 20 largest corporate customers represented a total balance of € 1,726,272 thousand (31 December 2016: € 1,634,636 thousand) or 14.68% (31 December 2016: 15.61%) of the gross loan portfolio.

13. Impairment losses on assets

€ '000	Note	1 Jan 2017	Creation (note 33)	Reversal (note 33)	Assets written-off/sold (note 33)	FX diff	Other*	31 Dec 2017
Due from banks	8	18	71	(16)	–	–	–	73
Loans and advances to customers	12	283,134	247,076	(204,860)	(43,991)	(1,639)	(7,215)	272,505
Subsidiaries, associates and JVs	15	37,914	–	–	–	–	–	37,914
Property and equipment	17	10,459	–	(1,542)	–	–	(8,917)	–
Other assets	19	1,937	942	(887)	–	–	–	1,992
		333,462	248,089	(207,305)	(43,991)	(1,639)	(16,132)	312,484

* 'Other' represents:
- the interest portion (unwinding of interest);
- the elimination of impairment losses to 'Buildings and land' due to application of revaluation model (note 17).

€ '000	Note	1 Jan 2016	Creation (note 33)	Reversal (note 33)	Assets written-off/sold (note 33)	FX diff	Other*	31 Dec 2016
Due from banks	8	25	2	(30)	–	21	–	18
Available-for-sale financial assets	11	574	–	–	–	–	(574)	–
Loans and advances to customers	12	274,954	179,853	(131,084)	(33,207)	420	(7,802)	283,134
Subsidiaries, associates and JVs	15	37,914	–	–	–	–	–	37,914
Property and equipment	17	10,500	–	(41)	–	–	–	10,459
Other assets	19	1,148	2,096	(1,308)	–	1	–	1,937
		325,115	181,951	(132,463)	(33,207)	442	(8,376)	333,462

* ' Other' represents:
- the interest portion (unwinding of interest);
- sale of RVS, a. s.

Impairment loss recognised in 2017 for Loans and advances to customers was € 42,216 thousand (2016: € 48,769 thousand).

14. Held-to-maturity investments

€ '000	2017	2016
State bonds	376,472	530,019

At 31 December 2017, bonds in the total nominal amount of € 362,147 thousand from the held-to-maturity portfolio were pledged by the Bank to secure collateralized transactions (31 December 2016: € 509,428 thousand).

15. Subsidiaries, associates and joint ventures

All entities are incorporated in the Slovak Republic.

31 December 2017 € '000	Share	Cost	Impairment losses (note 13)	Carrying amount
Consumer Finance Holding, a. s.	100.00%	53,114	–	53,114
VÚB Leasing, a. s.	100.00%	44,410	(27,381)	17,029
VÚB Factoring, a.s.	100.00%	16,535	(10,533)	6,002
VÚB Generali d. s. s., a. s.	50.00%	16,597	–	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3
		130,659	(37,914)	92,745

31 December 2016 € '000	Share (%)	Cost	Impairment losses (note 13)	Carrying amount
Consumer Finance Holding, a. s.	100.00%	53,114	–	53,114
VÚB Leasing, a. s.	100.00%	44,410	(27,381)	17,029
VÚB Factoring, a. s.	100.00%	16,535	(10,533)	6,002
VÚB Generali d. s. s., a. s.	50.00%	16,597	–	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3
		130,659	(37,914)	92,745

In December 2016, the Bank sold its stake in VÚB Asset Management, správ. spol., a. s. to the major shareholder Eurizon SA for cash of € 13,673 thousand. The intragroup reorganization goal was to achieve the separation and independence of asset management companies from distributors, in line both with the model adopted by Intesa Sanpaolo Group and with the indications of the supervisory authorities and the simplification of decision-making and governance processes. The disposal of the investment in VÚB Asset Management, správ. spol., a. s. resulted in a net gain of € 8,464 thousand, which has been accounted for directly to equity, on the basis of a transaction under common control.

16. Intangible assets

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2017	209,768	10,276	19,887	239,931
Additions	9	–	22,697	22,706
Disposals	(2,911)	–	–	(2,911)
Transfers	18,733	218	(18,951)	–
Exchange differences	29	6	–	35
At 31 December 2017	225,628	10,500	23,633	259,761
Accumulated amortisation				
At 1 January 2017	(167,679)	(9,190)	–	(176,869)
Amortisation for the year	(10,547)	(345)	–	(10,892)
Disposals	2,911	–	–	2,911
FX differences	(26)	(3)	–	(29)
At 31 December 2017	(175,341)	(9,538)	–	(184,879)
Carrying amount				
At 1 January 2017	42,089	1,086	19,887	63,062
At 31 December 2017	50,287	962	23,633	74,882

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2016	203,920	10,039	16,042	230,001
Additions	107	–	17,037	17,144
Disposals	(7,107)	–	(107)	(7,214)
Transfers	12,849	236	(13,085)	–
Exchange differences	(1)	1	–	–
At 31 December 2016	209,768	10,276	19,887	239,931
Accumulated amortisation				
At 1 January 2016	(162,103)	(8,648)	–	(170,751)
Amortisation for the year	(12,683)	(542)	–	(13,225)
Disposals	7,107	–	–	7,107
At 31 December 2016	(167,679)	(9,190)	–	(176,869)
Carrying amount				
At 1 January 2016	41,817	1,391	16,042	59,250
At 31 December 2016	42,089	1,086	19,887	63,062

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

At 31 December 2017, the gross book value of fully amortised intangible assets that are still used by the Bank amounted to € 138,033 thousand (31 December 2016: € 134,722 thousand).

At 31 December 2017, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € 1,833 thousand (31 December 2016: € 2,191 thousand).

17. Property and equipment

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value						
At 1 January 2017		200,093	64,668	29,396	3,308	297,465
Additions		–	–	–	3,950	3,950
Disposals		(3,231)	(6,863)	(1,065)	–	(11,159)
Transfers		1,014	2,216	596	(3,826)	–
FX differences		6	5	4	–	15
Revaluation		27,468	–	–	–	27,468
Other*		(122,733)	–	–	–	(122,733)
At 31 December 2017		102,617	60,026	28,931	3,432	195,006
Accumulated depreciation						
At 1 January 2017		(110,699)	(59,376)	(28,529)	–	(198,604)
Depreciation for the year		(5,664)	(3,146)	(361)	–	(9,171)
Disposals		2,553	6,823	1,103	–	10,479
FX differences		(6)	(4)	(4)	–	(14)
Other*		113,816	–	–	–	113,816
At 31 December 2017		–	(55,703)	(27,791)	–	(83,494)
Impairment losses	13					
At 1 January 2017		(10,459)	–	–	–	(10,459)
Release		1,542	–	–	–	1,542
Other*		8,917	–	–	–	8,917
At 31 December 2017		–	–	–	–	–
Carrying amount						
At 1 January 2017		78,935	5,292	867	3,308	88,402
At 31 December 2017		102,617	4,323	1,140	3,432	111,512

* 'Other' represents elimination of the accumulated depreciation and impairment losses to 'Buildings and land' due to application of revaluation model.

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost						
At 1 January 2016		200,355	64,345	29,917	2,762	297,379
Additions		7	–	–	5,096	5,103
Disposals		(2,646)	(1,595)	(776)	–	(5,017)
Transfers		2,377	1,918	255	(4,550)	–
At 31 December 2016		200,093	64,668	29,396	3,308	297,465
Accumulated depreciation						
At 1 January 2016		(107,070)	(57,526)	(28,955)	–	(193,551)
Depreciation for the year		(5,810)	(3,441)	(348)	–	(9,599)
Disposals		2,181	1,591	774	–	4,546
At 31 December 2016		(110,699)	(59,376)	(28,529)	–	(198,604)
Impairment losses	13					
At 1 January 2016		(10,500)	–	–	–	(10,500)
Release		41	–	–	–	41
At 31 December 2016		(10,459)	–	–	–	(10,459)
Carrying amount						
At 1 January 2016		82,785	6,819	962	2,762	93,328
At 31 December 2016		78,935	5,292	867	3,308	88,402

In 2017 the Bank 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 Bank recognized an impairment loss in total amount of € 8,917 thousand as at 31 December 2017 (31 December 2016: € 10,459 thousand).

At 31 December 2017, the Bank 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 Bank 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 carrying amount of the assets subject to the revaluation model at 31 December 2017 would have been € 73,628 thousand, should the assets be carried under the cost model.

The impact of the revaluation model on equity is positive in total amount of € 21,700 thousand and positive on income statement in amount of € 1,521 thousand due to release of previously booked impairment.

At 31 December 2017, the gross book value of fully depreciated tangible assets that are still used by the Bank amounted to € 92,881 thousand (31 December 2016: € 92,506 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

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

18. Current and deferred income taxes

€ '000	2017	2016
Current income tax assets	5,813	–

€ '000	2017	2016
Deferred income tax assets	38,626	47,544

€ '000	2017	2016
Current income tax liabilities	–	3,176

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2016: 21%) as follows:

€ '000	2017	Profit/ (loss) (note 34)	Equity	2016
Due from banks	16	12	–	4
Derivative financial instruments designated as cash flow hedges	(143)	–	(366)	223
Available-for-sale financial assets	(1,181)	–	(102)	(1,079)
Loans and advances to customers	42,016	(3,671)	–	45,687
Property and equipment	(9,776)	135	(5,768)	(4,143)
Provisions	194	99	–	95
Other liabilities	8,854	2,079	–	6,775
Other	(1,354)	(1,336)	–	(18)
Deferred income tax assets	38,626	(2,682)	(6,236)	47,544

19. Other assets

€ '000	Note	2017	2016
Operating receivables and advances		13,856	12,862
Prepayments and accrued income		6,046	6,980
Other tax receivables		1,200	1,271
Inventories		731	831
Settlement of operations with financial instruments		7	7
		21,840	21,951
Impairment losses	13	(1,992)	(1,937)
		19,848	20,014

20. Due to central and other banks

€ '000	2017	2016
Due to central banks		
Current accounts	1,147	993
Loans received from central banks	248,874	149,791
	250,021	150,784
Due to other banks		
Current accounts	37,991	22,699
Term deposits	16,137	109,909
Loans received from other banks	134,037	170,344
Cash collateral received	11,629	20,835
	199,794	323,787
	449,815	474,571

At 31 December 2017, '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 2016: two loans in the nominal amount of € 100,000 thousand and € 50,000 thousand). The interest rate for all loans is - 0.4% (31 December 2016: - 0.4%) and the maturity is in 2020 and 2021 (31 December 2016: in 2020). The principal and interests are due at maturity of loans.

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

€ '000	2017	2016
European Investment Bank	101,493	130,902
European Bank for Reconstruction and Development	21,898	24,596
Council of Europe Development Bank	10,646	14,846
	134,037	170,344

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 2017, the balance comprised of seven loans in the nominal amount of € 50,000 thousand, € 20,000 thousand, € 13,125 thousand, € 9,141 thousand, € 6,429 thousand, € 2,159 thousand and € 625 thousand (31 December 2016: seven loans in the nominal amount of € 50,000 thousand, € 23,333 thousand, € 17,500 thousand, € 16,250 thousand, € 14,063 thousand, € 7,857 thousand and € 1,875 thousand) with interest rates between 0.00% and 1.73% (31 December 2016: -0.004% - 1.73%) and with maturity between 2018 and 2028 (31 December 2016: 2018 – 2028). The principal of the loans is payable on an annual or semi-annual basis and the interest is payable semi-annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

European Bank for Reconstruction and Development

Loans received from the European Bank for Reconstruction and Development represented funds granted to support the energy savings in large corporations. At 31 December 2017, there were five loan arrangements concluded in the nominal amount of € 5,000 thousand, € 5,000 thousand, € 5,000 thousand, € 3,571 thousand and € 3,285 thousand (31 December 2016: four loan arrangements in the nominal amount of € 9,545 thousand, € 5,000 thousand, € 5,000 thousand and € 5,000 thousand). The maturity of the loans is between 2020 and 2023 (31 December 2016: 2020 – 2023). At 31 December 2017 the interest rates are in the range between 0.35% and 1.63% (31 December 2016: 0.55% - 1.69%). The frequency of the repayment of both the interest and the principal is semi-annual.

Council of Europe Development Bank

At 31 December 2017, loans from the Council of Europe Development Bank comprised of four loans in the nominal amount of € 3,333 thousand, € 3,000 thousand, € 3,000 thousand and € 1,311 thousand (31 December 2016: five loans in the nominal amount of € 4,500 thousand, € 4,000 thousand, € 4,000 thousand, € 1,748 thousand and € 596 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 0.14% and 0.31% at 31 December 2017 (31 December 2016: 0.15% - 0.31%). The maturity of the individual loans is between 2019 and 2022 (31 December 2016: 2017 – 2020). The interest is payable quarterly and the principal is payable on an annual basis.

21. Due to customers

€ '000	2017	2016
Current accounts	6,410,272	5,949,332
Term deposits	2,576,930	2,641,739
Government and municipal deposits	513,664	573,527
Savings accounts	238,263	226,951
Other deposits	116,304	103,372
	9,855,433	9,494,921

22. Subordinated debt and Debt securities in issue

Subordinated debt

At 31 December 2017 and 31 December 2016, the subordinated debt recognized by the Bank was as follows:

€ '000	2017	2016
Subordinated debt	200,164	200,165

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

Debt securities in issue

€ '000	2017	2016
Bonds	–	47
Mortgage bonds	262,037	597,377
Mortgage bonds subject to cash flow hedges	281,063	281,120
Mortgage bonds subject to fair value hedges	1,696,454	808,674
	2,239,554	1,687,171
Revaluation of fair value hedged mortgage bonds	8,465	28,022
Amortisation of revaluation related to terminated fair value hedges	4,361	68
	2,252,380	1,715,308

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

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

			Non-cash changes				
€ '000	1 Jan 2017	Cash flow	Accruals	Re-valuation of hedged mortgage bonds	Un-realised exchange dif-ferences	Other	31 Dec 2017
Subordinated debt	200,165	–	(1)	–	–	–	200,164
Mortgage bonds	1,715,308	563,845	(1,754)	(19,557)	(5,415)	(47)	2,252,380

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2017	Nominal value in CCY per piece	Issue date	Maturity date	2017 € '000	2016 € '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	33,457	33,438
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,724	19,710
Mortgage bonds VÚB, a. s. 32.	1.870	CZK	–	1,000,000	17.12.2007	17.12.2017	–	29,976
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	560	33,194	31.3.2008	31.3.2020	19,140	19,091
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,067	15,970
Mortgage bonds VÚB, a. s. 53.	0.400	EUR	–	1,000,000	8.4.2010	8.4.2017	–	100,096
Mortgage bonds VÚB, a. s. 57.	1.037	EUR	100	1,000,000	30.9.2010	30.9.2018	100,262	100,280
Mortgage bonds VÚB, a. s. 58.	1.529	EUR	80	1,000,000	10.12.2010	10.12.2019	80,071	80,074
Mortgage bonds VÚB, a. s. 62.	1.718	EUR	100	1,000,000	28.7.2011	28.7.2018	100,730	100,766
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. 70.	3.750	EUR	–	100,000	7.3.2012	7.3.2017	–	41,221
Mortgage bonds VÚB, a. s. 71.	3.900	EUR	–	20,000	2.5.2012	2.5.2017	–	15,127
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,463	25,446
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	50,795	50,752
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	71,967	71,921
Mortgage bonds VÚB, a. s. 75.	2.000	EUR	300	100,000	5.4.2013	5.4.2019	30,456	30,466
Mortgage bonds VÚB, a. s. 76.	2.400	EUR	309	10,000	22.4.2013	22.4.2018	3,141	3,142
Mortgage bonds VÚB, a. s. 77.	1.800	CZK	5,000	100,000	20.6.2013	20.6.2018	19,759	18,655
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	905	10,000	3.3.2014	3.3.2020	9,227	9,234
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	31,704	31,786
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	39,556	39,687
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	50,088	50,023
Mortgage bonds VÚB, a. s. 84.	0.600	EUR	500	100,000	29.9.2014	30.9.2019	49,996	49,949
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,581	49,533

(Table continues on the next page)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2017	Nominal value in CCY per piece	Issue date	Maturity date	2017 € '000	2016 € '000
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	1,000	100,000	27.4.2015	27.4.2020	99,135	98,620
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	97,916	97,545
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	965	100,000	11.9.2015	11.9.2020	96,733	96,822
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,338	99,213
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,011	97,831
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	99,972	99,878
Mortgage bonds VÚB, a. s. 92.	1.700	USD	700	100,000	27.6.2016	27.6.2019	58,779	66,802
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	248,139	–
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	247,830	–
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	248,401	–
							2,239,555	1,687,171

23. Provisions

€ '000	2017	2016
Litigation	6,331	25,465
Restructuring provision	924	452
Other provisions	47	35
	7,302	25,952

The movements in provisions were as follows:

€ '000	Note	1 Jan 2017	Creation	Reversal	Use	31 Dec 2017
Litigation	26, 32	25,465	362	(19,398)	(98)	6,331
Restructuring provision	31	452	710	–	(238)	924
Other provisions	32	35	12	–	–	47
		25,952	1,084	(19,398)	(336)	7,302

€ '000	Note	1 Jan 2016	Creation	Reversal	Use	31 Dec 2016
Litigation	26, 32	25,069	1,241	(8)	(837)	25,465
Restructuring provision	31	180	450	–	(178)	452
Other provisions	32	17	18	–	–	35
		25,266	1,709	(8)	(1,015)	25,952

24. Other liabilities

€ '000	2017	2016
Various creditors	37,839	31,699
Settlement with employees	26,527	23,007
Financial guarantees and commitments	19,781	20,552
Severance and Jubilee benefits	4,691	3,834
Accruals and deferred income	2,684	2,362
VAT payable and other tax payables	1,681	1,843
Settlement with shareholders	1,508	1,480
Share remuneration scheme	850	474
Investment certificates	449	471
Settlement with securities	25	6
	96,035	85,728

At 31 December 2017 and 31 December 2016 there were no overdue balances within 'Other liabilities'.

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

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

	2017		2016	
	Jubilee benefits	Retirement benefits	Jubilee benefits	Retirement benefits
Discount rate	-0.35%	0.94%	0.00%	1.33%
Growth of wages in 2018/2017*	–	3.50%	–	1.00%
Future growth of wages after 2019/2018*	–	3.50%	–	1.00%
Fluctuation of employees (based on age)	5.7% – 36.8%	5.7% – 36.8%	5% – 43%	5% – 43%
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 Financial guarantees and commitments, Severance and Jubilee benefits were as follows:

€ '000	Note	1 Jan 2017	Creation/ (Reversal)	FX diff	31 Dec 2017
Financial guarantees and commitments	33	20,552	(1,391)	620	19,781
Severance and Jubilee benefits	31	3,834	857	–	4,691
		24,386	(534)	620	24,472

€ '000	Note	1 Jan 2016	Creation/ (Reversal)	FX diff	31 Dec 2016
Financial guarantees and commitments	33	21,476	(902)	(22)	20,552
Severance and Jubilee benefits	31	3,343	491	–	3,834
		24,819	(411)	(22)	24,386

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

€ '000	1 Jan 2017	Creation (note 31)	Use	31 Dec 2017
Social fund	670	1,395	(1,471)	594

€ '000	1 Jan 2016	Creation (note 31)	Use	31 Dec 2016
Social fund	735	1,345	(1,410)	670

25. Equity

€ '000	2017	2016
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	114,383	90,710
Retained earnings (excluding net profit for the year)	837,038	643,755
	1,395,959	1,179,003

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

	2017	2016
Net profit for the year attributable to shareholders in € '000	160,021	265,171
Divided by the weighted average number of ordinary shares, calculated as follows:		
89 shares of € 3,319,391.89 each in €	295,425,878	295,425,878
4,078,108 shares of € 33.2 each in €	135,393,186	135,393,186
	430,819,064	430,819,064
Divided by the value of one ordinary share of € 33.2		
The weighted average number of ordinary shares of € 33.2 each	12,976,478	12,976,478
Basic and diluted earnings per € 33.2 share in €	12.33	20.43

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	2017	2016
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.08%	2.17%
Foreign shareholders	0.89%	0.80%
	100.00%	100.00%

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

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

The Bank's regulatory capital position at 31 December 2017 and 31 December 2016 was determined based on the rules for capital adequacy calculation set by the CRR regulation:

€ '000	2017	2016
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings without net profit for the year	837,038	643,755
Other reserves	87,493	87,493
Accumulated other comprehensive income	25,575	2,120
Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities	531	(531)
Less goodwill and intangible assets	(74,882)	(63,064)
Less IRB shortfall of credit risk adjustments to expected losses		(11)
	1,320,293	1,114,300
Tier 2 capital		
IRB excess of provisions over expected losses eligible	10,736	7,855
Subordinated debt	200,000	200,000
	210,736	207,855
Total regulatory capital	1,531,029	1,322,155

€ '000	2017	2016
Tier 1 capital	1,320,293	1,114,300
Tier 2 capital	210,736	207,855
Total regulatory capital	1,531,029	1,322,155
Total Risk Weighted Assets	8,278,248	8,141,145
Tier 1 capital ratio	15.95%	13.69%
Total capital ratio	18.49%	16.24%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, foreign currency translation and reserves. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the CRR regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and IRB excess of provisions over expected losses.

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2017 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU ('CRD IV') and in (EU) Regulation 575/2013 ('CRR') of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

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

For the sake of completeness, please note that Directive 2013/36/EU ('CRD IV') establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer ('CCyB') starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Slovakia by National Bank of Slovakia in relevant regulation, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the National Bank of Slovakia decided to set the countercyclical ratio (relating to the exposures towards Slovak counterparties) for period starting 1.8.2017 at 0.5% (bringing the total CET1 capital requirement to 10.75%).

The Overall Capital Requirement (OCR) was as of 1 January 2017 set at 13.75% (14.25% from 1.8.2018).

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

26. Financial commitments and contingencies

€ '000	2017	2016
Issued guarantees	783,667	764,156
Commitments and undrawn credit facilities	2,858,458	3,020,958
	3,642,125	3,785,114

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

The Bank enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 December 2017 and 31 December 2016 was as follows:

€ '000	2017	2016
Up to 1 year	741	696
1 to 5 years	1,224	450
	1,965	1,146

(d) Legal proceedings

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2017. Pursuant to this review, management has recorded total provisions of € 6,331 thousand (31 December 2016: € 25,465 thousand) in respect of such legal proceedings (see also note 23). The Bank will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 27,909 thousand, as at 31 December 2017 (31 December 2016: € 6,634 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

Provisions for legal cases have decreased by € 19,398 thousand compared to the previous period. On the basis of success in litigation and mainly as a result of an independent assessment, based on which management revised the expected probability of success, the provision was released (note 23).

27. Net interest income

€ '000	2017	2016
Interest and similar income		
Due from banks	2,176	839
Loans and advances to customers	342,993	344,460
of which interest expense from hedging instruments	(4,880)	(1,266)
Bonds, treasury bills and other securities:		
Financial assets at fair value through profit or loss	46	779
Available-for-sale financial assets	3,802	10,674
of which interest expense from hedging instruments	(4,921)	(7,966)
Held-to-maturity investments	17,209	22,860
	366,226	379,612
Interest and similar expense		
Due to banks	(971)	(1,328)
Due to customers	(20,918)	(18,955)
of which interest income from hedging instruments	373	–
Debt securities in issue	(25,280)	(26,012)
of which interest income form hedging instruments	7,468	6,310
	(47,169)	(46,295)
	319,057	333,317

Interest income on impaired loans and advances to customers for 2017 amounted to € 16,979 thousand (2016: € 26,873 thousand).

28. Net fee and commission income

€ '000	2017	2016
Fee and commission income		
Received from banks	8,154	6,109
Received from customers:		
Current accounts	57,925	55,024
Loans and guarantees	25,902	29,008
Transactions and payments	22,883	20,950
Securities	12,434	9,877
Insurance mediation	12,110	12,586
Overdrafts	3,319	4,874
Securities – Custody fee	2,408	1,861
Term deposits	159	285
Other	3,320	3,630
	148,614	144,204
Fee and commission expense		
Paid to banks	(14,473)	(14,036)
Paid to mediators:		
Credit cards	(30,239)	(38,707)
Services	(2,818)	(4,219)
Securities	(965)	(636)
Other	(472)	(451)
	(48,967)	(58,049)
	99,647	86,155

29. Net trading result

€ '000	2017	2016
Foreign currency derivatives and transactions	10,377	13,228
Customer FX margins	6,361	5,587
Interest rate derivatives*	(10,932)	16,825
Cross currency swaps*	17,734	(9,411)
Equity derivatives	(9)	16
Other derivatives	(4)	15
Dividends from equity shares held in FVTPL portfolio	212	163
Securities:		
Financial assets at fair value through profit or loss:		
Held for trading	(165)	1,042
Designated at fair value through profit or loss on initial recognition	83	(3)
Available-for-sale financial assets*	770	27,096
Held-to-maturity investments	1,208	–
Debt securities in issue*	14,720	(15,763)
	40,355	38,795

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

30. Other operating income and Dividend income

Other operating income

€ '000	2017	2016
Services	3,224	1,285
Rent	825	871
Financial revenues	554	353
Net profit from sale of fixed assets	542	403
Other	843	229
	5,988	3,141

Dividend income

€ '000	2017	2016
Dividend income	2,000	133,961

Dividend income in 2016 contains dividend from Consumer Finance Holding, a. s. in amount of € 128,000 received on 21 December 2016. The dividend was paid from retained earnings.

31. Salaries and employee benefits

€ '000	Note	2017	2016
Remuneration		(77,888)	(75,926)
Social security costs		(30,301)	(27,904)
Social fund	24	(1,395)	(1,345)
Severance and Jubilee benefits	24	(857)	(491)
Restructuring provision	23	(472)	(272)
		(110,913)	(105,938)

At 31 December 2017, the total number of employees of the Bank was 3,329 (31 December 2016: 3,454). The average number of employees of the Bank during the period ended 31 December 2017 was 3,331 (31 December 2016: 3,432).

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

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

€ '000	Note	2017	2016
IT systems maintenance		(21,914)	(18,888)
Property related expenses		(16,525)	(16,365)
Post and telecom		(9,042)	(10,136)
Advertising and marketing		(6,640)	(7,024)
Equipment related expenses		(4,802)	(4,479)
Resolution fund*		(4,489)	(5,438)
Stationery		(3,484)	(4,352)
Third parties' services		(2,887)	(2,030)
Security		(2,746)	(2,845)
Professional services		(2,405)	(1,144)
Insurance		(1,048)	(1,137)
Training		(696)	(1,135)
Travelling		(694)	(748)
Audit **		(560)	(562)
Transport		(527)	(597)
Contribution to the Deposit Protection Fund ***		(488)	(1,486)
VAT and other taxes		(253)	(251)
Litigations paid		(38)	(1,083)
Provisions for litigation	23, 26	19,134	(396)
Other provisions	23	(12)	(18)
Other operating expenses		(9,898)	(5,876)
		(70,014)	(85,990)

* Starting from 1 January 2015 the new Bank Recovery and Resolution Directive 2014/59/EU ('BRRD') is effective for all EU member states. The Directive was implemented to Slovak legislation by Act No. 371/2014 on Resolution. The Directive sets an obligation for the banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of the bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023.

** The fee for the statutory audit was € 207 thousand (31 December 2016: € 207 thousand). Other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the Bank's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h- 71k of the Act No. 566/2001 Coll on securities, audit of receivables towards a client of the bank for bankruptcy procedure purposes and agreed-upon procedures on the merger of a Bank's subsidiary with the Bank. These fees amounted to € 296 thousand (31 December 2016: € 274 thousand). Other audit not conducted by statutory auditor in the amount of € 57 thousand (31 December 2016: € 81 thousand).

*** The annual contribution for 2017 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2017, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2017 was set at 0.0075% p. q. of the amount of protected deposits.

At 31 December 2017 and 31 December 2016, the special levy recognized by the Bank was as follows:

€ '000	2017	2016
Special levy of selected financial institutions	(24,823)	(22,143)

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

As at 25 July 2014, the total amount of the levy paid by the financial institutions subject to levy exceeded the threshold of € 500,000 thousand and therefore, based on the amendment to the Act on the Special levy of selected financial institutions effective from 2015, the levy rate has been decreased to 0.2% p.a.

33. Impairment losses

€ '000	Note	2017	2016
Creation of impairment losses	13	(248,089)	(181,951)
Reversal of impairment losses	13	207,305	132,463
Net creation of impairment losses		(40,784)	(49,488)
Creation of liabilities – financial guarantees and commitments		(38,134)	(32,961)
Reversal of liabilities – financial guarantees and commitments		39,525	33,863
Net reversal of liabilities – financial guarantees and commitments	24	1,391	902
Nominal value of assets written-off/sold		(57,970)	(59,192)
Release of impairment losses to assets written-off/sold	13	43,991	33,207
		(13,979)	(25,985)
Proceeds from receivables written-off		4,445	5,234
Proceeds from receivables sold		10,880	22,391
		15,325	27,625
		(38,047)	(46,946)

34. Income tax expense

€ '000	Note	2017	2016
Current income tax		(40,484)	(46,112)
Deferred income tax	18	(2,682)	(245)
		(43,166)	(46,357)

The movement in deferred taxes in the statement of profit or loss and other comprehensive income is as follows:

€ '000	2017	2016
Due from banks	12	(1)
Available-for-sale financial assets	–	(126)
Loans and advances to customers	(3,671)	250
Property and equipment	135	270
Provisions	99	55
Other liabilities	2,079	(354)
Other	(1,336)	(339)
	(2,682)	(245)

The effective tax rate differs from the statutory tax rate in 2017 and in 2016. The reconciliation of the Bank's profit before tax with the actual corporate income tax is as follows:

		2017		2016	
€ '000	**Note**	**Tax base**	**Tax at applicable tax rate (21%)**	**Tax base**	**Tax at applicable tax rate (21%)**
Profit before tax		203,187	(42,669)	311,528	(68,536)
Tax effect of expenses that are not deductible in determining taxable profit:					
Creation of provisions and other reserves		71,553	(15,026)	76,233	(16,771)
Creation of impairment losses		208,365	(43,757)	399,508	(87,892)
Write-off and sale of assets		11,059	(2,322)	8,257	(1,817)
Other		10,373	(2,178)	22,398	(4,928)
		301,350	(63,283)	506,396	(111,408)
Tax effect of revenues that are deductible in determining taxable profit:					
Release of provisions and other reserves		(80,192)	16,840	(74,976)	16,495
Release of impairment losses		(227,901)	47,859	(388,937)	85,566
Dividends		(2,212)	465	(134,055)	29,492
Other		(1,924)	404	(646)	142
		(312,229)	65,568	(598,614)	131,695
Adjustments for current tax of prior periods		424	(89)	(9,695)	2,133
Withholding tax paid abroad – settlement of advance payments		54	(11)	(18)	4
Current income tax		192,786	(40,484)	209,597	(46,112)
Deferred income tax at 21%	18		(2,682)		(245)
Income tax expense			(43,166)		(46,357)
Effective tax rate			21.24%		14.88%

35. Other comprehensive income

€ '000	2017	2016
Items that will not be reclassified to profit or loss in the future		
Revaluation surplus from property and equipment Buildings and land	27,468	–
Items that may be reclassified to profit or loss in the future		
Cash flow hedges:		
Revaluation gains arising during the year	1,744	539
Available-for-sale financial assets:		
Revaluation gains/(losses) arising during the year	1,561	(21,068)
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	(1,072)	(8,660)
	489	(29,728)
Exchange differences on translating foreign operation	210	2
Total other comprehensive income	29,911	(29,187)
Income tax relating to components of other comprehensive income (note 36)	(6,236)	6,462
Other comprehensive income for the year	23,675	(22,725)

36. Income tax effects relating to other comprehensive income

			2017			2016
€ '000	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax (expense) /benefit	Net of tax amount
Items that will not be reclas sified to profit or loss in the future						
Revaluation surplus from property and equipment	27,468	(5,768)	21,700	–	–	–
Items that may be reclassified to profit or loss in the future						
Net movement on cash flow hedges	1,744	(366)	1,378	539	(129)	410
Available-for-sale financial assets	489	(102)	387	(29,728)	6,591	(23,137)
Exchange differences on transl. foreign operations	210	–	210	2	–	2
	2,443	(468)	1,975	(29,187)	6,462	(22,725)
	29,911	(6,236)	23,675	(29,187)	6,462	(22,725)

37. Related parties

Related parties are those counterparties that represent:

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

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

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

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

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

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

In 2017, the remuneration and other benefits provided to members of the Management Board were € 2,897 thousand (2016: € 2,403 thousand), of which the severance benefits € 66 thousand, and to members of the Supervisory Board € 126 thousand (2016: € 116 thousand).

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

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

2017 € '000	KMP*	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo Group companies	Total
Income and expense items							
Interest and similar income	4	2,496	–	–	161	–	2,661
Interest and similar expense	(5)	–	–	–	(28)	(5,919)	(5,952)
Fee and commission income	1	122	–	–	59	12,433	12,615
Fee and commission expense	–	(21,376)	–	–	(446)	(25)	(21,847)
Net trading result	–	–	–	–	(5,590)	(9,850)	(15,440)
Dividend income	–	–	2,000	–	–	–	2,000
Other operating income	–	3,183	71	–	712	839	4,805
Other operating expenses	–	(1,113)	–	–	(254)	(8,941)	(10,308)
	–	(16,688)	2,071	–	(5,386)	(11,463)	(31,466)

* Key management personnel

At 31 December 2016, the outstanding balances with related parties comprised:

31 December 2016 € '000	KMP*	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo Group companies	Total
Assets							
Due from banks	–	–	–	–	5,859	25,797	31,656
Derivative financial instruments	–	–	–	–	400	35,787	36,187
Loans and advances to customers	165	255,276	–	–	–	–	255,441
Financial assets at fair value through profit or loss	–	–	–	–	2,501	–	2,501
Other assets	–	300	7	–	–	1,426	1,733
	165	255,576	7	–	8,760	63,010	327,518
Liabilities							
Due to central and other banks	–	–	–	–	117,116	29,269	146,385
Derivative financial instruments	–	–	–	–	834	5,150	5,984
Due to customers	2,899	386	–	105	–	692	4,082
Subordinated debt	–	–	–	–	–	200,165	200,165
Debt securities in issue	–	–	–	–	–	381,216	381,216
Other liabilities	474	4,732	–	–	–	522	5,728
	3,373	5,118	–	105	117,950	617,014	743,560
Commitments and undrawn credit facilities	–	127,034	–	–	–	–	127,034
Issued guarantees	–	–	–	–	2,945	27,682	30,627
Received guarantees	–	–	–	–	84,723	43,415	128,138
Derivative transactions (notional amount – receivable)	–	–	–	–	514,156	1,904,111	2,418,267
Derivative transactions (notional amount – payable)	–	–	–	–	512,993	614,008	1,127,001

2016 € '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo Group companies	Total
Income and expense items							
Interest and similar income	4	1,977	–	–	258	2	2,241
Interest and similar expense	(7)	–	–	–	(83)	(5,940)	(6,030)
Fee and commission income	2	136	–	–	50	9,942	10,130
Fee and commission expense	–	(30,107)	–	–	(458)	(415)	(30,980)
Net trading result	–	–	–	–	117	32,217	32,334
Dividend income	–	128,000	1,605	–	–	4,356	133,961
Other operating income	–	1,306	103	–	660	520	2,589
Other operating expenses	–	(1,176)	–	–	(430)	(2,438)	(4,044)
	(1)	100,136	1,708	–	114	38,244	140,201

38. Profit distribution

On 24 March 2017, the Bank's shareholders approved the following profit distribution for 2016.

€ '000	
Dividends to shareholders (€ 5.55 per € 33.2 share)	72,020
Retained earnings	193,151
	265,171

The Management Board will propose the following 2017 profit distribution:

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

39. Events after the end of the reporting period

From 31 December 2017, up to the date when these financial statements were approved by the Management Board, there the following events were identified that require disclosure in these financial statements.

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

On 11 December 2017, VUB Bank 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, a. s. and VÚB Leasing, a. s. as successor companies as at 1 January 2018.

From 31 December 2017, up to the date when these financial statements were approved by the Management Board, there were no further events identified that would require adjustments to these financial statements.

Information on Securities issued by the Bank

Mortgage bonds issued by the Bank

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., XX.	SK4120004946 series 01	9.3.2006	9.3.2021	EUR	331,939.19	50	4.30%	annually	no
Mortgage bonds VÚB, a.s., XXX.	SK4120005547 series 01	5.9.2007	5.9.2032	EUR	33,193.92	1,000	5.00%	annually	no
Mortgage bonds VÚB, a.s., 31	SK4120005679 series 01	29.11.2007	29.11.2037	EUR	33,193.92	600	4.90%	annually	no
Mortgage bonds VÚB, a.s., 36	SK4120005893 series 01	31.3.2008	31.3.2020	EUR	33,193.92	560	4.75%	annually	no
Mortgage bonds VÚB, a.s., 43	SK4120006271 series 01	26.9.2008	26.9.2025	EUR	33,193.92	500	5.10%	annually	no
Mortgage bonds VÚB, a.s., 57	SK4120007436 series 01	30.9.2010	30.9.2018	EUR	1,000,000.00	100	6M EURIBOR +1.31%	semi- annually	no
Mortgage bonds VÚB, a.s., 58	SK4120007642 series 01	10.12.2010	10.12.2019	EUR	1,000,000.00	80	6M EURIBOR +1.80%	semi- annually	no
Mortgage bonds VÚB, a.s., 62	SK4120008004 series 01	28.7.2011	28.7.2018	EUR	1,000,000.00	100	6M EURIBOR + 1.99%	semi- annually	no
Mortgage bonds VÚB, a.s., 67	SK4120008228 series 01	29.11.2011	29.11.2030	EUR	50,000.00	300	5.35%	annually	no
Mortgage bonds VÚB, a.s., 72	SK4120008608 series 01	21.6.2012	21.6.2027	EUR	100,000.00	250	4.70%	annually	no
Mortgage bonds VÚB, a.s., 73	SK4120008624 series 01	11.7.2012	11.7.2022	EUR	100,000.00	500	4.20%	annually	no
Mortgage bonds VÚB, a.s., 74	SK4120008939 series 01	16.1.2013	15.12.2023	EUR	100,000.00	700	3.35%	annually	no
Mortgage bonds VÚB, a.s., 75	SK4120009093 series 01	5.4.2013	5.4.2019	EUR	100,000.00	300	2.00%	annually	no
Mortgage bonds VÚB, a.s., 76	SK4120009101 series 01	22.4.2013	22.4.2018	EUR	10,000.00	309	2.40%	annually	no
Mortgage bonds VÚB, a.s., 77	SK4120009259 series 01	20.6.2013	20.6.2018	CZK	100,000.00	5,000	1.80%	annually	no
Mortgage bonds VÚB, a.s., 78	SK4120009820 series 01	3.3.2014	3.3.2020	EUR	10,000.00	905	2.16%	annually	no
Mortgage bonds VÚB, a.s., 79	SK4120009846 series 01	24.3.2014	24.9.2020	EUR	1,000.00	10,000	2.00%	annually	no
Mortgage bonds VÚB, a.s., 80	SK4120009879 series 01	27.3.2014	27.3.2021	EUR	1,000,000.00	31	1.85%	annually	no
Mortgage bonds VÚB, a.s., 81	SK4120009887 series 01	27.3.2014	27.3.2024	EUR	1,000,000.00	38	2.55%	annually	no
Mortgage bonds VÚB, a.s., 82	SK4120010042 series 01	16.6.2014	16.12.2020	EUR	1,000.00	1,701	1.65%	annually	no
Mortgage bonds VÚB, a.s., 83	SK4120010141 series 01	28.7.2014	28.7.2019	EUR	100,000.00	500	0.90%	annually	no

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., 84	SK4120010182 series 01	29.9.2014	30.9.2019	EUR	100,000.00	500	0.60%	annually	no
Mortgage bonds VÚB, a.s., 85	SK4120010364 series 01	14.11.2014	14.11.2029	EUR	100,000.00	500	2.25%	annually	no
Mortgage bonds VÚB, a.s., 86	SK4120010646 series 01	27.4.2015	27.4.2020	EUR	100,000.00	1,000	0.30%	annually	no
Mortgage bonds VÚB, a.s., 87	SK4120010794 series 01	9.6.2015	9.6.2025	EUR	100,000.00	1,000	1.25%	annually	no
Mortgage bonds VÚB, a.s., 88	SK4120011040 series 01	11.9.2015	11.9.2020	EUR	100,000.00	965	0.50%	annually	no
Mortgage bonds VÚB, a.s., 89	SK4120011065 series 01	29.9.2015	29.9.2025	EUR	100,000.00	1,000	1.20%	annually	no
Mortgage bonds VÚB, a.s., 90	SK4120011149 series 01	29.10.2015	29.10.2030	EUR	100,000.00	1,000	1.60%	annually	no
Mortgage bonds VÚB, a.s., 91	SK4120011529 series 01	21.3.2016	21.3.2023	EUR	100,000.00	1,000	0.60%	annually	no
Mortgage bonds VÚB, a.s., 92	SK4120011792 series 01	27.6.2016	27.6.2019	USD	100,000.00	700	1.70%	annually	no
Mortgage bonds VÚB, a.s., 93	SK4120012469 series 01	18.1.2017	18.1.2024	EUR	100,000.00	2,500	0.50%	annually	no
Mortgage bonds VÚB, a.s., 94	SK4120012824 series 01	27.4.2017	27.4.2027	EUR	100,000.00	2,500	1.05%	annually	no
Mortgage bonds VÚB, a.s., 95	SK4120013251 series 01	26.9.2017	26.9.2022	EUR	100,000.00	2,500	0.375%	annually	no

All mortgage bonds issued by VÚB, a.s., are bearer bonds in book entry form. No person took any guarantee for the repayment of the nominal value and/or coupon payment.

As of 31 December 2017 VÚB, a.s., did not issue and did not decide to issue bonds with pre-emption rights or convertible rights associated therewith.

The bonds are transferable to another holder without any restrictions. The rights associated with the bonds are based on the terms and conditions of the bonds pursuant to Act No. 530/1990 Coll. on Bonds as amended, Act No 566/2001 Coll. on Securities as amended and in accordance with applicable legislation.

Investment certificates issued by the Bank

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Investment certificates VÚB, a.s., 2018	SK5110000406 series 01	29.6.2015	29.6.2018	EUR	1.00	224,800	0.00%	–	no
Investment certificates VÚB, a.s., 2019	SK5110000570 series 01	13.6.2016	13.6.2019	EUR	1.00	115,800	0.00%	–	no
Investment certificates VÚB, a.s., 2018 02	SK5110000679 series 01	23.6.2017	23.6.2018	EUR	1.00	12,000	0.00%	–	no
Investment certificates VÚB, a.s., 2020	SK5110000687 series 01	23.6.2017	23.6.2020	EUR	1.00	48,000	0.00%	–	no
Investment certificates VÚB, a.s., 2018 03	SK5110000737 series 01	19.12.2017	19.12.2018	EUR	1.00	9,600	0.00%	–	no
Investment certificates VÚB, a.s., 2020 02	SK5110000745 series 01	18.12.2017	18.12.2020	EUR	1.00	38,400	0.00%	–	no

During the accounting year 2017, the company issued the Investment certificates VÚB, a.s., 2018 02, Investment certificates VÚB, a.s., 2020, Investment certificates VÚB, a.s., 2018 03 and Investment certificates VÚB, a.s., 2020 02. The reason for issuing these certificates was to fulfil the obligations arising from the Act on Banks no. 483/2001 as amended in conjunction with Regulation EU No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and the internal procedure of VÚB, a.s. – Remuneration Policy. Based on these documents, part of the variable component of total compensation, severance payments, retirement allowances and other compensation payable to selected personnel acc. to § 23a par. 1 of the Act on Banks is provided in the form of securities or other financial instruments.

Investment certificates issued by VUB, a.s., are registered securities in book-entry form. No person has taken any guarantee for the repayment of the nominal value and/or coupon payment.

No pre-emption or convertible rights are associated with investment certificates.

Investment certificates are not transferable to another holder. The rights associated with the investment certificates are based on the applicable legislation of the Slovak Republic, in particular on Act No 566/2001 Coll. on Securities as amended and in the relevant prospectus of the investment certificates.

List of VUB Retail Branches

Name	Postcode	Address	Tel. No.	Fax No.
Regional Retail Business Network Bratislava				
Bratislava – Poštová	811 01	Poštová 1	02/4855 3087	02/54417939
Bratislava – Aupark	851 01	Einsteinova 18	02/4855 3209	02/63451260
Bratislava – Páričkova	821 08	Páričkova 2	02/5055 2219	02/55566636
Bratislava – Ružinov	827 61	Kaštielska 2	02/4856 3451	02/43339369
Bratislava – Polus	831 04	Vajnorská 100	02/4855 3280	02/44441185
Bratislava – Gorkého	813 20	Gorkého 7	02/4855 3029	02/54131208
Bratislava – Dúbravka	841 01	Sch. Trnavského 6/A	02/4855 3115	02/64286205
Bratislava – Eurovea	811 09	Pribinova 8	02/4855 3250	02/55561876
Bratislava – Dolné Hony	821 06	Kazanská 41	02/4855 3268	02/45258300
Bratislava – OC Centrál	821 08	Metodova 6	02/4855 3327	02/55425941
Bratislava – Avion	82104	Ivánska cesta 16	02/4855 3343	02/43420315
Bratislava – Šintavská	851 05	Šintavská 24	02/4855 3308	02/63837097
Bratislava – Dunajská	811 08	Dunajská 24	02/4855 3126	02/52967136
Bratislava – Devínska N. Ves	841 07	Eisnerova 48	02/4855 3163	02/64776550
Bratislava – Špitálska	811 01	Špitálska 10	02/4855 3392	02/52965422
Bratislava – Vlastenecké nám.	851 01	Vlastenecké námestie 6	02/4855 3206	02/62248138
Bratislava – Furdekova	851 04	Furdekova 16	02/4855 3422	02/62414278
Bratislava – Lamač	841 03	Heyrovského 1	02/4855 3146	02/64780726
Bratislava – Dlhé Diely	841 05	Ľ. Fullu 5	02/4855 3376	02/65316602
Bratislava – Karlova Ves	841 04	Borská 5	02/4855 3215	02/65425825
Bratislava – OC BORY MALL	841 03	Lamač 6780	02/4855 3437	
Bratislava – Dulovo nám.	821 08	Dulovo nám. 1	02/4855 3053	02/55969455
Bratislava – Rača	831 06	Detvianska 22	02/4855 3324	02/44871025
Bratislava – Herlianska	821 03	Komárnická 11	02/4855 3313	02/4342 5604
Bratislava – Kramáre	831 01	Stromová 54	02/4855 3230	02/54788084
Bratislava – Magnifica	811 09	Pribinova 8	02/4855 3476	
Mortgage Centres				
Bratislava – Poštová	811 01	Poštová 1	02/4855 3005	02/54417956
Bratislava – Aupark	851 01	Einsteinova 18	02/5955 8426	02/55567829
Bratislava – Páričkova	821 08	Páričkova 2	02/5055 2264	02/55567829
Regional Retail Business Network West				
Trnava – Dolné bašty	917 68	Dolné bašty 2	033/485 4409	033/5333056
Piešťany	921 01	Námestie slobody 11	033/485 4531	033/7721080
Nové Zámky	940 33	Hlavné námestie 5	035/485 4722	035/6400841
Komárno	945 23	Tržničné námestie 1	035/485 4759	035/7730652
Dunajská Streda	929 35	Alžbetínske nám. 328	031/485 4013	031/5516205
Galanta	924 41	Mierové námestie 2	031/485 4044	031/7806029
Topoľčany – Moyzesova	955 19	Moyzesova 585/2	038/485 6208	038/5228061
Malacky	901 01	Záhorácka 15	034/485 6094	034/7723848
Hlohovec	920 01	Podzámska 37	033/485 4515	033/7425571
Trnava – Hlavná	917 68	Hlavná 31	033/485 4491	033/5511725
Senica	905 33	Nám. oslobodenia 8	034/485 6015	034/6517900
Šaľa	927 00	Hlavná 5	031/485 4068	031/7704576

Bánovce nad Bebravou	957 01	Námestie Ľ. Štúra 5/5	038/485 6275	038/7602993
Partizánske	958 01	L. Svobodu 4	038/485 6280	038/7497247
Nové Mesto nad Váhom	915 01	Hviezdoslavova 19	032/485 4290	032/7715070
Pezinok	902 01	Štefánikova 14	033/485 4599	033/6413077
Senec	903 01	Námestie 1. mája 25	02/4855 3292	02/45924248
Stupava	900 31	Mlynská 1	02/4855 3256	02/65936735
Trnava – Arkadia	917 01	Veterná 40/A	033/485 4552	033/5936643
Holíč	908 51	Bratislavská 1518/7	034/485 6072	034/6684473
Myjava	907 01	Nám. M.R.Štefánika 525/21	034/485 6058	034/6212595
Skalica	909 01	Potočná 20	034/485 6043	034/6646778
Šamorín	931 01	Hlavná 64	031/485 4094	031/5624305
Sereď	926 00	Cukrovarská 3013/1	031/485 4083	031/7894650
Vrbové	922 03	Nám. Slobody 285/9	033/485 4277	033/7792696
Topoľčany – Pribinova	955 01	Pribinova 2	038/485 6252	038/5326900
Stará Turá	916 01	SNP 275/67	032/485 4304	032/7763445
Hurbanovo	947 01	Komárňanská 98	035/485 4782	035/7602216
Ivanka pri Dunaji	900 28	Štefánikova 25/A	02/4855 3405	02/45945042
Leopoldov	920 41	Hollého 649/1	033/485 4559	033/7342290
Smolenice	919 04	SNP 81	033/485 4564	033/5586610
Kúty	908 01	Nám. Radlinského 981	034/485 6076	031/6597790
Šaštín – Stráže	908 41	Námestie slobody 648	034/485 6081	034/6580591
Veľký Meder	932 01	Komárňanská 135/22	031/485 4116	031/5552284
Gabčíkovo	930 05	Mlynársky rad 185/1	031/485 4106	031/5594995
Zlaté Klasy	930 39	Hlavná 836/17	031/485 4117	031/5692073
Sládkovičovo	925 21	Fučíkova 131	031/485 4108	031/7841835
Tvrdošovce	941 10	Bratislavská cesta 3	035/485 4796	035/6492201
Kolárovo	946 03	Palkovicha 34	035/485 4788+	035/7772550
Dolné Vestenice	972 23	M. R. Štefánika 300	046/485 7162	046/5498308
Trnava – Magnifica	917 68	Dolné bašty 2	033/485 4429	
Mortgage Centres				
Trnava – Dolné bašty	917 68	Dolné bašty 2	033/485 4440	033/5333055

Regional Retail Business Network Centre

Prievidza	971 01	Námestie slobody 10	046/485 7104	046/5426878
Banská Bystrica	975 55	Námestie slobody 1	048/485 5516	048/4505641
Nitra – Štefánikova 44	949 31	Štefánikova 44	037/485 4843	037/6528754
Levice	934 01	Štúrova 21	036/485 6109	036/6312600
Zvolen	960 94	Námestie SNP 2093/13	045/485 6820	048/4123908
Nitra – OC Mlyny	949 01	Štefánikova 61	037/485 4874	037/4854930
Žiar nad Hronom	965 01	Námestie Matice slov. 21	045/485 6871	045/6707840
Lučenec	984 35	T. G. Masaryka 24	047/485 7200	047/4331501
Veľký Krtíš	990 20	Novohradská 7	047/485 7253	047/4805687
Rimavská Sobota	979 13	Francisciho 1	047/485 7240	047/5631213
Zlaté Moravce	953 00	Župná 10	037/485 4884	037/6321266
BB – SC Európa	974 01	Na troskách 26	048/485 5389	048/4145101
Handlová	972 51	SNP 1	046/485 7151	046/5476418
Nováky	972 71	Andreja Hlinku 457	046/485 7160	046/5461145
Prievidza – Bojnická cesta	971 01	Bojnická cesta 15	046/485 7114	046/5482436

Vráble	952 01	Levická 1288/16	037/485 4914	037/7833023
Centro Nitra	949 01	Akademická 1/A	037/485 4919	037/6512013
Štúrovo	943 01	Hlavná 59	036/485 6146	036/7511308
Šurany	942 01	SNP 25	035/485 4773	035/6500044
Želiezovce	937 01	Komenského 8	036/485 6159	036/7711088
Turčianske Teplice	039 01	Hájska 3	043/485 6726	043/4924015
Brezno	977 01	Boženy Němcovej 1/A	048/485 5371	048/6115595
Banská Bystrica – Dolná	975 55	Dolná 17	048/485 5406	048/4123908
Banská Štiavnica	969 01	Radničné námestie 15	045/485 6904	045/6921047
Nová Baňa	968 01	Námestie slobody 11	045/485 6939	045/6855115
Žarnovica	966 81	Námestie SNP 26	045/485 6953	045/6812380
Krupina	963 01	Svätotrojičné námestie 8	045/485 6930	045/5511431
Hriňová	962 05	Hriňová 1612	045/485 6896	045/5497221
Detva	962 11	M. R. Štefánika 65	045/485 6912	045/5455461
Zvolen – SC Európa	960 01	Námestie SNP 9690/63	045/485 6833	
Fiľakovo	986 01	Biskupická 1	047/485 7278	047/4382227
Hnúšťa	981 01	Francisciho 372	047/485 7285	047/5422241
Tornaľa	982 01	Mierová 37	047/485 7295	047/5522676
Revúca	050 01	Námestie slobody 3	058/485 8979	058/4421515
Nitrianske Pravno	972 13	Námestie SNP 389	046/485 7152	046/5446437
Nitra – Štefánikova 7	949 31	Štefánikova 7	037/485 4903	037/7412057
Šahy	936 01	Hlavné námestie 27	036/485 6153	036/7411723
Kremnica	967 01	Medzibránie 11	045/485 6948	045/6743861
Poltár	987 01	Sklárska 289	047/485 7291	047/4223370
Vinica	991 28	Cesta slobody 466/41	047/485 7303	047/4891502
Nitra – Magnifica	949 31	Štefánikova 44	037/485 4839	
Banská Bystrica – Magnifica	975 55	Námestie slobody 1	048/485 5647	
Mortgage Centres				
Nitra	949 31	Štefánikova 44	037/485 4838	037/6528754
Banská Bystrica	975 55	Námestie slobody 1	048/485 5516	048/4505670

Regional Retail Business Network North

Považská Bystrica	017 21	Nám. A. Hlinku 23/28	042/485 6523	042/4309841
Žilina	010 43	Na bráne 1	041/485 6308	041/7247136
Martin	036 01	M. R. Štefánika 2	043/485 6627	043/4247297
Trenčín	911 62	Mierové námestie 37	032/485 4244	032/7431450
Poprad	058 17	Mnoheľova 2832/9	052/485 7843	052/7721182
Čadca	022 24	Fraňa Kráľa 1504	041/485 6389	041/4331095
Dubnica nad Váhom	018 41	Nám. Matice slov. 1712/7	042/485 6556	042/4425027
Púchov	020 01	Námestie slobody 1657	042/485 6574	042/4642368
Dolný Kubín	026 01	Radlinského 1712/34	043/485 6686	043/5864006
Liptovský Mikuláš	031 31	Štúrova 19	044/485 7021	044/5514925
Žilina – Dubeň	010 08	Vysokoškolákov 52	041/485 6418	041/5000316
Žilina – Aupark	010 01	Veľká okružná 59A	041/485 6337	041/50921181
Ružomberok	034 01	Podhora 48	044/485 7048	044/4323146
Trenčín – OC Laugarício	911 01	Belá 7271	032/485 4321	032/6421717
Trenčín – Legionárska	911 01	Legionárska 7158/5	032/485 4215	032/6401649
Ilava	019 01	Mierové námestie 77	042/485 6504	042/4465902

Nová Dubnica	018 51	Mierové námestie 29/34	042/485 6583	042/4434032
Bytča	014 01	Sidónie Sakalovej 138/1	041/485 6410	041/5533579
Žilina – Nám. A. Hlinku	010 43	Nám. A. Hlinku 1	041/485 6413	041/5626194
Kysucké Nové Mesto	024 01	Námestie Slobody 184	041/485 6435	041/4213687
Turzovka	023 54	R. Jašíka 20	041/485 6447	041/4352579
Námestovo	029 01	Hviezdoslavovo nám. 200/5	043/485 6703	043/5523175
Tvrdošín	027 44	Trojičné nám. 191	043/485 6746	043/5322658
Trstená	028 01	Nám. M. R. Štefánika 15	043/485 6714	043/5392559
Vrútky	038 61	1. čsl. brigády 12	043/485 6738	043/4284133
Martin – OC Tulip	036 01	Pltníky 2	043/485 6669	043/4134713
Kežmarok	060 01	Hviezdoslavova 5	052/485 7899	052/4524806
Spišská Belá	059 01	SNP 2522	052/485 7935	052/4581022
Poprad – OC Forum	058 01	Nám. sv. Egídia 3290/124	052/485 7922	052/7723192
OC MAX Poprad	058 01	Dlhé hony 4588/1	052/485 7941	052/4523258
Liptovský Hrádok	033 01	J. Martinku 740/56	044/485 7058	044/5221397
Lednické Rovne	020 61	Námestie slobody 32	042/485 6598	042/4693217
Rajec	015 01	Hollého 25	041/485 6438	041/5422877
Nižná	027 43	Nová Doba 481	043/485 6754	043/5382162
Svit	059 21	Štúrova 87	052/485 7917	052/7755154
Trenčín – Zámostie	911 05	Zlatovská 2610	032/485 4311	032/6523321
Zákamenné	029 56	Zákamenné 23	043/485 6761	043/5592295
Liptovský Mikuláš – OC Jasná	031 31	Garbiarska 695	044/485 7060	044/5528361
Trenčín – Magnifica	911 01	Legionárska 7158/5	032/485 4200	
Žilina – Magnifica	010 43	Na bráne 1	041/485 6305	
Mortgage Centres				
Trenčín	911 01	Legionárska 7158/5	032/485 4218	032/7434947
Žilina	010 43	Na bráne 1	041/485 6326	041/5678051
Poprad	058 17	Mnoheľova 2832/9	052/485 7817	052/7721140

Regional Retail Business Network East

Prešov	081 86	Masarykova 13	051/485 7541	051/7356362
Michalovce	071 80	Námestie slobody 3	056/485 8402	056/6441077
Rožňava	048 73	Šafárikova 21	058/485 8962	058/7326421
Spišská Nová Ves	052 14	Letná 33	055/485 7605	053/4410422
Stará Ľubovňa	064 01	Nám. SV. Mikuláša 27	052/485 7877	052/4323491
Vranov nad Topľou	093 01	Námestie slobody 6	057/485 8545	057/4406439
Bardejov	085 61	Kellerova 1	054/485 8312	054/4746389
Humenné	066 80	Námestie slobody 26/10	057/485 8511	057/7705141
Košice – Štúrova	042 31	Štúrova 27/A	055/485 8019	055/6229334
Košice – Hlavná 1	042 31	Hlavná 1	055/485 8139	055/6226250
Košice – Letná	040 01	Letná 40	055/485 8169	055/6259979
Trebišov	075 17	M.R. Štefánika 3197/32	056/485 8436	056/6725901
Levoča	054 01	Nám. Majstra Pavla 38	053/485 7624	053/4514316
Krompachy	053 42	Lorencova 20	053/485 7638	053/4472251
Gelnica	056 01	Banícke nám. 52	053/485 7634	053/4821104
Sabinov	083 01	Námestie slobody 90	051/485 7590	051/4523492
Lipany	082 71	Nám. sv. Martina 8	051/485 7584	051/4572777
Prešov – Hlavná	080 01	Hlavná 61	051/485 7569	051/7723617

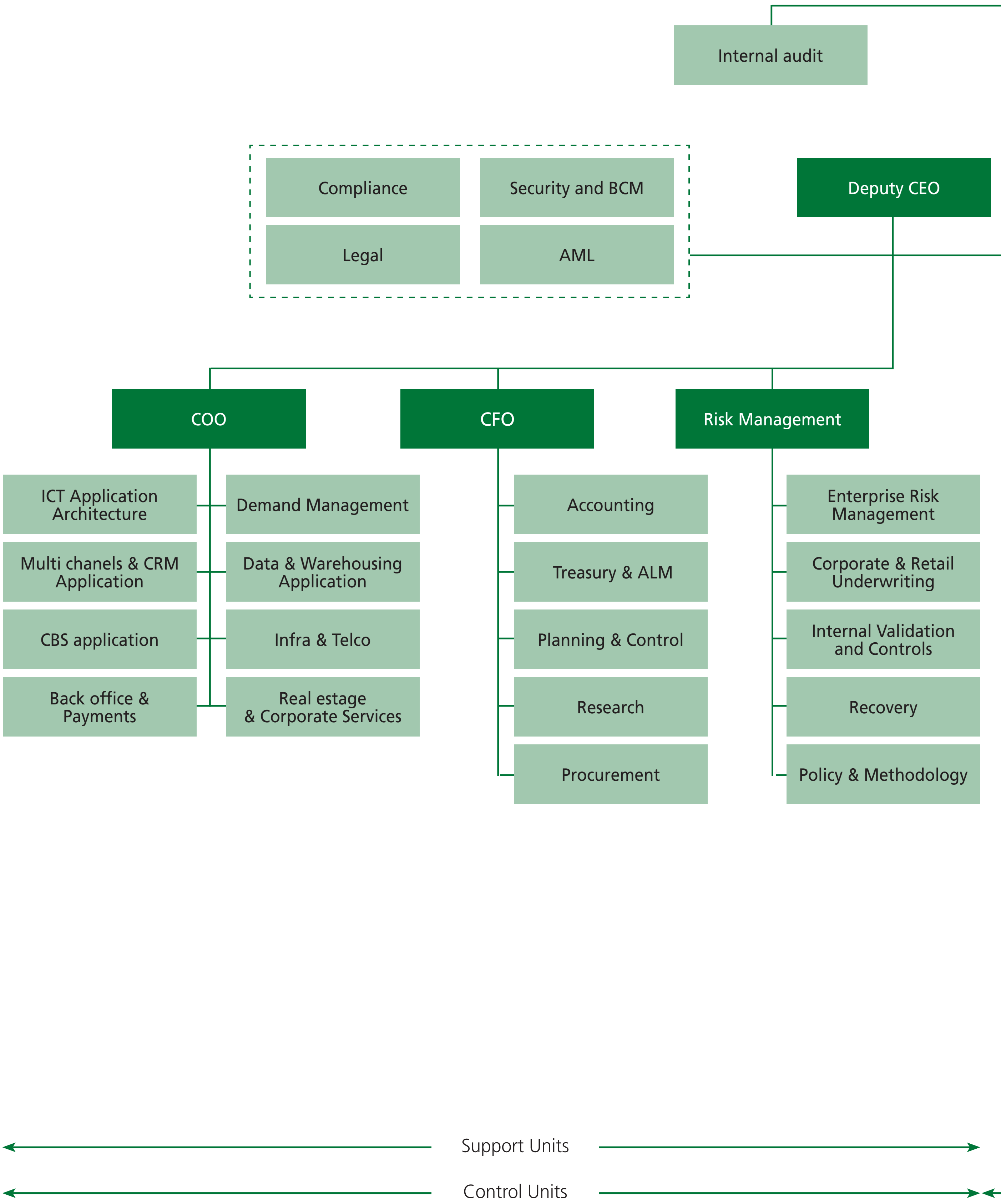
OC MAX Prešov	080 01	Vihorlatská 2A	051/485 7582	051/7757079
Svidník	089 27	Centrálna 584/5	054/485 8340	054/7521691
Stropkov	091 01	Mlynská 692/1	054/485 8349	054/7423714
Snina	069 01	Strojárska 2524	057/485 8565	057/7622328
Medzilaborce	068 10	Mierová 289/1	057/485 8586	057/7321546
Košice – Bukovecká	040 12	Bukovecká 18	055/485 8177	055/6746253
Košice – OC Optima	040 11	Moldavská cesta 32	055/485 8183	055/6461043
Košice – Hlavná 41	040 01	Hlavná 41	055/480 8210	055/6223987
Košice – OC Galéria	040 11	Toryská 5	055/485 8217	055/6421011
Košice – Bačíkova	042 81	Bačíkova 2	055/485 8127	055/6786083
Moldava nad Bodvou	045 01	Hviezdoslavova 13	055/485 8105	055/4602992
Michalovce – mesto	071 01	Nám. Osloboditeľov 2	056/485 8466	056/6424281
Kráľovský Chlmec	077 01	Hlavná 710	056/485 8476	056/6321045
Veľké Kapušany	079 01	Sídl.P.O.Hviezdoslava 79	056/485 8480	056/6383043
Spišské Podhradie	053 04	Mariánske nám. 22	053/485 7641	053/4541257
Hanušovce nad Topľou	094 31	Komenského 52	057/485 8580	057/4452805
Giraltovce	087 01	Dukelská 58	054/485 8355	054/7322625
Košice – Trieda L. Svobodu	040 22	Trieda L. Svobodu 12	055/485 8201	055/6718160
Košice – Sídlisko KVP	040 23	Trieda KVP 1	055/485 8193	055/6429673
Košice – Ťahanovce	040 13	Americká trieda 15	055/485 8188	055/6366063
Strážske	072 22	Nám.A.Dubčeka 300	056/485 8470	056/6491633
Sobrance	073 01	Štefánikova 9	056/485 8494	056/6523300
Sečovce	078 01	Nám.Sv.Cyrila a Metoda 41/23	056/485 8488	056/6782277
Podolinec	065 03	Ul. Sv. Anny 1	052/485 7931	052/4391295
Prešov – Magnifica	081 86	Masarykova 13	051/485 7501	
Košice – Magnifica	042 31	Štúrova 27/A	055/485 8013	
Mortgage Centres				
Prešov	081 86	Masarykova 13	051/485 7558	051/7734609
Košice	042 31	Štúrova 27/A	055/485 8031	055/6229334

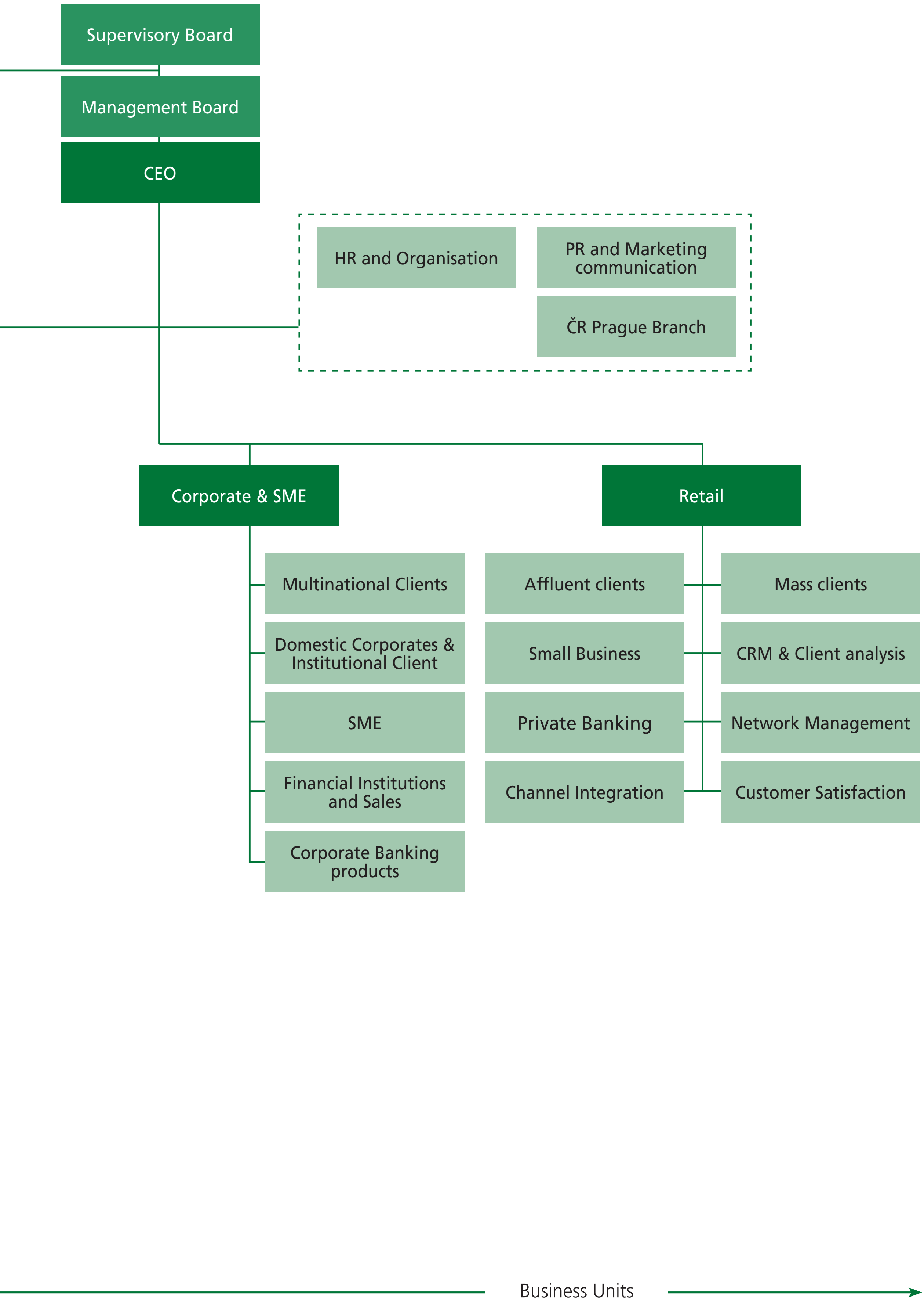
List of VUB Corporate Branches

Corporate Business Centre Bratislava		
BRATISLAVA	Mlynské nivy 1	02 / 5055 2765
Corporate Business Centre Bratislava 2		
BRATISLAVA	Mlynské nivy 1	02 / 5055 2600
Corporate Business Centre Trnava		
TRNAVA	Dolné bašty 2	033 / 485 4447
SENICA	Nám. oslobodenia 8	034 / 485 6037
Corporate Business Centre Nitra		
NITRA	Štefánikova 44	037 / 485 4844
TOPOĽČANY	Moyzesova 585/2	038 / 485 6237
LEVICE	Štúrova 21	036 / 485 6134
Corporate Business Centre Nové Zámky		
NOVÉ ZÁMKY	Hlavné námestie 5	035 / 485 4738
KOMÁRNO	Tržničné nám. 1	035 / 485 4766
GALANTA	Mierové námestie 2	031 / 485 4054
DUNAJSKÁ STREDA	Alžbetínske nám. 328	031 / 485 4025
Corporate Business Centre Trenčín		
TRENČÍN	Legionárska 7158/5	032 / 485 4230
POVAŽSKÁ BYSTRICA	Nám. A. Hlinku 23/28	042 / 485 6537
Corporate Business Centre Žilina		
ŽILINA	Na bráne 1	041 / 485 6346
MARTIN	M.R.Štefánika 2	043 / 485 6661
ČADCA	Fraňa Kráľa 1504	041 / 485 6400
DOLNÝ KUBÍN	Radlinského 1712/34	043 / 485 6696
Corporate Business Centre Banská Bystrica		
ŽIAR NAD HRONOM	Nám. Matice slovenskej 21	045 / 485 6883
PRIEVIDZA	Námestie slobody 10	046 / 485 7137
ZVOLEN	Námestie SNP 2093/13	045 / 485 6842
BANSKÁ BYSTRICA	Námestie slobody 1	048 / 485 5506
Corporate Business Centre Lučenec		
LUČENEC	T.G. Masaryka 24	047 / 485 7224
RIMAVSKÁ SOBOTA	Francisciho 1	047 / 485 7248
Corporate Business Centre Poprad		
POPRAD	Mnoheľova 2832/9	052 / 485 7866
LIPTOVSKÝ MIKULÁŠ	Štúrova 19	044 / 485 7035
SPIŠSKÁ NOVÁ VES	Letná 33	053 / 485 7623
Corporate Business Centre Prešov		
PREŠOV	Masarykova 13	051 / 485 7564
BARDEJOV	Kellerova 1	054 / 485 8330
VRANOV NAD TOPĽOU	Námestie slobody 6	057 / 485 8560
HUMENNÉ	Námestie slobody 26/10	057 / 485 8523
Corporate Business Centre Košice		
KOŠICE	Štúrova 27/A	055 / 485 8046
MICHALOVCE	Námestie slobody 3	056 / 485 8430

Organization Chart of VUB

as at 31 December 2017

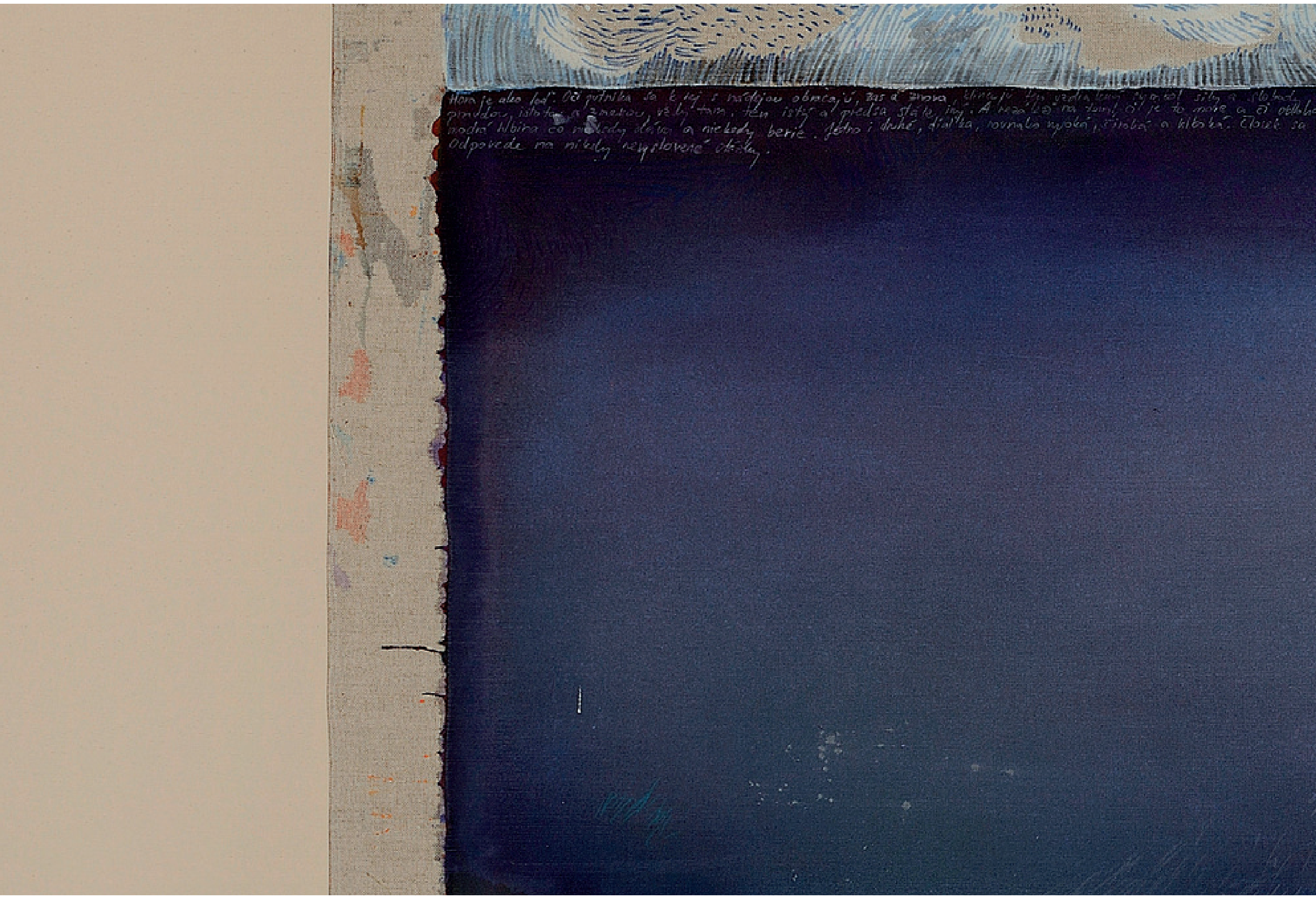




Supervisory Board
Management Board
CEO
HR and Organisation
PR and Marketing communication
ČR Prague Branch
Corporate & SME
Retail
Multinational Clients
Domestic Corporates & Institutional Client
SME
Financial Institutions and Sales
Corporate Banking products
Affluent clients
Small Business
Private Banking
Channel Integration
Mass clients
CRM & Client analysis
Network Management
Customer Satisfaction
Business Units

ŽOFIA DUBOVÁ
*1991, Bratislava
Over the mountain
2016, acrylic, fixa, and coloured pencils on canvas, 190 × 165 cm

The author of the painting, Žofia Dubová is the winner of the twelfth year of the Maľba competition. This project, schemed to support the young Slovak art, is organised by the VUB Bank along with the VUB Foundation. The Maľba competition during the past 12 years of its existence in Slovakia literally revived the painting scene and became a major event for young artists. The award-winning art works selected by international experts, prominent art gallery owners, active artists, art historians and art theoreticians represent the contemporary trends in Slovak painting.


Odpovede na nikdy nevyslovené otázky.