Basel 3 Pillar 3
NBS decree 16/2014
and Part Eight of Regulation (EU) No. 575/2013
Disclosure as at 31 December 2020

VÚB BANKA

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1. Introduction

The purpose of the Third pillar of Basel 3, “market discipline", is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), by encouraging market discipline through the development of a set of disclosure requirements that will allow market participants to assess key pieces of information on the scope of application, regulatory capital, risk exposures, risk assessment processes, and therefore the capital adequacy of the institution. Such disclosures have particular relevance under the new framework introduced by Basel 3, where reliance on internal methodologies gives banks more discretion in assessing capital requirements.

The procedures to be adopted by Slovak banks or banking groups when disclosing information (referred to in brief as Pillar 3) to the public have been laid down by the National Bank of Slovakia Decree 16/2014. This document includes the disclosures set by the Regulation (EU) no. 575/2013 of the European Parliament and of the Council.

All amounts, unless otherwise indicated, are presented in thousands of euro (‘€’). Negative values are presented in brackets.

Disclosures that do not contain any information because they do not apply to the VUB Group are not published.

The VUB Group publishes this disclosure (Basel 3 Pillar 3) and subsequent updates on its Internet site at the address www.vub.sk.

VÚB BANKA

2. Requirements according to the National Bank of Slovakia Decree 16/2014 as amended

2.1 Information about VUB Group

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.

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 (please refer to section 3 for detailed description of companies included in the consolidation).

Organization Chart of the bank[1]
Supervisory Board
- ➢ 0110 Internal Audit

Management Board
Governance Centre CEO
- ➢ 0170 PR and Marketing Communication
- ➢ 0190 HR & Organization
- ➢ 220 VUB CR Prague Branch
- ➢ 03 Corporate and SME
- • 0330 Small and Medium Enterprises
- • 0340 Multinational Clients
- • 0360 Domestic Corporates & Institutional Client
- • 0370 Financial Institutions and Sales
- • 0310 Corporate Banking products
- • 0390 GTB Sales Support
- ➢ 04 Retail
- • 0410 Multichannel and CRM
- • 0420 Small Business
- • 0460 Affluent clients and Private banking
- • 0440 Mass clients
- • 0470 Channel Integration
- • 0491 Quatro

Governance Centre CEO Deputy
- ➢ 0150 AML
- ➢ 0160 Compliance
- ➢ 0180 Legal
- ➢ 05 Chief financial officer
- • 0520 Accounting
- • 0580 Treasury and ALM
- • 0540 Procurement
- • 0550 Planning and Control
- ➢ 06 Chief operating officer
- • 0611 Logistics
- • 0650 Back office & Payments
- • ICT
- • 0621 Data & Warehousing Applications
- • 0631 Infrastructure & Telecommunications
- • 0641 Demand Management
- • 0661 Multi channels & CRM applications
- • 0671 CBS applications
- • 0681 ICT Applications architecture
- ➢ 07 Risk Management
- • 0720 Internal Validation and Controls
- • 0730 Enterprise Risk Management
- • 0740 Corporate and Retail Underwriting
- • 0770 Recovery
- • 0790 Policy and Methodology

[1] NBS decree 16/2014, §1, section 1a)

VÚB BANKA

Headcount

Total number of employees:	3,566
thereof Managers:	480
Members of the Management Board:	7

Date of registration in the Companies Register[2]

1.1.1990 - Registration in the Public Companies Register
1.4.1992 - Registration in the Companies Register

Bank license issued

1.1.1990 – for VUB, Inc.

Commencement date of the execution of licensed banking activities

1.1.1990

[2] NBS decree 16/2014, §1, section 1b)

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List of business activities according to the bank license[3]
In compliance with § 2 of the Banking Act No 483/2001, the bank, except of
acceptance of deposits and provision of loans, may carry on the following banking activities;
1. provision of payment services and settlement;
2. investments in securities on Bank´s behalf, provision of the investment services, activities and supporting business
3. trading on the bank's own account:
   a) with money market financial instruments in EUR and foreign currency, with gold, including exchange operations;
   b) with capital market financial instruments in EUR and foreign currency;
   c) in precious metal coins, commemorative bank notes and coins, bank note sheets and circulating coin sets;
4. management of client's receivable on the client's account, including related advisory services;
5. financial leasing;
6. provision of guarantees, opening and validation of Letters of Credit;
7. providing advisory services in commercial matters;
8. issuance of securities, participation in issuance of securities, and provision of related services;
9. financial mediation services;
10. things deposit;
11. lease of safe deposit boxes;
12. provision of banking information;
13. special mortgage business under Section § 67 art. 1 of the Banking Act;
14. depositary duty pursuant to specific regulations;
15. managing banknotes and coins;
16. issuing and administration of electronic money.

In compliance with § 79a section 1 and in connection with § 6 section 1 and 2 of the Act No. 566/2001 Coll. On securities and investment services provision of the investment services, activities and ancillary services to the following extent:

(i) reception and transmission of client's order regarding one or several financial instruments related to financial instruments:
   a) transferable securities;
   b) Money Market instruments;
   c) fund shares or securities issued by foreign collective investment undertakings;
   d) options, futures, swaps, forwards and other derivatives related to securities, currencies, interest rates or incomes, or other derivatives instruments, financial indices or financial rates, that may be settled upon delivery or in cash;
   e) options, swaps and forwards related to commodities, that must be settled in cash or may be settled in cash based on the option of one of the counterparties; it is not applicable if the settlement is due to a default or another event resulted in agreement termination;
   f) options and swaps related to commodities, that may be settled in cash, if traded in a controlled market or in multilateral trading system;
   g) options, swaps and forwards related to authorizations to issues, inflation rates, that must be settled in cash or may be settled in cash at the option of one of the parties (it is not applicable if the settlement is due to a default or another event resulted in agreement termination),

(ii) execution of client's instruction related to financial instrument on his/her account:
   a) transferable securities;
   b) Money Market instruments;
   c) fund shares or securities issued by foreign collective investment undertakings
   d) options, futures, swaps, forwards and other derivatives related to securities, currencies, interest rates or incomes, or other derivatives instruments, financial indices or financial rates, that may be settled upon delivery or in cash;
   e) options, swaps and forwards related to commodities, that must be settled in cash or may be settled in cash based on the option of one of the counterparties; it is not applicable if the settlement is due to a default or another event resulted in agreement termination;
   f) options, and swaps related to commodities, that may be settled in cash, if traded in a controlled market or in multilateral trading system;
   g) options, swaps and forwards related to authorizations to issues, inflation rates, that must be settled in cash or may be settled in cash at the option of one of the parties (it is not applicable if the settlement is due to a default or another event resulted in agreement termination),

(iii) trading on Bank´s account related to financial instruments:
   a) transferable securities;
   b) Money Market instruments;
   c) fund shares or securities issued by foreign collective investment undertakings;

[3] NBS decree 16/2014, §1, section 1c)

d) options, futures, swaps, forwards and other derivatives related to securities, currencies, interest rates or incomes, or other derivatives instruments, financial indices or financial rates, that may be settled upon delivery or in cash;
e) options, swaps and forwards related to commodities, that must be settled in cash or may be settled in cash based on the option of one of the counterparties; it is not applicable if the settlement is due to a default or another event resulted in agreement termination;
f) options and swaps related to commodities, that may be settled in cash, if traded in a controlled market or in multilateral trading system;
g) options, swaps and forwards related to authorizations to issues, inflation rates, that must be settled in cash or may be settled in cash at the option of one of the parties (it is not applicable if the settlement is due to a default or another event resulted in agreement termination);

(iv) portfolio management related to financial instruments:
a) transferable securities;
b) Money Market instruments;
c) fund shares or securities issued by foreign collective investment undertakings;
d) options, futures, swaps, forwards and other derivatives related to securities, currencies, interest rates or incomes, or other derivative instruments, financial indices or financial measures that may be settled upon delivery or in cash;

(v) investment Counselling related to financial instruments:
a) transferable securities;
b) Money Market instruments;
c) fund shares or securities issued by foreign collective investment undertakings;

(vi) underwriting and placing of financial instruments based on firm commitment related to financial instruments:
a) transferable securities,
b) fund shares or securities issued by foreign collective investment undertakings,

(vii) placing of financial instruments without firm commitment related to financial instruments:
a) transferable securities,
b) Money Market instruments,
c) fund shares or securities issued by foreign collective investment undertakings,

(viii) safekeeping and management of financial instruments procured on client's account, including custody management, and related services, primarily management of funds and financial collaterals related to financial instruments:
a) transferable securities,
b) Money Market instruments,
c) fund shares or securities issued by foreign collective investment undertakings,

(ix) granting the borrowings and loans to investor and arranging performance of deal involving one or several financial instruments, if the Lender or the Creditor is engaged in the deal;

(x) counselling related to capital structures and business strategy and providing advisory and services associated with company's merger, amalgamation, change, split or purchase;

(xi) executing deals with Foreign Currency, if related to investment services;

(xii) performing investment survey and financial analysis or other form of recommendation related to deals with financial instruments;

(xiii) services associated with financial instruments´ underwriting;

(xiv) reception and transmission of client orders in relation to one or more financial instruments, execution of orders on behalf of clients, and dealing on own account, related to the underlying of the derivatives – forwards relating to emission allowances that must be settled in cash or may be settled at the option of one of the parties (otherwise than by reason of insolvency or other termination event) where these are connected to the provision of investment or ancillary services concerning abovementioned derivatives.

Banking Supervision Decree No-169/2001 dated 9.2.2001

– generation and distribution of heat, and distribution of electricity to the extent of the VÚB application

Banking Supervision Decree No-192/2000 dated 11.2.2000

- activities related to lease and management of real estate and non-residential premises to the extent of the VÚB application

Banking Supervision Decree No-2057/2002 dated 3.1.2003

- printing and enveloping of invoices, bank account statements, and distribution of letters to the bank's subsidiaries and clients through Slovak Post Office;
- procurement of services related to projects, information technologies, acquisition of computer equipment, applications, data processing, and services related to IT security on behalf of the bank's subsidiaries;
- arrangements in respect of certification of electronic signatures and issuance of PKI keys as an integral part of electronic banking services ensuring secure and incontestable data interchange between the bank and its client;
- bookkeeping on behalf of the bank's subsidiaries and subsidiaries thereof;
- provision of administrative support for the sale of products and provision of expert support and management of selected intermediaries concurrently monitoring and evaluating their obligations within the scope of the authorized banking activity – financial intermediation (Article 2 (2) (h) of the Act on Banks);
- provision of advisory services for activities in the field of administrative support, risk management, and treasury within the scope of the authorized banking activity - provision of business advisory services (Article 2 (2) (h) of the Act on Banks)

Banking Supervision Decree No-UBD-1174/2003 dated 5.8.2003

- preparation of financial and administrative agenda as well as personnel and salary related agenda for the subsidiaries

Banking Supervision Decree No- OPK-11106-2/2009 dated 19.8.2009

- mediation of entering into a license agreement on use of computer product VUB CryptoPlus by and between MONET+, a. s. and clients of VUB, a.s.

Banking Supervision Decree No- OPK-7365-2/2009 dated 19.6.2009

- keeping books of all mutual funds of the subsidiary VÚB Asset Management, správ. spol., a.s.

Banking Supervision Decree No- UDK-057/2006/PAGP dated 21.8.2006

- intermediation of the insurance and secure as an independent financial agent and tied financial agent.

Banking Supervision Decree No ODT-5789/2014-3 dated 19.8.2014, which amends the Decree No. UDK-057/2006/PAGP by extending it for providing of loans and providing of consumer loans.

List of licensed but not conducted business activities[4]
VUB Bank does not provide portfolio management services.

List of business activities conduct of which has been restricted, suspended or cancelled by the relevant authority[5]
Non-performed activities have not been kept in Bank in the 4th quarter 2020.

Quotation of the statement section of the lawful decision imposing a corrective measure during the calendar quarter[6]
Non-performed activities have not been kept in Bank in the 4th quarter 2020.

Quotation of the statement section of the lawful decision imposing a penalty during the calendar quarter[7]
Non-performed activities have not been kept in Bank in the 4th quarter 2020.

The regularly updated individual and consolidated financial information about the bank[8] can be found on the following web page: https://www.vub.sk/en/financial-indicators/information-about-bank-activities/

[4] NBS decree 16/2014, §1, section 1d)
[5] NBS decree 16/2014, §1, section 1e)
[6] NBS decree 16/2014, §1, section 1f)
[7] NBS decree 16/2014, §1, section 1g)
[8] NBS decree 16/2014 §1, section 2 a-b)

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Aggregate amount of exposures for VUB Group as at 31 December 2020 [9]

	Gross carrying amount in ths. EUR			
	Assets without significant increase in credit risk since initial recognition (Stage 1)	**Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)**	**Credit-impaired assets (Stage 3)**	**Defaulted exposures**
Central banks	1,389,264	-	-	-
Financial assets at AC:				
Credit institutions	206,126	-	-	-
Public Administration	126,202	26,717	-	-
Corporate	4,478,108	601,259	63,779	63,779
Retail	8,861,776	561,966	302,640	302,640
	13,672,212	1,189,942	366,419	366,419
Financial assets at FVOCI - debt securities	1,611,015	-	-	-
Financial commitments and contingencies	4,767,567	94,192	17,229	17,229

[9] NBS decree 16/2014 §1, section 2c-f)

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Information on ten major bank shareholders who possess at least a 5% share in the registered capital of a bank, and on the amount of their shares in the registered capital of a bank and in the voting rights in a bank[10]

a) natural person: none

b) natural person – entrepreneur: none

c) legal person:

1. name (trade name)	Intesa Sanpaolo Holding International S. A.
2. legal form and registered office	a joint – stock company, Luxembourg
3. identification and matriculation number	0001000779; B 44318
4. principal business activity	acquisition of capital participations
5. share in the bank's registered capital	97.03%
6. share in the bank's voting rights	97.03%

d) municipality or higher territorial unit: none

e) National Property Fund of the Slovak Republic: does not hold minimum of 5% share

f) state authority: none

Information on other shareholders not given on previous pages and on the amount of their shares in the registered capital of a bank[11]

a) number of bank shareholders	27,409
b) total share in the bank's registered capital	2.97%
c) share in the voting rights in the bank	2.97%

[10] NBS decree 16/2014 §1, section 5a-b)

[11] NBS decree 16/2014 §1, section 6a-c)

Encumbered and unencumbered assets[12]

The VUB Group's encumbered and unencumbered assets as at 31 December 2020:

				EUR thousand
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Assets of the reporting institution	**3,933,084**		**15,295,135**	
Loans on demand	127,714		670,811	
Equity instruments	-	-	14,232	14,232
Debt securities	50,226	50,226	1,760,655	1,756,839
Loans and advanced other than loans on demand	3,755,145		12,101,917	
Other assets	-		747,521	

The VUB Group's collateral received as at 31 December 2020:

		EUR thousand
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	-	-
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or ABSs	-	-

The VUB Group's sources of encumbrance as at 31 December 2020:

		EUR thousand
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	3,448,480	3,800,280

[12] NBS decree 16/2014 §2, section 2) and Regulation (EU) no. 575/2013 article 443

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Information about the importance of encumbrance:

The main sources of pledged assets are issued covered bonds (‘CBs’). Their issuance is based on the actual legislation. Another significant source of pledged assets is pool of securities and loans held in European Central Bank for monetary operations and intraday loan.
During year 2020, nominal value of pledged securities and loans on pooling account in ECB were in range of € 508 mil. and € 1,522 mil.
The value of CBs placed within the ISP group amounts to 0% of total value of CBs.
The level of overcollateralization of CBs is equal to the amount of provided mortgage loans to the outstanding amount of issued and placed CBs.
Pledged assets related to issued covered bonds and monetary operations with ECB are driven by law and General contract signed by VUB and NBS respectively.
Bank does not consider other assets than liquid assets according to LCR, loans and bonds as available for pledge.

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Information about Covered Bonds and Mortgage Bonds[13]

Part A

Total overview of issued bonds and their coverage

				CD and re-registered MB					MB				
No.r.	**Characteristics**	**Amount**	**Accrued Interest / relative value**	**Amount per Currency**					**Amount**	**Accrued Interest**	**Amount per Currency**		
				EUR	**USD**	**GBP**	**CZK**	**Other**			**USD**	**CZK**	**Other**
a	**b**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**11**	**12**	**13**
1	Nominal amount of issued bonds (in ths. EUR)	3,315,304	14,611	3,317,005	0	0	0	0	0	0	0	0	0
2	*out of which: on own account*	-	0	0	0	0	0	0					
3	Number of issues	23		23	0	0	0	0	0		0	0	0
4	Weighted average maturity of outstanding amount of CB and MB (in years)	4.8		4.8	0	0	0	0	0		0	0	0
5	Weighted average interest rate of CB and MB	0.86%		0.86%	0.00%	0.00%	0.00%	0.00%	0		0	0	0
6	Anticipated liabilities (in ths. EUR)	26.6		26.6	0	0	0	0					
7	Cover pool (in ths. EUR)	3,730,650	3,688	3,730,650	0	0	0	0	0	0	0	0	0
8	Current coverage ratio		112.17						0				
9	Legal coverage	166,497	5.00%										
10	Higher coverage	0	0										
11	Current rating of issued CB and MB	Aa2							0				

[13] NBS decree 16/2014 §1, section 2h)

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Part B

Nr.r.	Asset structure of the cover pool	Total Amount (in ths. EUR)	Share of the Cover Pool	Amount per Currency					Total Amount	Share of the Cover Pool	Amount per Currency		
				EUR	USD	GBP	CZK	Other			USD	CZK	Other
a	b	1	2	3	4	5	6	7	8	9	11	12	13
12	Base assets / Base coverage	3,680,502	98.66%	3,680,502	0	0	0	0	0	0	0	0	0
13	Substitute assets / Substitute coverage	0	0.00	0	0	0	0	0	0	0	0	0	0
14	Hedging derivatives	0	0.00	0	0	0	0	0					
15	Liquid assets	50,147	1.34%	50,147	0	0	0	0					

Part C
Residual maturity structure of issued bonds and covering assets

Nr.r.	Time horizon	CB and re-registered MB			MB		
		Total Amount (in ths. EUR)	Base Asset Amount (in ths. EUR)	Substitute Asset Amount (in ths. EUR)	Total Amount	Base Coverage (asset value)	Substitute Coverage (asset value)
a	b	1	2	3	4	5	6
26	from 0 - to 1 year including	47,597	2,199	0	0	0	0
27	from 1 - to 2 years including	300,000	6,388	0	0	0	0
28	from 2 - to 5 years including	1,924,597	55,944	0	0	0	0
29	from 5 - to 10 years including	990,000	234,403	0	0	0	0
30	from 10 - to 15 years including	33,194	382,088	0	0	0	0
31	from 15 - to 20 years including	19,916	704,470	0	0	0	0
32	from 20 - to 25 years including	0	981,523	0	0	0	0
33	from 25 - to 30 years including	0	1,312,403	0	0	0	0
34	**Weighted average maturity in years**	4.8	21.15	0	0	0	0

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Part D
Regional breakdown of assets by place of immovable collateral

Nr.r.	Place of immovable collateral	CB and re-registered MB			MB		
		Immovable Collateral Value (in ths. EUR)	Base Assets Value (in ths. EUR)	Weighted Average Interest Rate	Collateral Value	Base Assets Value	Weighted Average Interest Rate
a	b	1	2	3	4	5	6
16	Bratislava - city	1,760,067	911,824		0	0	
17	Banská Bystrica Region	479,328	240,097		0	0	
18	Bratislava Region (without Bratislava-city)	836,786	428,328		0	0	
19	Košice Region	652,380	336,609		0	0	
20	Nitra Region	731,126	383,624		0	0	
21	Prešov Region	536,481	260,593		0	0	
22	Trenčín Region	653,529	322,812		0	0	
23	Trnava Region	864,251	433,668		0	0	
24	Žilina Region	755,628	362,947		0	0	
25	**SR - total**			1.25			0

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Legal entity controlling VÚB, a.s.[14]

Trade name	% share	Registered office	Company ID No.
Intesa Sanpaolo Holding International S.A.	97.03	35 Boulevard du Prince Henri, L-1724, Luxembourg, Luxembourg	B 44318

Legal entities controlled by the shareholder controlling VÚB, a.s.
(The Group of Intesa Sanpaolo Holding International S.A. Luxembourg)

Trade name	% share	Registered office	Company ID No.
Intesa Sanpaolo Bank Luxembourg	100.00	19-21 Boulevard du Prince Henri, L-1724 Luxembourg, (Luxembourg)	B 13859
Banca Intesa ad Beograd	100.00	Milentija Popovica 7b, 11070 Beograd, Serbia and Montenegro	7759231
Privredna Banka Zagreb d.d.	97.47	Rackoga 6, HR-10000 Zagreb, Croatia	MBS 080002817
Banca Intesa (Russia)	53.02	Bld, 2, Petroverigski per, Moscow, 101000 Russian Federation	7708022300
Intesa Sanpaolo Servitia S.A.	100.00	12, Avenue de la Liberté, L-1930 Luxembourg, Luxembourg	B 14241
Exelia S.r.l	100.00	Regione Brasov STR. Ionescu Crum N°1, Corp C2, Tower 2, Et.1.,Brasov,Romania	J08/821/2009
Intesa Sanpaolo Harbourmaster III S.A.	100.00	35 Boulevard du Prince Henri, L-1724, Luxembourg, Luxembourg	B210947
IMI Finance Luxembourg S.A	100.00	35 Boulevard du Prince Henri, L-1724, Luxembourg, Luxembourg	B66762
Intesa Sanpaolo International Value Services Ltd	100.00	Radnicka cesta 44, HR-1000 Zagreb, Croatia	MBS 081287872

Legal entity controlling Intesa Holding Sanpaolo International S.A. Luxembourg

Trade name	% share	Registered office	Company ID No.
Intesa Sanpaolo S.p.A.	100.00	Piazza San Carlo 156, 10121 Torino, Italy	799960158

[14] NBS decree 16/2014 §1, section 7

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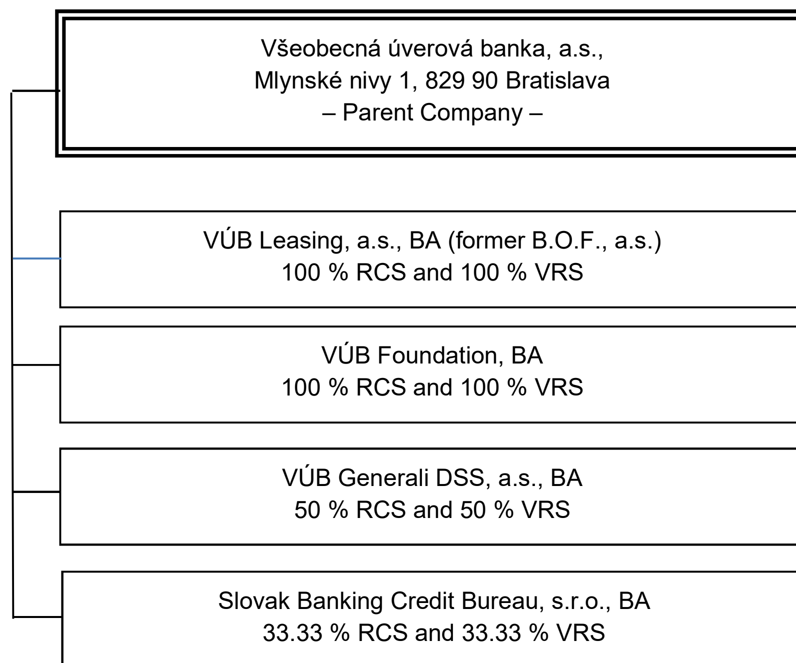
Chart of consolidated VUB Group



RCS = Registered Capital Stake
VRS = Voting Right Share

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Share of VUB Bank on the equity and voting rights of the individual members of the consolidated group headed by VUB Bank

Business Name	Registered Office	Registered Capital Stake of VUB	Voting Rights Share of VUB	Core Business
VÚB Leasing, a.s. IČO: 31 318 045	Mlynské nivy 1, Bratislava	100%	100%	Financial and operating leasing
Nadácia VÚB IČO: 30 856 043	Mlynské nivy 1, Bratislava	100%	100%	Public Beneficial Activity
VÚB Generali DSS, a.s. IČO: 35 903 058	Mlynské nivy 1, Bratislava	50%	50%	Pension fund management
Slovak Banking Credit Bureau, s.r.o. IČO: 35 869 810	Malý trh 2/A, Bratislava	33.33%	33.33%	Automated data processing

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

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3. Requirements under Part Eight of Regulation (EU) No 575/2013 (the CRR)

Remuneration[15]

The following remuneration information stated in items 1 (a) to f) describes the policy and rules of VÚB, a.s. valid for the calendar year 2020. The quantitative information contained in points 1 (g) to (j) represents income of selected positions given for calendar year 2019 in 2020.

1. Institutions shall disclose at least the following information, regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile:

a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders

Remuneration Committee acts in VÚB a.s. is a body established by a decision of the Supervisory Board of VÚB, a.s. (hereinafter to as "VUB" or "Bank") in accordance with the Act on Banks and related legislation, the Bank´s Articles of association and the Parent Company´s Guidelines on Remuneration. It has fundamental role in process of preparation, adoption, changes and control of implementation of the Bank Remuneration Policies of the selected positions. Committee has 3 (three) members appointed and recalled by the VÚB Supervisory Board. The committee shall be constituted in such a way as to enable it to exercise competent and independent judgment on remuneration policies and practices and the effects of remuneration n the management of risk, capital and liquidity.

Fundamental roles of the Remuneration Committee:

a) independently assess the compensation principles of the selected positions and their impact on the management of risk, own funds and liquidity and its findings shall be submitted to VÚB Supervisory board and VÚB Management Board;
b) 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 VÚB;
c) takes into account the long-term interests of shareholders, investors and other stakeholders of the Bank in and the public interest preparing its decisions;
d) supervises remuneration of the selected positions (including the list of Legal Entity Risk Takers identified according to the criteria set out in the 604/2014/RTS);
e) assesses the fixed remuneration pay levels for the Chairman & CEO, D.CEO, the other Management Board Members and the Heads of Internal Control Functions;
f) with regard to the Chairman & CEO, D.CEO, the other Members of the Management Board and the Heads of Control Functions, reviews the assignment of the KPIs and targets of the performance scorecards, the assessment of the level of achievement against performance targets and the amount of the bonus to be paid.
g) performs other tasks in compliance with the Act on Banks (no. 483/2001) and the Act on Securities (no. 566/2001) about Securities and investment services and about changes and supplements to other Acts;
h) reviews – involving the Bank's control functions – the Remuneration Policy at least on an annual basis and assess the compliance of its implementation with the Bank's policies and possible procedures for remuneration and with the relevant regulations, standards, principles and codes. A report on the conducted procedure must be submitted to the Bank´s Supervisory Board. If deficiencies in the Remuneration Policy or in its implementation are identified then the Remuneration Committee shall adopt a remedial plan and start with its implementation without delay;
i) provides support and advice to the Bank's Management Board on the design of the Remuneration Policy.

During year 2020 the Remuneration Committee met seven time.

b) information on link between performance pay and performance

In the risk taker identification process bank follows the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 that defines qualitative and quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (so called "Risk Takers") and the Act on Banks, Act on Securities and ISP definition and guidelines

[15] NBS decree 16/2014 §2, section 2) and Regulation (EU) no. 575/2013 article 450

- qualitative criteria, which relate to the role, the decision-making power and managerial responsibilities of the personnel and are aimed at identifying top management members, risk takers and the personnel engaged in control functions;
- quantitative criteria, which relate to the thresholds associated with the level of total gross remuneration attributed to a member of the personnel, in absolute or relative terms, and to the parameters that enable to place the personnel in the same remuneration range as that one applicable to top management and risk takers.

However, institutions are entitled to determine that, based on objective conditions and in accordance with specific restrictions laid down in the Regulations, certain personnel members, identified only on the basis of quantitative criteria, have no actual significant impact.

The above-mentioned process is annually implemented – and, with reference to qualitative criteria, updated over the year – as provided for under Rules for identifying Staff that have a material impact on the risk profile of Intesa Sanpaolo Group which is an integral part of remuneration and incentive policies and which punctually defines the adopted criteria and logics, the roles and responsibilities of the departments involved and the traceability and formalisation of the assessment process and the consequent outcomes.

For the year 2020, 37 Risk Takers were identified.

Considering the above mentioned, VUB Remuneration Policy defines rules for providing fixed and variable components for the following identified personnel (in compliance with the Act on Banks, Act on Securities and ISP definition and guidelines) as follows:

Incentive system is subject to three conditions:

1. Minimum activation conditions required by the Regulator.

   The minimum conditions required by the Regulator are based on the principles of financial sustainability of the remuneration variable component and therefore represent an assessment of the "quality" of income results achieved and the consistency with the limits envisaged in the Risk Assessment Framework (RAF).

   Bonus pool is available only if the following minimal Regulator's requirements are fulfilled:

   - <u>At ISP Group level:</u>

   1. Common Equity Tier Ratio (CET1) at least equal to the limit set by the RAF (capital adequacy condition);
   2. Net Stable Funding Ratio (NSFR) at least equal to the limit set by the RAF (liquidity condition);
   3. No loss and positive Gross Income (except for the Network Incentive System).

   - <u>At VÚB Group level:</u>

   1. Common Equity Tier Ratio (CET1) at least equal to the limit set by VÚB Group RAF (capital adequacy condition);
   2. Net Stable Funding Ratio (NSFR) at least equal to the limit set by VÚB Group RAF (liquidity condition).

   Non-achievement of even only one of the above conditions results in non-activation of the incentive system.

2. Financing conditions envisaged by the bonus funding mechanism.

   The Incentive Systems are funded by a structured bonus pool mechanism that, in order to ensure sustainability, is indexed to the level of achievement of ISP Group's Gross Income, as main profitability driver.

   More in detail, the funding of the bonus pool is:

   - defined by ISP with a *top-down* approach;
   - calculated *according* to the level of Gross Income;
   - allocated to finance *Incentive Systems of the Division* and, within this, the Incentive Systems of the Bank.

   In compliance with ISP Group Remuneration and Incentive Policies and in line with the principle of financial sustainability, the bonus pool allocated at the Division depends on its level of reached Gross Income. In case this level is below the pre-defined Access Threshold, only a portion of the Division bonus pool is available (once ISP Group gates are activated).

3. Individual access condition.

   Payment of the individual bonus is proportional to the level of achievement of the individual performance objectives and, in any case, subject to the verification of the individual compliance breaches.

c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria

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The remuneration policy is based on the following principles:

a) alignment of the conduct of management and employees with the interests of shareholders, the medium and long-term strategies and the company objectives, as part of the set rules aimed at accurate monitoring the current and future corporate risks and maintenance of an adequate level of liquidity and capitalisation
b) merit, to guarantee better matching with actual performance and the managerial quality identified
c) equity, in order to promote proper conduct and standardise treatment in terms of remuneration
d) external competitiveness of total annual remuneration, obtained through periodic specialist surveys, in order to attract and retain the best management and professional resources on the market
e) sustainability, to limit expense deriving from application of the policy to value compatible with medium- and long-term strategies and annual targets
f) compliance with the local and European legal and regulatory provisions, especially the Act on Banks, European Parliament and Council Act (EU) no. 2019/876, amending Regulation (EU) no.575/2013, Commission Delegated Regulation (EU) No 604/2014, Act on Securities, European Parliament and Council Directive 2014/65/EU (MIFID II), Commission Delegated Regulation (EU) 2017/565.

Total compensation consists of:

a) fixed component - The fixed component is the component of the remuneration that is stable and irrevocable in nature and determined on the basis of pre-established and non-discretionary criteria such as: the contractual framework, the role held, the responsibilities assigned, the particular experience and the expertise acquired by the employee;
b) variable component – The variable component is linked to the employee's performance and aligned to the results actually achieved and the risks prudentially assumed, and consists of.

Fixed Component of the total remuneration of the person according to §23a par. 1 of the Act on Banks must be adequately balanced with the variable component of the total remuneration.
The fixed Component of total remuneration should represent a sufficiently high proportion of remuneration to allow for a flexible policy on variable components of total remuneration, including the possibility of not paying any variable components of total remuneration.

Although not linked to performance objectives, the retention bonuses are tied to the period of employment of the personnel. This is paid for a certain period of time or until a given event, recognized not before the end of this period or upon the occurrence of the event and it contributes to the calculation of the cap between the variable and fixed component of remuneration, on a linear pro-rata basis during the retention period. In compliance with ISP Group Policies, this type of bonus is subject to the pay-out schemes of the variable remuneration.

Severance Payment is subject to the rules set for the short-term variable remuneration in compliance with the requirements of VUB Remuneration Policy.

In order to properly address conflicts of interest members of the Supervisory Board are compensated only with fixed remuneration. Incentive-based mechanisms based on the performance of the institution are excluded (Ref. EBA/GL/2015/22, par. 171).

The variable component of the remuneration for the selected personnel acc. to §23a par. 1 of the Act on Banks is regulated by the following guidelines:

For the selected personnel according to §23a par. 1 of the Act on Banks who, regardless of the macro-segment they belong to, accrue a particularly high amount of variable remuneration

- 60% of the variable component must be subject to deferred payment
- deferral period is 5 years
- deferred portion is subject to the appropriate ex-post adjustment mechanisms to reflect, among other things, the levels of performance net of the risks actually taken or ensuring, up to significant reduction or elimination in the event of results that are substantially lower than forecasts or negative
- a significant portion of at least 55% of the variable component must be provided in the form of shares or financial instruments that adequately reflect the bank’s credit quality on an on-going basis. For this purpose, ISP shares or VUB investment certificates are used.

For the selected personnel according to §23a par. 1, letter a) to c) of the Act on Banks

- 50% of the variable component must be subject to deferred payment, if the amount exceeds the materiality threshold (§23b par. 19, letter b of the Act on Banks) (hereinafter also referred to as the “materiality threshold”)
- deferral period is 5 years

- deferred portion is subject to the appropriate ex-post adjustment mechanisms to reflect, among other things, the levels of performance net of the risks actually taken or ensuring, up to significant reduction or elimination in the event of results that are substantially lower than forecasts or negative
- a significant portion of at least 55% of the variable component must be provided in the form of shares or financial instruments that adequately reflect the bank's credit quality on an on-going basis. For this purpose, ISP shares or VUB investment certificates are used.

For the selected personnel according to §23a par. 1, letter d) to f) of the Act on Banks
- 40% of the variable component must be subject to deferred payment, if the amount exceeds the materiality threshold
- deferral period is 4 years
- deferred portion is subject to the appropriate ex-post adjustment mechanisms to reflect, among other things, the levels of performance net of the risks actually taken or ensuring, up to significant reduction or elimination in the event of results that are substantially lower than forecasts or negative
- a significant portion of at least 50% of the variable component must be provided in the form of shares or financial instruments that adequately reflect the bank's credit quality on an on-going basis. For this purpose, ISP shares or VUB investment certificates are used.

d) the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU

The Remuneration Policy defines balanced pay mix for the selected personnel acc. to § 23a par. 1 of the Act on Banks. Its aim is to prevent behavior that is excessively oriented to risk, to discourage initiatives focused solely on the achievement of short-term results and to manage possible conflict of interest.

The maximum bonus is equal to cap (100% of Base Salary for Business/Governance Functions; 33% of Base Salary for Control Functions).

e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based

Variable part of total compensation can only be paid if the following indicators at VÚB Group level are reached:

- Common Equity Tier Ratio at least equal to the limit envisaged in the Risk Appetite Framework (RAF),
- Net Stable Funding Ratio at least equal to the limit envisaged in the RAF,
- No individual violation of compliance constraints.

The amount of variable part of total compensation directly depends on the individual performance of each function evaluated via KPI's fulfilment (Key Performance Indicators) divided between quantitative and qualitative goals. Individual KPI's represent one of four strategic drivers (profitability, growth, cost of risk / sustainability, productivity). These KPI's are set regularly for each function taking into consideration his/her function within VUB. Within each Strategic driver, individual KPIs are set in a cascading way and in consistency with strategic budget directions. Each KPI has a minimum weight of 10% and a maximum of 30%.
The minimum threshold of achievement for the Quantitative Goals and for the Overall Performance Result is 80% for the Business and Governance Functions and 90% for the Control Functions while the maximum Cap is 130% for the Business and Governance Functions and 110% for the Control Functions.

The individual performance score merges into an internal ranking obtained by ordering the results achieved individually by Business and Governance Functions.
Control Functions converge into a dedicated different ranking (ranking of Corporate Control Functions).

Variable component reached by fulfilling the above mentioned indicators and KPI's is paid in two instalments:
- after evaluation of evaluated period and defining of variable component;
- during the following 4 resp. 5-years period since evaluation of evaluated period and defining of variable component („Deferred part“).

Deferred part represents 60% of variable component for selected personnel according to §23a par. 1 of the Act on Banks, which, regardless of the macrosegment to which they belong, will be entitled to a particularly high amount of the variable component of remuneration, 50% of variable component for selected personnel according to §23a par. 1, letter a) to c) of the Act on Banks, if the amount exceeds the materiality threshold and 40% of the variable component for selected personnel according to §23a par. 1, letter d) to f) of the Act on Banks, if the amount exceeds the materiality threshold. Its pay-out is not guaranteed, but is linked to the fulfilment of indicators defined for long-term evaluation (4 resp. 5 years).

The deferral time horizon is equal to five years for selected personnel according to §23a par. 1, letter a) to c) of the Act on Banks, if the amount exceeds the materiality threshold (or the amount of the variable component of remuneration is particularly high) and four years for selected personnel according to §23a par. 1, letter d) to f) of the Act on Banks, if the amount exceeds the materiality threshold with the determination of the calculation of instalments in four resp. five annual periods of expiry following the year in which the upfront part of the remuneration is determined.
Each deferred portion is, indeed, subject to an ex post adjustment mechanism - the so-called malus condition - according to which the relative amount recognized and the number of financial instruments assigned, if any, may be reduced, even to zero, in the year to which the deferred portion refers, in relation to the level of achievement of the minimum conditions set by the Regulator.
Malus conditions are:

- At ISP Group level:

1. Common Equity Tier Ratio (CET1) at least equal to the limit set by the RAF (capital adequacy condition);
2. Net Stable Funding Ratio (NSFR) at least equal to the limit set by the RAF (liquidity condition);
3. No loss and positive Gross Income (except for the Network Incentive System).

- At VÚB Group level:

1. Common Equity Tier Ratio (CET1) at least equal to the limit set by VÚB Group RAF (capital adequacy condition);
2. Net Stable Funding Ratio (NSFR) at least equal to the limit set by VÚB Group RAF (liquidity condition).

In the event that any of the conditions of a sound capital base or liquidity is not met, the deferred portion shall be reduced to zero; if the sustainability condition is not met, the deferred portion is reduced by 50%.

Mechanism defined in the paragraphs above is to be adequately applied both to cash and financial instruments, while calculating the number of financial instruments allotted and not their nominal or market value.

f) the main parameters and rationale for any variable component scheme and any non-cash benefits

The objective of the Remuneration Policy is to secure the compensation system that is in line with the bank's long-term strategies and objectives; linked to the bank's results; appropriately adjusted for taking into account all risks; consistent with the levels of capital and liquidity needed for the activities undertaken; and structured so as to avoid unreasonable incentives that might prompt regulatory violations or excessive assumption of risks. Variable component awards the reached results in short and mid/long-term horizon, directly linked to performance with focus on long-term performance.

g) aggregate quantitative information on remuneration, broken down by business area

No.	Item	Supervisory Board Members	Management Board Members	Retail	Corporate and business functions	Internal Control functions	Total (column 3 to 4)	Other employees
a		1	2	3	4	5	6	7
1	**Total number**	8*	8**	8	9	6	23	0
4	Total amount of remuneration (in EUR)	55 000	3 197 554	1 211 366	965 401	217 309	2 394 076	0
5	Total amount of variable remuneration (in EUR)	0	549 519	63 400	93 700	13 700	170 800	0

*Total number as of 31.12.2020 was 7.
**Total number as of 31.12.2020 was 7.

h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institutions, indicating the following:

i. the amounts of remuneration for the financial year split into fixed and variable remuneration, and the numbers of beneficiaries
ii. the amounts of remuneration and forms of variable remuneration, split into cash, shares, share-linked instruments and other types
iii. the amounts of outstanding deferred remuneration, split into vested and unvested portions
iv. the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments
v. new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments
vi. the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.

No.	Item	Supervisory Board Members	Management Board Members	Reatial	Corporate and Business functions	Internal Control functions	Total (column 3+4)	Other employees
a	b	1	2	3	4	5	6	7
1	**Total number of board members**	8*	8**				-	-
2	**The number of persons under Section 23a 1 of the Act on Banks according to the record, calculated in full-time, except members of the Supervisory Board and members of the Management Board**	-	-	8	9	6	23	0
3	**The number of persons under Section 23a 1 of the Act on Banks according to the record, which are members of top management, except members of the Supervisory Board and members of the Management Board**	-	-	-	-	-	0	0
4	**The total amount of the vested fixed component of the total remuneration already paid**	55 000	2 244 603	1 036 124	843 001	501 478	2 380 603	0
5	in cash and account transfers	55 000	2 244 603	1 036 124	843 001	501 478	2 380 603	0
6	in shares and similar instruments	0	0	0	0	0	0	0
7	other forms of financial instruments	0	0	0	0	0	0	0
4a	**The total amount of the vested fixed component of the total remuneration, the payment of which has been postoned**	-	20 000	-	-	-	-	-
5a	in cash - postponed portion	-	10 000	-	-	-	-	-
6a	in shares of the ISP - upfront part, whose maturity has been postponed	-	0	-	-	-	-	-
6b	in ISP shares - the postponed portion	-	10 000	-	-	-	-	-
8	**The total amount of the variable component of the total remuneration**	-	908 000	287 000	185 000	131 000	603 000	0
9	in cash and account transfers	-	454 000	143 500	125 000	65 500	334 000	0
10	in shares and similar instruments	-	454 000	0	0	0	0	0
11	in another form according to Art. 94 ods. (1) l) Directive 2013/36 (VUB investment certificates)	-	0	143 500	60 000	65 500	269 000	0
12	**The total amount of the nonvested Deferred part * of the total remuneration, the payment of which has been postponed**	-	544 800	172 200	72 000	78 600	322 800	0
13	in cash and account transfers	-	272 400	86 100	36 000	39 300	161 400	0
14	in shares and similar instruments	-	272 400	0	0	0	0	0
15	in another form according to Art. 94 ods. (1) (l) (ii) of Directive 2013/36 (VUB investment certificates)	-	0	86 100	36 000	39 300	161 400	0
12a	**The total amount of the Upfront part of the vested variable component * of the total remuneration, the payment of which has been postponed**	-	181 600	57 400	24 000	26 200	107 600	0
13a	in cash and account transfers	-	0	0	0	0	0	0
14a	in ISP shares	-	181 600	0	0	0	0	0
15a	in another form according to Art. 94 ods. (1) (l) (ii) of Directive 2013/36 (VUB investment certificates)	-	0	57 400	24 000	26 200	107 600	0
16	**Article 450 (h) (iii) of Regulation 2013/575 - the amount of the not paid nonvested Deferred variable component of the total remuneration provided in previous periods**	-	634 500	30 000	14 100	69 000	113 100	0
	in cash and account transfers	-	211 500	10 000	4 700	23 000	37 700	0
	in ISP shares	-	191 600	20 000	0	0	20 000	0
	in VUB investment certificates	-	231 400	0	9 400	46 000	55 400	0
16a	**Article 450 (h) (iii) of Regulation 2013/575 - the amount of the not paid vested Upfront variable component of the total remuneration provided in previous periods**	-	634 500	30 000	14 100	69 000	113 100	0
	in cash and account transfers	-	0	0	0	0	0	0
	in ISP shares	-	287 400	30 000	0	0	30 000	0
	in VUB investment certificates	-	347 100	0	14 100	69 000	83 100	0
17	**Additional adjustment of the negotiated variable component of the total remuneration, including the deferred part, for previous periods, that was performed in the reported period - 94 ods. (1) n) Directives 2013/36**	-	-	-	-	-	-	0
18	**Number of beneficiaries of the vested variable component of the total remuneration - Art. 94 ods. (1) (d) Directives 2013/36**	-	-	-	-	-	-	0
19	**Total amount of the vested variable component of the total remuneration - Art. 94 ods. (1) (d) Directives 2013/36**	-	-	-	-	-	-	0
20	**Number of recipients who have been paid termination at the end of the employment relationship**	-	2	-	-	-	-	0
21	**Total severance payment on termination of employment**	-	47 500	-	-	-	-	0
	in cash - upfront part, already paid	-	0	-	-	-	-	0
	in ISP shares an upfront portion whose maturity is deferred	-	47 500	-	-	-	-	0
	Total severance pay at the end of the employment relationship, the payment of which has been postponed	-	47 673	-	-	-	-	0
	in cash and account transfers	-	30 000	-	-	-	-	0
	in shares and similar instruments	-	17 673	-	-	-	-	0
22	**The maximum amount of severance paid to one person**	-	-	-	-	-	-	0
23	**Number of beneficiaries who have been paid voluntary pension insurance benefits**	-	-	-	-	-	-	0
24	**Total amount of paid voluntary pension payments**	-	-	-	-	-	-	0
25	**The total amount of the variable part of the total remuneration over several periods not subject to adjustment annually**	-	-	-	-	-	-	0
	The total amount of the Deferred Variable Part * of the total remuneration paid in 2020	-	254 039	6 000	4 700	11 700	22 400	0
	in cash and account transfers	-	202 670	6 000	4 700	11 700	22 400	0
	in ISP shares	-	51 369	0	0	0	0	0
	in VUB investment certificates	-	0	0	0	0	0	0
	New payments in connection with recruitment		0	0	0	0	0	0

*Total number as of 31.12.2020 was 7.

**Total number as of 31.12.2020 was 7.

The quantitative information contained in points 1 (g) to (j) represents income in 2020 of selected positions given for calendar year 2019, i.e. the variable part represents the bonus paid in 2020 for business year 2019, respectively for previous years.

As securities, shares issued by Intesa Sanpaolo S.p.A. or other securities defined in compliance with ISP Compensation Policy and Remuneration Policy of VÚB, a.s. are provided. As financial instruments, VÚB investment certificates in compliance with Remuneration Policy of VÚB, a.s. are provided.

i) the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broke down into pay bands of EUR 1 million

Number of beneficiaries
0

j) upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management

-

2. For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in this Article shall also be made available to the public at the level of members of the management body of the institutions.

Information is included in section g).

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Disclosure requirements according to Part Eight of Regulation (EU) No 575/2013 (the CRR) - Qualitative disclosures

Table 1: EU OVA – Institution risk management approach

General risk management principles

The VÚB Group attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.

The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios.

Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Management Board. The RAF, introduced in 2011 to ensure that risk-acceptance activities remain in line with shareholders' expectations, is established by taking account of the Intesa Sanpaolo and VÚB Group's risk position and the economic situation. The framework establishes the general risk appetite principles, together with the controls for the overall risk profile and the main specific risks.

Considering the VÚB Group Business Plan Strategic Guidelines that are based on the following priorities:

- "Real Economy" Bank, that supports families and companies, leveraging a strong balance sheet and a leading position to match healthy credit demand and that manages the financial wealth of clients with care;
- Bank with sustainable profitability in which operating performance, productivity, risk profile, liquidity and solidity/leverage are carefully balanced;
- Leader in retail and corporate banking in Slovakia;
- Bank based on a confirmed divisional Group model and committed to strengthen and further simplify the current model, taking into account evolution of customers' needs;
- Simple yet innovative Bank, with a truly multi-channel approach.

The Bank has defined general principles that govern the Group's risk-acceptance strategy. Based on the fact that Intesa Sanpaolo Banking Group is focused on a commercial business model, VÚB defined its position as follows:

- VÚB is a local retail bank, with limited risk appetite, where being part of ISP Group provides a strong competitive advantage;
- the objective of the Group is not to eliminate risks, but to understand and manage them in order to ensure an adequate return for the risks taken, while also ensuring business continuity and stability in the long run;
- VUB Group has a low risk profile where capital adequacy, earnings stability, liquidity and strong reputation are the cornerstones to maintain its current and future profitability;
- VUB Group aims at a level of capitalization in line with its main Slovak Peers;
- VUB Group intends to maintain a strong presidium on the major idiosyncratic risks (not necessarily related to macro-economic shocks) to which that the Group may be exposed;
- VÚB Group attaches great importance to the monitoring of non-financial risks, and in particular:
  - it adopts an operational risk assumption and management strategy geared towards prudent management and, also by establishing specific limits and early warnings, it focuses on achieving an optimal balance between growth and earnings objectives and the consequent risks;
  - it is committed to investing in assets and infrastructure with the aim of minimising the potential impact of malfunctions of the IT system and cyber attacks;
  - for compliance risk, it aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders;
  - it works to ensure formal and substantive compliance with the provisions in terms of legal liability with the aim of minimising claims and proceedings that it is exposed to and that result in outlays;
  - it actively manages its image in the eyes of all stakeholders and seeks to prevent and contain any negative effects on its image, including through robust, sustainable growth capable of creating value for all stakeholders.

The general principles apply both at Group level and business unit or company level. In the event of external growth, these general principles must be applied, by adapting them to the specific characteristics of the market and the competitive scenario.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are managed, with the establishment of general principles of risk appetite and the resulting structuring of the management of:

- the overall risk profile;
- the Group's (Local) main specific risks; and

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- the individual risk.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in case of severe stress. In addition, it aims to ensure the desired reputational and compliance risk profiles.

In detail, management of overall risk is aimed at maintaining adequate levels of:

- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situations, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Funding/Lending Gap and Asset Encumbrance;
- earnings stability, by monitoring the adjusted net income and the adjusted operating costs on revenues, which represent the main potential causes for their instability;
- management of operational and reputational risk so as to minimise the risk of negative events that jeopardise the Group's economic stability and image.

In compliance with the EBA guidelines (EBA/GL/2015/02) on the "Minimum list of quantitative and qualitative recovery plan indicators", during the 2016 update of the RAF the Group added new indicators (mainly asset quality, market and macroeconomic indicators) as early warning thresholds, in accordance with its Recovery Plan.

Management of the local specific risks is aimed at determining the risk appetite that the Group intends to assume with regard to exposures that may represent especially significant concentrations. Such management is implemented by establishing specific limits, management processes and mitigation measures to be taken in order to limit the impact of especially severe scenarios on the Group. These Risks are assessed also considering stress scenarios and are periodically monitored within the Risk Management systems.

In detail, the main specific risks monitored are:

- especially significant risk concentrations (e.g., concentration on individual counterparties, sovereign risk or commercial real estate);
- the individual risks that make up the Group's overall risk profile and whose operating limits, as envisaged in specific policies, complete the Risk Appetite Framework.

Defining the Risk Appetite Framework is a complex process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Business Units, is developed in line with the ICAAP, ILAAP and Recovery Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. Consistency between the risk-acceptance strategy and policy and the Plan and Budget process is thus guaranteed.

The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk, the use of capital-at-risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Management Board along the Group's entire decision-making chain, down to the single operational units and to the single desks.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of governance and control limits and procedures.

The assessment of the total Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules.

The Group prepares a Recovery Plan, which represents an integral part of ISP Group Recovery Plan, according to indications from the Supervisory Authorities. The process that governs the preparation of that plan is an integral part of the regulatory response to cross-border resolution for "too-big-to-fail" banks and financial institutions. The Recovery Plan establishes the methods and measures to be used to take action to restore the long-term economic stability of an institution in the event of serious deterioration of its financial situation.

Risk culture

The utmost attention is devoted to the sharing and internalisation of risk awareness, by confirming the principles through periodic updates of the reference documents drown up (Risk Management report, ICAAP & Risk Appetite Framework, Tableau de Bord), and by taking specific actions for the implementation of development plans based on the guidance issued by the corporate bodies.

The risk management approach aims to achieve an integrated and consistent system of measures, considering both the macroeconomic scenario and the Group's risk profile, by fostering a risk-awareness through a transparent, thorough

representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 and 3 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.

The Group promotes the spread of risk-awareness through extensive training efforts aimed at ensuring the proper application of the internal risk management models. The measures taken in pursuit of this goal are established through a systematic and coordinated approach to risk management, in accordance with the provisions of the supervisory regulations, also with ongoing support from the Parent Company for the strengthening of the local risk assessment and monitoring systems.

The risk culture, within ISP and VÚB Group, is spread through series of activities, such as the

- CRO Forum (meetings held with Chief Risk Officers of the ISP Group's international subsidiary banks with the corresponding structures of the Parent Company; aim of the meetings is to favour the discussion of common issues and problems, by leveraging the experiences within the ISP Group and by improving the knowledge of the specific characteristics of the local markets, in relation to the operational and regulatory aspects. The development guidelines for risk governance are also illustrated during these occasions, with reporting on the strategic projects conducted at ISP Group level, in order to facilitate subsequent opportunities for dialogue and the leveraging of synergies.
- ISP Group and local VÚB trainings programs (i.e. Risk Academies, Welcome days, etc.), aimed at the internalisation of a Group risk-awareness, mainly aimed at the international subsidiaries, in order to strengthen the quality of Risk Governance at Banking Group level;
- Dedicated assessments and surveys of the Group's risk culture, comparing the profile in term of risk culture both internally and with respect to international peers.

Findings, as well as initiative's developments and plan of targeted measures, are periodically reported to relevant ISP and VÚB Corporate Bodies.

Risk governance organization

The risk acceptance policies are defined by the Management Board, with strategic management functions and by the Supervisory Board with supervision and control functions. The Management Board carries out its activity through specific internal committees, among which the strategic ones are the

- Assets and Liabilities Committee;
- Credit Risk Governance Committee;
- Operational Risk Committee; and
- Integrated Internal Control Coordination Committee.

The Corporate Bodies of VÚB are assisted by the action of the committees, as well as by the Chief Risk Officer, reporting directly to the Deputy Chief Executive Officer.

The Chief Risk Officer, to whom the risk management functions as well as the controls on the risk management and internal validation process reports, represents a "second line of defence" in the management of corporate risks that is separate and independent from the business functions.

The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management guidelines and policies in accordance with the company's strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies. The CRO implements level II monitoring and controls of credit and other risks, and ensures the validation of internal risk measurement systems.

The Compliance Officer is directly reporting to the Deputy CEO, in a position that is independent from operating departments and separate from internal auditing, which ensures the management of Group compliance risk, both in the operational and reputational risk components, including the risk of sanctions, losses or damage arising from improper conduct towards customers or such as to jeopardise the integrity and orderly functioning of the markets (so-called conduct risk). Furthermore, in line with corporate strategies and objectives, the Compliance Officer defines guidelines and policies, including statements and limits for the Risk Appetite Framework, and works with the corporate control functions to effectively integrate the risk management process.

The Assets and Liabilities Committee, chaired by CEO, 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 Credit Risk Governance Committee, chaired by CEO, 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

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prerogatives of the Bank and in compliance with the applicable laws, 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. In the field of Product Governance the Committee, analyzes and assesses the issues related to the launch and monitoring of the products that imply credit risk.

The Operational Risk Committee, chaired by CRO, is a permanent decision-making and advisory committee, focused on operational risk governance, including the ICT risk and reputational risk issues.

The Integrated Internal Control Coordination Committee, chaired by the Head of Internal Audit, with the aim of strengthening the coordination and the cooperation among the various Bank's control functions, facilitating the integration of risk management processes.

The VÚB Bank performs a steering and coordination role with respect to the VÚB Group Companies, aimed at ensuring effective and efficient risk management at Group level.

The corporate bodies of the Group companies are aware of the choices made by VÚB Bank and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the group controls.

The Chief Risk Officer is responsible for operational implementation of the strategic and management guidelines along the Bank's entire decision-making chain, down to individual operational units.

To that end, the Risk Management Division is broken down into the following Organisational Units:

- Department Internal Validation and Controls;
- Department Enterprise Risk Management;
- Department Corporate and Retail Underwriting;
- Department Recovery;
- Department Policy and Methodology;
- Sub-department Corporate Clients Middle Office.

The internal control system

The VÚB Group, to ensure a sound and prudent management, combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.

Therefore, the VÚB Group, in line with legal and supervisory regulations in force, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.

VUB Group's internal control system is built around a set of rules, procedures and organisational structures aimed at ensuring compliance with VUB Group strategies and the achievement of the following objectives:

- the effectiveness and efficiency of VUB Group processes;
- the safeguard of asset value and protection from losses;
- identification, measurement and mitigation of risks;
- reliability and integrity of accounting and management information;
- transaction compliance with the law, supervisory regulations as well as policies, plans, procedures and internal regulations.

The internal control system is characterised by a documentary infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls within the business, also incorporating the provisions of the Law, together with the instructions of the Supervisory Authorities, VUB Group policies and Intesa Sanpaolo expectations.

The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls.

More specifically, the Company rules set out organisational solutions that:

- ensure sufficient separation between the business, operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;

- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
- ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units and the control functions.

The VÚB Group’s organisational solutions also enable the uniform and formalised identification of responsibilities. At Corporate Governance level, VUB Group has adopted a dual governance model, in which the functions of control and strategic management, performed by the Supervisory Board, are separated from the management of the Company’s business, which is exercised by the Management Board in accordance with the provisions of the applicable laws.

The Supervisory Board has established the Audit Committee that helps supervising the internal control system, risk management and the accounting and IT systems. The Audit Committee performs the duties and tasks stipulated in the act on statutory audit.

From a more strictly operational perspective the Bank has identified the following macro types of control:

- line controls, aimed at ensuring the correct application of day-to-day activities and single transactions. Normally, such controls are carried out by the productive structures (business or support) or incorporated in IT procedures or executed as part of back office activities;
- risk management controls, which are aimed at contributing to the definition of risk management methodologies, at verifying the respect of limits assigned to the various operating functions and at controlling the consistency of operations of single productive structures with assigned risk-return targets. These are not normally carried out by the productive structures;
- compliance controls, made up of policies and procedures which identify, assess, check and manage the risk of non-compliance with laws, Supervisory authority measures or self-regulating codes, as well as any other rule which may apply to the Group;
- internal auditing, aimed at identifying anomalous trends, violations of procedures and regulations, as well as assessing the overall functioning of the internal control system. It is performed by different structures which are independent from productive structures.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context. As a consequence, VÚB Group’s control structure is in compliance with the instructions issued by the Supervisory Authorities. Indeed, alongside an intricate system of line controls involving all the function heads and personnel, an independent Risk Management Division has been established specifically dedicated to controls related to the control of risk management (including, the Underwriting Department, Methodology, Credit Quality Monitoring, and Internal Validation in accordance with Basel 2). The management of compliance controls (Compliance Department); the Legal Affairs Department report to the Deputy CEO, aside of business units.

There is also a dedicated Internal Audit Department, which reports directly to the Supervisory Board, and is also functionally linked to the Audit Committee.

The Risk Management and Internal Validation Function

The Chief Risk Officer is responsible for operational implementation of the strategic and management guidelines for risk along the Bank’s entire decision-making chain, down to individual operational units. The tasks and functions are discussed in detail in the subsequent chapters.

Through the Internal Validation and Controls Department, the Chief Risk Officer carries out second level monitoring and controls on credit and other risks. The activities conducted on credit consider the quality, composition and evolution of the various loan portfolios, also through risk based controls on proper classification and provisioning single positions (“single name” controls). It also carries out monitoring and controls on rating assignment and update processes.

In general, the control activities development includes the credit processes assessment also to verify that suitable level I controls are in place, including proper execution and traceability. The monitoring and control of risks other than credit risks is aimed at verifying that level I controls are properly established in terms of completeness, efficiency, detection and traceability, identifying areas to be strengthened and, where necessary, requesting corrective measures.

As a part of the internal control system implemented by the Bank, the purpose of the validation function is the ongoing evaluation, in accordance with the Supervisory Regulations for banks, of the compliance of internal risk measurement and management systems over time as regards determination of the capital requirements with regulatory provisions, Company needs and changes in the market of reference. The validation function is entrusted to the Internal Validation and Controls Department, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations governing uniform management of the control process on internal risk measurement systems.

Within this Department, which reports directly to the Chief Risk Officer, the Internal Validation Sub-Department ensures that internal models, whether already operational or in development, are validated with regard to all risk profiles covered

by Pillars 1 and 2 of the Basel Accord, in accordance with the independence requirements established by the applicable regulations.

The validation process is mainly driven by Intesa Sanpaolo's and VÚB roll-out plan and any requests coming from the Regulator.

With respect to Pillar 1 risks, validation is a prerequisite for use of the internal systems for regulatory purposes. The validation function conducts assessments of risk management and measurement systems in terms of models, processes, information technology infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference. The level of involvement of the structure depends on the different types of validation (development/adoption of internal systems, application for adoption/extension of internal systems, application for model change and ongoing validation).

Both during the initial application phase and on an ongoing basis (at least annually), the results of the Internal Validation Sub-Department's activities are presented to the competent functions, transmitted to the Internal Audit Department for its related internal auditing work, as well as to the competent Committees for approval of the certification of compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.

With respect to Pillar 2 risks, the Internal Validation Sub-Department conducts analyses of methodologies, verifying in particular that the measurement or assessment metrics adopted in quantifying significant risks are economically and statistically consistent, and the methodologies adopted and estimates produced to measure and assess significant risks are robust.

The Internal Validation Sub-Department follows the decentralized approach, being coordinated and supervised by the Internal Validation Head Office Sub-Department.

The function generally also provides advice and suggestions to company and Group functions on an ongoing basis, with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.

Finally, the Internal Validation Sub-Department is responsible for the validation of the internal systems used for management purposes and contributes to the development of the model risk framework for both Pillar 1 and Pillar 2 risks.

Compliance

The governance of compliance risk is of strategic importance to the VUB Bank as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.

The Compliance Department of VUB was created in 2005 and is directly under Deputy CEO. It has autonomous position with respect to risk management and compliance check; the position of Compliance Department is separated from Internal Audit Department of the Bank. Concurrently, however the activities of Compliance are subject to controls of Internal Audit and Control Department of the Bank.

During the second half of the year 2009, the Compliance Department has started to implement a project designed to set out the Group Compliance Model, based on ISP Guidelines. These Guidelines identify the responsibilities and macro processes for compliance, aimed at minimizing the risk of non-compliance through a joint effort of all the company functions. The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of compliance risk. The Compliance Department, through the coordination of other corporate functions, is also responsible for the identification and assessment of the risks of non-compliance, the proposal of the functional and organizational measures for their mitigation, the pre-assessment of the compliance of innovative projects, operations and new products and services, the provision of advice and assistance to the governing bodies and the business units in all areas with a significant risk of non-compliance, the monitoring, together with the Internal Auditing Department, of ongoing compliance, and the diffusion of a corporate culture founded on principles of honesty, fairness and respect of the spirit and letter and the spirit of the rules.

The activities carried out during the year are concentrated on the regulatory areas considered to be the most significant in terms of compliance risk. In particular:

- with reference to the area of investment and payment services, these activities involved the governance of the process of compliance with the MiFID II, EMIR, PSD legislation and Regulation of European Parliament and of the Council No. 2019/518, as regards certain charges on cross-border payments in the Union and currency conversion charges, from the implementation of the governance and organizational measures required by the implementing regulations issued by the Supervisory Authorities, through the setting up of policies, processes and procedures and the establishment of the necessary training initiatives. The compliance activities also involved implementation of intragroup rules in area of consumer protection, investor protection and distribution of OTC derivatives as well as the clearing of new products and services, the management of conflicts of interest and the monitoring of customer activity for the prevention of market abuse;

- support was provided to the business structures for the proper management of reporting transparency and more generally in relation to the regulations for consumer protection.

Internal Auditing

With regard to Internal Auditing activities, the Internal Audit Department is responsible for ensuring the ongoing and independent surveillance of the regular progress of the VUB Group's operations and processes for the purpose of preventing or identifying any anomalous or risky behaviour or situation, assessing the functionality of the overall internal control system and its adequacy in ensuring: (i) the effectiveness and efficiency of company processes, (ii) the safeguarding of asset value and loss protection, (iii) the reliability and completeness of accounting and management information, and (iv) the compliance of transactions with the policies set out by the VUB Group's administrative bodies and internal, external regulations and the Bank's Supervisors' expectations.

Furthermore, it provides consulting to the Bank Management and other units, also through monitoring participation in projects, for the purpose of improving the effectiveness of the control processes, risk management and organisational governance.

The Internal Audit Department uses personnel with the appropriate professional skills and experience.

The Internal Audit Department has a structure and a control model which is organised to cover in efficient way all risks covered by the Internal Audit Department. The Internal Audit Department all activities performs respecting the internal audit independence and in line with code of ethics principles.

Direct surveillance was carried out in particular through:

- the control of the operational processes of network and central structures, with verifications, also through on-site controls: (i) of the functionality of line controls, of the respect of internal and external regulations, (ii) of the reliability of operational structures and delegation mechanisms, (iii) of the correctness of available information in the various activities and of their adequate use with free and independent access to functions, data and documentation and (iv) application of adequate tools and methodologies;
- the supervision of the credit origination and management process, verifying its adequacy with respect to the risk control system and the functioning of measurement mechanisms in place;
- the monitoring of the process for the measurement, management and control of the VUB Group's exposure to market, counterparty, operational and credit risks, periodically reviewing the internal validation of the models and the ICAAP process developed for Basel 3 and NBS regulations related to Prudential reporting;
- the valuation of adequacy and effectiveness of information technology system development and management processes, to ensure their reliability, security and functionality;
- the control of the processes related to financial operations and the adequacy of related risks control systems;
- the control of compliance with the behavioral rules and of the correctness of procedures adopted on investment services as well as compliance with regulations in force with respect to the separation of the assets of customers;
- the verification of the operations performed by foreign branch and subsidiaries, with attendance of internal auditors both local and from the Bank Head Office.

During the year the Internal Audit Department also ensured the monitoring of all the main integration projects paying particular attention to control mechanisms in the Bank's models and processes and, in general, to the efficiency and the effectiveness of the control system established within the VUB Group.

Indirect supervision was conducted via direction and functional coordination of the Auditing structures in subsidiary, for the purpose of ensuring control consistency and adequate attention to the different types of risks. Direct on-site reviews were also conducted.

In conducting its duties, the Internal Audit Department used methodologies for the preliminary analysis of risks in the various areas. Based on detailed risks assessment made and on the consequent priorities, the Internal Audit Department prepared and submitted the Annual Audit Plan for prior examination by the Audit Committee, Internal Auditing Department of Intesa Sanpaolo, the Management Board and subsequently to the Supervisory Board for approval. Based on this Plan the Internal Audit and Control Department conducted its activities during the year, completing the scheduled audits.

Any weaknesses have been systematically notified to the relevant Departments and Management for prompt remedy actions which are monitored during regular follow-up review of the measures.

The valuations of the internal control system deriving from the individual checks, as well as assessment of the residual risk of the audited process, have been periodically presented to the Audit Committee, to the Management Board and to the Supervisory Board which request detailed updates also on the state of solutions under way to mitigate weak critical points; furthermore, the most significant events have been promptly signaled to them, not only to the Audit Committee and also to Internal Auditing Department of Intesa Sanpaolo.

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Scope of risks

The risks identified, covered and incorporated within the Economic Capital are as follows:

- credit and counterparty risk. This category also includes concentration risk;
- financial risk of the banking book, mostly represented by interest rate;
- operational risk, also including legal risk, compliance risk, ICT risk and model risk;
- strategic risk;
- risk on real estate assets owned for whichever purpose;
- risk on equity investments not subject to line by line consolidation.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including in the form of stress tests.

Particular attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through the management processes concerning the primary risks and implementing specific, dedicated communication and reporting flows.

Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum “unexpected” loss the Group might incur over a year. This is a key measure for determining the Group’s financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the Budget assumptions and projected economic scenario under ordinary and stress conditions. The assessment of capital is included in risk reporting and is submitted quarterly to the Supervisory Board, Audit Committee and Management Board

For the purposes described above, the Intesa Sanpaolo and VÚB Group uses a wide-ranging set of tools and techniques for risk assessment and management, described in detail in this document.

For Credit Risk, Counterparty Risk and Market Risk see dedicated sections of Disclosure.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the Official Journal of the European Union of Commission Delegated Regulation (EU) 61/2015 with regard to liquidity coverage requirements (liquidity coverage ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation 61/2015, from 1 October 2015 banks are required to comply with the new short-term indicator according to the phase-in process provided for in Art. 38 (60% from 1 October 2015, 70% from 1 January 2016, 80% from 1 January 2017 and 100% from 1 January 2018).

The VÚB Liquidity Policy, which already referred Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), were therefore updated to reflect the above additional regulations, which revised the composition of the liquid assets eligible for liquidity reserves and the definition of 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) with its October 2014 publication were also adopted.

VÚB Liquidity Policy, approved by Management Board illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations.

The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo and VÚB Group are:

- the existence of liquidity management guidelines approved by senior management and clearly disseminated throughout the Bank;

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- the existence of an operating structure that works within set limits and of a control structure that is
- independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the VÚB Group's funding conditions.

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the ISP Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the ISP Group's overall transactions and the liquidity risk to which it is exposed.

The departments of the VÚB that are in charge of ensuring the correct application of the VÚB Group Guidelines is, in particular, the Treasury and ALM Department, responsible for liquidity management, and the Enterprise Risk Management Department, directly responsible for measuring liquidity risk on a consolidated basis.

The aforementioned Guidelines include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

Within this framework, liquidity risk measurement metrics are laid down, distinguishing between short-term liquidity, structural liquidity and stress tests.

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months' time horizon, in order to face periods of tension, including extended ones, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. To that end, and in keeping with the liquidity risk appetite, the limit for holding period of one month (Liquidity Coverage Ratio - LCR) is monitored.

The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario.

To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations.

The aim of the Intesa Sanpaolo and VÚB Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The VÚB Liquidity Policy also defines indicator measuring survival period of the bank under the base and stressed conditions. The Survival Period Indicator measures the first day in which the Net Liquidity Position (PNL) of the Bank turns negative, namely when there is no more additional liquidity to cover the simulated net liquidity outflows. A specific scenario is defined for calculating the Survival Period by projecting the hypotheses of maturity, renewal or drawn of the various items. The objective is to establish a level of liquidity reserves, marketable or eligible at Central Banks, promptly available and/or mobilisable in short-term, sufficient to cover cash outflows for a long period, for implementing the necessary operating measures of the Contingency Funding Plan in order to return the Group into balanced conditions. The monitoring of the performance of Survival Period indicators represents an important early warning system regarding the potential deterioration of the LCR indicator. The internal limit has been set up for survival period under the stressed conditions.

The Policy also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Enterprise Risk Management Department.

The Group's sound liquidity position - supported by suitable high quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for all of 2020: both indicators (LCR and NSFR) were met, already reaching a level above the limits under normal conditions. Also the stress tests, when considering the consistent liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the VÚB Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

OPERATIONAL RISK

Operational risk management strategies and processes

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

The control of operational risk was attributed to the Internal Controls Coordination and Operational Risk Committee, which identified risk management policies and submits for approval and verification to Management Board of VUB Bank. Supervisory and Management Board of VUB Bank guarantees the functionality, efficiency and effectiveness of the risk management and controls system.

The Group Operational Risk Committee (made up of the heads of the areas of the governance center and of the business areas more involved in operational risk management), has the task of periodically verifying reviewing the Group's overall operational risk profile, authorizing and defining any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk management transfer strategies.

Organizational structure of the associated risk management function

For some time, the Group has had a centralized function within the Risk Management Division for the management of the Group's operational risks. This function is responsible, in coordination with parent company, for the definition, implementation and monitoring of the methodological and organizational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.

In compliance with current requirements the prevailing regulations, the individual organizational units participated in the process and each of them was assigned the responsibility are responsible for the identification, assessment, management and mitigation of its operational risks. Specific offices functions and departments have been identified within these organizational units to be responsible for the Operational Risk Management processes of their unit (collection and structured census of information relating to operational events, scenario analyses and assessment of the level of risk associated with the business environment). The Risk Management Division carries out second level monitoring of these activities.

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

Upon request of the parent company, VUB Bank as part of the Group request has received in February 2010, from relevant Supervisory authorities, approval for usage and thus adopted the Advanced Measurement Approach (AMA), for Operational Risk management and measurement.

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

As such, VUB Group uses combination of Advanced Measurement Approach (for VUB Bank and Prague branch and VÚB Leasing).

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 VÚB Group Companies that fall within the scope of AMA and TSA. This self-assessment is verified by the internal auditing department and submitted to the Management Board for the annual certification of compliance with the requirements established by the regulation.

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

Policies for hedging and mitigating risk

The VUB Group, in coordination with parent company, has set up activated a traditional operational risk transfer policy (insurance) aimed at with the objective of 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.

OTHER RISKS

Strategic risk

The VUB Group defines current or prospective strategic risk as the risk associated with potential decrease in profits or capital due to changes in the operating context, misguided company decisions, inadequate implementation of decisions, and an inability to react sufficiently to changes in the competitive scenario.

The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Supervisory Board and the Management Board, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions, ensures that strategic risk is mitigated. An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

- a component associated with the possible impact of misguided company decisions and an inability to react sufficiently to changes in the competitive scenario. This component does not require capital, but is one of the risks mitigated by the ways in which, and the levels at which, strategic decisions are reached, where all significant decisions are always supported by ad hoc activities aimed at identifying and measuring the risks implicit in the initiative;
- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decrease in profits as a result of the inadequate implementation of decisions and changes in the operating context. This component is handled not only by using systems for regulating company management, but also via specific internal capital, determined according to the Variable Margin Volatility (VMV) approach, which expresses the risk arising from the business mix of the Group and its business units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses.

Reputational risk

The VUB Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and supervisory authorities.

The Group has adopted and published a Code of Ethics that sets out the basic values to which it intends to commit itself and enunciates the principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with more ambitious objectives than those required just to comply with the law. On the subject of customer relations, it should be recalled that the Group has set up a systematic dialogue process. It has also issued voluntary conduct policies (environmental policy and arms industry policy) and adopted international principles aimed at pursuing respect for the environment and human rights.

The Group also provides effective governance for compliance risk as a prerequisite for mitigating reputational risk.

There has been a particular focus on financial advisory services for customers, for which the MiFID Directive was taken as an opportunity to update the entire marketing process and associated controls.

Accordingly, the Group has reinforced its longstanding general arrangement, which calls for the adoption of processes supported by quantitative methods for managing the risk associated with customers' investments in accordance with a broad interpretation of the law with the aim of safeguarding customers' interests and the Group's reputation.

This has allowed assessments of adequacy during the process of structuring products and rendering advisory service to be supported by objective assessments that contemplate the true nature of the risks borne by customers when they undertake derivative transactions or subscribe for financial investments.

More in particular, the marketing of financial products is also governed by specific advance risk assessment policies from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (sustainability in terms of risk to return ratio, flexibility, concentration, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

Risk on owned real-estate assets

The Risk on owned real-estate assets may be defined as the risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and is thus included in the category of banking book financial risks. Real estate management is highly centralised and represents an investment that is largely intended for use in company operations.

Risk management information flows

Aim of VÚB Group Risk Management Framework is to enable informed decision making. Decisions made are based on information derived from identification, measurement (assessment) and monitoring of risks. Risks are evaluated bottom up and top down, through the management chain as well as across business lines, using consistent terminology and compatible methodologies throughout the Bank and its Group.

VÚB Group takes special care as regards transparency of the information provided, in order to provide all the stakeholders of the Group (including shareholders, employees, customers and the general public) key information necessary to enable them to judge the effectiveness of the governance bodies in governing the Group.

Communicating of Risk Management issues

Regular and transparent reporting mechanisms has been established, in order to provide the governance bodies and all relevant units in VÚB Group with reports in a timely, accurate, concise, understandable and meaningful manner, sharing relevant information about the identification, measurement (assessment) and monitoring of risks.

Top Management receives information on risk management issues through regular statutory and governance body meetings.

The Chief Risk Officer is a member of the Management Board, ALCO, CRGC, ORC, CC, and PAC, and receives regular reports covering credit risk, credit underwriting, collection and work-out activities, market risk position and limits, operational risk events and costs and compliance with relevant regulatory requirements.

Types, structure, frequency and recipients of the reports are defined in relevant Charters and internal procedures dealing with risk management activities.

Communication of Group policies and procedures

Employees within the Risk Management Division and risk management units in subsidiaries are informed of policies and procedures (and charges therein) through bylaws that describe the Group's policies, processes and procedures. The bylaws identify and define the policies of the Group, and the roles and responsibilities of personnel directly impacted by the work activities. Special training seminars are held for risk management employees in the event that there are significant changes to risk management policies, processes and procedures that will substantially change their work activities.

Stress testing

The stress testing program of the VUB Group has been set up keeping into account the ISP Group Stress Test approach and the local VUB specificities. This has been done in cooperation between parent company and VUB Bank, since in this way both the Group and local competencies and prerogatives have been considered to enhance the better result in the exercise.

Stress testing framework includes quantitative (macro-economic analysis, models, impacts calculation, etc.) as well as qualitative aspects (qualitative oversight, discussion of different experts during the process of scenario selection, definition of levels in sensitivity analysis, sensitivity analysis as a whole, etc.)

A stress testing framework is repeatable exercise that focuses on VÚB Group's material exposures, activities, risks, and strategies, and also includes ad hoc exercises as needed.

The part of stress testing framework activities involves qualitative components, mainly qualitative overview and judgments of different experts from across the different areas of a bank. For this purpose a dedicated work group has been created – Stress Testing Group, convened in case discussion on the qualitative aspects is needed.

Based on the purpose of test, different risks are covered, different stress testing techniques are used, different measures of impact are calculated, different time horizon is considered, and exercise is repeatable with different frequency.

In terms of portfolio coverage, all relevant exposures under all relevant risks are included, such as loans and receivables under credit risk, derivatives under Market risk, operational events under Operational risk, the whole banking book under the IRRBB.

Table 2: EU CRA – General qualitative information about credit risk

Risk management strategies and processes

The VUB Group has defined the organizational framework, principles and processes for measuring, managing and controlling credit risk.

The basic principles of credit risk management are defined in Risk Management Strategy and are then worked out in detail in credit policies and procedures. The VUB Group basic principles are aimed at:

- Portfolio diversification at a segment, single obligor/group of obligors, product, industrial sector and tenor level, which is considered as an approach mitigating the concentration risk,
- Efficient underwriting process focused on detail creditworthiness analysis of each borrower/group of borrowers,
- Efficient portfolio monitoring and portfolio management including the monitoring of early warning signals,
- Clear definition of client lifecycle in loan management and triggers for entering each stage of lifecycle (Performing, Early Warning Signals, Watchlisted, Recovery).

Structure and Organization of the risk management function

The organizational framework is designed this way that rigorous segregation of function and responsibilities is assured.

On the high level the following bodies are involved in Credit risk management:

- Supervisory Board (with corresponding Risk Committee)
- Management Board
- Credit Risk Governance Committee
- Internal Controls Coordination Committee

and on operational level Credit Committee, Problem Asset Committee.

The Supervisory Board and Management Board are the principal statutory governance bodies of VUB Group. Supervisory Board of VUB Bank guarantees the functionality, efficiency and effectiveness of the risk management and controls system, which is constantly checked by Internal Audit.

From strategic point of view most of the functions in credit risk management area was delegated by Management Board to Credit Risk Governance Committee. The objective of Credit Risk Governance Committee is setting of Credit Risk policies for VUB Group in line with the risk appetite defined per customer, per segment and per product and also reviewing and making decision on matters concerning the rating governance.

Credit Risk Governance Committee also set the rules for portfolio diversification (ex ante defined concentration limits) on the level of segment, product and industrial sector. All portfolio limits are monitored and reported to Credit Risk Governance Committee on monthly basis.

From operational point of view some of the functions in credit risk management area were delegated by Management Board to Credit Committee, Problem Asset-Committee. Objectives of above-mentioned Committees, as well as competencies and functioning are described in respective Committee Charters.

The execution of the credit risk management activities (according to approved strategies and principles) is responsibility of Risk Management Division as a Control Unit through which all Risk Management activities are coordinated. Risk Management Division is headed by Chief Risk Officer, the member of the Management Board and is organizationally separated from the business divisions.

From Risk Management division the following departments are primarily involved in credit risk management:

- Policy and Methodology – responsible for the rating system design, including the development and maintenance of the rating models and designing the detail risk policies (including risk mitigation policy) and procedures in compliance with approved principles and strategies. It is responsible for calculation of provisions as well,
- Corporate and Retail underwriting – responsible for the loan granting, competencies and responsibilities are defined in the Competence code,
- Internal Validation and Controls– responsible for second level controls in general, monitoring of credit portfolio, including monitoring of early warning signals, ratings and overrides. Also responsible for risk management validation akctivities,
- Enterprise Risk Management – responsible for calculation of risk weighted assets and stress testing program,
- Recovery – responsible for non-performing loans management, execution of collection strategies in early and late stage of collection process and dealing with watchlist clients.

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

VUB in cooperation with its Parent company, Intesa Sanpaolo has developed a set of instruments which ensure the analytical control over the quality of the loans to clients and financial institutions, and loans subject to country risk.

Risk measurement uses rating models which are differentiated according to the obligor's segment (Large Corporate, Real Estate, Project Finance, Small and Medium Enterprises, Small Business, Banks, Financial institutions, Municipalities, Retail). Internal rating models make it possible to summarise the credit quality of the counterparty in a measurement, the rating which reflects the probability of default over a period of one year. In case of advanced IRB approach also the loss given default (LGD) is estimated. Regulatory slotting models are not anchored to any PD expectations. Slotting category reflects credit quality of the counterparty as it is directly associated with a particular risk weight and expected loss in line with the NBS decree 4/2007.

The adoption of internal rating models has implied, among others, the review of the entire controls and governance structure.

Policies for hedging and mitigating risk

The standard tools and techniques are used for credit risk mitigation. Bank does not use debt securitization, credit default swaps or insurance of loan portfolio.

The tools and techniques for credit risk mitigation are summarized in Collateral policy which 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 bank with the means for repayment of an exposure in the event of default by the borrower.

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

- The establishment and maintenance of collateral policy comprising types of collateral taken by the Bank, the legal documentation used by the bank to secure its right to this collateral in the event of a default and the valuation of this collateral at origination. These aspects of collateral management are addressed in this policy document;
- The relevant and proper identification 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, i.e. that the impact of the policy reduces the net credit loss suffered by the bank as a result of its lending activities across all segments and products.

The principal objective of Collateral 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 origination for the certain types of collaterals; and
- Conditions for the process of revaluation.

Policies for hedging and mitigating risk

In VUB, monthly Assets and Liabilities Committee meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Enterprise Risk Management Department based on standard quantitative indicators (VaR, SVaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors). This set of information represents an effective means for deciding polices for the hedging and mitigating of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.

Table 3: EU CCRA – Qualitative disclosure requirements related to CCR

Counterparty risk is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction.

Counterparty risk is calculated for the following categories of transactions:

- over-the-counter (OTC) financial and credit derivatives;

- Securities Financial Transactions -SFTs (e.g. repurchase agreements);

- transactions with medium to long-term settlement.

The framework provides for the uniform treatment of counterparty risk regardless of the portfolio in which the exposures have been classified (the banking and regulatory trading books are both subject to capital requirements for counterparty risk). For the purposes of reducing the amount of the exposures, recognition of various types of contractual netting arrangements ("Master netting agreements") is permitted, subject to compliance with statutory requirements.

For regulatory reporting purposes the Group currently uses the "mark-to-market" approach for the calculation of the exposures subject to counterparty risk for OTC financial and credit derivatives, whereas for repurchase agreements it considers the guarantee in securities as financial collateral, directly reducing the value of the exposure ("comprehensive" method).

The counterparty risk that affects the types of transactions referred to above generates an exposure corresponding to their positive fair value plus the future credit exposure (add-ons, namely the percentage value applied to the notional amount of the derivative). These add-ons differ depending on the residual maturity of the transaction and the type of underlying risk (interest rate, equity, exchange, etc.).

The Group makes extensive use of netting and cash collateral agreements to substantially mitigate the exposure to counterparties, particularly towards banks and financial institutions.

The organisational functions involved, as described in the Bank's internal regulations, are:

- Enterprise Risk Management Department, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;

- the Level I and Level II control functions that use the measurements produced to monitor the assumed positions;

- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of the lines of credit.

The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also own credit quality and that of the counterparty in relation to the current and potential exposure. The introduction of the accounting standard IFRS13 included the calculation of own credit risk in valuing the Fair Value, to include the non-performance risk inclusive of the issuer's risk in the valuation of OTC derivatives.

In order to comply with the new standard, a new calculation model was developed – the Bilateral CreditValue Adjustment (bCVA) – which, in addition to the effects of changes in the counterparty credit rating, also takes fully into account the changes in own credit rating (Debt Value Adjustment - DVA). The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA):

- the CVA (negative) takes into account scenarios whereby the Counterparty fails before the Bank and the Bank 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.

Table 4: EU MRA – Qualitative disclosure requirements related to market risk

Market risks – trading book

Risk management strategies and processes

The allocation of capital for trading activities is set by the Assets and Liabilities Committee, through the attribution of operating limits in terms of VaR and SVaR. The allocation of these limits is at VUB trading book level as it represents the only portion of the VUB Group's market risks (subsidiaries and Prague branch represent the banking book).

The Assets and Liabilities Committee monitors the risks of trading book on a monthly basis, with particular reference to the absorption of the VaR limits, and recommends any corrective actions. The situation is also regularly examined by the parent company Intesa Sanpaolo risk management.

Structure and organisation of the associated risk management function

The Chief Risk Officer is responsible, at Group level, for setting out the system of operating limits, the capital allocation system, and the system of binding policies and procedures. These activities are coordinated with parent company Intesa Sanpaolo, which discusses the guidelines for the management of market risks.

As part of its functions, the Enterprise Risk Management Department is responsible for the:

– definition, development and calculation of the risk indicators: Value at Risk, Stressed Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;

– monitoring of operating limits;

– establishment of the parameters and rules for the revaluation of assets subject to mark-to-market and fair value at Group level, as well as their direct revaluation when this cannot be obtained from instruments available to the business units;

– comparison of theoretical and actual P&L with the risk indicators and in particular with the VaR (so-called backtesting).

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

The activities for the quantification of trading risks are based on daily and period estimates of sensitivity of the trading portfolios of VUB to adverse market movements of the following risk factors:

– interest rates;

– equity and market indexes;

– foreign exchange rates;

– implied volatilities;

– credit spreads at bonds;

– spreads in issued bonds.

The risk indicators used may be divided into four main types:

– Value at Risk (VaR), which represents the backbone of the whole risk management system due to its characteristics of uniformity, consistency and transparency in relation to both economic capital and the operations; SVaR value is supplementing variable to standard VaR value, whose main purpose is cover periods with significant volatility outside the scope of standard VaR dataset;

– sensitivity and greeks, which are the essential accompaniment to the VaR indicators due to their ability to capture the sensibility and the direction of the existing financial trading positions in relation to the various individual risk factors;

– level measures (such as notional and Mark to Market), which are a useful aid to the above indicators as an immediately applicable solution;

– stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case).

The reporting system is continuously updated in order to take into account the evolution of the operations, the organisational structures and the analytical methods and tools available.

Policies for hedging and mitigating risk

In VUB, monthly Assets and Liabilities Committee meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Enterprise Risk Management Department based on standard quantitative indicators (VaR, SVaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors). This set of information represents an effective means for deciding polices for the hedging and mitigating of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.

Strategies and processes for the ongoing assessment of their effectiveness

At operational level, the daily information (VaR, SVaR, sensitivities, level measures, control of assigned limits) is provided by Market Risk sub-department to all business units and senior management. Based on that, risk indicators are discussed between risk and business units and if necessary corrective actions must be performed.

Market risks – banking book

Risk management strategies and processes

Market risk originated by the banking book arises primarily in the VUB, and partly in subsidiary VUB Leasing it relates mainly to interest rate risk.

Specifically, in managing interest rate risk in the banking book, the VUB Group seeks to maximize profitability, by adopting operating methods consistent with the general stability of the financial results over the long term. Assets and Liabilities Committee is responsible for the assessment of the overall risk profile of the Group.

The foreign exchange risk in banking book refers to the exposures deriving from the commercial operations and strategic investment decisions of VUB. The main sources of foreign exchange risk consist of foreign currency loans and deposits held by corporate and retail customers, purchases of securities, equity investments and other financial instruments in foreign currencies, and conversion into domestic currency of assets, liabilities. The foreign exchange risk in banking book is closed and transferred on daily basis to trading book. Foreign exchange risk in subsidiaries is kept at very low level as a result of VUB Group strategy to keep their assets and liabilities in foreign currencies at minimum level.

Structure and organisation of the associated risk management function

Within the VUB Group, the market risks of the Banking Book and the Liquidity risk (discussed below) are overseen by Enterprise Risk Management Department and department Treasury and ALM, which are responsible for:

– setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, and liquidity);

– proposing the system of operational limits and the guidelines for the management of financial risks for the subsidiaries;

– measuring the financial risks of the banking book;

– analysing the overall financial risk profile of the Group's banking book, proposing any corrective measures;

– managing the assessment and measurement of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations.

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

Two types of measurement have been adopted for the measurement of the financial risks generated by the banking book.

Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate).

Sensitivity of the interest margin is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve, over a period of 12 months.

The calculations are applied on both VUB and individually on its subsidiaries.

Policies for hedging and mitigating risk

Hedging of interest rate risk is aimed (i) at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve, or (ii) at reducing the volatility of future cash flows related to a particular asset/liability.

The main types of derivative contracts used are interest rate swaps (IRS), cross-currency swaps (CCS) and FRAs contracts.

Hedging activities performed by the bank are recorded using various hedge accounting methods. A first method refers to the fair value hedge of assets and liabilities specifically identified (microhedging), mainly bonds issued or acquired by the Bank.

Another hedging method used is the cash flow hedge which has the purpose of stabilising interest flow on variable rate funding.

The Enterprise Risk Management Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with international accounting standards.

Foreign exchange risk deriving from operating positions in foreign currency in the banking book is systematically transferred to VUB trading book, for the purpose of guaranteeing the elimination of such risk.

Foreign exchange risk in subsidiaries is mitigated by the practice of raising funds in the same currency as assets.

Table 5: EU LIA - Explanations of differences between accounting and regulatory exposure amounts

Institutions should explain the origins of the differences between accounting amounts, as disclosed in financial statements under the accounting scope of consolidation and regulatory exposure amounts, as displayed in templates LI1 and LI2.

There are no differences between accounting and regulatory consolidation.

Table 6: EU CRB-A – Additional disclosure related to the credit quality of assets

Article 442(a)
The scope and definitions of ‘past-due’ and ‘impaired’ exposures used for accounting purposes and the differences, if any, between the definitions of past due and default for accounting and regulatory purposes as specified by the EBA Guidelines on the application of the definition of default.

'Past due' definition for accounting purposes is the same as for regulatory purposes.

Days past due (DPD) methodology

The bank follows Guidelines on the application of the definition of default EBA/GL/2016/07 Days past due and default methodology and it is on obligor level. For the purpose of assessing the materiality of past-due credit obligations, the bank takes into account any amount of principal, interest or fee that has not been paid at the date it was due. In case of modifications of the schedule of credit obligations, the counting of days past due is based on the modified schedule of payments.

Where the credit arrangement explicitly allows the obligor to change the schedule, suspend or postpone the payments under certain conditions and the obligor acts within the rights granted in the contract, the bank does not consider changed, suspended or postponed instalments as past due and bases the counting of days past due on the new schedule once it is specified.

Where the obligor changes due to an event such as a merger or acquisition of the obligor or any other similar transaction, the counting of days past due starts from the moment a different person or entity becomes obliged to pay

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the obligation. The counting of days past due is, instead, unaffected by a change in the obligor's name.

The assessment of the materiality of past due credit obligations is performed daily. The information about the days past due and default is up-to-date whenever it is being used for decision making, internal risk management, internal or external reporting and the own funds requirements calculation processes.

The calculation of days past due starts at the moment when the obligor-level overdue exposure breaches both absolute and relative thresholds[16].

The absolute threshold is exceeded when:

overdue exposure > absolute threshold

The relative threshold is exceeded when:

overdue exposure / total obligor's on-balance sheet exposure > relative threshold

The absolute threshold refers to the sum of all past due amounts related to the credit obligations of the borrower towards the institution. The absolute threshold is set to 100 EUR for retail exposures and 500 EUR for non-retail exposures.

The relative threshold is defined as a percentage of a credit obligation past due in relation to the total on-balance-sheet exposures to the obligor excluding equity exposures. The relative threshold is set at the level of 1% for both retail and non-retail exposures.

For accounting purposes banks consider exposure with DPD>0 as past due exposure and monitor past due exposures with 30DPD, 60DPD, 90DPD, 180DPD, 1year and more.

'Impaired' exposures have to fulfil at least one of the following conditions:

- The obligor is past due more than 90 days on any material credit obligation to the credit institution, the parent undertaking or any of its subsidiaries. Calculation of DPD is the same as for 'past due' exposures.
- 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).

For purposes 'past due' exposures and 'default' calculation bank uses the same methodology for DPD.

Article 442(a)
The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

Past due exposures more than 90 days that are not considered to be impaired only if they do not exceed materiality threshold (see previous paragraph).

Article 442(b)
Description of methods used for determining general and specific credit risk adjustments.

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 loss is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

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

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

Definition of default

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

[16] Materiality threshold is composed of both an absolute and a relative component according to Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due.

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

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

Implementation of new definition of Non-performing loan classification took place in November 2019 according to EBA/GL/2016/07 and ISP guidelines.
The main changes consists of:

- Calculation of new days past due (see methodology in section Days past due (DPD) methodology) with regulatory absolute and relative thresholds
- Incorporating of cure period
- Definition of default and Non-performing definition are in line

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

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

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

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

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

Expected loss calculation:

Stage 1:

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

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

Stage 2:

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

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

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

Stage 3:

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

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

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

Article 442(a)
The institution's own definition of a restructured exposure used for the implementation of Article 178(3)(d) specified by the EBA Guidelines on default when different from the definition of forborne exposure defined in Annex V of the Commission Implementing Regulation (EU) No 680/2014.

On and off-balance sheet exposures for which a bank as a result of the deterioration of the obligor's financial situation, agrees to change/amend the original terms and conditions (e.g. the maturity). Rules for proving of deterioration of the obligor's financial situation is set in internal guidelines. According to the default definition only those exposures are considered as restructured where the restructuring brings the economic loss, i.e. net present value of the restructuring is negative.
The bank implemented new definition of default according to Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 in 2019.

Table 7: EU CRC – Qualitative disclosure requirements related to CRM techniques

Article 453(a)
When disclosing information on their netting policies and use of netting in accordance with Article 453(a), institutions should provide a clear description of CRM policies and processes concerning on-balance-sheet and off-balance-sheet netting. They could also indicate to what extent on-balance-sheet and off-balance-sheet netting have been used and their importance regarding credit risk management. Institutions could especially mention details about the techniques in use as the positions covered by on-balance-sheet netting agreements and the financial instruments included in the master netting agreements. Furthermore, the conditions necessary to assure effectiveness of these techniques and the controls in place for legal risk could also be described.

Policies and processes for on and off balance sheet netting
Netting techniques are not used.

Article 453(b)
As part of their disclosures on the core features of their policies and processes for collateral valuation and management in accordance with Article 453(b), institutions could disclose:
- The basis for the assessment and validation of the pledged collateral (market value, other values);
- To what extent the calculated value of collateral is reduced by a haircut;
- The process and methods in place to monitor the value of mortgage collateral and other physical collateral. Additionally, credit institutions could also disclose if there is a system of credit exposure limits in place and how the collateral accepted impacts the quantification of those limits.

Policies and processes for collateral evaluation and management
The bank'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 bank with the means for repayment of an exposure in the event of default by the borrower.

Collateral management policy includes the following:
– The establishment and maintenance of collateral policy comprising types of collateral taken by the Bank, the legal documentation used by the Bank to secure its right to this collateral in the event of a default and the valuation of this collateral at origination. These aspects of collateral management are addressed in this 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, i.e. that the impact of the policy reduces the net credit loss suffered by the bank as a result of its lending activities across all segments and products;

The principal objective of collateral management 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 origination for the certain types of collaterals; and
– Conditions for the process of revaluation.

The bank's collateral management policy is implemented further through the issuance of product programs, which determine the type, form and coverage ratio of collateral appropriate to each product within a customer segment. The collateral requirements will reflect principally the rating of the obligor, the exposure amount and the maturity of the exposure.
Initial collateral evaluation is done as a part of the underwriting process, i.e. at the moment of granting of credit. This evaluation is based on the actual value, namely the market value, or, otherwise the realisable value. The resulting value is then multiplied by haircut percentage rates, which are different according to type of collateral. The evaluation is done by external or internal specialist (depending on the type of collateral) and in case of real estate then supervised by internal expert. The enforcement of collateral is in case of obligor's default performed by Recovery department.
The presence of collateral does not grant exception from a complete assessment of the credit risk, which is mainly concentrated on borrower's ability to fulfil conditions for credit granting (i.e. to repay the loan), irrespective of the proposed type of collateral.
However, under certain conditions (type of obligor, assigned rating, and type of credit facility) the collateral has an impact, as the mitigating factor, on the determination of the conditions of the deal.

Article 453(c)
When describing the main types of collateral taken in accordance with Article 453(c), institutions should provide a detailed description of the main types of collateral accepted to mitigate credit risk. Furthermore, as good practice, credit

institutions could break down the accepted financial collateral according to type of credit operations collateralised and point out the rating and residual maturity of collaterals.

Description of the collateral types accepted by the Bank
Generally bank accepts the following types of collateral
- cash collateral (receivables from deposit accounts)
- pledge on securities (bonds, treasury bills, depository receipts, depository certificates, etc.)
- pledge on shares listed on regulated markets
- pledge on the managed portfolios (private banking)
- pledge on investment fund quotas
- pledge on bonds and warrants
- guarantees (states, banks, other financial institutions)
- guarantees (non-financial institutions)
- pledge on real estate property
- pledge on movable assets
- pledge on receivables
- pledge on inventories
- life insurance policies vinculation
- others (letter of comfort, execution title)

Bank defines precisely in internal rule which type of risk mitigation tools are not acceptable for the bank, and which haircut is applied for the accepted types in order to reach the value accepted by the bank.
For mortgage collateral separate process and methods are set in order to ensure the proper evaluation, monitoring and re-evaluation of the value of properties accepted as collateral. At the moment of mortgage granting the property is evaluated by external expert and then the appraisal is supervised by internal expert (supervisor). External expert must be included on the official list of professionals for real estate evaluation. Bank monitors quality of work of the experts on individual basis.
The value of property under construction is monitored on the ongoing basis by internal specialist who performs inspections, verify the progress of construction and prepare technical reports for loan disbursement for transactions on a work progress basis.
The value of pledged properties is regularly monitored on the portfolio basis. The property value is updated in the event of limitation or splitting of the mortgage, of damage of the property and in any case regularly at least once in three years by Act (Bank currently uses annual basis update). Regular re-evaluation is done on the portfolio basis using statistical techniques based on the bank data and enhanced by the available data from Slovak market.
To cover the residual risks, the obligor is required to provide an insurance policy against damage, issued by insurance companies that have an agreement with or are approved by the bank.

Article 453(d)
The description of the main types of guarantors and counterparties in credit derivatives and their creditworthiness to be disclosed in accordance with Article 453(d) should cover credit derivatives used for the purposes of reducing capital requirements, excluding those used as part of synthetic securitisation structures.

The main types of guarantor and credit derivative counterparty and their creditworthiness.
The bank did not enter into any credit derivative transaction.

Article 453(e)
When disclosing information about market or credit risk concentrations within CRM taken in accordance with Article 453(e), institutions should provide an analysis of any concentration that arises due to CRM measures and may prevent CRM instruments from being effective. Concentrations in the scope of those disclosures could include concentrations by type of instrument used as collateral, entity (concentration by guarantor type and credit derivative providers), sector, geographical area, currency, rating or other factors that potentially impact the value of the protection and thereby reduce this protection.

Bank does not have any concentration under used credit risk mitigation tools. Given the fact that retail mortgages are the biggest portfolio of the bank, the majority of collateral represent the pledge on real estates. There are no particular concentrations on the individual obligor or geographical area level, bank sets the specific limit on concentration which is monitored on monthly basis.
Collateral policy is in detail dealing with the Basel III eligibility and conditions upon which the collateral can be used within standardized or IRB approach.

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Table 8: EU CRD – Qualitative disclosure requirements on institutions' use of external credit ratings under the standardised approach for credit risk

Article 444(a)
(a)
Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the institution, and the reasons for any changes over the reporting period.

Bank nominates following rating agencies for standardized approach: Fitch Ratings Ltd., Moody´s Investors Service Limited, Standard & Poor´s a division of The McGraw-Hill Companies, Inc. Bank accepts only solicited ratings and unsolicited for central governments and central banks. Ratings have to be so called Global scale ratings and are applied for following asset classes: Institutions (banks and securities firms), governments and their central banks, exposures to corporates.

Article 444(b)
(b)
The exposure classes for which each ECAI or ECA is used.

Risk weight is assigned based on the ECAI's rating to exposures to central governments or central banks, exposures to public sector entities, exposures to institutions, exposures to rated institutions, exposures to unrated institutions, exposures to corporates, exposures in the form covered bonds, exposures to institutions and corporates with a short-term credit assessment, exposures in the form of units or shares in collective investment undertakings ('CIUs') and other items.

Article 444(c)
(c)
A description of the process used to transfer the issuer and issue credit ratings onto comparable assets in the banking book.
Bank does not use transfer of credit ratings.

Article 444(d)
(d)
The alignment of the alphanumerical scale of each agency used with the credit quality steps prescribed in Part Three, Title II, Chapter 2 of the CRR, (except where the institution complies with the standard association published by the EBA).

Credit Quality Step	Fitch's assessments	Moody's assessments	S&Passessments	Corporate	Institution (includes banks)			Sovereign
					Sovereign method	Credit Assessment method		
						Maturity > 3 months	Maturity 3 months or less	
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%	20%	20%	0%
2	A+ to A-	A1 to A3	A+ to A-	50%	50%	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%	100%	50%	20%	50%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%	100%	100%	50%	100%
5	B+ to B-	B1 to B3	B+ to B-	150%	100%	100%	50%	100%
6	CCC+ and below	Caa1 and below	CCC+ and below	150%	150%	150%	150%	150%

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Table 9: EU CRE – Qualitative disclosure requirements related to IRB models

Article 452(b)(iv)
(a)
The description of the control mechanisms for rating systems in accordance with Article 452(b)(iv) should cover internal model development, controls and changes. When describing the independence, accountability and rating systems review, the role of the functions involved in the development, approval and subsequent changes of the credit risk models should be disclosed.

Rating Governance policy has been introduced through the revised Credit Risk Charter which 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.
The Rating and Scoring Methodology Department is responsible for the scheme of the rating system including development and maintanance of the models, as well as the analysis and performance of the changes required by the regulator, parent company and control units of the bank.
The assignment of rating is centralized and fully automated for SME, Small Business and Retail portfolio. Rating is based on quantitative and qualitative data.
For Large Corporates, the rating assignment is centralized in Credit Risk Management department with splitted responsibility for rating assignment and rating validation. Internal guideline defines the competencies; in some cases the technical opinion of Parent Company is needed.

Validation is required by Basel II as a component of the overall management of internal risk measurement systems, and a precondition for introduction of advanced risk measurement systems. More specifically, validation is performed both within the adoption of internal systems, for the purpose of regulatory authorization, and during the process of ongoing/continuous monitoring of authorized systems.
In charge of validation on internally developed risk measurement and management systems is sub-department Internal Validation. From organizational point of view this sub-department is independent from the function performing internal audit on the systems and function responsible for development of the rating models. For models developed by parent company, it performs regular validation of the relevance of the models on local level.

Article 452(b)(iv)
(b)
The description of the role of the functions referred to above should also include the relationships between the risk management function and the internal audit function, as well as the procedure to ensure the independence of the function in charge of the model review from the functions responsible for model development.

Within the organizational structure of the company, the functions of the model development, internal validation and internal audit are splitted. This ensures the independence in the process of the review and control of the rating models. Based on the results of the model review and control, the appropriate steps are performed (redevelopment, calibration, et al.). The results are presented and approved on Credit Risk Committee.

Article 452(b)(iv)
(c)
As part of information provided in accordance with Article 452(b)(iv), institutions should disclose the scope and main content of reporting related to credit risk models.

The rating form the basis of the management reporting and are spread across the risks of the loan portfolio. For the management reporting, the Risk Management Department produces the Credit Risk Report on monthly basis that provides an overall view of the Group's risk position at the end of the respective month. On regular basis, the Internal Validation sub-dept. publishes the validation reports containing the results of monitoring and back-testing of the models.

Article 452(a)
(d)
Scope of the supervisor's acceptance of approach

Application: for the use of FIRB (Foundation Internal Rating Based) approach on Corporate exposures
Applied: December 2009
Approved: December 23rd, 2010 by Banca d'Italia; February 21st, 2011 by National Bank of Slovakia
Detail: Banca d'Italia authorized Intesa Sanpaolo Group to report the Corporate portfolio of VUB – thus including Corporate and SME clients and Specialized Lending (Real Estate and Project Finance) – using the FIRB approach for regulatory capital calculation purposes. NBS approved the utilization of following Corporate rating models on local basis:
- Group model for Corporate clients (above 50 million euro turnover), calibrated to Slovak environment,
- Group models for Specialized Lending: Real Estate Development and Project Finance,

- Local model internally developed for SME clients (turnover between 1 and 50 million euro).

Application: for the use of AIRB (Advanced Internal Rating Based) approach on Retail Residential mortgages
Applied: December 2011
Approved: July 9th, 2012 by Banca d'Italia; July 31st, 2012 by National Bank of Slovakia
Detail: Banca d'Italia has authorized Intesa Sanpaolo Group to report the residential mortgage portfolio of VUB – using the PD and LGD for regulatory capital calculation purposes. NBS approved the utilization of residential mortgage models on local basis.

Application: for the use of locally developed slotting models for Real Estate (hereinafter RED model) and for Object Finance and Specialized Lending assets (hereinafter SPV model), which do not meet criteria to be processed nor by Real Estate neither by Project Finance, as an alternative for IRB compliant rating system
Applied: 2012
Approved:
- July 9th, 2013 for SPV model by National Bank of Slovakia
- August 20th, 2013 for RED model by National Bank of Slovakia
Detail: With the aim to apply locally developed models for all relevant sub-classes of Specialized Lending to better reflect Slovak market conditions and to fulfil the conditions stated in the NBS prior decision, the bank was obliged to adjust the SPV model and decided to extend its perimeter by Project Finance clients as well. The bank was granted the permission to use the adjusted SPV model for regulatory purposes on 26 March 2015. As a consequence, the bank applies two locally developed models for Specialized Lending (SPV model and RED model) instead of the preceding three models (SPV model, RED model and Group Project Finance model).

Application: for the use of AIRB approach for regulatory purposes for exposure classes Small Business, Corporate and SME (LGD models)
Applied: December 2013
Approved: June 18th, 2014 by the joint decision of Banca d'Italia and National Bank of Slovakia
Effect from: June 30th, 2014

Application: for the permission to apply material changes to the internal PD and LGD model for the retail residential mortgage portfolio and to extend these models for the retail non-residential mortgage portfolio
Applied: October 2015
Approved: March 7th, 2017 by ECB decision
Effect from: May 30st, 2017 by ECB confirmation of condition fulfilment

Application: for the permission to apply material changes to the Corporate models
Applied: December 2015
Approved: April 18th, 2017 by ECB decision
Effect from: May 30th, 2017 by ECB confirmation of limitations fulfilment
Detail: The model for the ISP IALC sub-segment (Corporates with turnover over 500M EUR) was changed by ISP, including both PD model and LGD model for these clients. VUB was included in the perimeter of application and therefore after decision it will apply a new model for these clients.

Article 452(a)
(e)
When disclosing information on the competent authority's permission of the approach or approved transition in accordance with Article 452(a), institutions should indicate (for each of the exposure class) the part of EAD within the group (in percentage of total EAD) covered by the standardised, FIRB and AIRB approaches and the part of the exposure classes that are involved in a roll-out plan.

This information is provided in other parts of this document (e.g. Template EU CCR 7)

Article 452(c)
(f)
The disclosure of the internal rating processes by exposure classes listed in Article 452(c) should include the number of key models used with respect to each portfolio, with a brief discussion of the main differences among the models within the same portfolios.

Corporate, including SMEs, specialised lending and purchased corporate receivables - 9 models: PD model for Corporate clients (VUB IALC) , PD model for SME, PD model for SB, LGD model for SB segment, LGD model for segments Corporate and SME, PD model for sub-segment ISP IALC, LGD model for sub-segment ISP IALC, Specialised Lending models (RED model, SPV model). Details on the models are described in the following paragraph.

Retail, for each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond - 2 models: PD model for Retail Mortgages, LGD model for Retail mortgages. Details on the models are described in the following paragraph.

Equities: Simple risk weight approach

Article 452(c)
(g)
The disclosure of the internal rating processes by exposure classes listed in Article 452(c) should also include a description of the main characteristics of the approved models, in particular:
(i) Definitions, methods and data for estimation and validation of PD, such as how PDs are estimated for low default portfolios, whether there are regulatory floors, and the drivers for differences observed between PD and actual default rates at least for the last three periods;
And, where applicable:
(ii) Definitions, methods and data for the estimation and validation of LGD, such as methods to calculate downturn LGD, how LGDs are estimated for low default portfolio, the time lapse between the default event and the closure of the exposure;
(iii) Definitions, methods and data for estimation and validation of CCFs, including assumptions employed in the derivation of these variables.
The description of the internal model characteristics for equities in accordance with Article 452(c)(v) should cover the models used for exposures under the IMA in accordance with Article 155(4).

PD model for Corporate clients (VUB IALC): the PD model, estimated through a shadow rating approach as the number of defaults on this segment is not sufficient to develop a default model, is composed by a quantitative module, which incorporates balance sheet data, and a qualitative module (a questionnaire), which covers two analysis areas (sector and market area and specific debtor characteristic area). Output of quantitative module and of each of the two parts of the qualitative module is a score; the three scores are simultaneously integrated through a logistic regression;

PD model for SME: the PD model has been developed using VUB internal data through logistic regression. The model is composed by the following modules:

- Application rating composed by Soft Fact score, covering the basic characteristics of the economic subject, and Financial score, covering the financial profile of the economic subject, further divided into single and double entry bookkeeping,
- Behavioural rating, covering the account and loan behaviour of the client,
- Computed Rating (Pre-computed Rating), which is the result of the integration between application and behavioural scores with application of predefined automatic rules,
- Final rating, which is the final result after application of override and/or expert rules.

PD model for SB: the PD model has been developed using VUB internal data through logistic regression. The model is composed by the following modules:

- Application rating composed by Soft Fact score, covering the basic characteristics of the economic subject, and Financial score, covering the financial profile of the economic subject, further divided into single and double entry bookkeeping,
- Behavioural rating, covering the account and loan behaviour of the client,
- Behavioural transactional rating, which is used instead of behavioural rating in case when client does not have behavioural rating yet, but client has a current account for a quite enough period,
- Computed Rating (Pre-computed Rating), which is the result of the integration between application and behavioural (behavioural transactional) scores,
- Final rating, which is the final result after application of override and/or expert rules.

PD model for Retail Mortgages: The PD model was developed on the contract level on VUB internal data using the logistic regression and it takes into consideration both client and contract parameters. It consists of following parts:

- Application module being applied already during the initial approval process and in the first years of the mortgage life;
- Retail Behavioural module covering the behaviour of the client on his credit and deposit products;
- Retail Transaction module covering the behaviour on client’s deposit products. This module is used when the Retail Behavioural module is not available. Both modules are used in the approval process and in the first three months of mortgage life;
- Mortgage Behavioural module covering the behaviour of the client on all his products including the mortgage, this module is available after three months and replaces the two above mentioned modules.

These modules are integrated in pre-computed score which is further mapped on the mortgage rating scale. Finally, the automatic rules, default and overrides are applied.

PD model for sub-segment ISP IALC: PD model developed by parent company. The model is used for corporate clients with turnover over 500M EUR. The outputs of the model are adopted from the systems of the parent company.

Internally developed LGD models have been developed using VUB internal data on the basis of a workout approach, in other words by analysing the losses suffered by the Bank on historical defaults. The LGD is therefore determined on the basis of the actual recoveries achieved during the default period, taking into account the direct and indirect costs. The calculation of loss rates has been made on contract level. The bank used 3 internally developed models: LGD model for segments Corporate and SME (common model for both segments), LGD model for SB segment, LGD model for Retail mortgages.

LGD model for sub-segment ISP IALC: LGD model developed by the parent company. The model is used for corporate clients with turnover over 500M EUR.

The Specialised Lending models: the Specialised Lending segment is covered by the two locally developed slotting models - RED (Real Estate Development) model for the real estate development initiatives and SPV model (Project and Object Finance and Specialized Lending assets, which do not meet criteria to be processed by RED model);

- RED model: Real Estate model, which follows an expert based approach. Development of the slotting function is in line with the regulatory requirements for IPRE (Income Producing Real Estate) category of Specialized Lending. It includes all areas to be covered by slotting – i.e. financial strength, transaction and/or asset characteristics, strength of the sponsor and developer, security package). The model is composed by:
  - Slotting questionnaire, which results in the assignment of preliminary slotting category Strong/Good/Satisfactory/Weak, based on questions aimed at evaluating all required areas,
  - Set of automatic rules, overrides, which are applied to obtain the final slotting categories;

- SPV model: Model for Project and Object Finance and Specialized Lending assets, which do not meet criteria to be processed by RED model, follows an expert based approach. Development of the slotting function is in line with the regulatory requirements for IPRE, PF a OF (Income Producing Real Estate, Project Finance and Object Finance) categories of Specialized Lending. It includes all areas to be covered by slotting – i.e. financial strength, political and legal environment, transaction and/or asset characteristics, strength of the sponsor and developer, security package). The model is composed by:
  - Slotting questionnaire, which results in the assignment of preliminary slotting category Strong/Good/Satisfactory/Weak, based on questions aimed at evaluating all required areas,
  - Set of automatic rules, overrides, which are applied to obtain the final slotting categories.

Equities: the bank uses Simple risk weight approach according to the Article 155 (2).

Table 10: EU MRB – Qualitative disclosure requirements for institutions using the IMA

Value at Risk (VaR)
The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important.

Value-at-Risk is a statistical measure of the worst-case (unexpected) loss over a given time horizon under normal market conditions at a given confidence level.

The Bank uses historical simulation method to estimate VaR. This method is robust, it precisely covers a wide range of products (linear and non-linear products), it uses full valuation and is easy to understand and interpret. This method is also used by Intesa Sanpaolo as a part of their internal model for measurement of capital adequacy requirement for market risk. In VUB this method is being used regularly from 1 May 2005 after it had been approved by Assets and Liabilities Committee on Enterprise Risk Management Department proposal.

The Bank uses this Value at risk model as internal model for capital allocation for interest rate risk in trading book and foreign exchange risk in both trading and banking book, based on decision of NBS since January 2007.

VaR as of last business day is compared with average VaR during from last 60 business days multiply by factor value for back test of model. Capital charge is calculated as maximum from the previous values multiply by root square 10 as a time factor value.

VaR figures, back tests and capital charge are in daily report prepared by Market Risk subdepartment.

Stressed value at risk (SVaR)
SVaR is addition to VaR measure whose main task is to bring into the capital charge calculation for the trading book the period of high volatility. SVaR uses similar calculation methodology to VaR; nevertheless, selected stressed period

is used instead of period of last 250 trading days. Following the adoption of CRDIV and CRR regulation, the bank officially started calculating SVaR values from 1 May 2012.

VaR and SVaR models are used for calculation of capital allocation requirement. Capital charge is calculated as a sum of:

1. According to Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) the higher of:
   a. VaR calculated for the last day based on article 365(1) (VaR t-1),
   b. average VaR computed for last 60 working days multiplied with multiplication factor received from backtesting (VaR avg); maximum of these values is multiplied by square root of ten according by Regulation (EU) no. 575/2013; and

2. The higher of:
   a. stressed VaR (SVaR) calculated for the last day (sVaR t-1),
   b. average SVaR computed for last 60 working days multiplied with multiplication factor received from VaR backtesting (sVaR avg); maximum of these values is multiplied by square root of ten.

VaR and SVaR values, backtesting results and capital allocation requirement are part of daily reporting.

Positions
In the model are included all positions which fulfil condition trade date ≤ actual date < maturity date and are not flagged as liquidated. These conditions include all exposure with unrealized part of cash flow.

Risk factors
FX rates and interest rates are used as risk factors for VaR computation. Interest rates of currencies different from EUR with maturity less than 1M are replaced with 1M rate to take into account “pull to maturity” effect. Interest rates of EUR currency are taken from the whole interest rate curve.

Methodology
The historical simulation is one of the standardized approaches to calculate Value at Risk. This method assumes the maximal future change of market parameters – risk factors over a specified time horizon can be predicted from a series of historical changes. Scenarios of historical changes of risk factors are used to calculate market value of current portfolio, using full valuation. That means that market value of all instruments is calculated exactly not approximated. By comparing the actual value of portfolio with the set of market values under each scenario a set of hypothetical returns is calculated. The set of returns is then sorted and a specified percentile is selected as an estimate of VaR.

Risk factor is an independent variable, which value can be observed on the market and affects market value of a financial instrument. Standard risk factors are interest rates (each node on the yield curve), foreign exchange rates, and volatilities.

Full valuation requires a complete set of market parameters. This means that all relevant risk factors have to be identified and incorporated into scenarios of historical data set. Scenario consists of changes of all risk factors between two observations.

Hypothetical market value for scenario *k* is obtained from applying changes of all risk factors from the scenario to the current level of market parameters and using these modified market parameters to calculate market value of financial instruments in portfolio.

VaR Methodology
In line with Intesa Sanpaolo methodology (using RiskWatch as the core system for historical simulation VaR and SVaR computing) we calculate daily changes of market parameters as follows:

$$\Delta S_{i,k} = \frac{S_{i,k}}{S_{i,k+1}} \qquad k = 1,\dots, N$$

and

$$S'_{i,k} = S_{i,0} * \Delta S_{i,k} \qquad k = 1,\dots, N$$

where

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$S_{i,k}$ – value of a risk factor *i* on observation day *k* (*k* =1 is a previous trading day)
$S_{i,0}$ – actual value of a risk factor *i*
$S'_{i,k}$ – simulated value of a risk factor *i* after application of scenario *k* to the actual value
$\Delta S_{i,k}$ – change of risk factor *i* between observation day *k* and *k+1*
N – number of scenarios in historical data set (VUB uses 250)

To obtain a simulated value of a risk factor *i*, its actual value $S_{i,0}$ is multiplied by a corresponding change $\Delta S_{i,k}$. This shift type is called as variable factor in RiskWatch system. Its advantage is that it can be used on risk factors which value change significantly over longer period of time without loosing relevancy (i.e. EUR interest rates changed from levels around 5% p.a. to 2.5% p.a. Percentual change of 10% from 5% to 4.5% can be easily applied to market rates if even if the current value is 2.5%. But if we used absolute shifts, then the same shift of 0.5 percentage point may be not realistic if the rates were 2.5%). A disadvantage is that VaR may rise when actual values of risk factors rise. (Absolute difference between $S'_{i,k}$ and $S_{i,0}$ grows as $S_{i,0}$ rises.)

In the next step, the valuation engine - RiskWatch calculates market values of current position applying historical scenarios $S_{i,k}$. The output of the process is a set of *N* market values, which can be interpreted as the hypothetical market values of the current position in the case of repetition of the historical changes of scenario *k*. Hypothetical returns (returns R_k) are calculated as a difference between market value under scenario *k* and current market value.

It has been observed that volatility on financial market rises and decreases in clusters and that there are periods of high volatility and low volatility. Therefore the model should quickly react to the actual situation on the market and correctly assess the current state. This is achieved through assigning weights – probabilities to the individual returns. Every hypothetical return has a different level of probability. The generally accepted assumption is that the probability of a scenario decreases as its time of observation is receding from the actual date. It means that probability of recurrence of the scenario *k* =1 is higher than probability of recurrence of the scenario *k* =250. The weights applied to the hypothetical returns are calculated as follows:

$$W_k = \frac{\lambda^{(k-1)} * (\lambda - 1)}{\lambda^N - 1} \qquad k = 1,\ldots,N$$

where

λ = 0.992 (decay factor).
k – scenario number (previous trading day = 1)

It means that scenario from the last day has highest weight (0.00924), scenario of previous day has weight 0.00924 multiplied by decay factor 0.992 (i.e. 0.00917), scenario of previous day has weight 0.00917 multiplied by decay factor (i.e. 0.00909), etc., scenario with date 250 working days before actual date has lowest weight (0.00125).

The final step is to calculate the left tail (the potential loss) at the given confidence level over the weighted distribution of hypothetical returns.

The implementation of the historical simulation approach consists of four phases:

- Identification of risk factors
- Generation of historical scenarios
- Performing the simulation (Full valuation)
- Estimation of Value at Risk

Market value as an intermediate base for calculation of VaR or other risk figures of all instruments is calculated independently by RiskWatch, using Net Present Value - all future cash flows are discounted to actual date using appropriate yield curve and are converted to EUR with appropriate FX rate or other instrument specific methods (i.e. for options). Methods and models used in RiskWatch are described in RiskWatch financial models documentation.

Process of calculation
For the historical simulation RM uses a time series of 250 historical scenarios. The holding period is one day and confidence level is set at 99% (left tail).

The historical time-series of prices are collected by a dedicated function of parent company, with cooperation of RM department of VUB. The data together with historical scenarios and actual positions are transferred to RiskWatch system in VUB where the valuation engine - RiskWatch computes hypothetical returns applying historical scenarios and selects the required percentile (99% - left tail).

Requirements

- The sufficient length of time series of market variables (at least 250 daily values),
- Full valuation engine.

Global VaR computation
VaR is computed by RiskWatch system for FX portfolio and IR portfolio separately. Computation of Value-at-Risk for all risk factors and all portfolios (Global VaR) is then done in MS Excel application. It uses reports from RiskWatch as inputs. These reports include historical scenarios with weights and profits/losses. For each of these scenarios with same date, it is possible to sum profit/loss of FX portfolio and IR portfolio to gain profit/loss of whole portfolio. These sums together with weight are new global historical scenarios. Global historical scenarios are sorted in ascending way by returns and scenario with cumulated probability exceeding 1% is chosen as VaR scenario. (The same process as described above.)

Chosen scenario is used as Global VaR for whole portfolio and all risk factors.

Short description of steps:

1. to sum up PL for FX consolidated portfolio with PL for IR trading portfolio
2. to assign weights to each PL
3. to sort scenarios by size of PL
4. to select PL which is first over 99% confidence level.

SVaR Methodology
The Stressed VaR methodology is based on the current VaR methodology, with specific techniques required, where applicable, in order to adjust the current VaR model into one that delivers a Stressed VaR measure. Any risk factor occurring in the VaR model is therefore reflected in the Stressed VaR model as well.

While the Stressed VaR model shares some of the regular VaR standards, others diverge due to explicit Directive requirements set by Regulation (EU) no. 575/2013 of 26 June 2013 (CRR) or to methodological incompatibilities related to the Stressed VaR concept. In particular, Stressed VaR model as applied within VÚB differs from regular VaR in following areas:

- The multiplication factor used for capital requirements should be at least 3 and be increased by an added between 0 and 1 depending on the VaR backtesting results. Backtesting is not a requirement in itself for determining the Stressed VaR measure,
- No weighting of historical data is applied for historical scenario set,
- Historical scenario set is defined by the user (VUB), and it is not directly selected as 250 most recent historical scenarios.

SVaR Period Selection

In order to choose a historical period for calibration purposes, Regulation (EU) no. 575/2013 of 26 June 2013 (CRR) prescribes to formulate a methodology for identifying a stressed period relevant to their current portfolios. There are two possible ways to select the period:

- Judgement-based approach
- Formulaic approach

A judgement-based approach is one that does not use a detailed quantitative analysis to identify the precise period to use for calibration, but rather relies on a high-level analysis of the risks inherent in an institution's current portfolio and past periods of stress related to those risk factors.

A formulaic approach instead is one that applies, in addition to expert judgement, a more systematic quantitative analysis to identify the historical period representing a significant stress for an institution's current portfolio.

Institution may also choose to combine the two approaches, which is the way applied by VUB. The judgement-based approach was used to restrict the historical data periods, while VaR methodology, which is one of the formulaic approaches defined by the directive, was used to identify which of the periods produces the highest resulting measure for the current portfolio.

Three identified periods were compared for their volatility, taking into consideration actual portfolio. Specifically, for each date within the scenario set, VaR measure was calculated using same underlying parameters as for regular

VaR (99% confidence level, 250 historical scenarios, 1-day holding period). Data set with the highest volatility was then selected as a base period for SVaR calculation.

Stressed VaR period review is required at least twice a year and in ad-hoc, shall the SVaR<VaR (extraordinary review triggered).

Advantages
This section describes advantages of the chosen method for VaR calculation against the parametric and Monte Carlo method.

- The assumption of normal distribution of market variables and determination of correlations between risk factors are not required,
- The method is applicable also for portfolios with a large number of assets and allows nonlinearities of positions to be precisely measured,
- The method deals directly with the choice of horizon for measuring VaR. Returns are simply measured over intervals that correspond to the length of the horizon (in our case the horizon is set as O/N),
- Historical simulation method does not rely on specific assumptions about valuation model or underlying stochastic structure of the market,
- The used method is in line with Intesa Sanpaolo methodology and their approved internal model for measuring market risk,
- Easy for interpretation,
- The method is robust and intuitive and the most widely used method to compute VaR,
- Computational requirements are lower than in Monte Carlo method.

Disadvantages
This section describes disadvantages of the chosen method for calculation of VaR against the parametric and Monte Carlo method. At the same time it lists possible situations when the model may not work effectively.

- The sufficient quality and quantity of historical data is required,
- The efficient full valuation engine is necessary,
- The method does not recognize risk, which arises from situations that are not directly described by any of the used scenarios,
- The speed of computation is slower than in the case of delta (parametric) VaR. The on-line calculation is not available,
- The source of positions is crucial for the calculation engine in the case of VUB Bank. The process is sensitive for the collapse of the uploading process (the responsibility is divided between Market Risk Department of VUB Bank and Risk Management of Intesa Sanpaolo).

Back test
Risk measurement is based on several presumptions and specified model. These presumptions and model must be steadily compared to reality in order to assure quality of risk figures. Verification of model by comparing its predictions to observed data is called backtesting.

In the case of backtesting of Value at Risk model, calculated figure, as the worst loss over a specified time horizon at given confidence level of a portfolio is compared with theoretical and actual profit or loss (P/L) of this portfolio realized over the same period of time.

Stress testing
The legal framework to implement the stress testing is included in Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) on prudential requirements for credit institutions and investment firms.

EU and NBS require that the bank should implement a complex program of stress testing that includes stress scenarios and qualitative and quantitative tests. Quantitative stress tests identify possible impacts on the bank caused by movements of real prices, interest rates, volatility, correlation, and other market factors. Qualitative tests verify adequacy of bank's own funds for the protection against possible losses and identify possibilities to reduce risks.

Object of Stress testing
The capability to predict the financial instability is one of the most important features to keep the revenue at the desiderative level. The better understanding of the vulnerabilities in financial systems and measures could help prevent the financial crises. One of the key techniques for quantifying financial sector vulnerabilities is stress testing.

The main goal of stress testing is to caution the institution for unexpected losses that could be made by an exceptional but plausible development of market factors. To set the boundary between the realistic development with the low probability and unrealistic scenario is the object of many studies.

The impact of the financial crisis is not limited only for the profitability of trading portfolios. The financial instability affects a range of financial soundness indicators of the financial institution.
Stress test shocks and models are based on judgments and assumptions.

Stress tests and Value at Risk methods
All Value at Risk methods are based on the assessment of the losses from the historical volatilities and correlations or over historical scenarios of prices. The assessment is made over the predefined level of probability (confidence level). VaR method does not cover fat tails and movements that happened in the past and are not included in the set of data. This inefficiency is covered trough calculating Stressed Value at Risk, which simulates VaR over selected period with highest volatility from data set beyond standard VaR methodology. On the other hand, the future is inimitable and may not be mirrored in the past.

Stress scenarios
Market Risk sub-department in cooperation with Research Department prepares a set of stress scenarios – scenarios, which imitate state of market factors during a financial crisis and revaluates the actual positions with these scenarios. The change of market value between actual situation and the scenario is considered a stress value.

These stress values are then reported to management in Daily report and to Assets and Liabilities Committee in a Monthly Risk report.

The set of scenarios is dynamic and reflects the current development of prices (Interest Rates, Foreign Exchange Rates and Implied Volatilities) and current position.

(B) Disclosures in the application of Article 455(a)(ii) for institutions using internal models to measure the risk for the capital IRC and (C) Disclosures in the application of Article 455(a)(ii) for institutions using internal models to measure the risk for the comprehensive risk capital charge are not applicable for the institution.

Leverage Ratio disclosure according Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016 and Part Eight of Regulation (EU) No 575/2013 (the CRR)

Under the Basel 3 prudential regulations, the Leverage ratio entered definitively into effect on 1 January 2015. The Leverage ratio measures the degree to which Tier 1 Capital covers the bank´s total exposure. The ratio is calculated by considering off-balance sheet exposures and assets. The objective of the indicator is to contain the degree of indebtedness on banks' accounts by establishing a minimum level of coverage of exposures with equity. The ratio, which is monitored by the authorities, is expressed in percent form and is subject to a regulatory minimum threshold of 3% (the Basel Committee's reference value).

The Leverage Ratio is calculated quarterly. The indicator is monitored at both the individual and consolidated level. The Leverage ratio is calculated as the ratio of Tier 1 Capital to total exposure. Focusing on the denominator of the ratio, total exposure includes on-balance sheet exposures, net of any components deducted from Tier 1 Capital, and off-balance sheet exposures. The disclosure of the Leverage ratio is presented in accordance with the regulatory principles of the CRR and set out according to the provisions of (EU) Implementing Regulation 2016/200. The ratio is expressed in percent form and is subject to the regulatory minimum threshold of 3% (the Basel Committee reference value).

Own funds disclosure template according Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 and Part Eight of Regulation (EU) No 575/2013 (the CRR)

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

This regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:

- Tier 1 capital, in turn composed of:
  Common Equity Tier 1 Capital (CET1);
  Additional Tier 1 Capital (AT1);
- Tier 2 Capital (T2)

Tier 1 capital is mainly composed of equity instruments:
share capital, share premium, retained earnings without net profit for the period, other reserves, accumulated other comprehensive income, fair value gains and losses arising from the bank's own credit risk related to derivative liabilities, other transitional adjustments to CET1 capital, CET1 capital elements or deductions — other, negative items are goodwill and intangible assets. In order to be eligible for Common Equity, the equity instruments issued must guarantee absorption of losses on going concern and only where they are available to the institution for unrestricted and immediate use to cover risks or losses as soon as these occur.

Tier 2 capital is mainly composed of: IRB excess of provisions over expected losses eligible, subordinated debt, other transitional adjustments to T2 Capital.

The regulatory capital requirements for VUB Bank and VUB Group at 31 December 2020 are included in the table below:

Capital requirements		
Pillar 1 requirements	Common Equity Tier 1	4,50%
	Additional Tier 1	1,50%
	Tier 2	2,00%
Pillar 2 requirement (P2R)		1,50%
Total SREP capital requirement (TSCR)		**9,50%**
Combined buffer	Capital Conservation Buffer	2,50%
	O-SII Buffer	1,00%
	Systemic Risk Buffer	1,00%
	Counter-cyclicall Buffer	1,00%
Pillar 2 Capital Guidance (P2CG)		1,00%
CET 1 requiremet (incl. buffers and P2CG)		**11,84%**
Tier 1 requirement (including buffers and P2CG)		**13,63%**
Overall Capital Requirement (OCR)		**16,00%**

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that VÚB Bank must comply with at individual and at consolidated level.
On 25th November 2019, VÚB bank received the ECB's final decision concerning the capital requirement that the Bank has to meet, this decision continues to apply, in particular, for the capital requirements of 2020. The overall capital requirement the Bank has to meet at 31 December 2020 in terms of Common Equity Tier 1 ratio is 11.84%.

This is the result of:

a) SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement (of 8%), of which 4.5% is Common Equity Tier 1 ratio, Additional Tier 1 of 1.5%, Tier 2 requirement of 2% and a 1.5% additional Pillar 2 capital requirement,
b) combined buffer requirement of 5.5%, of which the additional Capital Conservation Buffer requirement of 2.5%, Systemic risk buffer of 1%, Counter-cyclical buffer of 1% from 1. August 2020 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 1%,
c) Pillar 2 Capital Guidance at 1% level.

On 12.3.2020, ECB announced relaxation of the capital requirements, by allowing the banks to fully release the P2CG (1%) and allow banks to operate temporarily below the level of capital defined by the capital conservation buffer (CCB) (2,5%), meaning in total effect of 3,5%. Moreover, ECB announced the immediate implementation of CRD V rules on the composition of Pillar 2 Requirements (P2R). These rules set minimum level of CET 1 capital as 56,25 % of own funds and minimum level of 75% for Tier 1 capital of own funds (for CET 1 it represents 11.84%, for Tier 1 it is 13.63% and 16% for total own funds requirement at 31 December 2020).

Liquidity coverage ratio (LCR) disclosure and own funds, risk-weighted assets, capital ratios and leverage ratio disclosure according to NBS decree 16/2014 as amended, §1 section 2g) and 2i) are included in Attachment no.1.

Other Disclosure requirements according to Part Eight of Regulation (EU) No 575/2013 (the CRR) - Quantitative disclosures are included in Attachment no. 1.

Disclosure requirements according to EBA/GL/2018/10 Guidelines on disclosure of non-performing and forborne exposures are included in Attachment no. 1.

Disclosure requirements according to EBA/GL/2020/07 Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis are included in Attachment no. 1.

VÚB BANKA

4. Declaration of the Manager responsible for preparing the Company's financial reports

The Manager responsible for preparing the Company's financial reports, Paolo Vivona, declares, pursuant to par. 2 of art. 154-bis of the Italian "Testo Unico della Finanza" (Consolidated Law on Finance), that the accounting information contained in this document corresponds to the corporate records, books and accounts.

26 March 2021

Paolo Vivona
Manager responsible for preparing the
Company's financial reports