VÚB BANKA

Consolidated Annual Report 2018

VUB, a bank of INTESA SANPAOLO

Contents

Address by the Chairman of the VUB Supervisory Board

Dear Shareholders, Clients and Business Partners, Employees

VUB had in 2018 a good year. The Group was particularly successful in the commercial area. In the loan market, the Group has increased volumes by hefty 13.4% outpacing its already strong performance in the preceding year and outgrowing also the market. Successful also was the Group in growing its volumes of customer deposits, by 12%, gaining share also on this market. On behalf of the Supervisory Board, I would like to thank the management and employees for these excellent commercial achievements.

In terms of profitability, the low interest rate environment persisted in 2018 and prevented the net interest income of the Group from bottoming out yet. VUB has nonetheless fought on many fronts to offset the global margin tide and defend its bottom line. Besides strong volume growth namely VUB has made further improvements in operations efficiency and quality of its loan portfolio. Importantly, in 2018, VUB has made a major step towards a more balanced revenue composition and substantially increased fee-based business, growing net fee and commission income by nearly 13% over a year ago. Thanks to these initiatives, VUB Group has delivered a solid consolidated net profit in the amount of €160.3 million.

Going forward, the operating environment will remain challenging. Interest rates will still hover near historic lows while prospects for double-digit loan volume growth appear to be fading as the Slovak retail market becomes saturated. Quest for growth opportunities of VUB outside its home market will thus gain in importance. Equally important will be further work on strengthening efficiency and effectiveness. In this respect, a new business plan of Intesa Sanpaolo for the years 2018-21 revealed in February 2018 provides VUB with strong support, delegating VUB an eminent role as ISP hub for Central Europe, including besides Slovakia also the banking markets of the Czech Republic and Hungary. This documents that Intesa Sanpaolo remains strongly committed to VUB and will continue to provide it with support, know-how and synergies to help the Group deliver.

Ignacio Jaquotot,
Chairman of the Supervisory Board

Address by the Chairman of the VUB Management Board

Dear Shareholders, Clients and Business Partners,

the year 2018 has been very successful for VUB. I am particularly pleased to say that we delivered great commercial results and significantly increased volumes of loans and primary deposits. I am also pleased with the operational efficiency and the quality of our loan portfolio. These developments enabled us to deliver the best possible financial performance, offsetting to an extent the negative impact of decreasing margins.

Before evaluating VUB's achievements in detail, I believe it is instructive to review first the developments in the external environment. Starting with the real economy, it remained positive for the banking industry. GDP grew over 4% and labor market continued to improve further, with unemployment rate declining to yet new historic lows. With jobs plentiful and wages growing, financial position of households improved yet further, boosting their spending capacity but also savings accumulation. Banking sector thus benefitted from continuing strong growth of retail loan and deposit volumes. Corporates have also seen improvement of their economic and financial situation, which led them to increase volumes of their loans and deposits as well.

The interest rate environment remained very low and pressure on margins continued to undermine banking sector profitability. In headline terms, the pressure looks to have eased as interest rate revenues finally posted an increase over a year ago. This increase, however, owed solely to growth of loan volumes rather than the upturn in margins. Margins continued to get squeezed especially in mortgages as rates continued to decline further amidst intense competition. Funding costs meanwhile turned higher as excess liquidity in the Slovak banking sector dried up and yield premium on new covered bonds began to creep up.

Hence, I am more than pleased that also in 2018 we were able to increase volumes of loans substantially. In fact, we grew them at a faster rate than peers and thus succeeded to further increase our share of the market. Indeed, as of December 2018, we held 21.4% of all loans extended by the Slovak banking sector compared to 20.4% at the end of 2017, resp.

In retail, we continued to grow systematically the portfolio of mortgages, matching and even outperforming the market. In total, VUB's stock of all mortgage-type loans in December 2018 was 14.1% higher than a year ago. Market at the same time grew by 12.8%, resp. Our share of mortgage-type loans thus increased to 23.8% from 23.5% at the end of 2017. I must emphasize that such a fast growth of mortgage portfolio was not really envisaged a year ago. In fact, we thought that the market would slow down a bit as the central bank has further tightened limits on loan-to-value and financial reserves and newly introduced a limit on total debt-to-income levels of individual clients from July 2018. These regulatory changes, however, mobilized prospective homebuyers to push forward their borrowing plans. The volume of new mortgages and other housing loans thus briefly jumped close to historic record levels of the 2016 refinancing campaign. Hence, I appreciate all the more efforts of our colleagues in sales to fight for our share of this new anticipated demand for loans. I also appreciate efforts of our colleagues in risk and back office functions to successfully process the multiple volumes of mortgage applications in late Spring/Summer campaigns.

A fast growth of mortgage portfolio, meanwhile, was not really mirrored in the consumer loan market. In fact, this market slowed to single digit year-on-year growth figures while new production stalled at the levels of year ago. To be sure though, we continue to believe in this market, holding nearly a 24% share of it, affirming our leadership in consumer financing. Consumer spending has started to reinvigorate in the latter part of 2018 as the labor market continued to tighten and household confidence improve. Incorporating our nonbank Consumer Finance Holding ('CFH') into the Bank from January 2018 we are well placed to utilize the potential of this market to full, leveraging upon the modernized brand Quatro – the most trusted brand in consumer lending in Slovakia, according to the Nielsen research agency.

In the corporate loan market, we have seen our share increase to a new high of 19.6% in December 2018. The increase from previous year's 18.7% share owed to a large extent to an accelerated lending to nonresident companies. On the domestic market, our focus remained on reinforcing our leadership in SME segment. Indeed, we grew loans to small and medium-sized enterprises by hefty 9.6% over a year ago. Thanks to this strong growth the overall VUB lending to resident nonfinancial companies increased by 6%, which enabled us to increase our share of this core corporate market by two tenths above last year's 16%.

We were growing relationship with corporate clients also through our leasing subsidiary, VUB Leasing, for which the year 2018 marked a new era as it merged with Q-car, a former CFH unit dedicated to financing of used cars. By this merger, VUB Leasing became the second largest player on the leasing market in terms of new volumes with a share of more than 12%. From the financial point of view, our leasing subsidiary continued to grow in its key balance sheet and financial indicators as a result of growing business activities but also due to the merger with Q-car. At the same time, VUB Leasing conducted activities and projects supporting further growth in the next years. Last but not least, we also continued to grow our relationship with corporate clients in factoring business. In January 2018, VUB Factoring merged into the Bank, but growth of the business continued unabated. Indeed, the volumes of purchased receivables increased 7% over 2017, to a new historic high turnover.

Turning to the deposit market, we have increased our share of total bank deposits to 18.5% by December 2018, from 17.8% in December 2017. Our focus has been on growing primarily retail deposits. In the corporate deposit market we have deliberately pulled the throttle, letting the more costly deposits to go. I am pleased to say that we moved in the foreseen direction. Growth of volumes of household deposits picked up to almost double the pace of previous year and outgrew also the market. As result, our share of total household bank deposits in Slovakia increased to 15.2% by December 2018, from 14.7% in December 2017. Clearly though, we must continue in this direction so that our share of the household deposit base is more aligned with our share of the household loan market, at around 22%. This is important to fund our growth aspirations in the mortgage market and comply with regulatory-prescribed funding profile in the future.

As explained in my previous, 2017 speech, our focus in the deposit market must go beyond plain bank deposit products. We must offer our clients alternative ways to look after their savings, volumes of which will likely be growing at a decent clip in the near future. To be sure, 2018 was not really a good year in terms of returns for small individual savers and investors as the global economic cycle peaked and capital markets turned down. We strived to deliver best possible results for our clients in the mutual funds and pension markets, in which we are active for many years now, but clearly could not turn the global tide. Hence, our efforts in asset management, in which we operate with the strong support from Eurizon Capital, the leading European asset management company of Intesa Sanpaolo, focused on maintaining the client base and offering them innovative and flexible investment solutions. Throughout 2018 we thus continued to enlarge VUBAM product portfolio, launching a new Edicia 2018 fund and widening the offer by eight new Eurizon capital mutual funds. By dedicating more efforts to inform clients of the developments on the markets and widening the training scope for investment specialists within the distribution network, we stabilized the stock of VUBAM funds at close to € 1.6 billion during the year, which enabled us to keep our position of the second largest player on the market even as our share slid a bit, to 18.3% by December 2018.

In the pension market, in which we are active together with our joint venture partner Generali Slovensko, we have been more successful to continue grow client base and funds. VUB Generali, namely has accumulated total volume of funds under management in excess of € 1.39 billion in 2018, which represents 6.5% growth compared to prior period. Its market share increased by 0.1 percentage point, to 17.3%, solidifying position of VUB Generali as the third largest player on this market. Importantly, the number of clients in our pension saving schemes increased by more than 18 thousand, the most from among all players on the market.

As regards financial results, on the consolidated basis, in 2018 VUB Group posted an operating income of € 498.5 million, down 1.5% from a year ago. The decline was due primarily to further compression of margins, which sapped the net interest income by 4.5% over a year ago even as consolidated loans volume grew by hefty 13.4% over a year ago. Importantly, we grew net fee and commission income by solid 12.6% and increased their share on total operating income to 25.7%, from 22.5% in 2017, resp. We also tried to defend the Group's profitability by measure in cost management. In particular, the merger of CFH and Factoring overall brought already very positive results: the cost synergies we expected over a 3 year horizon were almost fully reached in the first year. We were thus able to decrease our operating expenses by 1.6% over a year ago, even as personnel expenses grew by 2.0%. Our cost to income ratio thus declined further, by two tenths of a percentage point, to 45.4% (from consolidated basis) and remained thus well below the market average, which as of December 2018 stood at 57.3%. Our profit before provisions, impairment and tax was € 260.2 million, down 1.4% compared to prior period. Adjusted for impairments, provisions, and taxes, the Group booked net profit of € 160.3 million, down 8.4% compared to prior period.

Looking ahead, the operating environment should remain broadly supportive for the banking industry in 2019. Real economy, barring unforeseen global risks, should allow for GDP growth to continue cruising around 4% as big investment projects in automotive industry roll out in full. Household confidence and financial position also will likely continue to improve as the labor market tightens further and wage growth picks up. The space for banks to lend to households, however, will be tested by the NBS regulations introduced in July 2018 which aim to slow down household borrowing. In 2018, these measures have not delivered the anticipated slowdown. On contrary, they appear to have pushed forward prospective demand for mortgages, which would probably have otherwise arrived to the market only in 2019 and later. Hence, one could expect a payback for this anticipated demand and a more pronounced moderation in the mortgage market growth than otherwise.

In interest rates, 2019 will probably bring some change. The ECB is no longer expanding its balance sheet, having terminated its asset purchase program in December 2018. Also, it is indicating that, after years of stability, the next move in official interest rates – however distant – will be up. These developments and signals have been gradually pushing up costs of funding for banks for several months already. It seems inevitable that at some stage they will have to be reflected also in the rates on banking products. This may gradually improve margins for the banks, but may slow demand for loans.

Either way, we will continue to concentrate on our key strategic priorities which served us well in 2018: On the revenue front, besides growing them in absolute numbers we will keep focus on improving the qualitative composition of income, with higher share of fee-based business. To improve customer experience, we will further focus on digitalization. We will continue to invest a lot into this area, because we believe that extending digital services and leveraging on new technologies is the right way to face new banking future. On the cost front, the focus will remain on proper resource allocation and simplification to become fit for the future. We will continue with the replacement of the core banking system with a new one, industry-best. A feasibility study has already been accomplished and now we are moving toward implementation.

In conclusion, I would like to thank our employees for their commitment, hard work, and great results of this past year. I also would like to thank VUB clients and business partners for the trust they hold in the Bank, and the shareholders for their support. I wish all of us the best in the year 2019.

Alexander Resch,
CEO and Chairman of the Management Board

VUB Management Board Report on the business activities of the Company

Development of the External Environment

External environment

After rapid growth in 2017, the global economy has moderated its growth in 2018. As world trade volumes and industrial production have slowed, growth downshifted in all major countries in Europe. Slovakia, in contrast, has actually seen its pace of economic growth pick up, to 4.3% in the first three quarters of 2018, from 3.2% in 2017 as a whole.

Resilience of the Slovak GDP growth to the chill of global slowdown, however, relied primarily on just one sector, automotive. Both exports and investments in this sector have been extraordinary. The rise in exports owed to shipments of new car models of established car manufacturers in the country, especially VW. The investment boost meanwhile came primarily from the newcomer, the Jaguar Land Rover, which has now completed its huge factory in Nitra. Growth outside the automotive-linked industrial sectors, to be sure, has moderated alongside the developments elsewhere in Europe.

Growth moderated also in majority of services sectors, reflecting, somewhat surprisingly, weaker consumption. Indeed, contrary to expectations emanating from upbeat labor market and consumer confidence, private consumption slowed, to 2.9% y/y growth in the first three quarters from 3.5% in 2017 as a whole. Households, however, seem to have used the fast rising income for other causes than current spending, such as increased savings and investment in housing. Gross savings of households, for example, grew by strong 16%y/y in the first three quarters. And the number of finished housing units have grown in the first three quarters by 12%, resp. Their total for the year is heading towards 19 thousand, which would be a record high in the history of the Slovak Republic.

Trends in retail bank lending reflect the above-mentioned consumer behavior. Consumer lending in 2018 stalled, while housing loans boom continued unabated. Moreover, spurred by forthcoming central bank regulation tightening of borrowing conditions effective from July 1, 2018 prospective homebuyers pushed forward their borrowing plans. The volume of new mortgages and other housing loans thus jumped in the second quarter by whopping 40% over a year ago and ebbed only modestly in the remainder of the year. Stock of overall retail loans in the banking sector was in December 11.6% higher than a year ago, maintaining thus the growth dynamics of previous four years.

In corporate lending, growth momentum also was maintained. Particularly strong growing were investment loans, while working capital loans broadly stagnated. Big as well as small and medium sized enterprises participated in new lending. Stable growth of both retail and corporate loans resulted in the overall stock of bank loans continuing to post year-on-year growth close to 10%.

To fund this continuing fast growth of loans, however, the banking sector in 2018 could no longer rely solely on primary deposits. Their volume, to be sure, has maintained a growth momentum similar to the preceding year. Oscillating around 5%, however, growth of primary deposits remained about half that of growth of loans. The overall gross loan to primary deposit ratio thus rose from 101.2% in December 2017 to 105.4% by December 2018. The shortage of liquidity was aggravated particularly by the households segment. Households namely lost their traditional position of net depositor in the Slovak banking sector as their volume of loans in October 2018 for the first time exceeded the volume of deposits. The latter, to be sure, has grown faster than a year ago, at 6.5% y/y in December vs 4.3% in December 2017 but could not match the growth of household loans, at 11.9%y/y.

Margin-wise, the pressure seemingly abated as net interest revenues resumed growing over a year ago. After three years of contracting, this clearly was a relief, but owed solely to growth of volumes, not an upturn in margins themselves. Pricing remained very tight in the corporate segment. The main squeeze in 2018 though came from the mortgage business. Indeed, unlike elsewhere in Europe, where rates on new mortgages stabilized or even edged higher, in Slovakia, they continued to decline further as the competitive battle raged on. At the same time, funding costs started to gradually increase as the ECB proceeded with unwinding of asset purchases and yields on new covered bonds began to creep up.

Volume growth coupled with increase in fee-related business helped to improve the top line of banking sector financial performance: operating revenues were up 0.7% over a year ago. Up, however, also were costs, by 3.7% over a year ago. Particularly steep increase was observed in personnel costs, 6.4%, reflecting the tight labor market and the increase in all-economy average wage in excess of 6%. Operating income of the sector was thus down 3.0%y/y. Thanks to lower provisioning costs and tax expenses, though, the sector managed to lift the bottom line 4.7% above the level of previous year.

Outlook for 2019

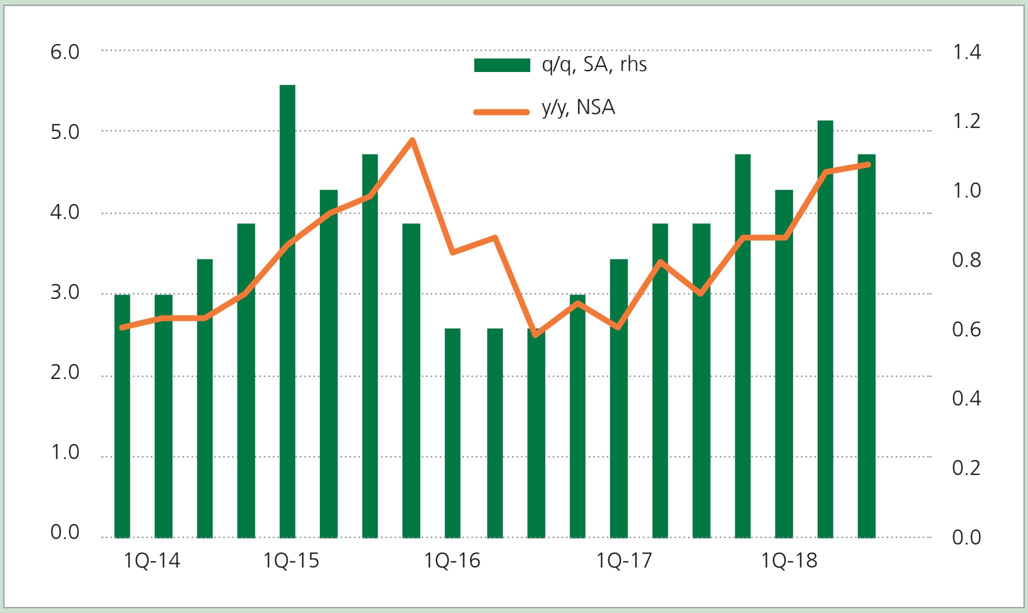
Looking ahead, in 2019, when Jaguar Land Rover gradually rolls out its Nitra production to full capacity, Slovak real GDP growth may well be sustained around 4%. The outlook, however, is subject to several downside risks, mostly emanating from outside Slovakia, which make the outlook less predictable than usually. Increased US trade protectionism and potential car tariffs are one particular risk, given the importance of the automotive industry for the Slovak GDP. Another downside risk to GDP projection outside Slovakia's control is an ill-prepared exit of the UK from the EU in March 2019.

In the baseline scenario though, global growth is slowing, but not stalling completely. Our colleagues in Intesa Sanpaolo Research foresee growth in the Eurozone at 1.4% in 2019. After 2.5% in 2017 and estimated 1.8% growth in 2018, this surely is less positive outlook, but in line with the current potential of the Eurozone. While prospects for global trade have clearly deteriorated compared to the outlook a year ago, foreign demand for Slovak exports should remain reasonably supported also in 2019.

The outlook for domestic demand, the other leg of GDP growth, remains encouraging. Household consumption, in particular, should remain well supported as jobs are plentiful and wage income increasing – a scenario that is likely to prevail in the year ahead. Demand for labor namely will remain hot as the economy is firing on all cylinders. Supply of labor, however, is becoming increasingly short as population aging and other adverse demographic trends set in. Employers will have to increasingly resort to foreign employees. Expect even faster wage growth in the year ahead than in 2018. This will clearly support household spending, but on the other hand may cool production and investment plans of some companies.

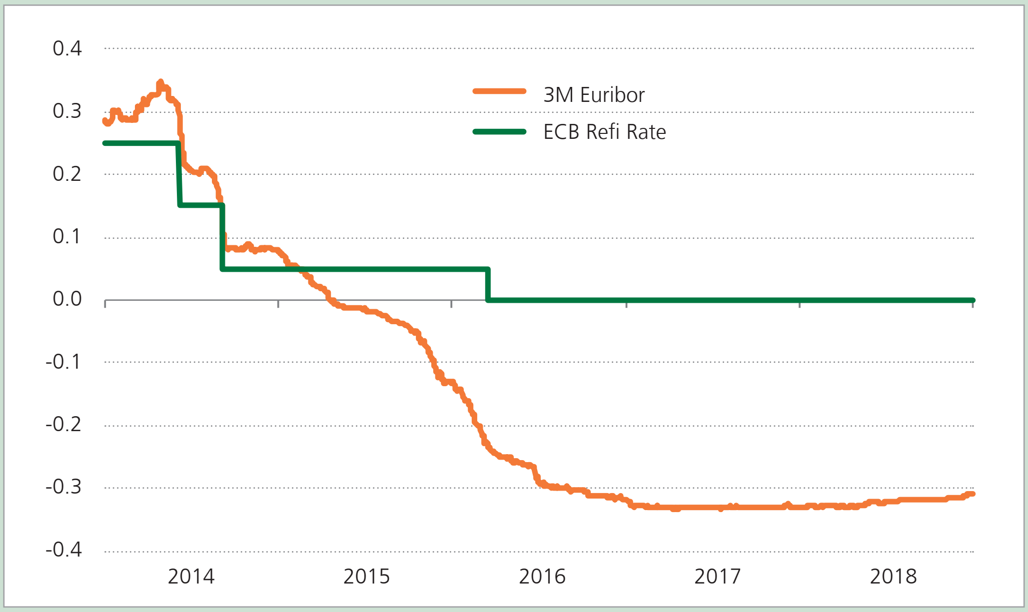
Interest–rate wise, 2019 will be a turning point. Official interest rates, to be sure, will still remain at historic low, with the deposit rate at -0.40% probably until the very last month of the year. The normalization of yields, however, will probably be faster to arrive. The ECB namely has terminated the asset purchase program in December 2018. From January 2019 it will only reinvest the maturing assets, adding no net stock to its balance sheet. When the Fed ended its own asset purchase program four years ago, the yields of US Treasuries started to increase materially thereafter. Our colleagues in Intesa Sanpaolo Research foresee core yields in the Eurozone to pick up during 2019, in 10-year maturity by 0.8 percentage points. Compared to their zero change in 2018, this would be a major shift.

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



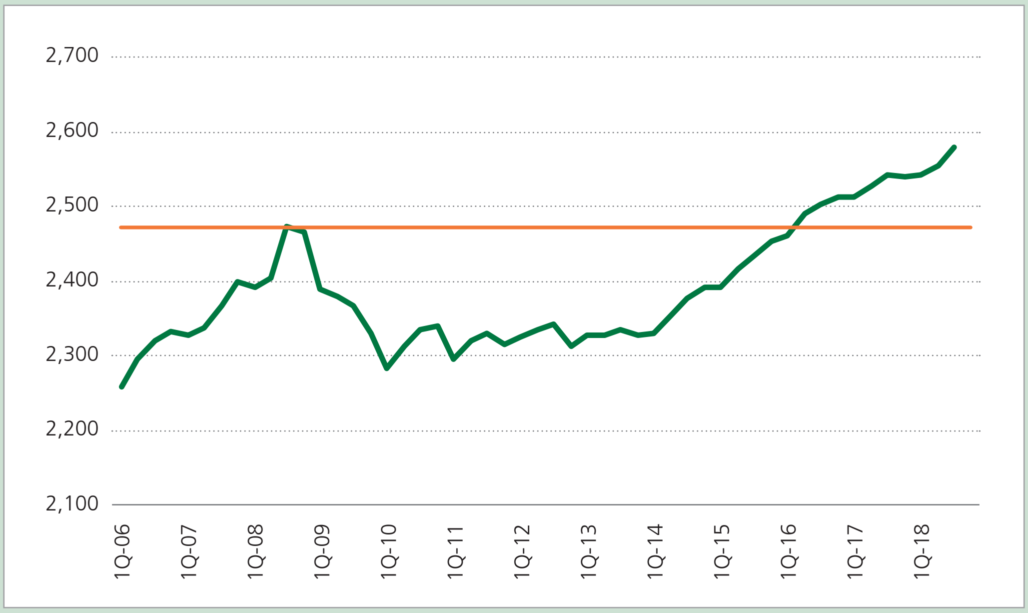
Source: Eurostat, VUB

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



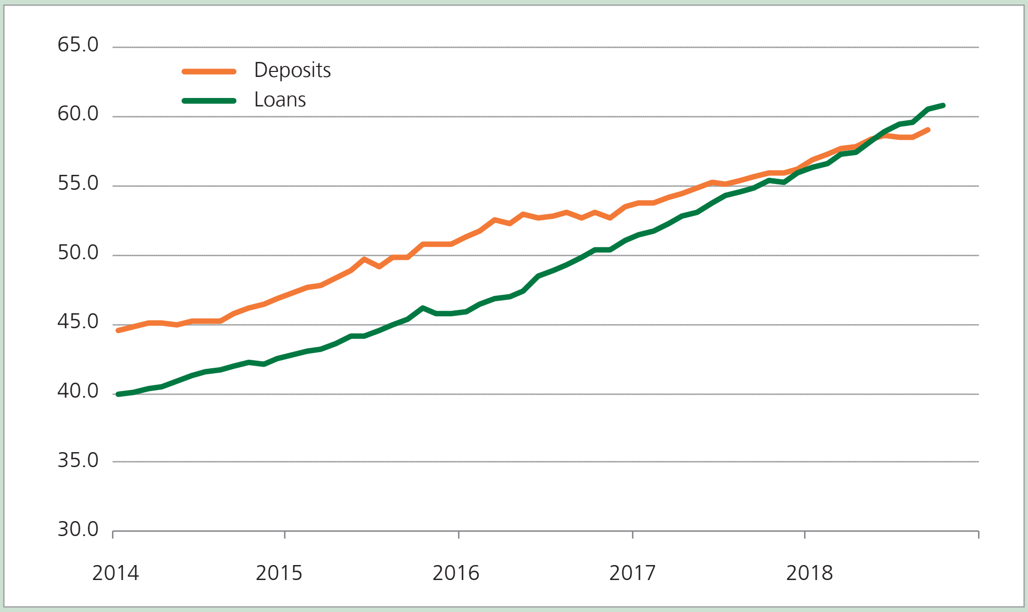
Source: Bloomberg, VUB
Note: For non-trading intervals carry over last value

Employment: number of employees in thousands



Source: Macrobond, VUB

Development of bank volumes (€ bn)



Source: National Bank of Slovakia, VUB

VUB's 2018 Commercial Performance

As described on previous pages, in 2018 we have experienced stronger GDP growth compared to previous year. However, this was due to the extraordinary impact of automotive industry, thus strong export and investments. In terms of private consumption and other non-automotive related sectors have recorded somehow moderated development compared to 2017 yet still favourable. In terms of consumer behaviour, the saving ratio has recorded significant improvement. The interest rates on the other hand remained at the very low level.

Thanks to our flexible reactions to the new challenges, we have achieved a very satisfactory performance in the commercial area. In retail lending, VUB Bank continued with significant increase of market share (by 88 bps), driven by the growth of mortgages on the one hand, and the one-off impact of CFH, affecting the individual bank level data, on the other. Yet on consolidated basis consumer loans grew by mere 1% y/y. In corporate lending, VUB Bank succeeded to increase our market position from 18.7% in December 2017 to 19.6% in December 2018. On the deposit front, we retained stable position in non-term deposits. The banking environment of historically lowest interest rates influences the decreased demand for term deposits in both VUB and whole market.

Deposits

The volume of clients' deposits in VUB Group at the end of 2018 amounted to € 11.1 billion, 12.0% up against the previous year due to both retail and corporate deposits. On retail market, current accounts rose again in this year, while term deposits kept its deteriorating trend. Customers' assets under management posted slight decrease versus previous year (by 4.2% over the year), while the market grew marginally (0.8%). Market share in mutual funds thus weakened by 0.96% in 2018. The market share of total deposits received from retail clients incl. mutual funds amounted to 15.9% in VUB Bank, which means y/y increase (from 15.8% in December 2017). In corporate segment, VUB Group recorded a very successful year resulting into 12% y/y growth of, corporate deposits.

Electronic Banking

In 2018, we have reached more than 170 thousand active clients in mobile banking (logging more than once a month) and more than 330 thousand active internet banking clients. We have simplified the activation of mobile banking for new clients with no need to log in to internet banking first.

For affluent clients we have introduced a new version of mobile banking. We have also simplified client user experience by including catalogue with a complete list of products in both internet and mobile banking with the possibility of E2E sales. We have also developed the internet banking with responsive web and aligned the versions (internet and mobile) to be friendlier for user.

Bank Cards

From payment cards point of view the past year was about digitalisation and consolidation. In the field of smart improvements we launched the Google Pay service for Mastercard credit cards and Visa debit cards as a part of Mobile banking application. Integration into Mobile banking brings easier way for cards activation. Google Pay will ensure more secure and innovative way of payments by mobile.

We also successfully launched cardless cash withdrawal service integrated into Mobile banking application. The service is available for the whole debit portfolio and present easier and more secure way for ATM withdrawals.

In the field of consolidation-from the beginning of the year we focused on CFH integration to VUB, where we prepared a communication and processed for CFH credit card migration on VUB products. This lead to introducing a new upgraded credit card product (Flexikarta plus) with special features and benefits tailor made for CFH clients.

In the field of regular activities connected to Maestro Good Angel we made changes in sale processes and continue in supporting the charity by 0.5% of POS transaction.

ATMs and EFT POS

VUB ranks 2nd (21.4%) in the Slovak market share also in 2018 with its 592 ATMs. The main focus during the last year was on ATMs with cash-in possibility. At the end of 2018, we had together 51 ATM with cash -in module, that means increase by 14 ATM during 2018. While the cash volume withdrawn from ATMs grew y/y by 6%, the volume of cash inserted through ATM increased by up to 132%.

During 2018, we have installed more than 1,600 new POS terminals including 100 virtual terminals used in e-commerce and also unattended terminals that can be used at different kinds of vending machines (like parking, public transport ticket terminals …) or at self-service fuel stations. We have also achieved y/y increase in the overall turnover by more than 11%.

Contact center

As the CFH merged with the bank, also the contact center of CFH was included into the bank organisation structure. In 2018, the Call Centre, both in Banská Bystrica and in Poprad, continued providing services to its clients as well as former CFH clients, which resulted in approximately 500 thousand served calls, 140 thousand processed e-mails. Our clients communicated with VUB Bank also through Facebook, chats and specialized web pages.

We have also provided, for the first time, customer care via phone to more than 2,000 clients. These clients have their own personal assistant via phone, taking care of all their financial needs. This is directed to the aim to create a virtual branch, which will fully provide all services without the need to visit branch personally.

Loans

Individuals – Mortgage and Consumer Loans

In 2018 the substantial demand for mortgage loans did not exceed the market growth 2017. Yet in VUB Bank we recorded a considerable increase above the market growth rate. Total mortgages of VUB Group (including ‚American mortgages') grew by 15.6% over the year. With a market share 23.8% the Bank increased its already strong position on the mortgage loan market. Consumer loans continued to grow with low rate. However, the market share was affected by one off effect of CFH inclusion into bank data, which on bank level ment the increase of consumer loans by 36%. Yet on group level, consumer loans growth reached only 0.7% YoY.

Corporate Financing

In 2018, VUB Group outperformed the rest of the market in corporate loans segment. While corporate loans grew by 6.1% on the market, VUB increased by 11.3% on the bank level and 17.8 % on Group level. Loans to nonfinancial corporations increased by 13.4% and VUB bank's market share in these loans went up to 17.3% over the year. Real estate finance increased by 16%, project finance loans decreased by 7%, while trade finance loans fell by 22%. VUB Leasing, VUB's subsidiary, achieved considerable results on the leasing market with the growth of leasing assets by 0.5% last year.

Review of VUB's Economic and Financial Position

As described on previous pages, in 2018 we have experienced stronger GDP growth compared to previous year. However, this was due to extraordinary impact of automotive industry, thus strong export and investments. In terms of private consumption and other non-automotive related sectors has recorded somehow moderated development compared to 2017 yet still favorable. In terms of consumer behavior, the saving ratio has recorded significant improvement. The interest rates on the other hand remained at the very low level.

On the consolidated basis, VUB Group posted operating revenues of € 498.5 million. Compared to previous year bank fell significantly, mainly due to one-off effects in 2017. Operating costs meanwhile followed the path of previous year by reaching € 238.3 million (excl. bank levy) at the end of 2018.

VUB Group achieved profit before provisions, impairment and tax of € 260.2 million and profit adjusted by impairment losses of € 202.0 million. VUB Group kept its profit before tax on satisfactory level € 204.2 million. Cost-income ratio of VUB Group (excl. bank levy) amounted to 45.4%, which was down by 120 basis points.

With regard to business development, VUB Group delivered substantial development with respect to loan portfolio, which grew by 13.4%, resulting into the increase of VUB Bank's market share by 0.9 pp, however this is since January including the CFH data. Total assets of the whole VUB group increased by 11.3% as well. Nevertheless, this increase did not negatively affect our portfolio quality as NPL ratio remained approximately at the level of previous year. Moreover, VUB Bank remained outperforming the market in terms of loan quality. Indeed, NPLs from banking operations on the bank-level in VUB at end-2018 amounted to a mere 2.6% of the total gross loan volume, compared to market's 3.5%, respectively. Accounting also in loans provided by VUB Leasing, the Group's non-performing loan ratio went down throughout the year to approximately 3.2%.

At the same time, VUB Group was able to increase its primary deposits with by 12.0%, keeping sound liquidity position which is represented by the loan to deposit ratio of 101.1%.

To bolster stability of business growth onwards, capital of the Group increased to one of the highest capital adequacy on the Slovak market with the ratio amounting to 17.18% high above the minimum requirements set by the central bank. This gives us a solid base for continued business growth.

Information on the Expected Economic and Financial Situation for 2019

During the last year, the real economy remained positive for the banking industry, even not taking into account the extraordinary automotive impact. In 2018, GDP grew over 4% and labor market continued to improve further, with unemployment rate declining to historic lows. In 2019, we are expecting still strong development on economic variables. More importantly, interest–rate wise, 2019 shall be a turning point. Even though official interest rates will still remain at historic low, the normalization of yields, however, will probably be faster to arrive.

We are bound to focus on three priorities in the middle-term horizon. Most important priority is our customer and his experience. Secondly we will strongly focus on our employees and their engagement, as we believe, that key to satisfied customer is engaged employee. Then third priority will be continuing in great profitability, efficiency and also focus on financial planning.

In line with continuing to improve customer experience and satisfaction we shall boost digital channels, continue to improve the existing ones and introduce new solutions for our clients. Our aim is to eliminate most, if not all, paper in the processes. Moreover, we are applying all PSD2 activities in digital channels. The focus shall also be laid on customer acquisition and activation of customers (active C/A through transactions), increased product penetration and some new services adding value to the customer and the bank. The key role of branches should focus on high added value services, which are either complex or include a great deal of advising.

As fundamentals are showing significant growth of financial assets held by Slovak households in upcoming years and saving rate increasing significantly, we are still improving our wealth management concept and we shall introduce a new pillar for customers – financial planning.

VUB is modern and flexible institution willing to promptly react to new challenges in the environment. All of us know, that 2019 will be full of challenges and VUB will face them with even higher dedication. VUB is going to continue in laying significant emphasis on risk management, keep high quality of the loan portfolio and hold strong liquidity position. Moreover VUB Group will pay great attention to proactive capital management in order to support targeted growth.

Registered Share Capital and the Structure of VUB Shareholders

Registered Share Capital of VÚB, a.s.

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

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

Shareholders' rights

The rights and responsibilities of shareholders are set out in the legal regulations and the Articles of Association of the Company. The right of a shareholder to participate in the management of VÚB, a.s., the right to a share of the profits and the right to a share of the liquidation balance, in the event of the winding up of VÚB, a.s. with liquidation, are attached to a registered share. Each shareholder is entitled to attend the General Meeting, to vote, to request information and seek explanations and submit proposals. The number of votes allocated to each shareholder is determined by the ratio of the nominal value of its share to the amount of registered capital. A shareholder may exercise the shareholder rights attached to book-entered shares at the General Meeting if the shareholder is entitled to exercise these rights as of the decisive date specified in the invitation to the General Meeting. The exercise of a shareholder's voting rights may only be restricted or suspended by the law. The shares are freely transferable by registration of transfer in line with relevant regulation. The General Meeting of the Company as the main decision making body of the Company is entitled to decide on share issues or on the acquisition of the Company's own shares.

Structure of VUB Shareholders

Information regarding VUB shareholders is published quarterly, within 30 days of the end of the relevant quarter. Below is the status as of 31 December 2018.

Structure by Owner Type	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Other legal entities	5,833	1.36
Individuals	6,952	1.61
Total Registered Share Capital of VÚB, a.s.	430,819	100.00

Structure by Nationality	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Domestic shareholders	8,946	2.08
Other foreign shareholders	3,839	0.89
Total Registered Share Capital of VÚB, a.s.	430,819	100.00

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

There were 28,220 shareholders as at 31 December 2018. Foreign VUB shareholders come from the following countries with the following stake in the bank's registered capital (in %): Luxembourg (97.032%), Germany (0.686%), Czech Republic (0.113%), Austria (0.002%), United Kingdom (0.081%), U.S.A., Romania, Cyprus, Canada, Sweden, Belgium, France, Switzerland and Serbia.

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

Further, the company during the accounting year 2018 held in its assets the shares of the parent company (Art. 22, sec. 3 of the Act no. 431/2002 Coll. on Accounting as amended), Intesa Sanpaolo S.p.A. (ISP), registered office Piazza San Carlo 156, Turin, Italy, ISIN IT0000072618, book-entered registered ordinary shares, with a nominal value of € 0.52 each, in a total number of 812,976 shares. This represents 0.098% of the nominal value of the Bank's registered capital. These shares have been acquired by the Bank in order to adopt and implement ISP Group Remuneration Policies in line with the Capital Directive ‚CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). In 2018, the Bank transferred 148,229 shares in accordance with ISP Group Remuneration Policies.

Subsidiaries of VUB

VÚB Leasing, a.s.

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

Consumer Finance Holding Česká republika, a.s.

Registered office:	Pobřežní 620/3, Karlín, 186 00 Praha 8, Czech Republic
Shareholders:	VÚB, a.s.
VUB's stake in registered capital:	100%
Core business:	Providing of consumer loans or intermediation of consumer loans
Tel:	+420 443 033 451
Statutory director:	Martin Techman

Statement on Compliance with the Corporate Governance Code for Slovakia

A. Company Organization

The structure of VÚB, a.s. bodies:

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

General Meeting

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

The Ordinary General Meeting of the company was held on 23 March 2018. The shareholders at this meeting approved the 2017 Annual Report of VÚB, a.s., the 2017 Statutory Separate Financial Statements and the 2017 Consolidated Financial Statements, both statements were prepared in accordance with IFRS as amended by the EU, as submitted by the Management Board of the Bank. The General Meeting also decided on distributing the profit earned in 2017 in the amount of € 160,021,242.39 to shareholders in dividends amounting to € 144,025,336.16 and to the retained earnings in the amount of € 15,995,906.23. Further, the General Meeting decided on the 2017 dividend to be paid to shareholders in the amount of € 11.10 per share with a nominal value of € 33.20.

The General Meeting approved the amendments to the Articles of Association of VÚB, a.s. as proposed and approved the external auditor for the bank for 2018.

VUB Supervisory Board and Management Board in general

1. Supervisory Board members are elected by the General Meeting. The VUB Management Board is elected by the Supervisory Board.
2. All relevant information is available to all members of the Management Board and Supervisory Board in time. In the course of the financial year 2018, the VUB Management Board held 25 meetings and adopted 14 decisions on a per rollam basis. The VUB Supervisory Board held 4 meetings and adopted 6 decisions on a per rollam basis during the 2018 financial year. Documents with detailed information are distributed sufficiently in advance – in the case of the Management Board no less than 3 working days, in the case of the Supervisory Board no less than 10 days prior to the meeting, ensuring the ability of members of the Supervisory and Management Boards to decide on individual matters competently.
3. None of the Supervisory Board members is a member of the VUB Management Board nor holds any other top managerial position in the Bank. With the exception of members of the Supervisory Board elected by VUB employees, a Supervisory Board member may not be an employee of VUB.

Supervisory Board

Members of the Supervisory Board in 2018

Ezio Salvai	Chairman of the Supervisory Board (until 23 March 2018)
Ignacio Jaquotot	Vice Chairman of the Supervisory Board (until 23 March 2018)
Ignacio Jaquotot	Chairman of the Supervisory Board (since 24 March 2018)
Elena Kohútiková	Vice Chairwoman of the Supervisory Board (since 24 March 2018)
Luca Finazzi	Member of the Supervisory Board
Paolo Sarcinelli	Member of the Supervisory Board
Christian Schaack	Member of the Supervisory Board
Andrej Straka	Member of the Supervisory Board, employee representative
Róbert Szabo	Member of the Supervisory Board, employee representative

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

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

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

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

Committees of the Supervisory Board:

Audit Committee

The Audit Committee was comprised of three members (including the Chairman) as of 31 December 2018. The Audit Committee held four meetings during 2018 financial year. The issues discussed at the meetings mainly related to: preparation of the financial statements and observation of the special regulations; efficiency of internal control and risk management system at the Bank; compliance with regulatory requirements; the audit of the separate financial statements and the audit of the consolidated financial statements. Further, the Audit Committee examines and monitors the independence of the auditor, especially services provided by the auditor according to a special regulation, recommends the appointment of an auditor for carrying out the audit of the Bank, and sets a date for an auditor to submit a statutory declaration about his independence. The Audit Committee regularly invited an external auditor to attend its meetings.

The Internal Audit and Control Department, the authorities and duties of which are defined by the Supervisory Board, excluding those defined by law, performs the control function in the Bank. The Head of the Internal Audit and Control Department may be appointed to/removed from the position upon a recommendation and prior consent issued by the Supervisory Board. Furthermore, the Supervisory Board also defines the remuneration and compensation scheme for this position. In 2018, the Head of the Internal Audit and Control Department were invited to attend the meetings of the Supervisory Board. The Chairman of the Audit Committee regularly informed the Supervisory Board of the most important issues discussed at the Audit Committee Meetings.

Members of the Audit Committee in 2018:

Francesco Ciccarelli	Chairman of the Audit Committee (until 30 April 2018)
Elena Kohútiková	Chairvoman of the Audit Committee (since 1 May 2018)
Christian Schaack	Member of the Audit Committee
Luca Finazzi	Member of the Audit Committee
Dario Bertoncini	Member of the Audit Committee (until 30 April 2018)
Antonio Furesi	Member of the Audit Committee (until 30 April 2018)

Remuneration Committee

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

Risk Committee

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

Management Board

Management Board Members in 2018

Alexander Resch	Chairman of the Management Board and Chief Executive Officer
Roberto Vercelli	Member of the Management Board and Deputy Chief Executive Officer
Antonio Bergalio	Member of the Management Board and Chief Financial Officer
Andrej Viceník	Member of the Management Board and Head of Corporate and SME Division
Peter Magala	Member of the Management Board and Head of Risk Management Division
Peter Novák	Member of the Management Board and Chief Operating Officer
Martin Techman	Member of the Management Board and Head of Retail Division

Alexander Resch – Chairman of the Management Board and CEO

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

Roberto Vercelli – Member of the Management Board and Deputy CEO

Roberto Vercelli has been a member of the Management Board and Deputy CEO of VÚB, a.s. since 1 November 2017. He is responsible primarily for regulatory and support departments of the bank.
Prior to accepting the DCEO function at VÚB, a.s. for the last year and a half he was managing in the International Subsidiary Banks Division of Intesa Sanpaolo the credit program for international subsidiaries and was responsible for monitoring projects in the area of risks, credit and accounting within the Group. He has been working for Intesa Sanpaolo since 1981. He started his professional career in Turin and in the past years he held several managing positions, among the other he headed the internal audit of Group's subsidiaries and acted as the Chief Executive Officer of Alex Bank in Egypt. Furthermore, he managed a special coordination office in Pravex Bank in Ukraine, where he was also a permanent invitee to the discussions of the Management Board and a member of several internal committees. He graduated from the G.A. Giobert Institute in Asti, Italy – High School Diploma in Accounting Studies.

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

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

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

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

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

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

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

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

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

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

Competencies of the Management Board

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

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

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

Committees of the Management Board

The Credit Committee

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

The Credit Risk Governance Committee

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

The Assets and Liabilities Committee

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

The Operational Risk Committee

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

Internal Controls Coordination Committee

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

The Project Portfolio Committee

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

The New Product Committee

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

The Problem Asset Committee

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

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

B. Relations between the Company and its Shareholders

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

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

C. The Company's Approach to Shareholders

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

D. Disclosure of Information and Transparency

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

Selected Aspects of VUB Bank's Corporate Responsibility

Introduction

"The Group/Bank has not prepared the *Non financial statement for 2018* as required by the EU Non Financial Information Legislation availing of the exemption introduced by the local regulation, as being a subsidiary undertaking which information is included in the Consolidated non financial statement presented by Intesa Sanpaolo S.p.A."

Although VUB Bank is not obliged to issue a corporate responsibility report, i.e. non-financial report under the law or the new EU directive, VUB Bank is proud of its activities in corporate social responsibility and corporate responsibility, therefore it wants to inform the Slovak shareholders about them at least in the following way: information on selected aspects of its corporate responsibility for 2018. We want to introduce our shareholders to the activities and projects that helped us achieve our excellent business results in 2018, highlighting the fact that it is also thanks to our employees and our approach to the society, community and the environment. We are convinced that doing business responsibly means achieving success in ways that respect ethical values, hold people in high esteem, enhance the community and protect the environment.

Business ethics

The main pillars of our corporate responsibility are ethics and transparency, which also our shareholders expect of us. VUB Bank has its own *Code of Ethics* which helps to implement ethics into our business activities through the specific steps taken. The *Code of Ethics* is a set of principles that have a strategic meaning for us and regulate the conduct of our employees. Everybody, without any exception, is required to become familiar with it. Observance of the *Code of Ethics* is continuously monitored and breach of it penalized. This *Code of Ethics* is followed up by a corporate anti-corruption program with a specific system and organizational measures including an internal audit control system.

In 2018, all the employees attended a repeated training session on the Code of Ethics, supplement 1 to the Code of Ethics was amended and supplement 2 to the Code of Ethics was adopted.

VUB Bank Code of Ethics

The Code of Ethics of VUB Bank is one of the pillars of the corporate culture and it is based on the Code of Ethics of Intesa Sanpaolo Group. It is a binding document and a framework of ethical and moral values. It defines the principles of conduct towards all the partners of VUB Bank. The Code of Ethics as means of management and part of a broader perception of corporate and environmental responsibility of the Group gives the utmost importance to relations with all the parties involved. The electronic version of the Code of Ethics of VUB Bank is available on https://www.vub.sk/ludia/spolocenska-zodpovednost/ and on the intranet. A breach of the Code of Ethics is penalized and may be reported at etickykodex@vub.sk.

Supplement 1 to the Code of Ethics – **Gift Acceptance Policy**

This internal Policy is based on and forms part of the Code of Ethics of VUB Bank. It governs the principles and limitations with regard to the conduct of the Bank's representatives and employees in accepting gifts. It also sets out the limits and rules of conduct in gifts accepting and gifts handling, and it introduces a Register of Accepted Gifts. It is an internal document updated in 2018.

Supplement 2 to the Code of Ethics – **Rules on Diversity on Sexual orientation and Identity**

Respecting the diversity of sexual orientation and increasing the awareness of and sensitivity to a given group at all levels is among the principles of non-discrimination declared in the Code of Ethics, that is why we introduced, in 2018, certain rules and benefits dedicated to same-sex persons, for example a paid leave to marry abroad. We have undertaken to intensify the dialogue with the parties involved – particular persons, and accept their proposals for improvement in order to hold an open and constructive exchange of opinions.

Ban on discrimination

At all levels and in relation to all its partners, VUB Bank observes the non-discrimination principles that are firmly enshrined in our Code of Ethics and system of values. One of VUB's values is that *"we support equality – we commit ourselves to the following: we shall exclude from our actions any discrimination and shall respect differences based on sex, age, race, faith, political opinion, participation in unions, language skills or disability."*

Group internal code of conduct

The Code of Ethics also sets out the basic principles of conduct for the Bank's representatives, employees and external partners who are obliged to discharge their functions responsibly, honestly, fairly and professionally, to promote the Bank's and Group's interests as well as to take into consideration the interests of clients and shareholders, therefore the execution of decision-making powers and each business activity alike must reflect all the values and principles contained in the Code. Employees are informed about the principles via information systems and internal communication and they are continually trained on the subject. Observance of the principles is monitored by an adequate system of internal control.

Principles in the area of human rights

Intesa Sanpaolo Group recognizes the basic principles of the Universal Declaration of Human Rights and the United Nations Guiding Principles on Business and Human Rights. Taking those documents and the Code of Ethics for the basis, in 2018 VUB adopted document Adherence to Human Rights Principles that clearly declares our standpoint and principles governing our relations with our employees, clients, suppliers and the community.

Corruption and Fraudulent Actions

Conflict of Interests Policy

VUB Bank has undertaken to prevent a conflict between the private interests of its employees and the interests of the Bank. Employees shall take all required measures to prevent conflict of interests. In the event of conflict of interests, employees shall solve it to the benefit of the Bank. Employees must not use their connection with the Bank to promote their personal interests or harm the Bank's reputation by their actions or use their position or confidential information to provide a preferential treatment to a job applicant or a person wishing to start a business relationship with the Bank. VUB Bank also applies and adheres to special measures designed to prevent conflict of interests in the area of investment services.

Control and monitoring mechanisms

The Bank has a specialized unit dedicated to detection of fraud and corruption – that unit is a part of the Risk Management Division. The unit closely cooperates primarily with the Internal Audit and Control and the Compliance departments. All the employees of the Bank are informed about the internal ethical standards and zero tolerance principle and they have access to the basic information about the steps necessary upon any suspicion of corruption or fraud. The Bank does not conceal detected corruption and fraud cases from its employees, on the contrary, it has decided to inform and educate its managers so that they constantly improve their work and eliminate shortcomings and errors in this area in the future. Within initial trainings, all newly hired employees of the retail network are given a special presentation on fraud and corruption risks, including the typical signs of suspicious behavior. The main objective of this training is to strengthen prevention and minimize the occurrence of such cases.

Measures for reducing corruption and fraud

1. Internal Control System – the Bank has various control mechanisms incorporated in its processes in order to reduce the risk of corruption and fraud to the minimum level possible. The Bank clearly determines the necessity of a control mechanism for each process that entails a risk of corruption and fraud (e.g. verification of decisions, four eyes check, access rights management, etc.). The internal control system has three levels: statutory, executive and control level.

2. Internal Audit – the Bank has an Internal Audit and Control unit, an independent supervising body (unit directly reporting to the Bank's Supervisory Board, not to the Management Board). One of its main tasks is to verify the functioning of the internal control system, compliance with external and internal legislation including the Bank's Code of Ethics, verification of internal control failures and suspicions of internal fraud.

Zero tolerance

VUB Bank clearly declares its absolute zero tolerance towards corruption and fraud. All the employees of the Bank are informed about the following principles:

1. the Bank does not accept any form of fraudulent or corrupt action, therefore each case will be thoroughly examined and relevant measures drawn from it;
2. any participation in fraud or attempted fraud will result in dismissal and potentially in criminal prosecution;
3. necessary investigation will be conducted disregard of the perpetrator's relationship to the organization, position or employment duration.

Whistle Blowing Policy

If an employee of VUB Bank identifies a breach of internal or legal regulations during the performance of their work duties, under this Policy the employee has the right and possibility to share the inquiry at podnety@ vub.sk and etickykodex@vub.sk. The Policy also enables each Bank's supplier or potential supplier within the procurement process or in connection with it to send an inquiry, including an anonymous inquiry, and seek rectification. The Policy regulates the procedure and methods of employees', clients', suppliers' or potential suppliers' inquiries handling.

Diversity Policy

The Board of Directors of the Parent Company currently in office has been appointed in compliance with the optimal qualitative and quantitative indications established in 2016 at the time of the election of the board, by the outgoing Supervisory Board of Intesa Sanpaolo, within a specific document published on the Bank's website. At the time of the renewal of the Board, in 2019, new criteria have been drawn up concerning the composition of the Board and diversity, which are within the Guidelines published by the ‚European Banking Authority in September 2018 on the eligibility requirements of the members of the Board.

The document specifically states that the shareholders must ensure that the Board of Directors has the widest gender diversity in the presence of adequate professional skills and diversification of age brackets amongst Directors, in addition to a comprehensive level of knowledge and experience.

Intesa Sanpaolo is also responsible, as part of the direction and coordination performed as the Parent Company, for ensuring the overall consistency of the Group's governance structure and in particular the adequacy of the governance of the companies that make up the Group, as VUB. This involves both the governance system adopted and the composition/structure of the Corporate Bodies.

Under the provisions of the articles of association, the senior officers of the subsidiaries are nominated by the Board of Directors of the Parent Company, which operates according to uniform principles at Group level and in compliance with the regulations and best practices applicable to each subsidiary, with the aim of ensuring an adequate qualitative and quantitative composition of the Bodies, with specific importance given to the level of diversification, also in terms of age, gender, seniority of service, geographical origin, and international orientation.

No Armament Funding Policy

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

Policy for the management of relations with political parties and politically engaged parties, clients operating in the armament industry and risk industries

The policy regulates primarily the management of relations with political parties and politically engaged parties in order to preserve the impartiality and independence of the Bank (the purpose is to prevent a potential reputational risk; companies belonging in VUB Group must take a prudent approach when starting business relations with political parties and politically engaged persons), responsibly manage the relations with clients operating in the armament industry (the purpose is to ensure that neither VUB Bank nor its subsidiaries participate in the financing of activities and transactions concerning the manufacturing of arms and weaponry as well as the trading of them for military purposes), and with the clients operating in risky business fields (e.g. bars, night clubs, casinos, exchange offices and pawnshops, debt collecting agencies, brokerage companies, betting offices).

Anti-money laundering and anti-terrorist financing

In anti-money laundering (AML) and anti-terrorist financing, VUB Bank proceeds in accordance with the Slovak as well as European legislation, ensuring protection of our clients and of the Bank itself. The Bank does not want to, even unknowingly, support those negative phenomena by allowing money flows through its products, services or otherwise in connection with the Bank. The Bank therefore strictly follows the preset internal rules for prevention of money-laundering and terrorist financing by detection of unusual business transactions. For that purpose, the Bank has in place an own Program for Anti-money Laundering and Anti-terrorist Financing.

Community

VUB Bank feels responsible for the society in which it conducts its business that impacts that society. The main channels of support include the corporate foundation – VUB Foundation, financed from the tax assignation of VUB Bank, and the Bank's employees by their volunteering activities. To enable the employees to help even more, in 2018 VUB Bank became a member of the Companies to Community group under the auspices of the Business Leaders Forum. The Group unites companies that have decided to support various communities within their corporate responsibility (non-profit organizations, schools, disadvantaged groups of people, etc.) and improve their social situation by specific activities joining.

Charity

Dobrý anjel (Good Angel)

Good Angel helps families in need where the father, mother or child suffers from cancer or other serious illness by a regular monthly financial contribution. VUB Bank has been a partner of Good Angel for more than 11 years and has donated or helped to raise 3.4 million euro. In addition, VUB has launched a card payment scheme that continuously raises funds for the project. VUB Bank issues debit cards *Maestro Dobrý anjel* and sends 0.5% of each payment made in a store or online to the account of Dobrý anjel in the name of the payer.

In 2018, VUB Bank issued 57,902 *Dobrý anjel* cards and the contribution from VUB Bank (0.5% of the payments made by client by cards) was **407,680 euro**. Before Christmas, VUB Foundation gave Good Angel an extra grant of **100,000 euro**. Financial aid reached families in most difficult financial situations. They used the money to make the most beautiful holidays of the year more agreeable but mainly to buy ordinary things they could not afford, such as a washing machine, petrol to travel for treatment, or medicines. Another forms of help included sending a contribution from any card of VUB Bank via website www.dobryanjel.sk, one-time contribution via 500 ATM of VUB Bank in Slovakia, a standing order setting from an account in VUB Bank to Flexi Saving account of Good Angel, offering an option to set an amount of rounding of each wire payment made upwards.

Cooperation with sheltered workshops

VUB Bank recognizes the significance of inclusion of the disabled, therefore it supports sheltered workshops that employ disabled people by buying products and services from them. In 2018, the Bank purchased goods and services from sheltered workshops in the total amount of **53,172 euro**. In that amount were for example promotional gifts designed for clients, employees or their family members. The money invested so is perceived as an added value for the Bank, its clients and employees alike. It is an opportunity to interconnect corporate responsibility and the Bank's everyday business.

A few years ago, VUB Bank decided to establish a tradition of *VUB Christmas market.* Every year, VUB invites sheltered workshops and organizations that sell their products to the Bank's head office in Bratislava and contact center in Banská Bystrica. The *VUB Christmas market* is very famous, therefore in 2018, sheltered workshops headed also for Poprad. In the VUB Christmas market, employees could buy small Christmas presents directly at their workplace and help the sick or people in need. In 2018, the Bank hosted 13 organizations – sheltered workshops from all across Slovakia.

Kvapka krvi (Blood Drop)

For more than 10 years, VUB Bank has been organizing the *VUB Blood Drop* – a blood donation event. It has become a tradition that employees donate blood three times a year during the mobile blood collection. Thanks to them, transfusion stations receive blood for people that would otherwise not survive. *VUB Blood Drop* is organized in cooperation with the National Transfusion Service. In 2018, 128 employees decided to participate and donated 43 liters of the life-saving liquid for the sick.

Clothes collection

Collection of clothes for people in need is a traditional part of the VUB Bank employee activities. VUB Bank organizes clothes collection twice a year in cooperation with Foundation Pontis. Employees like the collections of clothes, therefore in 2018 VUB extended the points of collection also to other towns in Slovakia. Employees collected clothes for civic associations Domov pre každého (Home for Everyone), Združenie mladých Rómov (Young Roma Association) and Dobrý pastier (Good Shepherd) in Bratislava, Banská Bystrica and Poprad. They collected together 1.3 tons of clothes that got a second chance and helped people in need.

School utensils collection

At the end of the summer break, VUB Bank decided to help pupils and students from socially disadvantaged families, crisis centers and children's homes to start the new school year. Together with the Slovak Catholic Charity, VUB organized school utensils collection to enable the children to study without feeling different than their peers. Employees from all across Slovakia participated in the collection and together they collected approximately 600 utensils that filled the school bags of socially disadvantaged children.

#GivingTuesday

For the first time in 2018, VUB Bank participated in activity #GivingTuesday that has had a long tradition abroad. People in 150 countries around the globe celebrate this holiday of generosity, charitable giving and volunteerism as a response to the buying frenzy of Black Friday and Cyber Monday that are well known also in Slovakia. #GivingTuesday falls always on Tuesday after Black Friday and Cyber Monday. The purpose of Giving Tuesday is to make people slow down for a moment, look around and help those in need. On #GivingTuesday, VUB organized various volunteering activities for its employees around Slovakia, among them the food products collection organized in 13 towns. Collected food products that are the most important help for the people in need went to the Food Bank of Slovakia. More than 300 kg of long-lasting food products were collected in the first employee food products collection organized by VUB Bank.

Art

In the area of art, we have been focusing on the protection of cultural heritage and support for the contemporary art with an emphasis put on fine arts. Last year, several monuments were saved thanks to VUB Foundation and the restoration of *the Calvary of Banská Štiavnica* continued. In 2018, VUB Bank was the general partner and sponsored the *White Night* festival that brought contemporary art to Bratislava and Košice in the form of visually interesting artistic installations, digital art, performance and concerts, and music festival *Sharpe* that offers a presentation opportunity for young artists and musicians, which directly contributes to our cultural development.

Education

Cooperation with schools and support for education

Education in the main area of our business – economics and finance – is one of the VUB Bank's priorities. Our projects offer talented students the opportunity to present their original ideas and demonstrate their talent. The purpose of the projects is to improve the quality of research and university education in the field of finance and develop economic science and research. VUB Bank has long been cooperating with secondary schools and universities concentrating on economics, mathematics and information technology. In order to make education in finance, economics and banking more attractive, VUB Bank:

– offers consultations for thesis and annual school projects preparation,
– offers a possibility of internship to high school and university students for their professional, bachelor and thesis practice,
– gives professional lectures at high schools and universities,
– organizes an international student competition.

Also in 2018 we offered university students an opportunity to join the 7th year of trainee program *Stážuj a pracuj (Internship and Work).* The applicants could choose from five areas: education and development, card products – cards issue, card products – card transactions support, process organization and management, corporate loans monitoring and control. More than 40 applicants showed interest in the program, five applicants were selected and offered an opportunity to become acquainted with the environment of banking and activities of the Bank. The program usually starts with a 2-month orientation internship in the selected department with an adaptation plan in place to manage the tasks gradually. The next five months of the program are dedicated to individually performed professional activities within the given department as well as to the engagement of the trainees in everyday life of the unit and the work of other unit members. The internship participants can take three internal trainings such as self-management, assertiveness and effective communication. They can formally and informally meet the top representatives of the Bank at the *Welcome Day*. The internship participants are given regular feedback from their superiors in order to ensure their personal and skills development. After completing the trainee program, the best participants are offered employment with the Bank.

Duke of Edinburgh

VUB Bank joined the world-known project *Duke of Edinburgh* that runs in 140 countries of the world. The Duke of Edinburgh's International Award is a complex development program that helps 14-24 year olds develop their abilities and strengthen their characters to make them better prepared for and succeed in the real life. Individual activities in which the students participate strengthen their responsibility and perseverance. Students learn to know themselves and surpass themselves. They gain new skills useful in school, work and everyday life. Our colleagues helped the ambitious students exhaust their potential: they gave them time and attention as volunteer mentors. In 2018, seven employees of VUB Bank joined the program.

Financial education at school

VUB Bank is aware of the importance of financial education of various communities. Employees of VUB help to increase financial literacy by giving lectures concentrating on economics and finance in primary and high schools and universities.

Learning to manage the own money and save money should start in childhood. On the occasion of the World Savings Day, VUB Bank joined the Group's celebration and organized event Save with VUB Day in schools all over Slovakia. Thanks to the event, 2,300 children from 43 schools learned about finance and the importance of saving. Forty-eight volunteers from VUB gave lectures on the subject.

Web portals #withVÚB and VÚB otvorene (VÚB openly)

It is important for VUB Bank that clients understand the banking jargon and products and services the Bank offers, therefore VUB Bank has created web portal #withVÚB on which the clients can learn all the necessary information about online services – VUB Mobile Banking, internet banking, VUB Wave2Pay, and ask questions.

Following the World Savings Day and education on financial literacy, in 2018 VUB Bank prepared interesting content on web portal *#withVÚB* in cooperation with the Italian Museum of Saving. It is destined primarily for children but it is playfully interesting also for adults. The visitors can watch a series of videos that explain basic terms and principles of personal funds management and of economy of countries and expand their general knowledge.

Web portal *VÚB otvorene* is destined for clients of VUB Bank and for other people who seek advice in the field of finance and banking products. The portal brings direct, simple and clear answers to pre-set questions. If a visitor cannot find the answer to their question, they can ask. The web portal has an ambition of becoming the portal of first resort for people seeking answers concerning banking.

Support for start-ups

VUB Business Academy – *VUB Academy for Businesswomen*

In 2018, the VUB Academy for Businesswomen celebrated its 10th anniversary. Professionals from VUB Bank gave women – beginning entrepreneurs – the know-how necessary to start a business or make a business efficient. The agenda of the Academy offered, in addition to lectures and workshops on practical skills in marketing, communication, management, IT, finance, pricing, online marketing and brand building, also room for discussion, personal consultations, exchange of contacts and implementation of the skills learned. In addition to support for women in business, VUB as part of the project awards prizes for the best women's business projects. Over the ten years of its existence, VUB Business Academy has helped almost 200 women of all ages and from all over Slovakia to start their business.

Impact HUB

VUB Bank works with organization *Impact HUB*, an international platform for co-working supporting innovative ideas that are beneficial for the society, beginning entrepreneurs, projects beneficial for the society and education in business.

Financial and material aid

VUB Bank tries to help in various ways. The biggest aid is the **financial gift** for VUB Foundation that further distributes it to various non-governmental organizations, communities, local governments and state-owned organizations (schools, museums) in the form of grants. In 2018, VUB Bank gave VUB Foundation a financial gift of 200,000 euro.

VUB Bank supports organizations in a non-financial way, too. It sells depreciated **computers, notebooks and LCD screens** for a symbolic price of three cents per piece to organizations that ask for it. In 2018, 89 computers, 48 notebooks and 62 LCD screens were donated.

In 2018, following the modernization of its branches and offices, VUB Bank helped many non-profit organizations and schools by a donation of the **office furniture**.

Engaging employees in community life

Employee grants

In cooperation with VUB Foundation, VUB Bank supports the engagement of employees in activities beneficial for the communities in which they work and live. VUB Bank appreciates their willingness and helping hands by employee programs that are very popular among employees. During its 12-year history, more than 1,800 colleagues have joined the projects and 597 projects have received support. In 2018, the employee grant program *Pomôžte svojej komunite (Help Your Community)* financially supported 35 organizations by 50,000 euro. The financial support was given to organizations in which VUB employees volunteer: non-governmental non-profit organizations, schools or local governments. Supported projects were: charitable projects, educational projects, leisure time activities projects for children, development of community life, reclaiming and improvement of municipal localities and public areas.

Volunteering

Corporate volunteering is another area in which VUB Bank is active. The Bank perceives it as an opportunity to meet new people, visit new places or get to know the colleagues better and thereby build a friendly corporate culture. Throughout the year, employees can join various volunteering activities. Nationwide project *Naše mesto (Our Town)* is perhaps the most popular of them: it is the biggest corporate volunteering event in central Europe. VUB joins the event every year. In 2018, almost a hundred employees helped in Bratislava creative center Nová Cvernovka, spent a day in a nursing home in Tatranská Štrba and Žilina, together with Banskobystrický okrášľovací spolok breathed life to Na Karlovo, helped families in need in Košice shelter Dorka and repaired a kindergarten in Trnava. Also the general director supported the volunteering employees: he joined them and worked in primary school at Dubová street in Bratislava.

VUB Foundation

VUB Foundation is an independent legal entity, however, it carries out some of its activities and projects in close managerial and financial cooperation with VUB Bank, therefore we also publish them in this report. All the activities of VUB Foundation in 2018 are presented comprehensibly and in detail on www.nadacia-vub.sk and in the annual report of VUB Foundation.

VUB Foundation has been carrying out its activities in the field of philanthropy since 2003. It is financed from *the tax assignation of VUB Group and from financial donations of VUB Bank* (200,000 euro in 2018). In addition, VUB Bank supports its Foundation by personnel, materially and administratively. In 2018, VUB Foundation donated 1,090,526 euro for several community projects. A majority of the funds were dedicated for the support of art and cultural heritage (36%) and community life (30%). The education sector received 10% of the funds, charity was given 24% of the funds.

VUB Foundation focuses on the following areas:

– education – foundation program pre *Vzdelanie (For Education)*
– art and cultural heritage – foundation program pre *Umenie (For Art)*
– charity – foundation program pre *Nádej (For Hope)*
– active communities – foundation program pre *Komunitu (For Community).*

Foundation program **For Education**

The **Guest Professor** grant program enables universities of economics to invite guest experts from abroad for a semester. In addition to the pedagogical engagement, the program brings students an opportunity to work with a foreign professor on scientific papers according to the methodology implemented by foreign universities. During the 2017/2018 summer term, the University of Economics in Bratislava in Slovakia hosted Professor Edward M. Bergman, PhD., who gave students an insight into the area of regional development.

To support and develop economic science and research in Slovakia, VUB Foundation organizes competition ***Economicus*** – call for scientific papers in the field of economic science. The competition awards a prize of 10,000 euro for the best published scientific paper in the field of economics and finance, published in a renowned international magazine. In 2018, the 2017 award was awarded to Lukáš Lafférs, Martin Huber and Giovanni Mellace for their paper that presents a new estimation method for binary endogenous variables. The 2018 winner will be announced in spring 2019.

Financial support for educational projects was given also to organization EDUMA – Od emócií k poznaniu (EDUMA – From Emotions to Knowledge) for project "Sensible for Vulnerable – Young Roma Leaders as Lay Advisors for Roma Children in Foster Care," civic association Sinfonietta Bratislava for master classes of world virtuosos, company Star Production for project Embassy of the Young and the Maximiliána Hella primary school with kindergarten in Štiavnické Bane for their environmental and ecological projects.

Foundation program **For Art**

Activities of VUB Foundation focusing on cultural heritage and fine arts are based on the tradition of enhancement of the country's artistic and historical heritage, which is also characteristic of the Italian owner of VUB, the banking group Intesa Sanpaolo.

Cultural heritage preservation

In addition to monuments restoration, the objective is to raise awareness of the cultural treasures of Slovakia. VUB Bank and VUB Foundation have been supporting the restoration of the **Banská Štiavnica Calvary**, one of the most precious monuments in Slovakia, since 2008. This national monument listed in the UNESCO World Heritage List had been in a dilapidated condition for a long time, and in 2007 it was put on the list of 100 world's most endangered monuments. In 2018, VUB Foundation supported the monument restoration with 200,000 euro and opened it after 11 years of restoration in autumn 2018 with solemn opening of the Upper Church.

Within competition **Poklady Slovenska** (Treasures of Slovakia), in 2018 VUB Foundation supported the restoration of precious organ in Špania Dolina. Betliar Museum, Vihorlat Museum in Humenné and Spišská Kapitula also received financial support for restoration of their historical objects and collections.

Support for contemporary fine arts

Inspired by the example of its parent bank, VUB Bank is also a supporter of art. In cooperation with VUB Foundation, every year VUB organizes artistic competition Painting – *VUB Foundation's Young Artist Award.* In addition to recognition by an expert international jury, the winners are awarded a financial prize of 20,000 euro. The competition offers also an exhibition of the artwork of the finalists, thus introducing the young Slovak art to the public. In 2018, the competition was organized for the 13th time and the artwork of the finalists was exposed in Nedbalka Gallery. The admission was without charge thanks to VUB Foundation. The exhibition of the artwork of the finalists was also part of the *White Night* festival. Talents of the painting competition are displayed in the virtual gallery on www.malbaroka.sk.

Foundation program **For Hope**

Within this program, VUB Foundation is active mainly in the area of traditional charity and helps disadvantaged individuals and groups to equalize their chances in life, it provides funding for treatments and therapies for the disabled and for the needs of foster families. Within foundation program *Umenie lieči (The Healing Power of Art), Dotyk lieči (The Healing Power of Touch)*, a grant was given to 22 organizations concentrating on art therapy and animal-assisted therapy. VUB Foundation supported also the following organizations: Asociácia pomoci postihnutým – APPA (physical therapy for disabled children), WellGiving (projects *Štartovné and Pošli dobro ďalej*), Nadácia Križovatka (project Mum, I'm Breathing – baby breathing monitors for hospitals), Modrý anjel (crisis intervention and psychological first aid to **victims of tragic accidents**), Návrat (project Family is the Child's Only Home) or Dobrovoľnícka skupina Vŕba (help for cancer patients in hospitals).

Foundation program **For Community**

The tremendous interest of people in their environment has confirmed once again that community projects need more support. To implement these projects, participation of activists and volunteers willing to dedicate their time, experience and expertise, know-how and efforts for the benefit of others is priceless. In 2018, VUB Foundation announced project ***200,000 Euro for Lively Communities within which 32 organizations from all across Slovakia received a grant.***

Among the key projects of VUB Foundation were reconstruction and activities in **Nová Cvernovka**, the biggest creative cultural center in Slovakia, and **Dobrý trh** (Good Market) organized by civic association Punkt.

Employees

We realize that our success is based on the expertise of our employees and the quality of services provided to our clients, therefore we perceive creation of interesting work and stimulating working environment as key in the human capital development. In relation to employees, we follow the principles of the Code of Ethics of Intesa Sanpaolo Group and we have undertaken to exclude any discrimination and respect differences based on sex, age, race, faith, political opinion, participation in unions, language skills or impairment. We recognize the value, benefits and professionalism of each individual.

Internal communication and dialogue

VUB Bank recognizes the necessity of two-way communication with its employees. It is equally important to inform the employees about the current happening, ongoing projects, performance and direction of the company, therefore it is necessary to ask them about their opinion, ideas and experience. Regular feedback receiving from employees, in the form of surveys, questionnaires or personal meetings, is one of the pillars of internal communication in VUB.

In 2018, VUB Bank conducted a number of surveys in which employees expressed their opinion about the overall direction of Intesa Sanpaolo Group and its business plan for the next four years. Employees participated in a survey of the parent company that collected inputs from all the colleagues from all the countries in which the Group operates. Equally important were the answers to questions regarding the values and what new values of the international banking group should be with regard to competitiveness and ambition to meet the ambitious business plan. In 2018, Intesa Sanpaolo Group introduced the internal *net promotion score*, i.e. measurement of employee satisfaction with their work in each bank. VUB Bank takes the opinions of its employees seriously and informal personal meetings of the general director with the employees for a breakfast together are a proof of that. In those meetings, they discuss the current matters and it is an opportunity to receive first-hand feedback.

The corporate *intranet* facilitates the dialogue between employees and the management. It is built as a key and most efficient means of internal communication. All the employees have access to the intranet and it is them who are the content creators. Each organizational unit of the Bank can create its own intranet sites and share important work-related information with their colleagues. The Bank's management uses the intranet as medium to share messages. The general director informs via his regular *video blog* about the economic result of VUB Group as well as about ongoing projects and of the Bank's strategy. The *Bank's 2018-2021 strategy* was one of the key topics in 2018. The purpose was to share the Bank's strategy with all the employees and ensure that they not only know it but also understand it. In the first half of 2018, many *meetings and workshops* were held and the management made sure that employees of all the units and branches understand the direction of VUB Bank and their role in the strategic goal attaining. The strategy ambassadors significantly helped to cascade the information. The *strategy ambassadors* are workers who have been properly trained and they actively participated in the meetings of managers with their teams, facilitated communication and regularly reported to the general director on the progress of the meetings and correct conveyance of the information in the upward direction.

The corporate intranet enables the employees to mutually discuss on the *discussion forum*, participate in various competitions or follow the company's news.

Recruitment

In recruiting and hiring new employees, VUB Bank follows the rules based on the assessment of individual knowledge, skills and personal prerequisites for the position being staffed. The Bank pays due care to adhering to the principles of impartiality and avoids favoritism, misuse or discrimination. Job applicants can refer to the *"Career"* section on our website to see the current vacancies. In 2018, the Bank hired 660 new employees and 482 temporary workers.

The VUB employee base is one of the most important sources in staffing vacant positions. Open or newly created positions are an opportunity not only for external candidates but they are also a challenge for internal employees and their career growth. Managerial positions in the retail branch network were staffed mainly by internal candidates.

In 2018, VUB Bank presented the retail branch world to potential future employees and launched a 6-week paid *trainee program*. Thirteen young and curious people enrolled in the program and were offered the opportunity to learn about the Bank's retail network. They spent a half of the program learning about the Bank's products in the VUB Academy, they learned new communication skills, drilled in situations the Bank's employees encounter every day, discussed the current topics in the field of economy and banking. In the second half of the *trainee program*, the participants were taken to branches to join the working teams for three weeks with an individual schedule. They were shadowing individual job positions, handling everyday operation of the branch, meeting the clients of VUB and they were coached by the best managers. The best students were then offered employment or a temporary job.

The *Find Your Colleague* program continued also in 2018. The purpose of this activity is to engage all the employees in searching for and recommending candidates for vacancies. All the proposed candidates are always assessed for their suitability for the position. Only the best of the best are invited for the standard recruitment. After six months and subsequently also after the candidate's full year on the position, the recommending employee is paid out a motivational bonus.

For new employees, VUB Bank organizes each month a *welcome day event* in addition to the general director's welcome words that are very motivating. The purpose of the welcome day event is to give a basic overview of the Bank – information about the Bank's history, about Intesa Sanpaolo Group, its market position, retail and corporate banking, products portfolio and services, corporate structure as well as about the employee rights, duties and benefits. Retail and corporate business network employees receive mandatory trainings on anti-money laundering and anti-terrorist financing and on fraud prevention.

Training and development

VUB Bank creates the conditions necessary for continual and systematic increase of its employees' qualification, supports employee training and development in the areas necessary for the Bank's needs. Specific training requirements are addressed according to individual needs in collaboration with external training organizations in the Slovak Republic and abroad in the form of internships or participation in selected training activities. On the one hand, the purpose of training activities is to develop the knowledge and skills necessary for the job, and on the other hand, those activities are an important motivator for many employees.

Also in 2018, the *VUB Academy* education portal was frequently used. VUB Bank offers e-learning, webinars and other online courses and training via that portal and parallelly prepares and implements education plans for all the Bank's employees. The novelty in 2018 was offering an education catalogue to all the retail branch employees, thus enabling them to individually plan their education activities according to their needs.

Career development

All the employees have the opportunity to express their individuality in the best way possible leading to higher creativity at work. VUB Bank supports innovative ideas and guarantees equal opportunities in access to jobs and development tools within professional development and growth that is covered by the performance and development management system. All the employees can develop their career within the Bank. The point of this development path is to ensure that each employee receives targeted support. The development path starts with an adaptation orientation that is later followed by trainings according to job positions, knowledge and skills required to accomplish the work tasks.

The evaluation process is an important part of the performance and development management system. Last year, we continued with the GPS (Global Performance System) evaluation system, which is common for all the subsidiaries of Intesa Sanpaolo Group. Its main purpose is not only to evaluate the employees' targets but also to plan their key tasks and targets in supporting the Bank's strategy for the upcoming period. Each year, all the employees are evaluated by their immediate superiors according to their job position and classification. The employees themselves play an important role in the entire process: it is them who declare their ambitions and visions of their future careers. The superior then coordinates their further development and growth on the basis of their performance, motivation and potential.

Benefits

Irrespective of their job position, VUB Bank provides all its employees with a wide array of benefits (i.e. financial and non-financial benefits). In 2018, the system of use of benefits from the social fund changed – with regard to the equal treatment principle, each employee will receive a financial contribution once a year to be used at the employee's own discretion – for healthcare, recreation, transportation or other individual needs. VUB Bank keeps the colleagues and their families in a difficult situation in mind and provides them with financial assistance from the social fund. In the event of long-term incapacity for work (more than two months), VUB Bank pays a financial contribution to compensate for the lack of income due to an illness. Retail network employees who are in daily contact with the clients receive a clothing allowance. Contributions to supplementary pension savings account for a large amount of the funds spent on employee benefits: the ratio of employer to employee contribution is 1:1. In 2018, VUB Bank fully covered the meal allowance.

Employees can also use some banking products at discounted rates, e.g. checking account without charge, term and savings accounts at better interest rates, consumer or mortgage loans at better interest rates or discount on insurance.

In cooperation with the parent company, VUB Bank introduced a new employee benefit in 2018 – *international healthcare program Best Doctors* fully paid by the Bank. This program ensures that employees of VUB will have access to the best healthcare in the world. In the event of serious health issues that are covered by the program, the employee can have a second opinion of a world specialist and have the cost of treatment abroad covered, as well.

VUB Bank takes care of the employee health all year round also by various Healthy Days events: a morning yoga exercise, short massage in the office, lectures and workshops on healthy lifestyle, body measurements or blood donation at the workplace.

Employees are informed about the current benefits primarily via the intranet and also by other communication channels.

Work-life balance

VUB Bank wants to keep the balance between the work and personal life of its employees. Flexible working hours is today a standard that enables the employees to balance their work and private duties (flexible start between 7.00-9.00 a.m. and end between 3.00-7:30 p.m.). Employee satisfaction first, therefore the Bank extended (also following the employee satisfaction survey) the home office benefit in 2018 from two to four days a month.

Another valuable employee work-life balance benefit is extra four days off a year for intensified healthcare offered by the Bank beyond the statutory entitlement to leave. In 2018, employees used 13,331 extra days off for healthcare. Women from the 4th month of pregnancy and single parents of children younger than 15 (single parents of disabled children younger than 26) are entitled to the benefit of extra two days off. Paid leave on a working day before their wedding helped 83 colleagues to prepare for their big day. One hundred twenty-one employees benefited from an extra day off to rest and celebrate their jubilee (50th and 60th birthday). One hundred twenty employees benefited from an extra day off to accompany their children on their first day at school. Fifty-three fathers benefited from an extra day off in the first weeks after their child's birth.

Active employee engagement in the Bank's life

Throughout the year, VUB prepares for the employees of VUB Group various *internal campaigns* motivating the employees towards active engagement and interactivity. In supporting the corporate brand perception, values and the business of course, VUB uses all its internal communication channels, including posters, intranet, newsletters, personal e-mails and computer screen savers or LCD screens located in the VUB Bank's head office.

Efficient and open communication is a prerequisite for successful cooperation. VUB Bank makes sure that its employees do not meet only in a work setting but also at informal meetings. Building healthy and friendly relationships facilitates mutual communication and understanding and thereby also the joint targets meeting. The Bank therefore organizes various sport, cultural and social events for employees. Sport games of our parent company are very famous: more than 350 employees of VUB Group joined the tennis match, running in Poreč in Croatia, bicycle race in Koper in Slovenia or the ISBD sport event in Ljubljana. Running teams join the all-across relay race Od Tatier k Dunaju (From Tatras to Danube) every year, VUB is a partner of the event. In 2018, the retail branch network employees could present VUB as their employer also to their family members during the *VUB Family Day* event that took place in each region of Slovakia, or at *teambuilding* meetings to which the Bank allocated a greater budget in 2018. According to feedback received from employees in the engagement survey, employees would like to have more opportunities to meet together also outside their work teams, therefore the Bank implemented regular quarterly meetings called *Napoj sa (Get Connected)*. Those meetings are held in Bratislava, Banská Bystrica and Poprad, i.e. localities with the highest concentration of employees, and colleagues from different teams meet each other, lift the virtual barriers and make friends. Another very nice event that also the families of employees like very much is the *Christmas and Easter market* in VUB. During three days, sheltered workshops can sell their products directly on the premises of the Bank. Traditional cabbage soup and punch served by the management and the view from the highest floor of our building are the finale of the event. In 2018, the employee market event takes place also in further two cities – in Banská Bystrica and Poprad. The most awaited and biggest event is the *Christmas party* attended by many employees from the head office and from all across Slovakia.

In addition to activities for the whole family, VUB Bank gives attention also to the children of its employees. In cooperation with the parent bank Intesa Sanpaolo, in May 2018 we organized *ISBD JUNIOR SPORT EVENT 2018* for children of our employees at which the coaches and coordinators were employees-volunteers; in July 2018 we welcomed the *ITALIA SOCCER CAMP* which gave 50 children of employees of VUB Group an opportunity to try out the training practices of Italian coaches.

Care for the health of employees

VUB Bank realizes that only healthy employees full of energy can efficiently perform their work duties and contribute to the meeting of the Bank's targets. In addition to education and related lectures and debates on health, the head office employees in Bratislava can exercise yoga or pilates four times a week directly at the workplace. A healthy lifestyle should include a healthy diet. At the head office, we have a healthy, fresh and quality snack vending machine called "Zdravomat" offering salads, cereal sandwiches, mineral water, fruit juices and other healthy snacks. In March, employees benefited from a month-long event: apples – tasty and healthy fruit, during which employees were distributed apples and could engage in various competitions and communication activities. Employees were thus motivated to boost their immunity also in an amusing way.

Employee recognition and appreciation

Feedback is very important, VUB Bank wants to show recognition of employees who received the most positive feedback from clients within the Staffino assessment program in a given month. In addition to the words of recognition published on the intranet, the employees got a certificate and a small reward – a purchase voucher.

The year-round retail business network competition *VÚB LIGA MAJSTROV 2018 (2018 VUB CHAMPIONS LEAGUE)* continued also in 2018. Every year, the competition culminates in a gala evening, during which we praise the biggest stars of the competition for their work on achieving the sales results as well as customer satisfaction. The annual competition positively influences healthy competition among branches and employees' motivation to improve constantly.

VUB Bank praises its employees not only for their individual performance – a *Best Branch* certificate is an important internal award. It is awarded on a quarterly basis. It is destined for retail branches that have met their sales targets while maintaining a high quality of their services, belong in branches with the best NPS, are recommended by clients and successfully pass the mystery shopping test.

In addition to the everyday dialogue with employees, their engagement in joint events or competitions, the Bank organizes work meetings for colleagues from various units such as retail or corporate banking conferences, meetings of IT employees or personal bankers from all the Bank, project information sharing meetings, welcome day for new employees or meetings with the management in which the Bank's management informs about the most important issues in VUB. Personal meetings of employees with the Bank's top managers are the best and most creditworthy channel of communication. Those meetings are also an opportunity for employees to ask questions and get answers to their queries and concerns.

Environment

VUB Bank is not a production company or a direct polluter of the environment, therefore the environmental impacts of our business are minimal.

However, we consider the environmental protection and sustainable development a natural part of our operations on the market and in the country where we operate, therefore we have undertaken to reduce our negative impact on the environment to the maximum extent. We carry out our activities both internally and externally. We monitor ecological risks and threats and try to prevent them by taking various measures. We strive not only to consistently fulfill our obligations under the law but also to voluntarily undertake to mitigate the negative impacts of our business on the environment. We look for solutions beyond the scope of legislation, we are interested in our active and passive environmental performance, we map the relevant environmental indicators and we constantly seek out new ways of the Bank's best environmental approach.

Ecological responsibility

The respectfulness of the company and our employees is reflected in many activities: we use density-reduced office paper, ecological office supplies, we reduce office waste production and sort waste, cooperate with suppliers who have an environmental management system certificate, we use sleep mode for personal computers, switching them automatically after 30 minutes of inactivity to energy-saving mode and much more.

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

In 2018, the main activities of VUB Bank in environmental protection were based on the following:

1. applicable *Environmental Policy* focusing on:

– support for investment projects concentrating on energy saving and renewable resources,
– saving measures to reduce energy and material consumption,
– waste sorting and measures reducing waste production,
– raising the environmental awareness among employees;

2. *Environmental Sustainability Action Plan* concentrating on energy saving, the purpose of which is the following:

– replacement of obsolete electrical appliances with new ones featuring on the highest ecological parameters,
– complex introduction of LED technology,
– optimization of heating systems,
– replacement of measuring and control systems and technology.

Environmental Policy

The Environmental Policy is a written commitment to environmental protection. It sets out a mission and objectives in the area of environmental management. The policy defines the VUB Group's approach to prevention, management and, where possible, reduction of direct and indirect environmental impacts generated by its business. Within its corporate responsibility, VUB Bank undertakes to minimize the impact of its business activities and reduce the impact of its activities on the environment also in cooperation with its partners. Even if we are not among the significant environment polluters, we realize the environmental pollution problem, therefore we make all the efforts to minimize our potential negative impact on the environment.

UN Global Compact

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

Equator Principles

We take a responsible approach to project financing and lending. Managing a great volume of funds, we significantly impact the capital flows. It is therefore important for us to ensure that projects we decide to finance do not have a negative impact on our environment. Our voluntary compliance with the Equator Principles and strict implementation of the principles at all levels of our credit policy is a proof of all that.

Environmental initiatives and events

VUB Bank actively participates in the celebration of the *World Environmental Day* held on June 5 every year. Plastic pollution has become more and more compelling, therefore corporations and people focused on it within that Day in 2018. VUB Bank realizes the importance of the problem and dedicated an entire week to the matter: informed the employees about various ways of plastic materials use reduction and about the consequences of their actions. VUB Bank prepared a lecture on zero waste management and a contest for ecological products and thereby aroused a great deal of employee interest in our planet.

In 2018, twenty-six VUB teams composed of 95 individuals – employees of VUB Bank – joined the *Do práce na bicykli (Getting to Work by Bike)* initiative for the fifth time in a row. Together they drove 15,000 km and saved 3.7 tons of CO_2. Even such a small thing as selection of the right means of transportation can contribute to the improvement of our environment.

Basic indicators

Selected Indicators (in € thousand)

	Separate financial statements prepared in accordance with IFRS as adopted by the EU			Consolidated financial statements prepared in accordance with IFRS as adopted by the EU		
	2018	2017	2016	2018	2017	2016
Statement of financial position						
Loans and advances to customers	13,324,663	11,487,518	10,188,485	13,614,377	12,000,729	10,725,281
Due to customers	11,055,766	9,855,433	9,494,921	11,130,637	9,939,121	9,564,560
Equity	1,608,688	1,555,980	1,444,174	1,613,953	1,632,587	1,505,256
Balance sheet total	16,369,271	14,469,293	13,509,349	16,659,935	14,970,876	14,037,154
Statement of profit or loss						
Operating income	481,345	429,378	595,369	498,506	506,118	555,754
Operating expenses	(227,971)	(207,266)	(236,895)	(238,272)	(242,254)	(273,358)
Profit before provisions, impairment and tax	253,374	222,112	358,474	260,234	263,864	282,396
Profit before tax	200,308	203,187	311,528	204,153	223,135	211,742
Income tax expense	(44,022)	(43,166)	(46,357)	(43,835)	(48,138)	(54,972)
Net profit for the year	156,286	160,021	265,171	160,318	174,997	156,770

Commercial indicators	2018	2017	2016
ATMs	592	577	575
EFT POS Terminals	10,379	9,760	8,875
Payment cards	1,136,405	1,190,270	1,247,560
of which credit cards	233,378	261,105	311,897
Mortgage loans (gross, € thousand, VUB Bank)	6,172,729	5,341,959	4,446,721
Consumer loans (gross, € thousand, VUB Bank)	1,589,367	1,252,101	1,210,008
Number of employees (VUB Group)	3,809	3,942	4,098
Number of branches in Slovakia (VUB Bank)	212	236	239

Key ratios of VUB Group	2018	2017	2016
Return on assets	0.96%	1.17%	1.12%
Cost-Income Ratio (without bank levy)	45.40%	45.63%	45.20%
Tier 1 capital ratio	14.89%	15.77%	14.73%
Total capital ratio	17.18%	18.24%	17.18%

Rating (status as at 31 December 2018)	
Moody's	
Long-term deposits	A2
Short-term deposits	P-1
Baseline credit assessment	baa2

Stable outlook

Consolidated financial statements

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

Contents

KPMG Slovensko spol. s r.o.
Dvořákovo nábrežie 10
P.O.Box 7
820 04 Bratislava 24
Slovakia

Telephone +421 (0)2 59 98 41 11
Fax +421 (0)2 59 98 42 22
Internet www.kpmg.sk

Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances to customers

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

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

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

KPMG

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

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

IT systems and controls over financial reporting

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on Information in the consolidated Annual Report

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

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

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

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

KPMG

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

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

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

Appointment and approval of an auditor

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

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

22 February 2019
Bratislava, Slovak Republic

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

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

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

Consolidated statement of financial position as at 31 December 2018

(In thousands of euro)

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

The accompanying notes on page 59 to 212 form an integral part of these financial statements.

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

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

The accompanying notes on page 59 to 212 form an integral part of these financial statements.

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

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

The accompanying notes on page 59 to 212 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2018

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Buildings and land	Financial assets at FVOCI	Available -for-sale financial assets	Cash flow hedges	Transla-tion of foreign opera-tion	Total
At 1 January 2017	430,819	13,719	100,054	957,389	–	–	4,134	(840)	(19)	1,505,256
Total comprehensive income for the year, net of tax	–	–	–	174,997	21,966	–	606	1,378	269	199,216
Exchange difference	–	–	–	5	–	–	(22)	–	22	5
Transactions with owners, recorded directly in equity										
Dividends to shareholders	–	–	–	(72,020)	–	–	–	–	–	(72,020)
Reversal of dividends distributed but not collected	–	–	–	130	–	–	–	–	–	130
	–	–	–	(71,890)	–	–	–	–	–	(71,890)
At 31 December 2017	430,819	13,719	100,054	1,060,501	21,966	–	4,718	538	272	1,632,587
Impact of adopting IFRS 9	–	–	–	(35,429)	–	44,792	(4,718)	–	–	4,645
At 1 January 2018	430,819	13,719	100,054	1,025,072	21,966	44,792	–	538	272	1,637,232
Total comprehensive income for the year, net of tax	–	–	–	160,318	2	(39,223)	–	(544)	(316)	120,237
Transfers	–	–	(11,068)	11,068	–	–	–	–	–	–
Exchange difference	–	–	–	328	(1)	–	–	–	–	327
Transactions with owners, recorded directly in equity										
Dividends to shareholders	–	–	–	(144,025)	–	–	–	–	–	(144,025)
Reversal of dividends distributed but not collected	–	–	–	182	–	–	–	–	–	182
	–	–	–	(143,843)	–	–	–	–	–	(143,843)
At 31 December 2018	430,819	13,719	88,986	1,052,943	21,967	5,569	–	(6)	(44)	1,613,953

The accompanying notes on page 59 to 212 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2018

(In thousands of euro)

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

The accompanying notes on page 59 to 212 form an integral part of these financial statements.

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

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

The accompanying notes on page 59 to 212 form an integral part of these financial statements.

1. Basis of preparation

1.1 Reporting entity – general information

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

At 31 December 2018, the Bank had a network of 212 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2017: 236). The Bank also has one branch in the Czech Republic (31 December 2017: 1).

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

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

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

1.2 The VUB Group

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

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

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

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

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

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

1.3. Basis of accounting

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

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

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value though profit or loss, financial assets at fair value through other comprehensive income, derivatives-hedge accounting, buildings and land in property and equipment under revaluation model (31 December 2017: available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial instruments and buildings and land in property and equipment) to fair value and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

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

1.4. Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Joint ventures

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

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

1.5. Functional and presentation currency

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

Negative balances are presented in brackets.

1.6. Use of judgements and estimates

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

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

1.6.1. Judgements

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

Applicable to 2018 only:
- Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest ('SPPI') on the principal amount outstanding. (note 3.5)
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL. (note 4.1.2)

Applicable to 2017 only:
- Classification of financial instruments: assessment of category within which financial instruments are held: Held-to-maturity investments, Financial assets held for trading or Financial assets designated at fair value through profit or loss on initial recognition. (note 3.5)

1.6.2. Assumptions and estimation uncertainties

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

Applicable to 2018 only:
- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information. (note 4.1.2)

Applicable to 2018 and 2017:
- Estimates are used for, but not limited to: fair values of financial instruments, fair value of buildings and land under the revaluation model, impairment losses on due from other banks and due from customers, provisions for off-balance sheet risks, useful lives and residual values of tangible and intangible assets, impairment losses on tangible and intangible assets, liabilities from employee benefits, provisions for legal claims and deferred tax assets.

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

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

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

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

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

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

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

2. Changes in accounting policies

2.1. Adoption of IFRS 9 and IFRS 15

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

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

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

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

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

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

2.1.1. IFRS 9 Financial Instruments

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

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

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

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

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

Classification of financial assets and financial liabilities

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

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

Measurement

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

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

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

Impairment of financial assets

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

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

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

Impact of the introduction of IFRS 9 on own funds

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

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

Furthermore, under paragraph 7 of Article 473 of the CRR regulation, Group companies adopting the transitional approach shall update calculation of the following components relevant to the determination of supervisory capital requirements, so as to avoid inappropriate benefits:
– Deferred tax assets deducted from CET 1 relating to Standard and Internal ratings-based ('IRB') exposures;
– Determination of Exposure At Default using the scaling factor to assess the Risk Weighted Assets of Standard exposures;
– Tier 2 elements relating to IRB weighted exposures.

Transition

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

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

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
– The determination of the business model within which a financial asset is held;
– Trading portfolio, derivatives and hedging derivatives, which are measured at FVTPL under IAS 39, continue to be measured at FVTPL under IFRS 9, however, hedge instruments are shown in separate line 'Derivatives – Hedge accounting';
– Debt securities that were classified as available-for-sale under IAS 39 are generally measured at FVOCI;
– The designation of certain investments in equity instruments not held for trading at FVOCI;

– Loans and advances to banks and customers that were measured under amortised cost under IAS 39, are also generally measured at amortised cost under IFRS 9;
– Held-to-maturity investments that were measured under amortised cost under IAS 39 are reclassified and measured at FVOCI.

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

€ '000						Remeasurement
IAS 39 classification	IFRS 9 classification	IAS 39 measurement	Reclassification	Expected credit losses	Revaluation	IFRS 9 measurement
Assets	**Assets**					
Cash and balances with central banks	Cash, balances at central banks	1,595,097	–	–	–	1,595,097
Due from banks	Financial assets at amortised cost: Due from other banks	90,913	–	(482)	–	90,431
Financial assets at fair value through profit or loss		5,783	(5,783)	–	–	–
	Financial assets at fair value through profit or loss: Financial assets held for trading	–	4,933	–	–	4,933
	Financial assets at fair value through profit or loss: Non-trading financial assets at FVTPL	–	850	–	–	850
Derivative financial instruments		49,856	(49,856)	–	–	–
	Financial assets at fair value through profit or loss: Financial assets held for trading	–	25,491	–	–	25,491
	Derivatives-Hedge accounting	–	24,365	–	–	24,365
Available-for-sale financial assets	Financial assets at FVOCI	520,416	–	(178)	178	520,416
Loans and advances to customers	Financial assets at amortised cost: Due from customers	12,000,729	2,433	(45,604)	–	11,957,558
	Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	(2,433)	–	–	(2,433)
Held-to-maturity investments	Financial assets at fair value through other comprehensive income	376,472	–	(49)	50,548	426,971
Associates and joint ventures	Investments in joint ventures and associates	8,972	–	–	–	8,972
Intangible assets	Intangible assets	80,100	–	–	–	80,100
Goodwill	Goodwill	29,305	–	–	–	29,305
Property and equipment	Property and equipment	126,848	–	–	–	126,848
Current income tax assets	Current income tax assets	9,478	–	–	–	9,478
Deferred income tax assets	Deferred income tax assets	53,779	–	9,418	(10,652)	52,545
Other assets	Other assets	23,128	–	(32)	–	23,096
		14,970,876	–	(36,927)	40,074	14,974,023

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

€ '000				Remeasurement		
IAS 39 categories	**IFRS 9 categories**	**IAS 39 measurement**	**Reclassification**	**Expected credit losses**	**Other**	**IFRS 9 measurement**
Liabilities	**Liabilities**					
Due to central and other banks	Financial liabilities measured at amortised cost: due to banks	768,781	–	–	–	768,781
Derivative financial instruments	Financial liabilities at fair value through profit or loss: Financial liabilities held for trading	52,184	(14,642)	–	–	37,542
	Derivatives-Hedge accounting	–	14,642	–	–	14,642
Due to customers	Financial liabilities measured at amortised cost: due to customers	9,939,121	(30)	–	–	9,939,091
	Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	30	–	–	30
Subordinated debt	Financial liabilities measured at amortised cost: subordinated debt	200,164	–	–	–	200,164
Debt securities in issue	Financial liabilities measured at amortised cost: debt securities in issue	2,252,380	–	–	–	2,252,380
Provisions	Provisions	29,743	–	(1,498)	–	28,245
Other liabilities	Other liabilities	95,917	–	–	–	95,917
		13,338,290	–	(1,498)	–	13,336,792
Equity	**Equity**					
Equity (excluding net profit for the year)	Equity (excluding net profit for the year)	1,457,589	–	(35,429)	40,074	1,462,234
Net profit for the year	Net profit for the year	174,997	–	–	–	174,997
		1,632,586	–	(35,429)	40,074	1,637,231
		14,970,876	–	(36,927)	40,074	14,974,023

2.1.2. IFRS 15 Revenue from Contracts with Customers

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

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

2.2. Changes in presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

The new Standard introduces a number of limited scope exceptions for lessees which include:
– Leases with a lease term of 12 months or less and containing no purchase options;
– Leases where the underlying asset has a low value ('small-ticket' leases).

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

Leases in which the VUB Group is a lessee

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

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

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

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

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

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

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

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

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

Leases in which the VUB Group is a lessor

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

Transition

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

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

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

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

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

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

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

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

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

Other standards

The following amended standards are not expected to have a significant impact on the VUB Group's consolidated financial statements:
– Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2019);
– Annual Improvements to IFRS 2015-2017 Cycle (Effective for annual periods beginning on or after 1 January 2019);
– Amendments to IAS 19 Employee Benefits (Effective for annual periods beginning on or after 1 January 2019);
– Amendments to IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 January 2020);
– Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2020).

3. Significant accounting policies

3.1. Foreign currency transactions

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

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

3.2. Foreign operations

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

3.3. Cash and cash equivalents

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

3.4. Cash, balances at central banks

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

3.5. Financial instruments

Date of recognition

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

Financial assets and liabilities are recognised in the statement of financial position on value date when funds are transferred.

Classification of financial assets and liabilities

Policy applicable from 1 January 2018

From 1 January 2018, the VUB Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms into following portfolios:
- Fair value through profit or loss,
- Fair value through other comprehensive income, or
- Amortised cost.

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

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

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

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

Policy applicable before 1 January 2018

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

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

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

Initial and subsequent measurement of financial instruments

Policy applicable from 1 January 2018

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

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

Policy applicable before 1 January 2018

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

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

Reclassification of financial instruments

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

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

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

The VUB Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. From 1 January 2018 when assessing whether or not to derecognise a loan to a customer, amongst others, the VUB Group considers the factors such as change in currency of the loan, introduction of an equity feature, change in counterparty, whether the modification is such that the instrument would no longer meet the SPPI criterion.

Derecognition other than due to substantial modification

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

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

Modifications of financial instruments

Policy applicable from 1 January 2018

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

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see above under Derecognition other than due to substantial modification) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:
- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

Policy applicable before 1 January 2018

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

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

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

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

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

3.5.1.1. Financial assets held for trading

Policy applicable from 1 January 2018

The VUB Group classifies trading portfolio as financial assets or financial liabilities measured at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Financial assets and liabilities held for trading are recorded and measured in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the VUB Group's own credit risk. Such changes in fair value are recorded in the 'Fair value gains and losses arising from the VUB Group's own credit risk related to derivative liabilities' and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL considered to be incidental to the VUB Group's trading operations and is presented together with all other changes in the fair value of instruments designated at FVTPL in net trading result. Dividend income from equity instruments measured at FVTPL is also considered to be incidental to the VUB Group's trading operations and is recorded in profit or loss as net trading result when the right to the payment has been established.

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

The VUB Group monitors changes in fair values on a daily basis and recognises unrealised gains and losses in the statement of profit or loss and other comprehensive income in 'Net trading result'.

Policy applicable before 1 January 2018

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

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

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

Derivative financial instruments

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

Derivative financial instruments not used for hedge accounting purposes are initially recognised and subsequently re-measured in the statement of financial position at fair value as part of:
– From 1 January 2018: 'Financial assets held for trading';
– Before 1 January 2018: 'Derivative financial instruments'.

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives are included in 'Net trading result'.

Fair values are obtained from quoted market prices. If such values are not available, discounted cash flow models and option pricing models are used. The fair values of derivative positions are computed using standard formulas and prevailing interest rates applicable for respective currencies available on the market at reporting dates.

Embedded derivatives

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

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

Policy applicable from 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The VUB Group accounts for an embedded derivative separately from the host contract when:
– the host contract is not an asset in the scope of IFRS 9;
– the host contract is not itself carried at FVTPL;
– the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

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

Policy applicable before 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The VUB Group accounted for an embedded derivative separately from the host contract when:
– the host contract was not itself carried at FVTPL;
– the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
– the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

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

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

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

Policy applicable from 1 January 2018

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

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

Policy applicable before 1 January 2018

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

Financial instruments classified in this category were those that had been designated by management on initial recognition. This designation could have been used only when at least one of the following conditions was met:
– the designation eliminated or significantly reduced a measurement or recognition inconsistency that would otherwise have arisen from measuring assets or liabilities or recognising the gains and losses on them on a different basis;
– the assets and financial liabilities were part of a group of financial assets, financial liabilities or both that were managed and their performance was evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
– the financial instrument contained one or more embedded derivatives that significantly modified the cash flows that otherwise would have been required by the contract.

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

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

3.5.2. Financial assets at fair value through other comprehensive income

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

Policy applicable from 1 January 2018

The VUB Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:
– the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
– The contractual terms of the financial asset meet the SPPI test.

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

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

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

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

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

Policy applicable before 1 January 2018

Available-for-sale financial assets

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

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

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

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

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

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

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

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

Held-to-maturity investments

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

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

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

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

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

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

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

3.5.3. Financial assets and liabilities at amortised costs

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

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

Policy applicable from 1 January 2018

From 1 January 2018, the VUB Group only measures 'Due from other banks' and 'Due from customers' at amortised cost if both of the following conditions are met:
– the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Due from other banks

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

Due from customers

Due from customers balances comprise loans and advances and securities with fixed or determinable payments and fixed maturities. These receivables are recorded at amortised cost less any impairment losses. (note 12.2)

Impairment

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

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

Policy applicable before 1 January 2018

Due from other banks

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

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

Due from customers

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

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

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

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

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

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

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

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

3.6. Repurchase and reverse repurchase agreements

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

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

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

3.7. Offsetting financial instruments

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

3.8. Derivatives – Hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

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

3.9. Investments in joint ventures and associates

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

Dividend discount model

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

3.10. Transactions under common control

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

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

3.11. Property and equipment

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

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

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

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

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

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

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

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

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

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

3.12. Intangible assets

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

	Years
Software and Other intangible assets	7

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

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

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

3.13. Goodwill

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

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

3.14. Non-current assets held for sale

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

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

3.15. Leasing

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

VUB Group as the lessee

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

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

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

VUB Group as the lessor

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

3.16. Provisions

Policy applicable from 1 January 2018

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

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

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

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

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

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

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

Policy applicable before 1 January 2018

Provisions comprised litigations and claims.

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

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

Provision for financial guarantees were recognised in accordance with IAS 37 and subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee had become probable). Financial guarantees were included within 'Other liabilities'. Any increase in the liability relating to financial guarantees was recorded in the statement of profit or loss and other comprehensive income in 'Impairment losses'.

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

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

3.17. Provisions for employee benefits

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

3.18. Equity reserves

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

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

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

Reserve regarding revaluation of debt securities previously measured at FVOCI that were classified as available-for-sale under IAS 39:
– From 1 January 2018: 'Financial assets at fair value through other comprehensive income' reserve which comprises changes in the fair value of Financial assets at FVOCI.
– Before 1 January 2018: 'Available-for-sale financial assets' reserve which comprises changes in the fair value of available-for-sale investments.

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

3.19. Net interest income

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

3.20. Net fee and commission income

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

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

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

3.21. Net trading result

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

3.22. Current and deferred income tax

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

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

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

4. Financial and operational risk management

The VUB Group has exposure to the following risks from its use of financial instruments:
- Credit risk,
- Market risk,
- Liquidity risk,
- Operational risk.

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

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

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

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

4.1. Credit risk

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

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

More specifically, CRC defines both the general and specific (retail, corporate) credit risk requirements for applied methodologies and procedures, and includes, as separate sections, the policies governing the key aspects of the VUB Group's credit risk management process:
- Authorized Approval Authority,
- Collateral Management Policy,
- Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

4.1.1. Management of credit risk

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

4.1.2. Impairment losses

The VUB Group establishes an allowance for impairment losses, which represents its expected losses in its loan portfolio.

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

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

The individual assessment of exposures is based on the detailed review and analysis of the borrower's situation, including the critical review of the following sources of information, without limitation to:
- the latest financial statements available (including consolidated ones, if any) accompanied by the report on operations and audit report, if any, as well as previous years' financial statements;
- information on specific corporate events (e.g. extraordinary transactions);
- the current and forecast financial position and results, analysis of variances between forecasts and actuals;
- for borrowers belonging to economic groups, information on their internal and external relationships (to assess the risk of contamination or its deterioration);
- the list of VUB Group relationships (credit lines/utilisation/transaction status);
- the customer's short- and medium-term plans and strategies supplemented by financial projections (at least three – year), the statement of expected cash flows, product analysis, sector and market studies, etc.;
- any documentation by third-party experts on the reasons for the borrower's deterioration, and potential actions to reorganise the company and exit from the crisis;
- updated business profiles from the Chamber of Commerce, Corporate Registry or equivalent, cadastral surveys concerning all debtors and guarantors;
- nature and validity of the collaterals, appraisal for each asset, presence of mortgage/pledge registrations other than the VUB Group;
- latest and historical Credit Bureau reports.

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

Inputs, assumptions and techniques used for estimating impairment

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

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

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

For PD models of the portfolios where the VUB Group uses internal models, the advanced approach is used. The modelling approach consists of the following steps:
– Creation of migration matrices using the internal ratings;
– Removal of macroeconomic effect from the migration matrices using the Merton formula;
– Creation of Through-the-cycle ('TTC') matrix computed as the average of the annual migration matrices obtained after the removal of the macroeconomic effect;
– Creation of the future Point-in-Time ('PIT') matrices obtained by conditioning the TTC matrix using Merton formula and forward looking information;
– Obtaining the final Lifetime PD vectors by multiplying the predicted PIT and TTC matrices adjusted by Add-on for incorporation of other economic scenarios.

For LGD models of the portfolios where the VUB Group uses internal models, the modelling approach consists of the following steps:
– Calculation of nominal LGD values based on the same pools as used by internal models;
– Incorporation of forward looking information using EBA coefficients;
– Obtaining the final LGD values by discounting the recovery rates using Effective interest rate and Average time to recovery.

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

The counterparties with low number of observations and with low numbers of observed defaults, where it was unable to create reliable migration matrices or develop the macroeconomic satellite models for prediction of default rate, were defined as the Low default portfolio. This portfolio, as also defined by Parent Company, consists of exposures with the following parties:
– Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
– Institutions (Banks, and Other Non-banking Financial Institutions);
– Large Corporate (Corporate with turnover more than € 500 million).

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

Staging methodology

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

IFRS 9 proposed the three-stage approach based on changes in credit quality since initial recognition:
– Stage 1 includes financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date.
– Stage 2 include financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event.
– Stage 3 includes financial assets that have objective evidence of impairment at the reporting date.

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

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

DPD = Banking Date – Due Date for repayment

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

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

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

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

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

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

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

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

a) overdue amount at reporting date breach the 5% threshold calculated at a counterparty level:

$$\frac{\text{Overdue Exposure at client level}}{\text{Cash Exposure at client level}} \geq 5\,\%$$

or

b) overdue amount at reporting date or average overdue amount in the last 30 days breach the 5% threshold calculated at a counterparty level:

$$\frac{\text{Average Overdue Exposure at client level for the last 30 days}}{\text{Average Cash Exposure at client level for the last 30 days}} \geq 5\,\%$$

Consequently, the overall exposure of a counterparty is classified to Stage 2 if, at reporting date, the greater of the amounts calculated in a) and b) is equal or higher than the 5% threshold.

Stage 2 criterion: Forborne performing exposures

Forborne status for performing exposures is identified as another criterion of credit deterioration since it represents concession towards a client facing or about to face difficulties in meeting its financial commitments. Forborne performing exposures represents Forborne performing (originally) and Forborne performing stemming from Non-performing. Minimum probation period for these contracts is 24 months, after this period the contract might migrate to Stage 1 if meets exit criteria from Forborne classification (for example there is not more than 30 DPD, contract is Performing or counterparty has repaid more than significant amount of its debt since entering to Forborne).

Stage 2 criterion: Performing exposures showing early warning signals and proactive credit management

Exposures with active Early Warning Signals ('EWS') and clients reported on PCM are classified in Stage 2 since they can be considered as exposures that have deteriorated significantly in credit quality since their recognition. Similarly to forborne status, identification and application of EWS follow the rules defined by the VÚB Group. For IFRS 9 purposes, exposures with orange, red and light blue EWS should be classified into Stage 2.

Early warning system performs regular monitoring of corporate clients portfolio; their risk assessment based on pre-defined criteria, grouped into 6 particular triggers families (Asset Quality Review Fatal indicators, Additional Asset Quality Review indicators, Client Missing Payments, Handling Account, Balance Sheet, and Client Management). Level of the riskiness for every particular detected case is expressed by the final EWS „traffic lights" as follows:

Traffic light	Meaning	Related action
Dark blue	Harder severity signals Fast Track activation	Classification to NPL
Light blue	Very high intensity signals Fast Track activation	Impairment proposal Classification proposal
Red	High intensity signals	Proactive management
Orange	Medium intensity signals	Proactive management
Dark green	Low intensity signals	Anomaly check (e.g. rating update)
Light Green	No negative signals	–

Once the counterparty is detected automatically by EWS or manually by Proactive credit management ('PCM') team with risk severity HIGH and the respective deliberative body decides about inclusion of the counterparty in the PCM perimeter, the counterparty is flagged as PCM. The flag PCM is deactivated when the counterparty is excluded to full performing portfolio (Stage 1) or non-performing portfolio (Stage 3).

Stage 2 criterion: Defaulted exposures classified as performing

This criterion contains such exposures which do not satisfy condition for Non-performing classification, but satisfy conditions for the default definition.

Stage 2 criterion: Performing exposures with significant increase in PD

Significant increase of PD between origination (or initial recognition) and reporting date is used as indicator of credit quality deterioration according to the IFRS 9 principle par. 5.5.9: 'At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument.' PD at origination is used solely for the purposes of staging.

This criterion is applied for all the portfolios. The thresholds for each portfolio can vary. In order to assess whether credit risk has increased significantly since the origination, it is necessary to compare Lifetime PD between origination and reporting date.

This criterion is set individually for each portfolio however the main features of the methodology are common.

According to the methodology, the comparison should be performed between:
- $PD_{origination}$ – the lifetime PD over the residual maturity related to the rating to which the instrument belonged at the origination (if some other risk drivers e.g. year of life are used in addition to the rating, the values as of the reporting date are taken) and
- $PD_{reporting}$ – the lifetime PD over the residual maturity related to the rating to which the instrument belongs at the reporting date.

The relative change of the lifetime PD is calculated as $PD_{reporting} / PD_{origination}-1$. If this relative change is greater than the set PD threshold then the exposure should be classified to the stage 2.

The proper setting of PD threshold is the core of this criterion. The Group methodology states the PD threshold could be different based on portfolio/model, residual maturity, rating class or other potential drivers. Indeed, the cumulative PDs and their relative differences (between some two rating grades) are changing very swiftly with increasing residual maturity. That's why the one common threshold for all maturities would not lead to proper staging. The differentiation of thresholds between rating classes is important, too – generally, the worse rating leads to the lower threshold.

Stage 3 criterion

Stage 3 financial assets are considered credit impaired. It is when one or more events that have a detrimental impact on the estimated future cash flows have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Staging criteria for debt securities

Staging process for Bonds is performed in parallel to the staging of Loans. The criteria used to assess whether the credit quality of Bond has deteriorated significantly since origination is Lifetime PDs comparison.

The following criteria are approved for each stage for debt securities:

STAGE 1	STAGE 2	STAGE 3
Bonds with no significant credit quality deterioration Investment grade Bonds (Low Credit Risk Exemption rule valid only for FVOCI Bonds for FTA)	Bonds with significant increase in PD since origination	Defaulted Bonds

In addition to the above – mentioned criteria, the following rules should be followed for Stage Assignment:
- at origination financial instruments are classified in Stage 1;
- if there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2;
- at the date of acquisition all defaulted Bonds are classified in Stage 3.

Staging criteria for Low Default Portfolio and Intragroup exposures

Low Default Portfolio consists of exposures with the following parties:
- Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
- Institutions (Banks, and Other Non-banking Financial Institutions);
- Large Corporate (Corporate with turnover more than € 500 million).

Intragroup exposures are exposures with the following parties:
- Parent Company;
- Other ISP Group subsidiaries.

Given their particular nature (exposures are within own bank group with low risk profile), intragroup transactions are always classified as Stage 1 with a 12-months ECL.

Since the models for Low Default Portfolio were developed by Parent Company the staging rules for Low Default Portfolio and Intragroup exposures are set by the Parent Company for Loans and Bonds and valid at ISP Group level. Exposures are classified to Stage 2 based on the significant increase of credit risk criterion measured by Lifetime PD comparison. This criterion for Low Default Portfolio is defined based on the specific rating and residual maturity of exposure. Thresholds are provided by Parent Company. The thresholds are applied in the same way as described above in Stage 2 criterion: Performing exposures with significant increase in PD.

Expected loss calculation

Stage 1

The Expected Loss for exposures in Stage 1 is calculated as:

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

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

In the calculation of Expected Credit Loss for positions expiring during the first year, in order to avoid the counting of an entire PD on yearly basis and to consider the real expiration date, PD can be adjusted as follows:

$$PD_n = 1 - \sqrt[12/n]{1 - PD_{1year}}$$

where n is the number of months to maturity.
For the transactions without a maturity date, it is assumed that they are subjected to annual review and their maturity is assumed to be equal to one year.

Stage 2

The formula of Lifetime Expected Loss, calculated considering the residual maturity with respect to the reporting date, is summarized as follows:
For exposures with remaining maturity less or equal than 1 year (see Stage 1):

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

For exposures with remaining maturity greater than 1 year:

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

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

To illustrate the application of formula 2 for ECL calculation for exposures in Stage 2 with residual maturity of 3 years, the following example is provided:

$$EL_{lifetime} = EAD_1 \times PD_1 \times LGD_1 + \frac{EAD_2 \times (PD_2\text{-}PD_1) \times LGD_2}{(1+EIR)^1} + \frac{EAD_3 \times (PD_3\text{-}PD_2) \times LGD_3}{(1+EIR)^2}$$

where:
- EAD_1, EAD_2, EAD_3 are exposure at default at the beginning of each residual year;
- PD_1 is probability that exposure enters in default during the first year of residual maturity;
- $PD_2 – PD_1$ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- $PD_3 – PD_2$ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- LGD_1, LGD_2, LGD_3 is percentage of loss in case of default of each residual year;
- EIR is Effective Interest Rate.

In the calculation of Expected Credit Loss for position expiring during the first year in order to avoid the counting of an entire PD on yearly basis and to consider the real expiration date, PD should be adjusted.

For the transactions without a maturity date, it is assumed that they are subjected to annual review and their maturity is assumed to be equal to one year.

Additionally, for cases when residual maturity is a fraction of years, the VUB Group can choose to use the maturity as follows:
- When the portion of residual maturity that exceeds the year is greater than six months, the maturity will be rounded to the year immediately after;
- When the portion of residual maturity that exceeds the year is equal or lower than six months, the maturity will be rounded to the previous year.

Stage 3

VUB Group has decided to determine the provision for Non Performing exposures (transactions in Stage 3) including an Add-on, which estimation is based on forward looking elements, increasing the current level of coverage on NPLs.

The methodology for the estimation of the Add-on on Stage 3 needs to be applied to the whole Non Performing perimeter (both collective and individual assessments) including revocable and irrevocable margins.

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

$$EL_{Stage3} = PCBS^{*} \, (1 + \text{Add-on}_{Performing})$$

where:

– PCBS is the provision calculated based on scenarios determined by the Bank on NPLs;
– Add-on$_{Performing}$ is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, Mots-Likely and Worst scenarios from satellite models or obtained with scenarios given by EBA Stress Test coefficients.

Incorporation of forward-looking information

The VUB Group incorporates forward-looking information by using the Base scenario from the internal satellite models or the Baseline stress test coefficient issued by the European Banking Authority ('EBA'). Other scenarios are incorporated in the form of „add-on".

The VUB Group uses internally developed satellite models for the prediction of default rate for various segments. These models are based on relevant macroeconomic variables such as for instance gross domestic product ('GDP'), unemployment rate, consumer prices index, EURIBOR. The development of these models contains the model for the base scenario as well as the models for the other scenarios, which are used to calculate the add-on. This approach is used for the most of the PD models.

The VUB Group uses also the stress test coefficients issued by EBA. Since EBA issues the coefficients only for Adverse and Baseline scenario, the Best coefficient is calculated additionally based on these two scenarios. The scenarios are then used for the calculation of the add-on. Using the EBA coefficients is characteristic for LGD models. Moreover, a similar approach is used for the calculation of add-on for the exposures in Stage 3.

The satellite models for prediction of default rates are also used for other purpose such as stress testing. The base scenario represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the VUB Group carries out recalibration of the satellite models.

The VUB Group identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The economic scenarios used the following ranges of the inputs for the quarters of years 2018, 2019, and 2020 for the satellite model development in 2017.

	GDP, (constant prices, % change)		Unemployment rate (Labour Force Sample Survey, %)		Consumer prices index (quarterly average, % change)		EURIBOR 3M (end of period)	
	Base scenario	Range	Base scenario	Range	Base scenario	Range	Base scenario	Range
1Q 2018	3.6	2.0 – 4.5	8.1	7.1 – 9.5	1.3	0.0 – 2.8	(0.29)	(0.50) – 0.25
2Q 2018	3.8	1.4 – 4.9	7.5	7.5 – 9.7	1.5	0.0 – 2.5	(0.27)	(0.50) – 0.50
3Q 2018	3.9	0.8 – 5.4	8.0	7.5 – 10.1	1.9	0.1 – 2.5	(0.24)	(0.50) – 0.75
4Q 2018	4.0	(0.2) – 6.1	7.7	6.8 – 10.0	2.1	0.1 – 3.3	(0.20)	(0.50) – 1.00
1Q 2019	4.1	(0.6) – 6.4	7.5	6.6 – 10.3	2.0	0.1 – 4.3	(0.00)	(0.40) – 1.25
2Q 2019	4.0	(0.7) – 6.3	6.9	7.0 – 10.5	2.0	0.1 – 4.6	(0.04)	(0.40) – 1.50
3Q 2019	4.0	(0.2) – 6.1	7.4	7.0 – 10.9	2.0	0.1 – 4.9	0.05	(0.40) – 1.75
4Q 2019	3.9	0.8 – 5.4	7.1	6.3 – 10.8	2.0	0.1 – 4.1	0.39	(0.40) – 2.00
1Q 2020	3.6	1.3 – 4.8	6.9	6.1 – 10.5	2.0	0.5 – 4.3	0.48	(0.30) – 2.00
2Q 2020	3.5	1.5 – 4.6	6.3	6.5 – 10.7	2.0	0.5 – 4.6	0.72	(0.30) – 2.25
3Q 2020	3.4	1.7 – 4.3	6.8	6.5 – 11.1	2.0	0.5 – 4.9	0.88	(0.30) – 2.25
4Q 2020	3.4	2.0 – 4.2	6.5	5.8 – 11.0	2.0	0.5 – 4.1	1.11	(0.30) – 2.50

Predicted relationships between the relevant drivers and default rates for various segments have been developed based on analysing historical data over the past 6 to 12 years. (note 4.1.11)

The split of the stage 1 credit portfolio to individually and portfolio assessed is shown below:

2018 € '000	Portfolio assessed Gross amount	Impair-ment losses	Net amount	Individually assessed Gross amount	Impair-ment losses	Net amount
Stage 1						
Balances at central banks	1,592,505	–	1,592,505	–	–	–
Financial assets at AC:						
Due from other banks	125,120	(656)	124,464	–	–	–
Due from customers:						
Sovereigns	119,935	(1,240)	118,695	–	–	–
Corporate	4,966,873	(28,459)	4,938,414	–	–	–
Retail	7,520,265	(18,603)	7,501,662	–	–	–
	12,607,073	(48,302)	12,558,771	–	–	–
	12,732,193	(48,958)	12,683,235	–	–	–
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–
Financial commitments and contingencies	3,712,198	(6,993)	3,705,205	–	–	–

The split of the stage 2 credit portfolio to individually and portfolio assessed is shown below:

			Portfolio assessed			Individually assessed
2018 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 2						
Financial assets at AC:						
Due from other banks	2,530	(98)	2,432	–	–	–
Due from customers:						
Sovereigns	21,392	(1,361)	20,031	–	–	–
Corporate	309,822	(13,168)	296,654	–	–	–
Retail	625,689	(55,055)	570,634	–	–	–
	956,903	(69,584)	887,319	–	–	–
	959,433	(69,682)	889,751	–	–	–
Financial commitments and contingencies	206,588	(3,664)	202,924	–	–	–

The split of the stage 3 credit portfolio to individually and portfolio assessed is shown below:

		Portfolio assessed			Individually assessed	
2018 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 3						
Financial assets at AC:						
Due from customers:						
Sovereigns	1	–	1	–	–	–
Corporate	18,432	(6,685)	11,747	86,784	(63,141)	23,643
Retail	344,265	(213,199)	131,066	5,831	(4,001)	1,830
	362,698	(219,884)	142,814	92,615	(67,142)	25,473
	362,698	(219,884)	142,814	92,615	(67,142)	25,473
Financial commitments and contingencies	7,875	(1,305)	6,570	11,918	(2,418)	9,500

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

	Portfolio assessed			Individually assessed		
2018 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Balances at central banks	1,592,505	–	1,592,505	–	–	–
Financial assets at AC:						
Due from other banks	127,650	(754)	126,896	–	–	–
Due from customers:						
Sovereigns	141,328	(2,601)	138,727	–	–	–
Corporate	5,295,127	(48,312)	5,246,815	86,784	(63,141)	23,643
Retail	8,490,219	(286,857)	8,203,362	5,831	(4,001)	1,830
	13,926,674	(337,770)	13,588,904	92,615	(67,142)	25,473
	14,054,324	(338,524)	13,715,800	92,615	(67,142)	25,473
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–
Financial commitments and contingencies	3,926,661	(11,962)	3,914,699	11,918	(2,418)	9,500

€ '000	Amortised cost	Impairment losses	2017 Carrying amount
Portfolio assessed			
Financial assets at AC:			
Due from other banks	90,986	(73)	90,913
Due from customers:			
Sovereigns	128,594	(98)	128,496
Corporate	4,435,096	(42,556)	4,392,540
Retail	7,670,047	(242,166)	7,427,881
	12,233,737	(284,820)	11,948,917
	12,324,723	(284,893)	12,039,830
Securities:			
FVTPL	5,783	–	5,783
Available for sale	520,416	–	520,416
Held to maturity	376,472	–	376,472
	902,671	–	902,671
Individually assessed			
Financial assets at AC:			
Due from customers:			
Corporate	135,386	(84,812)	50,574
Retail	5,183	(3,945)	1,238
	140,569	(88,757)	51,812

The reconciliation from the opening balance to the closing balance of the impairment losses to explain the changes in the impairment losses and the reasons for those changes:

2018 € '000	1 January 2018 (after IFRS 9)	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/sold	31 December 2018
Stage 1									
Financial assets at FVOCI	226	38	(79)	–	–	–	(51)	–	134
Financial assets at AC:									
Due from other banks	205	1,569	232	–	–	–	(1,350)	–	656
Due from customers	52,254	35,582	(62,574)	70,097	(18,163)	(544)	(28,350)	–	48,302
	52,459	37,151	(62,342)	70,097	(18,163)	(544)	(29,700)	–	48,958
Financial commitments and contingencies	7,275	8,522	(14,254)	8,097	(649)	(5)	(1,993)	–	6,993
Stage 2									
Financial assets at AC:									
Due from other banks	350	–	(252)	–	–	–	–	–	98
Due from customers	67,847	13,325	47,531	(55,060)	38,599	(31,689)	(10,969)	–	69,584
	68,197	13,325	47,279	(55,060)	38,599	(31,689)	(10,969)	–	69,682
Financial commitments and contingencies	8,296	638	2,149	(7,154)	850	(711)	(404)	–	3,664
Stage 3									
Financial assets at AC:									
Due from customers	299,080	7,727	50,993	(15,037)	(20,436)	32,233	(5,657)	(61,877)	287,026
Financial commitments and contingencies	2,712	1,427	1,107	(943)	(201)	716	(1,095)	–	3,723

2018 € '000	1 January 2018 (after IFRS 9)	Origina-tion	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written off/sold	31 December 2018
Total									
Financial assets at FVOCI	226	38	(79)	–	–	–	(51)	–	134
Financial assets at AC:									
Due from other banks	555	1,569	(20)	–	–	–	(1,350)	–	754
Due from customers	419,181	56,634	35,950	–	–	–	(44,976)	(61,877)	404,912
	419,736	58,203	35,930	–	–	–	(46,326)	(61,877)	405,666
Financial commitments and contingencies	18,283	10,587	(10,998)	–	–	–	(3,492)	–	14,380

The changes in the gross carrying amount of financial instruments during the year contributed to changes in the impairment losses:

2018 € '000	1 January 2018 (after IFRS 9)	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog – nition	Assets written off/ sold	31 December 2018
Stage 1								
Financial assets at FVOCI	947,387	275,406	–	–	–	(237,286)	(244,393)	741,114
Financial assets at AC:								
Due from other banks	86,769	11,816,947	–	–	–	(11,778,596)	–	125,120
Due from customers	10,961,646	7,594,660	994,727	(1,292,240)	(14,425)	(5,637,295)	–	12,607,073
	11,048,415	19,411,607	994,727	(1,292,240)	(14,425)	(17,415,891)	–	12,732,193
Financial commitments and contingencies	3,102,039	4,666,818	342,016	(200,063)	(8,310)	(4,190,302)	–	3,712,198
Stage 2								
Financial assets at AC:								
Due from other banks	4,217	–	–	–	–	(1,687)	–	2,530
Due from customers	906,875	147,517	(968,301)	1,357,187	(133,643)	(352,732)	–	956,903
	911,092	147,517	(968,301)	1,357,187	(133,643)	(354,419)	–	959,433
Financial commitments and contingencies	440,323	29,138	(329,461)	201,144	(11,054)	(123,502)	–	206,588
Stage 3								
Financial assets at AC:								
Due from customers	505,785	14,212	(26,426)	(64,947)	148,068	(37,027)	(84,352)	455,313
Financial commitments and contingencies	20,617	3,395	(12,555)	(1,081)	19,364	(9,947)	–	19,793

2018 € '000	1 January 2018 (after IFRS 9)	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Dere-cognition	Assets written off/ sold	31 December 2018
Total								
Financial assets at FVOCI	947,387	275,406	–	–	–	(237,286)	(244,393)	741,114
Financial assets at AC:								
Due from other banks	90,986	11,816,947	–	–	–	(11,780,283)	–	127,650
Due from customers	12,374,306	7,756,389	–	–	–	(6,027,054)	(84,352)	14,019,289
	12,465,292	19,573,336	–	–	–	(17,807,337)	(84,352)	14,146,939
Financial commitments and contingencies	3,562,979	4,699,351	–	–	–	(4,323,751)	–	3,938,579

4.1.3. Non-performing loan classification

The VUB Group considers a financial asset to be in Non-performing status in compliant with the Commission's Implementing Regulation (EU) No 680/2014 and its further amendments (Implementing Technical Standards, 'ITS') when:
- The borrower is unlikely to pay its credit obligations to the VUB Group in full, without recourse by the VUB Group to actions such as realising security (if any is held); or
- The borrower is more than 90 days past due on any material credit obligations to the VUB Group.

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

The description of the classification categories of loans is as follows:

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

The overall borrower exposure is recognised as Past due if, as at reporting date, the higher of the following two values is equal to or exceeding the 5% materiality threshold:
- Borrower's average overdue amounts reported to the total outstanding cash exposure, recorded on a daily basis over the last 90 calendar days;
- Borrower's overdue amount reported to the total outstanding cash exposure as at reporting date.

For category Unlikely to pay are taken into account qualitative indicators such as:
- Borrowers facing difficulties in meeting payment obligations in a timely manner (thus exposed to their creditors' tolerance), despite the confident expectation of positive future operating cash flows;
- Borrowers under negotiations with the VUB Group for defining an out of Court restructuring/settlement agreement;
- Borrowers which signed out of Court restructuring/settlement agreements and that are regularly servicing their financial obligations
- Borrowers whose credit quality indicators significantly worsened and where future cash flows are not expected to fully service the debt toward the bank;
- Serious difficulties in borrower's business (additional equity required, liquidity seriously stretched)

For category Doubtful are taken into account qualitative indicators such as:
- If the borrower is under voluntary dissolution or under any legally binding liquidation, without possibility to operate on 'going concern basis';
- If the Court already ordered the legal liquidation, even if the borrower's operations are not suspended under the legal procedures;
- If according to any public Registry or by Court order the borrower ceases to exist as legal entity;
- If the borrower has been registered (has to be registered) on the Fraud/Black List;
- Borrowers which expected cash flows will not be generated from the borrowers' operations, but from the enforcement of collateral/ guarantees ('gone concern' approach);
- Borrowers (typically Individuals) against whom are initiated receivership or enforcement proceedings.

Non-performing status is carried out on borrower level following united rules of Parent Company. However, VUB Group's definition of default (approved by National bank of Slovakia) is in case of Retail Mortgages on transaction level and uses only absolute threshold.

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

€ '000	Category	Gross amount	Impairment losses	2018 Net amount
Balances at central banks				
	Performing	1,592,505	–	1,592,505
Financial assets at AC:				
Due from other banks				
	Performing	127,650	(754)	126,896
Due from customers:				
Municipalities				
	Performing	141,327	(2,601)	138,726
	Doubtful	1	–	1
		141,328	(2,601)	138,727
Corporate				
	Performing	5,276,695	(41,627)	5,235,068
	Past due	9,202	(310)	8,892
	Unlikely to pay	40,903	(17,960)	22,943
	Doubtful	55,111	(51,556)	3,555
		5,381,911	(111,453)	5,270,458
Retail				
	Performing	8,145,954	(74,028)	8,071,926
	Past due	14,569	(8,385)	6,184
	Unlikely to pay	47,890	(27,129)	20,761
	Doubtful	287,637	(181,316)	106,321
		8,496,050	(290,858)	8,205,192
		14,019,289	(404,912)	13,614,377
		14,146,939	(405,666)	13,741,273
Financial assets at FVOCI – debt securities				
	Performing	741,248	(134)	741,114
Financial commitments and contingencies				
	Performing	3,918,787	(10,658)	3,908,129
	Past due	179	(39)	140
	Unlikely to pay	13,127	(2,790)	10,337
	Doubtful	6,486	(893)	5,593
		3,938,579	(14,380)	3,924,199

€ '000	Category	Amortised cost	Impairment losses	2017 Carrying amount
Financial assets at AC:				
Due from other banks				
	Performing	90,986	(73)	90,913
Due from customers:				
Municipalities				
	Performing	128,593	(98)	128,495
	Doubtful	1	–	1
		128,594	(98)	128,496
Corporate				
	Performing	4,413,296	(35,648)	4,377,648
	Past due	1,750	(245)	1,505
	Unlikely to pay	84,671	(29,865)	54,806
	Doubtful	70,765	(61,610)	9,155
		4,570,482	(127,368)	4,443,114
Retail				
	Performing	7,326,886	(47,066)	7,279,820
	Past due	15,468	(8,227)	7,241
	Unlikely to pay	53,875	(25,239)	28,636
	Doubtful	279,001	(165,579)	113,422
		7,675,230	(246,111)	7,429,119
		12,374,306	(373,577)	12,000,729
		12,465,292	(373,650)	12,091,642
Securities				
	Performing	902,671	–	902,671

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

DPD = Banking Date – Due Date for repayment

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

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

€ '000	Gross amount	Impairment losses	2018 Net amount
Balances at central banks			
No delinquency	1,592,505	–	1,592,505
Financial assets at AC:			
Due from other banks			
No delinquency	126,556	(726)	125,830
1 – 30 days	1,094	(28)	1,066
	127,650	(754)	126,896
Due from customers:			
Municipalities			
No delinquency	141,160	(2,601)	138,559
1 – 30 days	167	–	167
Over 181 days	1	–	1
	141,328	(2,601)	138,727
Corporate			
No delinquency	5,275,812	(62,206)	5,213,606
1 – 30 days	43,316	(2,159)	41,157
31 – 60 days	9,083	(2,195)	6,888
61 – 90 days	2,634	(1,104)	1,530
91 – 180 days	5,352	(2,334)	3,018
Over 181 days	45,714	(41,455)	4,259
	5,381,911	(111,453)	5,270,458
Retail			
No delinquency	7,947,228	(59,017)	7,888,211
1 – 30 days	197,400	(25,945)	171,455
31 – 60 days	46,221	(10,203)	36,018
61 – 90 days	26,075	(7,615)	18,460
91 – 180 days	35,665	(18,044)	17,621
Over 181 days	243,461	(170,034)	73,427
	8,496,050	(290,858)	8,205,192
	14,019,289	(404,912)	13,614,377
	14,146,939	(405,666)	13,741,273
Financial assets at FVOCI – debt securities			
No delinquency	741,248	(134)	741,114
Financial commitments and contingencies			
No delinquency	3,938,579	(14,380)	3,924,199

€ '000	Gross amount	Impairment losses	2017 Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	90,986	(73)	90,913
Due from customers:			
Sovereigns			
No delinquency	127,891	(98)	127,793
1 – 30 days	702	–	702
Over 181 days	1	–	1
	128,594	(98)	128,496
Corporate			
No delinquency	4,410,022	(62,344)	4,347,678
1 – 30 days	69,764	(2,188)	67,576
31 – 60 days	16,008	(2,530)	13,478
61 – 90 days	4,479	(1,786)	2,693
91 – 180 days	5,696	(2,777)	2,919
Over 181 days	64,513	(55,743)	8,770
	4,570,482	(127,368)	4,443,114
Retail			
No delinquency	7,062,054	(33,393)	7,028,661
1 – 30 days	258,143	(13,862)	244,281
31 – 60 days	45,368	(5,291)	40,077
61 – 90 days	28,669	(4,526)	24,143
91 – 180 days	43,736	(20,890)	22,846
Over 181 days	237,260	(168,149)	69,111
	7,675,230	(246,111)	7,429,119
	12,374,306	(373,577)	12,000,729
	12,465,292	(373,650)	12,091,642
Securities			
No delinquency	902,671	–	902,671

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

	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
2018 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Balances at central banks	1,592,505	–	1,592,505	–	–	–	–	–	–
Financial assets at AC:									
Due from other banks	126,556	(726)	125,830	1,094	(28)	1,066	–	–	–
Due from customers:									
Municipalities									
Municipalities	140,613	(2,599)	138,014	167	–	167	1	–	1
Municipalities – Leasing	536	(2)	534	–	–	–	11	–	11
	141,149	(2,601)	138,548	167	–	167	12	–	12
Corporate									
Large Corporates	2,137,176	(3,294)	2,133,882	554	(1)	553	7,227	(2,189)	5,038
Large Corporates – debt securities	53,360	(619)	52,741	–	–	–	–	–	–
Specialized Lending	826,812	(30,414)	796,398	100	(2)	98	21,400	(16,214)	5,186
SME	1,419,951	(4,586)	1,415,365	23,157	(923)	22,234	44,585	(34,454)	10,131
Other Non-banking Financial Institutions	480,609	(264)	480,345	–	–	–	2	(1)	1
Public Sector Entities	2,895	(72)	2,823	3	–	3	7	(1)	6
Leasing	227,691	(1,174)	226,517	9,578	(203)	9,375	21,467	(15,823)	5,644
Factoring	82,531	(12)	82,519	12,277	(58)	12,219	10,529	(1,149)	9,380
	5,231,025	(40,435)	5,190,590	45,669	(1,187)	44,482	105,217	(69,831)	35,386

2018 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	246,965	(3,816)	243,149	7,571	(429)	7,142	11,452	(9,133)	2,319
Small Business – Leasing	11,566	(34)	11,532	911	(37)	874	766	(329)	437
Consumer Loans	1,389,146	(30,415)	1,358,731	118,298	(21,173)	97,125	219,056	(149,654)	69,402
Mortgages	6,017,227	(5,834)	6,011,393	84,448	(4,173)	80,275	71,054	(24,074)	46,980
Credit Cards	136,531	(4,195)	132,336	9,823	(1,887)	7,936	37,173	(26,623)	10,550
Overdrafts	72,543	(882)	71,661	13,595	(871)	12,724	10,373	(6,833)	3,540
Leasing	3,901	(30)	3,871	144	(3)	141	222	(184)	38
Flat Owners Associations	33,253	(248)	33,005	34	(3)	31	–	–	–
	7,911,132	(45,454)	7,865,678	234,824	(28,576)	206,248	350,096	(216,830)	133,266
	13,283,306	(88,490)	13,194,816	280,660	(29,763)	250,897	455,325	(286,661)	168,664
	13,409,862	(89,216)	13,320,646	281,754	(29,791)	251,963	455,325	(286,661)	168,664
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–	–	–	–
Financial commitments and contingencies	3,918,787	(10,658)	3,908,129	–	–	–	19,792	(3,722)	16,070

2017 € '000	Neither past due nor impaired Gross amount	Impair-ment losses	Net amount	Impaired (non-performing) Gross amount	Impair-ment losses	Net amount	Past due but not individually impaired Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	90,986	(73)	90,913	–	–	–	–	–	–
Due from customers:									
Sovereigns									
Municipalities	127,449	(97)	127,352	1	–	1	702	–	702
Municipalities – Leasing	442	(1)	441	–	–	–	–	–	–
	127,891	(98)	127,793	1	–	1	702	–	702
Corporate									
Large Corporates	1,706,107	(3,602)	1,702,505	2,956	(1,962)	994	11,064	(113)	10,951
Specialized Lending	674,115	(12,449)	661,666	73,934	(27,872)	46,062	50	(1)	49
SME	1,373,595	(15,344)	1,358,251	54,088	(46,082)	8,006	24,691	(1,214)	23,477
Other Non-banking Financial Institutions	293,155	(1,386)	291,769	3	–	3	–	–	–
Public Sector Entities	1,070	(3)	1,067	5	–	5	83	–	83
Leasing	226,819	(915)	225,904	22,714	(14,628)	8,086	7,828	(217)	7,611
Factoring	55,185	(370)	54,815	3,486	(1,176)	2,310	39,534	(34)	39,500
	4,330,046	(34,069)	4,295,977	157,186	(91,720)	65,466	83,250	(1,579)	81,671
Retail									
Small Business	216,433	(3,096)	213,337	11,056	(9,106)	1,950	30,083	(711)	29,372
Small Business – Leasing	9,429	(36)	9,393	876	(343)	533	589	(14)	575
Consumer Loans	1,342,670	(17,764)	1,324,906	211,979	(134,898)	77,081	160,620	(12,560)	148,060
Mortgages	5,192,697	(4,852)	5,187,845	73,776	(17,858)	55,918	75,486	(2,692)	72,794
Credit Cards	152,820	(2,131)	150,689	39,549	(28,939)	10,610	11,240	(1,195)	10,045
Overdrafts	77,347	(993)	76,354	10,876	(7,707)	3,169	13,487	(646)	12,841
Leasing	3,745	(11)	3,734	231	(194)	37	187	(6)	181
Flat Owners Associations	27,651	(358)	27,293	–	–	–	–	–	–
Other	12,393	–	12,393	1	–	1	9	(1)	8
	7,035,185	(29,241)	7,005,944	348,344	(199,045)	149,299	291,701	(17,825)	273,876
	11,493,122	(63,408)	11,429,714	505,531	(290,765)	214,766	375,653	(19,404)	356,249
	11,584,108	(63,481)	11,520,627	505,531	(290,765)	214,766	375,653	(19,404)	356,249

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

€ '000	Gross amount	Impairment losses	2018 Net amount
Financial assets at AC:			
Due from other banks			
1 – 30 days	1,094	(28)	1,066
Due from customers:			
Sovereigns			
1 – 30 days	167	–	167
Corporate			
1 – 30 days	38,850	(707)	38,143
31 – 60 days	5,250	(355)	4,895
61 – 90 days	1,519	(120)	1,399
91 – 180 days	50	(5)	45
	45,669	(1,187)	44,482
Retail			
1 – 30 days	177,731	(17,334)	160,397
31 – 60 days	35,420	(6,152)	29,268
61 – 90 days	15,941	(3,563)	12,378
91 – 180 days	5,551	(1,510)	4,041
Over 181 days	181	(17)	164
	234,824	(28,576)	206,248
	280,660	(29,763)	250,897
	281,754	(29,791)	251,963

€ '000	Gross amount	Impairment losses	2017 Net amount
Financial assets at AC:			
Due from customers:			
Sovereigns			
1 – 30 days	702	–	702
Corporate			
1 – 30 days	67,514	(1,195)	66,319
31 – 60 days	13,265	(225)	13,040
61 – 90 days	2,403	(146)	2,257
91 – 180 days	68	(13)	55
	83,250	(1,579)	81,671
Retail			
1 – 30 days			
31 – 60 days	232,272	(10,378)	221,894
61 – 90 days	35,713	(3,710)	32,003
91 – 180 days	17,703	(2,404)	15,299
Over 181 days	5,973	(1,319)	4,654
	40	(14)	26
	291,701	(17,825)	273,876
	375,653	(19,404)	356,249

4.1.4. Loans with renegotiated terms and forbearance policy

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

– The VUB Group has determined the financial difficulties that the debtor is facing or is about to face;
– The exposure has been subject to renegotiation or refinancing, granted in relation to the borrower's current financial difficulties or financial difficulties that would have occurred in the absence of the renegotiation or refinancing measures.

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

	Performing forborne			Non-performing forborne		
2018 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	61,865	(7,668)	54,197	29,379	(23,902)	5,477
Retail	53,793	(2,659)	51,134	21,465	(13,000)	8,465
	115,658	(10,327)	105,331	50,844	(36,902)	13,942
Financial commitments and contingencies	948	(1)	947	1,480	(876)	604

	Performing forborne			Non-performing forborne		
2017 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	15,622	(460)	15,162	102,613	(51,055)	51,558
Retail	46,452	(1,276)	45,176	23,413	(12,132)	11,281
	62,074	(1,736)	60,338	126,026	(63,187)	62,839

Certain non-performing forborne exposures were reclassified to performing forborne due to improved credit quality or repaid.

4.1.5. Write-off Policy

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

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

Financial assets that are written-off are subject of continuous enforcement process. The majority of such assets are subject of sale to third parties for the best offered prices.

4.1.6. Collateral Policy

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

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

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

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

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

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

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

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

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

The value of collateral accepted by the VUB Group (fair value adjusted by internal haircuts limited to outstanding amount of credit exposure) and other security enhancements held against financial assets is shown below:

€ '000	2018 Clients	2018 Banks	2017 Clients	2017 Banks
Property	7,111,465	–	6,365,878	–
of which covered by mortgages	6,299,708	–	5,491,876	–
LTV* lower than 60%	1,768,089	–	1,542,439	–
LTV higher than 60% and lower than 80%	2,582,685	–	2,028,955	–
LTV higher than 80% and lower than 100%	1,943,856	–	1,915,581	–
LTV higher than 100%	5,078	–	4,901	–
Debt securities	91,124	–	33,952	–
Other	805,875	70,987	1,042,009	44,655
	8,008,464	70,987	7,441,839	44,655

* LTV means loan to value ratio.

The value of collateral and other security enhancements held against stage 3 financial assets:

€ '000	2018 Clients	2018 Banks
Property	136,859	–
of which covering mortgages:	99,218	–
LTV lower than 60%	39,519	–
LTV higher than 60% and lower than 80%	41,204	–
LTV higher than 80% and lower than 100%	16,537	–
LTV higher than 100%	1,958	–
Debt securities	1,873	–
Other	6,678	–
	145,410	–

4.1.7 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are:

- Offset in the statement of financial position; or
- Subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In general, the similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the VUB Group or the counterparties or following other predetermined events. In addition, the VUB Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The VUB Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- Derivatives,
- Sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms including, when appropriate, an ISDA Credit Support Annex. This means that securities received or given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The following tables show the financial assets and financial liabilities that are subject to enforceable master netting arrangements and similar agreements in the statement of financial position (‚SOFP'):

2018 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	8	1,069,327	–	1,069,327	(1,069,327)	–	–
Derivative financial instruments	9, 10	57,929	–	57,929	–	(968)	56,961

2018 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP Financial instrument and non-cash collateral	Cash collateral pledged	Net amount
Types of financial liabilities							
Derivative financial instruments	9, 10	51,774	–	51,774	–	(31,110)	20,664

2017 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	8	724,427	–	724,427	(724,437)	–	–
Derivative financial instruments	9, 10	47,277	–	47,277	–	(11,629)	35,648

2017 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP Financial instrument and non-cash collateral	Cash collateral pledged	Net amount
Types of financial liabilities							
Derivative financial instruments	9, 10	43,449	–	43,449	–	(39,918)	3,531

Below is the reconciliation of the net amount of financial instruments subject to enforceable master netting arrangements and similar agreements to the total carrying amount presented in the statement of financial position:

€ '000	Note	2018 Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure	2017 Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure
Financial assets							
Cash, balances at central banks	8	1,747,556	1,069,327	678,229	1,595,097	724,427	870,670
Financial assets at FVTPL:	9						
Financial assets held for trading		39,548	31,164	8,384	–	–	–
Derivatives – Hedge accounting	10	26,765	26,765	–	–	–	–
Derivative financial instruments	9, 10	–	–	–	49,856	47,277	2,579
Financial liabilities							
Financial liabilities at FVTPL:	9						
Financial liabilities held for trading		39,548	36,548	3,000	–	–	–
Derivatives – Hedge accounting	10	15,226	15,226	–	–	–	–
Derivative financial instruments	9, 10	–	–	–	52,184	43,449	8,735

4.1.8. Concentrations of credit risk

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

€ '000	Gross amount	Impairment losses/ provisions	2018 Net amount
Europe			
Balances at central banks	1,592,505	–	1,592,505
Financial assets at AC:			
Due from other banks	58,726	(404)	58,322
Due from customers:			
Municipalities	141,328	(2,601)	138,727
Corporate	5,318,356	(111,300)	5,207,056
Retail	8,490,751	(290,668)	8,200,083
	13,950,435	(404,569)	13,545,866
	14,009,161	(404,973)	13,604,188
Financial assets at FVOCI – debt securities	741,248	(134)	741,114
Financial commitments and contingencies	3,872,520	(14,281)	3,858,239
North America			
Financial assets at AC:			
Due from other banks	384	–	384
Due from customers:			
Corporate	35,876	(47)	35,829
Retail	3,436	(154)	3,282
	39,312	(201)	39,111
	39,696	(201)	39,495
Financial commitments and contingencies	1,695	–	1,695
Asia			
Financial assets at AC:			
Due from other banks	1,158	–	1,158
Due from customers:			
Corporate	27,398	(106)	27,292
Retail	677	(2)	675
	28,075	(108)	27,967
	29,233	(108)	29,125
Financial commitments and contingencies	43,945	(46)	43,899
Rest of the World			
Financial assets at AC:			
Due from other banks	67,382	(350)	67,032
Due from customers:			
Corporate	281	–	281
Retail	1,186	(34)	1,152
	1,467	(34)	1,433
	68,849	(384)	68,465
Financial commitments and contingencies	20,419	(53)	20,366

€ '000	Gross amount	Impairment losses/ provisions	2017 Net amount
Europe			
Financial assets at AC:			
Due from other banks	59,942	(15)	59,927
Due from customers:			
Sovereigns	128,594	(98)	128,496
Corporate	4,526,662	(127,076)	4,399,586
Retail	7,671,893	(245,939)	7,425,954
	12,327,149	(373,113)	11,954,036
	12,387,091	(373,128)	12,013,963
Securities	896,362	–	896,362
America			
Financial assets at AC:			
Due from other banks	30,370	(57)	30,313
Due from customers:			
Corporate	42,577	(127)	42,450
Retail	495	(3)	492
	43,072	(130)	42,942
	73,442	(187)	73,255
Securities	6,309	–	6,309
Asia			
Financial assets at AC:			
Due from other banks	607	(1)	606
Due from customers:			
Corporate	1,243	(165)	1,078
Retail	2,305	(148)	2,157
	3,548	(313)	3,235
	3,834	(314)	3,841
Rest of the World			
Financial assets at AC:			
Due from other banks	67	–	67
Due from customers:			
Retail	537	(21)	516
	604	(21)	583

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

€ '000	Gross amount	Impairment losses	2018 Net amount	Gross amount	Impairment losses	2017 Net amount
Europe						
Slovakia	516,936	(30)	516,906	629,706	–	629,706
Italy	204,137	(96)	204,041	266,591	–	266,591
Poland	20,175	(8)	20,167	–	–	–
Other	–	–	–	65	–	65
	741,248	(134)	741,114	896,362	–	896,362
North America						
USA	–	–	–	6,309	–	6,309

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

2018 € '000			Financial assets at AC:		Financial assets at FVOCI – debt securities	Financial commit-ments and contin-gencies
	Banks	Municipali-ties	Corporate	Retail*		
Agriculture, forestry and fishing	–	–	177,803	27,312	–	51,408
Mining and quarrying	–	–	49,379	99	–	43,796
Manufacturing	–	–	744,818	30,820	–	775,217
Electricity, gas, steam and air conditioning supply	–	–	680,627	1,228	–	400,955
Water supply	–	62	95,686	2,996	–	23,506
Construction	–	–	204,997	29,031	–	445,655
Wholesale and retail trade	–	–	927,075	72,372	–	389,175
Transport and storage	–	3,188	372,089	19,050	–	156,579
Accommodation and food service activities	–	–	34,413	13,021	–	6,539
Information and communication	–	–	38,527	4,741	–	50,099
Financial and insurance activities**	126,896	–	750,232	289	59,305	253,668
Real estate activities	–	–	461,034	47,886	–	91,428
Professional, scientific and technical activities	–	–	178,408	20,203	–	120,500
Administrative and support service activities	–	–	215,030	4,331	–	44,650
Public administration and defence, compulsory social security	–	135,454	337	160	681,809	15,737
Education	–	1	576	1,384	–	234
Human health services and social work activities	–	–	22,263	14,234	–	16,387
Arts, entertainment and recreation	–	–	18,240	2,715	–	5,107
Other services	–	22	298,924	119,999	–	35,910
Consumer Loans	–	–	–	1,654,673	–	390,789
Mortgage Loans	–	–	–	6,138,648	–	606,860
	126,896	138,727	5,270,458	8,205,192	741,114	3,924,199

2017 € '000	Banks	Munici-palities	Financial assets at AC: Corporate	Retail*	Securities
Agriculture, forestry and fishing	–	–	165,883	22,461	–
Mining and quarrying	–	–	31,577	76	–
Manufacturing	–	–	677,472	28,867	–
Electricity, gas, steam and air conditioning supply	–	–	478,152	1,749	–
Water supply	–	120	92,973	2,499	–
Construction	–	–	145,582	26,586	–
Wholesale and retail trade	–	–	941,121	75,059	–
Transport and storage	–	4,707	341,084	19,089	–
Accommodation and food service activities	–	–	32,860	13,507	–
Information and communication	–	–	80,798	3,841	–
Financial and insurance activities**	90,913	–	311,731	171	81,523
Real estate activities	–	–	485,569	38,428	–
Professional, scientific and technical activities	–	–	126,442	18,020	–
Administrative and support service activities	–	–	193,664	3,583	–
Public administration and defense, compulsory social security	–	123,615	475	130	821,148
Education	–	1	265	1,263	–
Human health services and social work activities	–	–	20,697	13,389	–
Arts, entertainment and recreation	–	–	21,418	1,239	–
Other services	–	53	295,345	9,679	–
Consumer Loans	–	–	7	1,832,926	–
Mortgage Loans	–	–	–	5,316,557	–
	90,913	128,496	4,443,114	7,429,119	902,671

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

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

4.1.9. Internal and external ratings

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

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

Specialized Lending comprises of rating segments Special Purpose Vehicles ('SPV') and Real Estate Development ('RED'). For Specialized Lending the Slotting approach is used by the VUB Group. Clients are assigned into five slotting categories based on a qualitative valuation and information about the risk of default. Risk weights and expected loss used for the capital requirement calculation are also defined for each category. Categories are predefined by the CRR regulation and internally, the categories used are as follows:

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

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

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

Capital requirement calculation

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

The following table shows the quality of the Bank's stage 1 credit portfolio in terms of internal ratings used for IRB purposes:

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Balances at central banks				
	Unrated	1,592,505	–	1,592,505
Financial assets at AC:				
Due from other banks				
	Unrated	125,120	(656)	124,464
Due from customers:				
Municipalities				
	Unrated	119,935	(1,240)	118,695
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,130,688	(1,176)	1,129,512
	LC_M1 – LC_M4	411,388	(1,639)	409,749
	LC_R1 – LC_R5	10,029	(532)	9,497
	I1 – I6	624,070	(63)	624,007
	M1 – M4	885,504	(949)	884,555
	R1 – R5	169,321	(823)	168,498
	Unrated	171,873	(1,476)	170,397
Specialized Lending – SPV, RED				
	Strong	246,107	(1,509)	244,598
	Good	249,544	(3,388)	246,156
	Satisfactory	256,514	(13,202)	243,312
	Weak	16,701	(2,299)	14,402
	Unrated	3,242	(31)	3,211
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	227,863	(111)	227,752
	LC_M1 – LC_M4	13,554	(86)	13,468
	I1 – I6	238,645	(57)	238,588
	M1 – M4	547	(9)	538
	Unrated	2,897	(73)	2,824
Factoring, Leasing				
	Unrated	308,386	(1,036)	307,350
		4,966,873	(28,459)	4,938,414

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	36,162	(34)	36,128
	M1 – M4	146,832	(661)	146,171
	R1 – R5	31,158	(609)	30,549
	Unrated	15,810	(44)	15,766
Mortgages				
	L1 – L4	5,326,277	(372)	5,325,905
	N1	258,370	(111)	258,259
	N2 – W1	250,524	(307)	250,217
	W2	14,113	(102)	14,011
	W3	2,810	(84)	2,726
	Unrated	2,491	(5)	2,486
Unsecured Retail				
	U01a – U02	317,600	(380)	317,220
	U3	100,649	(247)	100,402
	U04 – U07	411,399	(2,373)	409,026
	U08 – U09	75,986	(1,456)	74,530
	U10 – U11	23,327	(1,248)	22,079
	U12	6,185	(1,127)	5,058
	Unrated	484,502	(9,400)	475,102
Small Business – Leasing, Leasing				
	Unrated	16,070	(43)	16,027
		7,520,265	(18,603)	7,501,662
		12,607,073	(48,302)	12,558,771
		12,732,193	(48,958)	12,683,235
Financial assets at FVOCI – debt securities				
	Unrated	741,248	(134)	741,114

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,054,046	(384)	1,053,662
	LC_M1 – LC_M4	96,444	(156)	96,288
	LC_R1 – LC_R5	21,308	(155)	21,153
	I1 – I6	607,555	(79)	607,476
	M1 – M4	489,537	(520)	489,017
	R1 – R5	52,777	(236)	52,541
	Strong	20,971	(102)	20,869
	Good	88,195	(880)	87,315
	Satisfactory	95,741	(3,415)	92,326
	Weak	469	(43)	426
	L1 – L4	495,541	(52)	495,489
	N1	40,535	(24)	40,511
	N2 – W1	60,397	(120)	60,277
	W2	6,965	(71)	6,894
	W3	200	(12)	188
	U01a – U02	239,286	(39)	239,247
	U3	22,012	(18)	21,994
	U04 – U07	30,685	(79)	30,606
	U08 – U09	1,571	(21)	1,550
	U10 – U11	274	(9)	265
	U12	266	(44)	222
	Unrated	287,423	(534)	286,889
		3,712,198	(6,993)	3,705,205

The following table shows the quality of the VUB Group's stage 2 credit portfolio in terms of internal ratings used for IRB purposes:

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks				
	Unrated	2,530	(98)	2,432
Due from customers:				
Municipalities				
	Unrated	21,392	(1,361)	20,031
Corporate				
Large Corporates, SME				
	LC_M1 – LC_M4	23,523	(93)	23,430
	I1 – I6	1,283	(1)	1,282
	M1 – M4	45,615	(67)	45,548
	R1 – R5	155,598	(1,754)	153,844
	Unrated	5,306	(854)	4,452
Specialized Lending – SPV, RED				
	Satisfactory	3,286	(376)	2,910
	Weak	51,519	(9,611)	41,908
Other Non-banking Financial Institutions, Public Sector Entities				
	Unrated	1	–	1
Factoring, Leasing				
	Unrated	23,691	(412)	23,279
		309,822	(13,168)	296,654

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	10	–	10
	M1 – M4	16,571	(397)	16,174
	R1 – R5	40,686	(2,618)	38,068
	Unrated	592	(131)	461
Mortgages				
	L1 – L4	17,699	(106)	17,593
	N1	5,714	(47)	5,667
	N2 – W1	104,171	(1,925)	102,246
	W2	56,954	(1,829)	55,125
	W3	58,647	(4,070)	54,577
	D (default)	3,905	(1,050)	2,855
Unsecured Retail				
	U01a – U02	887	(5)	882
	U3	529	(5)	524
	U04 – U07	69,177	(1,587)	67,590
	U08 – U09	62,161	(3,263)	58,898
	U10 – U11	59,203	(6,061)	53,142
	U12	59,270	(13,076)	46,194
	D (default)	4,297	(1,982)	2,315
	Unrated	64,764	(16,845)	47,919
Small Business – Leasing, Leasing				
	Unrated	452	(58)	394
		625,689	(55,055)	570,634
		956,903	(69,584)	887,319
		959,433	(69,682)	889,751

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies				
	LC_I1 – LC_I6	5,000	(3)	4,997
	LC_M1 – LC_M4	100,182	(150)	100,032
	LC_R1 – LC_R5	988	(44)	944
	I1 – I6	229	–	229
	M1 – M4	7,822	(39)	7,783
	R1 – R5	31,381	(405)	30,976
	Weak	954	(254)	700
	L1 – L4	100	(3)	97
	N2 – W1	2,017	(83)	1,934
	W2	1,109	(75)	1,034
	W3	220	(22)	198
	U01a – U02	75	–	75
	U3	21	–	21
	U04 – U07	8,628	(67)	8,561
	U08 – U09	2,495	(60)	2,435
	U10 – U11	1,182	(63)	1,119
	U12	935	(284)	651
	D (default)	3,624	(284)	3,340
	Unrated	39,626	(1,828)	37,798
		206,588	(3,664)	202,924

The following table shows the quality of the VUB Group's stage 3 credit portfolio in terms of internal ratings used for IRB purposes:

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Municipalities				
	Unrated	1	–	1
Corporate				
Large Corporates, SME				
	M1 – M4	7,562	(2,078)	5,484
	R1 – R5	6,884	(4,504)	2,380
	D (default)	32,252	(27,393)	4,859
	Unrated	5,114	(2,664)	2,450
Specialized Lending – SPV, RED				
	Weak	7,934	(3,339)	4,595
	D (default)	13,465	(12,875)	590
Other Non-banking Financial Institutions, Public Sector Entities				
	M1 – M4	2	(1)	1
	Unrated	7	(1)	6
Factoring, Leasing				
	Unrated	31,996	(16,971)	15,025
		105,216	(69,826)	35,390

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	M1 – M4	6	(5)	1
	R1 – R5	1,198	(953)	245
	D (default)	10,112	(8,126)	1,986
	Unrated	136	(49)	87
Mortgages				
	L1 – L4	1,837	(377)	1,460
	N1	1,056	(166)	890
	N2 – W1	1,702	(328)	1,374
	W2	1,802	(388)	1,414
	W3	28,222	(6,613)	21,609
	D (default)	36,434	(16,201)	20,233
	Unrated	1	–	1
Unsecured Retail				
	U01a – U02	19	(12)	7
	U3	34	(22)	12
	U04 – U07	281	(178)	103
	U08 – U09	398	(254)	144
	U10 – U11	764	(488)	276
	U12	6,326	(4,007)	2,319
	D (default)	154,007	(107,288)	46,719
	Unrated	104,773	(71,229)	33,544
Small Business – Leasing, Leasing				
	Unrated	988	(516)	472
		350,096	(217,200)	132,896
		455,313	(287,026)	168,287
		455,313	(287,026)	168,287

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 3				
Financial commitments and contingencies				
	M1 – M4	8,601	(390)	8,211
	R1 – R5	3,148	(1,996)	1,152
	L1 – L4	168	–	168
	W2	70	–	70
	U01a – U02	25	–	25
	U3	11	–	11
	U04 – U07	87	–	87
	U08 – U09	17	–	17
	U10 – U11	21	–	21
	U12	172	–	172
	D (default)	6,228	(883)	5,345
	Unrated	1,245	(454)	791
		19,793	(3,723)	16,070

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

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Balances at central banks				
	Unrated	1,592,505	–	1,592,505
Financial assets at AC:				
Due from other banks				
	Unrated	127,650	(754)	126,896
Due from customers:				
Municipalities				
	Unrated	141,328	(2,601)	138,727
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,130,688	(1,176)	1,129,512
	LC_M1 – LC_M4	434,911	(1,732)	433,179
	LC_R1 – LC_R5	10,029	(532)	9,497
	I1 – I6	625,353	(64)	625,289
	M1 – M4	938,681	(3,094)	935,587
	R1 – R5	331,803	(7,081)	324,722
	D (default)	32,252	(27,393)	4,859
	Unrated	182,293	(4,994)	177,299
Specialized Lending – SPV, RED				
	Strong	246,107	(1,509)	244,598
	Good	249,544	(3,388)	246,156
	Satisfactory	259,800	(13,578)	246,222
	Weak	76,154	(15,249)	60,905
	D (default)	13,465	(12,875)	590
	Unrated	3,242	(31)	3,211
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	227,863	(111)	227,752
	LC_M1 – LC_M4	13,554	(86)	13,468
	I1 – I6	238,645	(57)	238,588
	M1 – M4	549	(10)	539
	Unrated	2,905	(74)	2,831
Factoring, Leasing				
	Unrated	364,073	(18,419)	345,654
		5,381,911	(111,453)	5,270,458

2018 **€ '000**	**Internal rating**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	36,172	(34)	36,138
	M1 – M4	163,409	(1,063)	162,346
	R1 – R5	73,042	(4,180)	68,862
	D (default)	10,112	(8,126)	1,986
	Unrated	16,538	(224)	16,314
Mortgages				
	L1 – L4	5,345,813	(855)	5,344,958
	N1	265,140	(324)	264,816
	N2 – W1	356,397	(2,560)	353,837
	W2	72,869	(2,319)	70,550
	W3	89,679	(10,767)	78,912
	D (default)	40,339	(17,251)	23,088
	Unrated	2,492	(5)	2,487
Unsecured Retail				
	U01a – U02	318,506	(397)	318,109
	U3	101,212	(274)	100,938
	U04 – U07	480,857	(4,138)	476,719
	U08 – U09	138,545	(4,973)	133,572
	U10 – U11	83,294	(7,797)	75,497
	U12	71,781	(18,210)	53,571
	D (default)	158,304	(109,270)	49,034
	Unrated	654,039	(97,474)	556,565
Small Business – Leasing, Leasing				
	Unrated	17,510	(617)	16,893
		8,496,050	(290,858)	8,205,192
		14,019,289	(404,912)	13,614,377
		14,146,939	(405,666)	13,741,273
Financial assets at FVOCI – debt securities				
	Unrated	741,248	(134)	741,114

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,059,046	(387)	1,058,659
	LC_M1 – LC_M4	196,626	(306)	196,320
	LC_R1 – LC_R5	22,296	(199)	22,097
	I1 – I6	607,784	(79)	607,705
	M1 – M4	505,960	(949)	505,011
	R1 – R5	87,306	(2,637)	84,669
	Strong	20,971	(102)	20,869
	Good	88,195	(880)	87,315
	Satisfactory	95,741	(3,415)	92,326
	Weak	1,423	(297)	1,126
	L1 – L4	495,809	(55)	495,754
	N1	40,535	(24)	40,511
	N2 – W1	62,414	(203)	62,211
	W2	8,144	(146)	7,998
	W3	420	(34)	386
	U01a – U02	239,386	(39)	239,347
	U3	22,044	(18)	22,026
	U04 – U07	39,400	(146)	39,254
	U08 – U09	4,083	(81)	4,002
	U10 – U11	1,477	(72)	1,405
	U12	1,373	(328)	1,045
	D (default)	9,852	(1,167)	8,685
	Unrated	328,294	(2,816)	325,478
		3,938,579	(14,380)	3,924,199

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortised cost: due from other banks is in the rating scale from Aa3 to Ba1. The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on Moody's ratings.

2018 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aa3	20,175	(8)	20,167
	A2	477,786	(18)	477,768
	Baa1	39,150	(12)	39,138
	Baa3	204,137	(96)	204,041
		741,248	(134)	741,114

4.1.10. Sensitivity analysis of impairment losses

In the table below the Bank shows the sensitivity of ECL calculation to a decrease of PD parameter by 10%:

2018 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	754	688	(66)	(8.75%)
Due from customers:				
Municipalities				
Municipalities	2,599	2,339	(260)	(10.00%)
Municipalities – Leasing	2	2	–	–
	2,601	2,262	(339)	(13.03%)
Corporate				
Large Corporates	5,484	5,158	(326)	(5.94%)
Large Corporates – debt securities	619	557	(62)	(10.02%)
Specialized Lending	46,630	43,588	(3,042)	(6.52%)
SME	39,963	39,644	(319)	(0.80%)
Other Non-banking Financial Institutions	265	235	(30)	(11.32%)
Public Sector Entities	73	66	(7)	(9.59%)
Leasing	17,200	16,994	(206)	(1.20%)
Factoring	1,219	1,217	(2)	(0.16%)
	111,453	107,459	(3,994)	(3.58%)
Retail				
Small Business	13,377	12,958	(419)	(3.13%)
Small Business – Leasing	400	395	(5)	(1.20%)
Consumer Loans	201,242	196,106	(5,136)	(2.55%)
Mortgages	34,081	33,186	(895)	(2.63%)
Credit Cards	32,705	32,222	(483)	(1.48%)
Overdrafts	8,586	8,411	(175)	(2.04%)
Leasing	217	214	(3)	(1.20%)
Flat Owners Associations	250	224	(26)	(10.40%)
	290,858	283,717	(7,141)	(2.46%)
	404,912	393,517	(11,395)	(2.81%)
	405,666	394,205	(11,461)	(2.83%)
Financial assets at FVOCI – debt securities	134	121	(13)	(9.70%)

In the table below the Bank shows the sensitivity of ECL calculation to an increase of PD parameter by 10%:

2018 **€ '000**	**Base scenario**			**Increase PD by 10%**
	Impairment losses	**Impairment losses**	**Absolute change**	**Relative change**
Financial assets at AC:				
Due from other banks	754	821	67	8.89%
Due from customers:				
Municipalities				
Municipalities	2,599	2,859	260	10.00%
Municipalities – Leasing	2	2	–	0.00%
	2,601	2,941	340	13.07%
Corporate				
Large Corporates	5,484	5,810	326	5.94%
Large Corporates – debt securities	619	681	62	10.02%
Specialized Lending	46,630	49,672	3,042	6.52%
SME	39,963	40,281	318	0.80%
Other Non-banking Financial Institutions	265	296	31	11.70%
Public Sector Entities	73	81	8	10.96%
Leasing	17,200	17,406	206	1.20%
Factoring	1,219	1,221	2	0.16%
	111,453	115,448	3,995	3.58%
Retail				
Small Business	13,377	13,796	419	3.13%
Small Business – Leasing	400	405	5	1.20%
Consumer Loans	201,242	206,377	5,135	2.55%
Mortgages	34,081	34,976	895	2.63%
Credit Cards	32,705	33,187	482	1.47%
Overdrafts	8,586	8,760	174	2.03%
Leasing	217	220	3	1.20%
Flat Owners Associations	250	275	25	10.00%
	290,858	297,995	7,137	2.45%
	404,912	416,304	11,392	2.81%
	405,666	417,125	11,459	2.82%
Financial assets at FVOCI – debt securities	134	147	13	9.70%

The following table shows the quality of the VUB Group's credit portfolio in 2017 in terms of internal ratings used for IRB purposes and the sensitivity analyses by improvement and deterioration by one internal rating grade:

2017 € '000	Internal rating	Gross amount	Impairment losses	Net amount	Sensitivity analysis Impact of IR deterioration	Sensitivity analysis Impact of IR improvement
Financial assets at AC:						
Due from other banks						
	Unrated	90,986	(73)	90,913	–	–
Due from customers:						
Municipalities						
	Unrated	128,594	(98)	128,496	–	–
Corporate						
Large Corporates, SME						
	I1 – I6	883,885	(690)	883,195	(358)	266
	M1 – M4	826,418	(6,202)	820,216	(702)	2,780
	R1 – R5	352,900	(13,746)	339,154	(2,307)	6,309
	LC_I1 – LC_I6	370,753	(258)	370,495	(142)	93
	LC_M1 – LC_M4	538,790	(1,405)	537,385	(806)	510
	D (default)	45,810	(42,245)	3,565	–	–
	Unrated	120,387	(1,561)	118,826	–	–
Specialized Lending – SPV, RED						
	Strong	129,220	(335)	128,885	(130)	–
	Good	292,373	(3,792)	288,581	(3,107)	3,792
	Satisfactory	199,231	(5,576)	193,655	(8,529)	4,871
	Weak	103,183	(13,213)	89,970	–	8,044
	D (default)	24,091	(17,406)	6,685	–	–
Other Non-banking Financial Institutions, Public Sector Entities						
	I1 – I6	116,026	(89)	115,937	(48)	30
	M1 – M4	15,508	(763)	14,745	(592)	178
	Unrated	162,782	(537)	162,245	–	–
Other						
	Unrated	33,559	(2,210)	31,349	–	–
Leasing, Factoring						
	Unrated	355,566	(17,340)	338,226	–	–
		4,570,482	(127,368)	4,443,114	(16,721)	26,873

2017 € '000	Internal rating	Gross amount	Impairment losses	Net amount	Sensitivity analysis Impact of IR deterioration	Impact of IR improvement
Financial assets at AC:						
Due from customers:						
Retail						
Small Business, Flat Owners Associations						
	I3 – I6	35,561	(61)	35,500	(32)	26
	M1 – M4	157,489	(1,540)	155,949	(796)	531
	R1 – R5	66,201	(2,564)	63,637	(1,062)	931
	D (default)	10,454	(9,012)	1,442	–	–
	Unrated	15,518	(94)	15,424	–	–
Mortgages						
	L1 – L4	4,554,342	(1,073)	4,553,269	(928)	463
	N1	248,515	(357)	248,158	(210)	165
	N2 – W1	342,472	(1,342)	341,130	(1,525)	562
	W2	69,460	(1,035)	68,425	(3,764)	638
	W3	84,550	(4,338)	80,212	–	3,403
	D (default)	42,620	(17,257)	25,363	–	–
Unsecured Retail						
	U01a – U02	291,765	(170)	291,595	(65)	64
	U3	91,421	(126)	91,295	(62)	41
	U04 – U07	448,510	(2,088)	446,422	(1,104)	721
	U08 – U09	135,207	(2,185)	133,022	(1,182)	745
	U10 – U11	85,543	(3,319)	82,224	(3,164)	1,221
	U12	73,025	(8,294)	64,731	–	4,708
	D (default)	154,947	(105,842)	49,105	–	–
	Unrated	740,170	(84,809)	655,361	–	–
Small Business – Leasing, Leasing						
	Unrated	15,057	(604)	14,453	–	–
Other						
	Unrated	12,403	(1)	12,402	–	–
		7,675,230	(246,111)	7,429,119	(13,894)	14,219
Securities						
	Unrated	902,671	–	902,671	–	–

4.1.11. Impact of the possible scenarios on the impairment losses and provisions

The behaviour of the model is described by six possible scenarios simulating a worsening of the macroeconomic situation. The scenarios resulted in the increase of expected loss in both stage 1 and stage 2. The simulation was run on the most significant segment Mortgages.

If the predicted GDP growth will be decreased by 91 bps (30% of the last available value at the time of development of the model – the last available values as of 4th Quarter 2016: GDP year/year growth = 3.02%; CPI = (0.1%)) then the impact on the profit or loss will be € 26 thousand for stage 1 and € 89 thousand for stage 2.

Other scenarios and their impact are depicted in the tables below:

2018 € '000					**Stage 1**
Scenario	**Scenario description**		**Impairment losses**	**Provisions**	**Total**
Base	without stressing				
		ECL	976	279	1,255
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 30 bps				
		ECL	983	281	1,264
		Absolute change	7	2	9
		Relative change	0.69%	0.64%	0.68%
CPI stress 10%	CPI decrease by 1 bps				
		ECL	977	279	1,256
		Absolute change	1	–	1
		Relative change	0.09%	0.08%	0.08%
GDP&CPI stress 10%	GDP growth decrease by 30 bps and CPI decrease by 1 bps				
		ECL	984	281	1,265
		Absolute change	8	2	10
		Relative change	0.76%	0.71%	0.75%
GDP stress 30%	GDP growth decrease by 91 bps				
		ECL	996	285	1,281
		Absolute change	20	6	26
		Relative change	2.05%	1.91%	2.02%
CPI stress 30%	CPI decrease by 3 bps				
		ECL	979	280	1,259
		Absolute change	3	1	4
		Relative change	0.23%	0.22%	0.23%
GDP&CPI stress 30%	GDP growth decrease by 91 bps and CPI decrease by 3 bps				
		ECL	999	285	1,284
		Absolute change	23	6	29
		Relative change	2.28%	2.11%	2.24%

2018 **€ '000** **Scenario**	**Scenario description**		**Impairment losses**	**Provisions**	**Stage 2** **Total**
Base	without stressing				
		ECL	9,027	183	9,210
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 30 bps				
		ECL	9,056	183	9,239
		Absolute change	29	–	29
		Relative change	0.32%	0.33%	0.32%
CPI stress 10%	CPI decrease by 1 bps				
		ECL	9,030	183	9,213
		Absolute change	3	–	3
		Relative change	0.04%	0.04%	0.04%
GDP&CPI stress 10%	GDP growth decrease by 30 bps and CPI decrease by 1 bps				
		ECL	9,059	184	9,243
		Absolute change	32	1	33
		Relative change	0.36%	0.36%	0.36%
GDP stress 30%	GDP growth decrease by 91 bps				
		ECL	9,114	185	9,299
		Absolute change	87	2	89
		Relative change	0.97%	0.98%	0.97%
CPI stress 30%	CPI decrease by 3 bps				
		ECL	9,036	183	9,219
		Absolute change	9	–	9
		Relative change	0.11%	0.11%	0.11%
GDP&CPI stress 30%	GDP growth decrease by 91 bps and CPI decrease by 3 bps				
		ECL	9,124	185	9,309
		Absolute change	97	2	99
		Relative change	1.07%	1.08%	1.07%

4.1.12. Credit risk of financial derivatives

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

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

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

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

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

€ '000	2018
Financial assets	
Financial assets at fair value through profit or loss:	
Financial assets held for trading:	
Derivative financial instruments	87,565
Derivatives – Hedge accounting	65,113
	152,678

€ '000	2017
Financial assets	
Derivative financial instruments	121,142

4.2. Market risk

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

4.2.1. Management of market risk

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

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. All other financial instruments are part of banking book.

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

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

4.2.2. Exposure to market risk-trading portfolios

The principal tool used to measure and control market risk exposures within the VUB Group's trading portfolio is Value at Risk ('VaR'). A derivation of VaR is the stress VaR ('sVaR '), which represents maximal VaR of a selected one year period generating the highest value of VaR during the last five years. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the VUB Group is based upon a 99% confidence level and assumes a one-day holding period.

The VaR and sVaR models used are based on historical simulations. Taking into account market data from the previous year and in case of sVaR a one year scenario from five years of history and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements evaluated in the model. The VaR model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

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

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

				2018				2017
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	44	43	124	12	13	32	102	4
Interest rate risk	343	1,492	3,942	343	1,492	2,122	4,094	41
Total VaR	332	1,495	3,926	332	1,493	2,123	4,102	43
Total sVaR	791	1,479	3,445	334	343	1,615	4,238	101

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

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

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

4.2.3. Exposure to interest rate risk

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

All the assumptions, methodologies and responsibilities are described in internal document 'Guidelines on the Governance of Interest Rate Risk in the Banking Book' ('IRRBB') and 'Rules on the Measurement and control of IRRBB in VÚB Group' which are approved by Management Board and are consistent with ISP Group IRRBB guidelines and rules.

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

The Risk Management division is responsible for monthly monitoring of these gaps. The management of interest rate risk is measured by shift sensitivity analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and uniform shift of +/ –100 basis points of the rate curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and uniform shift of +/ –200 basis points, and additionally non-parallel steeper and flatter scenarios. These standard scenarios are applied on a monthly basis. Furthermore, six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision Guidelines, have been introduced in 2017, calculated on a quarterly basis.

The sensitivity of the interest margin is also measured with a set of scenarios similar to shift sensitivity analysis – baseline, internal stress and regulatory scenarios. The baseline scenario is calculated on the basis of parallel and instantaneous shocks in the interest rate curve of +/ –50 basis points, in a period of 12 months. Furthermore, additional internal stress and regulatory scenarios are applied: +/ –100, +/ –200 and six stress scenarios according to the Basel Committee on Banking Supervision Guidelines.

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

Models applied for the interest rate risk calculation

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

Contractual

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

Behavioural

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

At 31 December 2018, the interest margin sensitivity of banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 20,778 thousand (31 December 2017: € 16,505 thousand).

At 31 December 2018, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (23,039) thousand (31 December 2017: € (11,180) thousand).

At 31 December 2018, the interest margin sensitivity of banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (36,246) thousand (31 December 2017: € (25,585) thousand).

At 31 December 2018, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € (240) thousand (31 December 2017: €(5,569) thousand).

At 31 December 2018, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2,301) thousand (31 December 2017: € (673) thousand).

At 31 December 2018, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € 391 thousand (31 December 2017: € 10,568 thousand).

The re-pricing structure of interest rate bearing financial assets and liabilities based on contractual discounted cash-flows for the non-trading portfolios was as follows:

2018 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash, balances at central banks	1,747,562	–	–	–	–	–	1,747,562
Financial assets at FVTPL (excluding Trading derivatives)	440	–	–	–	–	–	440
Financial assets at FVOCI	117	39,138	578,559	103,373	28,787	–	749,974
Financial assets at AC:							
Due from other banks	24,678	66,211	4,897	–	–	31,110	126,896
Due from customers	2,036,025	1,735,677	1,470,639	7,174,877	995,414	201,745	13,614,377
	3,808,822	1,841,026	2,054,095	7,278,250	1,024,201	232,855	16,239,249
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(414,891)	(35,994)	(444,673)	(294,744)	–	(1,713)	(1,192,015)
Due to customers	(4,858,318)	(1,205,604)	(2,615,554)	(2,189,620)	(261,541)	–	(11,130,637)
Subordinated debt	–	(200,181)	–	–	–	–	(200,181)
Debt securities in issue	(8,802)	(3,197)	(266,640)	(1,003,053)	(1,050,561)	–	(2,332,253)
	(5,282,011)	(1,444,976)	(3,326,867)	(3,487,417)	(1,312,102)	(1,713)	(14,855,086)
Net position of financial instruments	9,090,833	3,286,002	5,380,962	10,765,667	2,336,303	234,568	31,094,335
Cumulative net position of financial instruments	9,090,833	12,376,835	17,757,797	28,523,464	30,859,767	31,094,335	–
Cash inflow from derivatives	3,089,568	2,766,558	1,804,562	1,751,119	1,815,018	–	11,226,825
Cash outflow from derivatives	(3,848,480)	(1,637,784)	(722,597)	(4,126,768)	(891,236)	–	(11,226,865)
Net position from derivatives	(758,912)	1,128,774	1,081,965	(2,375,649)	923,782	–	(40)
Total net position	(1,473,189)	396,050	(1,272,772)	3,790,833	(287,901)	231,142	1,384,163
Cumulative total net position	(1,473,189)	(1,077,139)	(2,349,911)	1,440,922	1,153,021	1,384,163	–

2017 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash, balances at central banks	1,595,097	–	–	–	–		1,595,078
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	4,933	850	5,783
Available-for-sale financial assets	–	42,329	357,392	109,717	10,978	–	520,416
Held-to-maturity investments	–	–	11,749	264,821	99,902	–	376,472
Financial assets at AC:							
Due from other banks	56,422	27,453	7,025	13	–	–	90,744
Due from customers	1,347,229	1,612,697	2,019,011	6,001,471	835,117	185,204	11,487,518
	2,998,748	1,682,479	2,395,177	6,376,022	950,930	186,054	14,076,011
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(181,813)	(50,605)	(120,651)	(402,982)	(12,730)	–	(449,815)
Due to customers	(7,923,912)	(686,670)	(1,008,243)	(320,296)	–	–	(9,855,433)
Subordinated debt	–	(200,164)	–	–	–	–	(200,164)
Debt securities in issue	(108,531)	(103,460)	(110,808)	(771,152)	(1,158,429)	–	(2,252,380)
	(8,214,256)	(1,040,899)	(1,239,702)	(1,494,430)	(1,171,159)	–	(12,757,792)
Net position of financial instruments	(5,215,508)	641,580	1,155,475	4,881,592	(220,229)	186,054	1,318,219
Cumulative net position of financial instruments	(5,215,508)	(4,573,928)	(3,418,453)	1,463,139	1,242,910	1,428,964	–
Cash inflow from derivatives	2,805,217	1,941,325	1,523,212	411,477	1,769,764	–	8,450,995
Cash outflow from derivatives	(3,556,656)	(641,502)	(950,402)	(2,552,610)	(759,529)	–	(8,460,699)
Net position from derivatives	(751,439)	1,299,823	572,810	(2,141,133)	1,010,235	–	(9,704)
Total net position	(5,856,492)	1,922,715	1,714,576	2,638,536	703,126	186,054	1,308,515
Cumulative total net position	(5,856,492)	(3,933,777)	(2,219,201)	419,335	1,122,461	1,308,515	–

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

	2018
Financial assets	
Cash, balances at central banks	0.82%
Financial assets at FVTPL	0.80%
Financial assets at FVOCI	1.85%
Financial assets at AC:	
Due from other banks	1.46%
Due from customers	2.96%
Financial liabilities	
Financial liabilities at AC:	
Due to banks	0.44%
Due to customers	0.18%
Debt securities in issue	1.17%

	2017
Financial assets	
Cash, balances at central banks	0.00%
Financial assets at FVTPL	1.45%
Available-for-sale financial assets	0.47%
Held-to-maturity investments	4.46%
Financial assets at AC:	
Due from other banks	0.45%
Due from customers	3.47%
Financial liabilities	
Financial liabilities at AC:	
Due to banks	0.29%
Due to customers	0.20%
Debt securities in issue	1.23%

4.2.4. Currency denominations of assets and liabilities

Foreign exchange rate risk comprises the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. It is the policy of the VUB Group to manage its exposure to fluctuations in exchange rates through regular monitoring and reporting of open positions and the application of a matrix of exposure and position limits.

2018 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash, balances at central banks	636,831	1,287	1,104,881	4,563	1,747,562
Financial assets at FVTPL	37,155	1,673	1,142	18	39,988
Derivatives – Hedge accounting	23,960	55	2,676	74	26,765
Financial assets at FVOCI	749,974	–	–	–	749,974
Financial assets at AC:					
Due from other banks	122,267	15,086	(13,517)	3,060	126,896
Due from customers	13,005,102	218,559	309,120	81,596	13,614,377
Fair value changes of the hedged items in portfolio hedge of IRR	9,183	–	–	–	9,183
	14,584,472	236,660	1,404,302	89,311	16,314,745
Financial liabilities					
Financial liabilities at FVTPL	36,718	1,341	1,272	4	39,335
Derivatives – Hedge accounting	12,130	2,665	–	431	15,226
Financial liabilities measured at AC:					
Due to banks	1,171,689	13,412	(1,155)	8,069	1,192,015
Due to customers	10,748,479	176,360	127,476	78,322	11,130,637
Subordinated debt	200,181	–	–	–	200,181
Debt securities in issue	2,283,820	48,433	–	–	2,332,253
Fair value changes of the hedged items in portfolio hedge of IRR	1,499	–	–	–	1,499
	14,454,516	242,211	127,593	86,826	14,911,146
Net position	129,956	(5,551)	1,276,709	2,485	1,403,599

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2018 € '000	EUR	USD	CZK	Other	Total
Receivables	1,448,171	78,067	32,021	103,953	1,662,212
Payables	(166,826)	(94,706)	(1,290,481)	(110,202)	(1,662,215)
Net position from derivatives	1,281,345	(16,639)	(1,258,460)	(6,249)	(3)

2017 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash, balances at central banks	123,615	1,109	1,467,216	3,157	1,595,097
Financial assets at FVTPL	5,783	–	–	–	5,783
Derivative financial instruments	42,310	4,294	3,252	–	49,856
Available-for-sale financial assets	514,107	6,309	–	–	520,416
Held-to-maturity investments	376,472	–	–	–	376,472
Financial assets at AC:					
Due from other banks	85,239	2,172	422	3,080	90,913
Due from customers	11,371,011	265,239	314,663	49,816	12,000,729
	12,518,537	279,123	1,785,553	56,053	14,639,266
Financial liabilities					
Derivative financial instruments	(45,474)	(633)	(4,471)	(1,606)	(52,184)
Financial liabilities measured at AC:					
Due to banks	(715,363)	(83)	(53,063)	(272)	(768,781)
Due to customers	(9,531,663)	(158,499)	(169,350)	(79,609)	(9,939,121)
Subordinated debt	(200,164)	–	–	–	(200,164)
Debt securities in issue	(2,173,842)	(58,779)	(19,759)	–	(2,252,380)
	(12,666,506)	(217,994)	(246,643)	(81,487)	(13,212,630)
Net position	(147,969)	61,129	1,539,910	(25,434)	1,426,636

4.3. Liquidity risk

Liquidity risk is defined as the risk that the VUB Group is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the VUB Group is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit.

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

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

The VUB Group is regularly stress testing its liquidity position in order to simulate potential stress scenarios. The level of unencumbered highly liquid assets are kept at levels, which should support the VUB Group also in case of these extraordinary events. The VUB Group is also able to seek short term funding from the Parent Company or interbank market in order to support its liquidity position.

The departments of the VUB Group responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department responsible for liquidity management and the Enterprise Risk Management Department responsible for monitoring indicators and verifying the observation of limits. These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process.

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

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

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

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

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

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

2018 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash, balances at central banks	1,747,562	–	–	–	–	–	1,747,562
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	440	440
Financial assets at FVOCI	127	46	530,417	192,693	20,150	8,860	752,293
Financial assets at AC:							
Due from other banks	55,780	1,052	3,726	50,763	23,864	–	135,185
Due from customers	1,012,610	415,193	1,193,934	5,535,845	8,158,229	196,041	16,511,851
	2,816,079	416,291	1,728,077	5,779,301	8,202,243	205,341	19,147,331
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(41,387)	(312,825)	(435,268)	(386,471)	(44,428)	–	(1,220,379)
Due to customers	(8,588,987)	(597,275)	(1,637,741)	(233,995)	(78,320)	–	(11,136,317)
Subordinated debt	–	(1,027)	452	(1,385)	(207,488)	–	(209,448)
Debt securities in issue	(3,595)	(3,255)	(285,861)	(1,031,670)	(1,215,320)	–	(2,539,701)
	(8,633,969)	(914,382)	(2,358,418)	(1,653,521)	(1,545,556)	–	(15,105,846)
Net position of financial instruments	11,450,048	1,330,673	4,086,495	7,432,822	9,747,799	205,341	34,253,177
Cash inflows from derivatives	1,400,348	113,652	78,210	35,538	130,651	–	1,758,399
Cash outflows from derivatives	(1,405,695)	(111,797)	(76,382)	(38,202)	(111,243)	–	(1,743,319)
Net position from derivatives	(5,347)	1,854	1,827	(2,663)	19,408	–	15,079
Net position from financial commitments and contingencies	(3,938,579)	–	–	–	–	–	(3,938,579)

* The high negative liquidity gap in the first bucket is caused by a huge volume of deposits on demand (without contractual maturity) which are presented under 'Due to customers'. For the purpose of internal liquidity management monitoring the behavioural profile of on-demand deposits is taken into account based on a statistical model using internal historical data. According to when they are expected to be settled such deposits are then placed into later buckets.

2017 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and balances with central banks	1,595,412	–	–	–	–	–	1,595,412
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	4,933	850	5,783
Available-for-sale financial assets	–	874	260,972	246,526	–	–	508,372
Held-to-maturity investments	–	–	18,474	294,379	117,531	–	430,384
Financial assets at AC:							
Due from other banks	33,379	1,197	4,682	12,735	42,672	–	94,665
Due from customers	630,230	416,308	1,469,723	5,234,668	6,922,418	217,738	14,891,085
	2,259,021	418,379	1,753,851	5,788,308	7,087,554	218,588	17,525,701
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(146,590)	(34,956)	(63,695)	(450,989)	(67,978)	–	(764,208)
Due to customers	(7,811,786)	(760,695)	(965,816)	(403,425)	(469)	–	(9,642,191)
Subordinated debt	–	(1,458)	(471)	(2,295)	(210,706)	–	(214,930)
Debt securities in issue	(4,459)	(3,254)	(246,929)	(952,020)	(1,238,785)	–	(2,445,447)
	(7,962,835)	(800,363)	(1,276,911)	(1,808,729)	(1,517,938)	–	(13,366,776)
Net position of financial instruments	(5,703,814)	(381,984)	476,940	3,979,579	5,569,616	218,588	4,158,925
Cash inflows from derivatives	1,702,187	55,507	81,630	90,645	36,063	–	1,966,032
Cash outflows from derivatives	(1,710,454)	(56,858)	(89,608)	(84,221)	(24,456)	–	(1,965,597)
Net position from derivatives	(8,267)	(1,351)	(7,978)	6,424	11,607	–	435
Net position from financial commitments and contingencies	(3,562,980)	–	–	–	–	–	(3,562,980)

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

2018 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash, balances at central banks	1,747,562	–	1,747,562
Financial assets at FVTPL	6,028	33,960	39,988
Derivatives – Hedge accounting	686	26,079	26,765
Financial assets at FVOCI	528,662	221,312	749,974
Financial assets at AC:			
Due from other banks	58,839	68,057	126,896
Due from customers	2,351,449	11,262,928	13,614,377
Fair value changes of the hedged items in portfolio hedge of IRR	–	9,183	9,183
Investments in joint ventures and associates	–	8,758	8,758
Property and equipment	–	91,683	91,683
Intangible assets	–	92,863	92,863
Goodwill	–	29,305	29,305
Current income tax assets	1,181	–	1,181
Deferred income tax assets	1,573	69,158	70,731
Other assets	23,747	–	23,747
Non-current assets classified as held for sale	26,922	–	26,922
	4,746,649	11,913,286	16,659,935
Liabilities			
Financial liabilities at FVTPL	(6,665)	(32,670)	(39,335)
Derivatives – Hedge accounting	(1,208)	(14,018)	(15,226)
Financial liabilities measured at AC:			
Due to banks	(757,273)	(434,742)	(1,192,015)
Due to customers	(1,759,245)	(9,371,392)	(11,130,637)
Subordinated debt	(181)	(200,000)	(200,181)
Debt securities in issue	(262,291)	(2,069,962)	(2,332,253)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(1,499)	(1,499)
Current income tax liabilities	(10,724)	–	(10,724)
Provisions	–	(24,723)	(24,723)
Other liabilities	(96,640)	(2,749)	(99,389)
	(2,894,227)	(12,151,755)	(15,045,982)
Net position	1,852,422	(238,469)	1,613,953

2017 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash, balances at central banks	1,595,097	–	1,595,097
Financial assets at FVTPL	37,105	53,808	90,913
Derivative financial instruments	–	5,783	5,783
Available-for-sale financial assets	5,902	43,954	49,856
Held-to-maturity investments	262,952	257,464	520,416
Financial assets at AC:	2,206,047	9,794,682	12,000,729
Due from other banks	11,750	364,722	376,472
Due from customers	–	8,972	8,972
Investments in joint ventures and associates	–	80,100	80,100
Intangible assets	–	29,305	29,305
Property and equipment	–	126,848	126,848
Current income tax assets	9,478	–	9,478
Deferred income tax assets	–	53,779	53,779
Other assets	23,128	–	23,128
	4,151,459	10,819,417	14,970,876
Liabilities			
Derivative financial instruments	(24,278)	(27,906)	(52,184)
Financial liabilities at AC:			
Due to banks	(219,680)	(549,101)	(768,781)
Due to customers	(1,757,586)	(8,181,535)	(9,939,121)
Subordinated debt	(164)	(200,000)	(200,164)
Debt securities in issue	(238,066)	(2,014,314)	(2,252,380)
Provisions	–	(9,962)	(9,962)
Other liabilities	(111,007)	(4,691)	(115,698)
	(2,350,781)	(10,987,509)	(13,338,290)
Net position	1,800,678	(168,092)	1,632,586

4.4. Operational risk

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

4.4.1. Operational risk management strategies and processes

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

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

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of Anti-Money Laundering Department; permanent invitees without voting rights**:** Head of Corporate & SME Division, Head of Retail Division, Head of Enterprise Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Internal Audit Department, Head of Information Security sub-department, Head of Business Continuity Management sub-department, Head of Physical Security sub-department and Member of the Management Board of VUB Leasing, a. s.), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

4.4.2. Organisational structure of the associated risk management function

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

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

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

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

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

4.4.4. Policies for hedging and mitigating risk

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

5. Estimated fair value of financial assets and liabilities

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

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

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the VUB Group as at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and

Level 3: inputs unobservable for the asset or liability.

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

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

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

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

(a) Cash, balances at central banks

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

(b) Due from other banks

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

(c) Due from customers

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

(d) Due to banks and Due to customers

The carrying amounts of due to banks approximates their estimated fair value. The fair value of due to customers is estimated by discounting their future expected cash flows using the risk free interest rate curve.

(e) Subordinated debt

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

(f) Debt securities in issue

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

2018 € '000	Note	At amortised cost	At fair value	Carrying amount Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash, balances at central banks	8	1,747,562	–	1,747,562	–	1,747,562	–	1,747,562
Financial assets at FVTPL	9	–	39,988	39,988	440	39,548	–	39,988
Derivatives – Hedge accounting	10	–	26,765	26,765	–	26,765	–	26,765
Financial assets at FVOCI	11	–	749,974	749,974	225,760	524,214	–	749,974
Financial assets at AC:	12							
Due from other banks		126,896	–	126,896	–	126,896	–	126,896
Due from customers		13,614,377	–	13,614,377	–	–	14,084,512	14,084,512
		15,488,835	816,727	16,305,562	226,200	2,464,985	14,084,512	16,775,697
Financial liabilities								
Financial liabilities at FVTPL	9	–	39,335	39,335	–	39,335	–	39,335
Derivatives – Hedge accounting	10	–	15,226	15,226	–	15,226	–	15,226
Financial liabilities at AC:	12							
Due to banks		1,192,015	–	1,192,015	–	1,192,015	–	1,192,015
Due to customers		11,130,637	–	11,130,637	–	11,136,701	–	11,136,701
Subordinated debt		200,181	–	200,181	–	180,158	–	180,158
Debt securities in issue		2,332,253	–	2,332,253	–	2,314,698	–	2,314,698
		14,855,086	54,561	14,909,647	–	14,878,133	–	14,878,133

2017 € '000	Note	At amortised cost	At fair value	Carrying amount Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash, balances at central banks	7	1,595,097	–	1,595,097	–	1,595,097	–	1,595,097
Financial assets at FVTPL	8	–	5,783	5,783	850	4,933	–	5,783
Derivative financial instruments	8, 9	–	49,856	49,856	–	49,856	–	49,856
Available-for-sale financial assets	10	–	520,416	520,416	265,742	248,365	6,309	520,416
Held-to-maturity investments	10	376,472	–	376,472	–	426,970	–	426,970
Financial assets at AC:	11							
Due from other banks		90,913	–	90,913	–	90,913	–	90,913
Due from customers		12,000,729	–	12,000,729	–	–	13,170,161	13,170,161
		14,063,211	576,055	14,639,266	266,592	2,416,134	13,176,470	15,859,196
Financial liabilities								
Derivative financial instruments	8, 9	–	52,184	52,184	–	52,184	–	52,184
Financial liabilities at AC:	11							
Due to banks		768,781	–	768,781	–	768,781	–	768,781
Due to customers		9,939,121	–	9,939,121	–	9,947,677	–	9,947,677
Subordinated debt		200,164	–	200,164	–	199,693	–	199,693
Debt securities in issue		2,252,380	–	2,252,380	–	2,336,806	–	2,336,806
		13,160,446	52,184	13,212,630	–	13,305,141	–	13,305,141

At 31 December 2018 the VUB Group transfers the shares of companies VISA Inc. Seria C and S.W.I.F.T. from Level 3 to Level 2 to be in line with the methodology of the Parent Company.

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

6. Segment reporting

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

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

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

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

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

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

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

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

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

2018 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	280,276	107,235	18,441	10,446	416,398
Interest and similar expense	(10,129)	(6,557)	(24,921)	(8,092)	(49,699)
Inter-segment revenue	(22,429)	(16,329)	33,447	5,311	–
Net interest income	247,718	84,349	26,967	7,665	366,699
Net fee and commission income	100,245	29,027	2,167	(3,501)	127,938
Net trading result	4,059	5,608	29,913	308	39,888
Other operating income	316	4,399	66	1,578	6,359
Other operating expense	(7,878)	(2,708)	–	(5,506)	(16,092)
Special levy of selected financial institutions*	–	–	–	(26,286)	(26,286)
Salaries and employee benefits*	–	–	–	(129,223)	(129,223)
Other administrative expenses*	–	–	–	(85,793)	(85,793)
Amortisation	(5,482)	(351)	(7)	(6,608)	(12,448)
Depreciation	(4,861)	(2,908)	(4)	(3,035)	(10,808)
Profit before provisions and impairment	334,117	117,416	59,102	(250,401)	260,234
Provisions*	–	–	–	(340)	(340)
Impairment losses	(60,698)	4,745	55	(5,499)	(61,397)
Net gains/(losses) arising from the derecognition of financial assets measured at amortised cost	5,003	(1,380)	–	(98)	3,525
Total segment operating income	278,422	120,781	59,157	(256,338)	202,022
Segment assets	8,025,859	5,089,247	2,952,393	592,436	16,659,935
Segment liabilities	6,426,304	4,455,865	3,784,197	379,616	15,045,982

* The VUB Group does no allocate these items to the individual segments.

2017 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	308,010	95,069	19,871	11,237	434,187
Interest and similar expense	(10,572)	(5,338)	(24,893)	(9,424)	(50,227)
Inter-segment revenue	(17,086)	(11,923)	23,445	5,564	–
Net interest income	280,352	77,808	18,423	7,377	383,960
Net fee and commission income	86,797	27,837	3,128	(4,113)	113,649
Net trading result	3,709	5,331	30,983	321	40,344
Other operating income	1,025	7,101	326	54	8,506
Other operating expense	(5,947)	–	–	(9,571)	(15,518)
Special levy of selected financial institutions*	–	–	–	(24,823)	(24,823)
Salaries and employee benefits*	–	–	–	(126,659)	(126,659)
Other administrative expenses*	–	–	–	(90,826)	(90,826)
Amortisation	(7,221)	(1,004)	(7)	(4,403)	(12,635)
Depreciation	(6,721)	(2,730)	(3)	(2,680)	(12,134)
Profit before provisions and impairment	351,994	114,343	52,850	(255,323)	263,864
Provisions*	–	–	–	16,511	16,511
Impairment losses	(52,185)	(7,987)	(522)	1,489	(59,205)
Total segment operating income	299,809	106,356	52,328	(237,323)	278,514
Segment assets	7,463,880	4,236,117	2,778,733	492,146	14,970,876
Segment liabilities	6,126,804	3,967,952	2,968,081	275,453	13,338,290

* The VUB Group does no allocate these items to the individual segments.

7. Cash and cash equivalents

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

€ '000	Note	2018	2017
Cash, balances at central banks	8	1,254,509	1,587,833
Current accounts in other banks	12.1	24,442	25,212
		1,278,951	1,613,045

8. Cash, balances at central banks

€ '000	2018	2017
Cash in hand	155,057	125,550
Balances at central banks:		
Compulsory minimum reserves	493,053	7,264
Current accounts	2,914	1,753
Term deposits	27,211	736,103
Loans and advances	1,069,327	724,427
	1,592,505	1,469,547
	1,747,562	1,595,097

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

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

At 31 December 2018 the balance of 'Loans and advances' comprised of one reverse repo trade concluded with ČNB in the nominal amount of CZK 27,500 million (€ 1,068,999 thousand) (31 December 2017: CZK 18,500 million (€ 724,354 thousand)). The repo trade was secured by four treasury bills of ČNB (31 December 2017: four treasury bills of ČNB).

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

€ '000	2018
Financial assets held for trading:	
Trading derivatives	39,548
Non-trading financial assets at fair value through profit or loss:	
Equities	440
Financial liabilities held for trading:	
Trading derivatives	39,335

€ '000	2017
Assets	
Financial assets at fair value through profit or loss:	
Government debt securities of EU countries	4,933
Equities	850
	5,783
Derivative financial instruments*:	
Trading derivatives	27,961
Liabilities	
Derivative financial instruments*:	
Trading derivatives	37,542

* Part of 'Derivative financial instruments' related to hedge accounting is disclosed in the note 9.

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

€ '000	2018 Assets	2017 Assets	2018 Liabilities	2017 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Swaps	33,346	21,385	32,585	18,403
Options	–	51	–	51
	33,346	21,436	32,585	18,454
Foreign currency instruments:				
Forwards and swaps	5,428	4,322	5,943	16,896
Options	163	42	215	42
	5,591	4,364	6,158	16,938
Equity and commodity instruments:				
Equity options	446	2,146	443	2,137
Commodity forwards and swaps	165	15	148	13
	611	2,161	592	2,150
	39,548	27,961	39,335	37,542

€ '000	2018 Assets	2017 Assets	2018 Liabilities	2017 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Swaps	3,927,603	1,974,174	3,927,603	1,974,174
Options	66,105	49,014	66,105	49,014
Futures	–	3,431	–	3,431
	3,993,708	2,026,619	3,993,708	2,026,619
Foreign currency instruments:				
Forwards and swaps	1,519,362	1,837,936	1,520,462	1,847,944
Options	24,171	7,201	24,256	7,201
	1,543,533	1,845,137	1,544,718	1,855,145
Equity and commodity instruments:				
Equity options	5,487	7,087	5,487	7,087
Commodity forwards and swaps	5,675	7,407	5,675	7,407
	11,162	14,494	11,162	14,494
	5,548,403	3,886,250	5,549,588	3,896,258

10. Derivatives – Hedge accounting

€ '000	2018 Assets	2018 Liabilities
Cash flow hedges of interest rate risk	–	10
Fair value hedges of interest rate risk	26,765	15,216
	26,765	15,226

€ '000	2017 Assets	2017 Liabilities
Derivative financial instruments*:		
Cash flow hedges of interest rate risk	1,312	631
Fair value hedges of interest rate risk	20,583	14,011
	21,895	14,642

* Part of 'Derivative financial instruments' related to trading is disclosed in the note 8.

10.1. Cash flow hedges of interest rate risk

The VUB Group uses one interest rate swap to hedge the interest rate risk arising from the issuance of one variable rate covered bond denominated in EUR. The cash flows on the floating leg of these interest rate swap substantially match the cash flows profile of the variable rate covered bond. The fix deal interest rate is (0.21%). The maturity of this hedging instrument is in 2019.

The VUB Group used one interest rate swap to hedge the interest rate risk of a subordinated loan denominated in EUR as at 31 December 2017. The cash flows on the floating leg of this interest rate swap substantially matched the cash flows profile of the subordinated loan with variable interest rate.

€ '000	2018 Assets Fair values	2018 Liabilities Fair values	2018 Assets Notional values	2018 Liabilities Notional values	2018 Change in fair value used for calculating hedge ineffectiveness for 2018	2018 Change in fair value recognised in OCI	2018 Hedge ineffectiveness recognised in profit or loss	2018 Amount reclassified from hedge reserve to profit or loss
Micro hedges								
Interest rate instruments:								
Swaps	–	10	80,000	80,000	(94)	(94)	–	(689)

The amounts relating to items designated as hedged items were as follows:

€ '000	Line item in SOFP	Carrying amount	Change in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	2018 Balances remaining in hedge reserve after termination of hedging relationship
Covered bonds	Financial liabilities at AC: Debt securities in issue	80,000	(24)	(6)	–

Below is a schedule indicating the periods when the hedged cash flows are expected to occur:

€ '000			2018			2017
	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Covered bonds	(1,264)	–	–	(4,078)	(1,414)	–
Subordinated debt	–	–	–	(6,010)	(25,326)	–

10.2. Fair value hedges of interest rate risk

The VUB Group used one interest rate swap to hedge the interest rate risk of a pool of corporate loans in EUR. The changes in fair value of this interest rate swap substantially offset the changes in fair value of loans in relation to changes of interest rates.

The VUB Group used twenty eight interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The VUB Group used thirty four interest rate swaps to hedge the interest rate risk of a pool of current accounts. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The VUB Group used one interest rate swap to hedge the interest rate risk of a pool of targeted longer-term refinancing operations ('TLTROs') denominated in EUR. TLTROs are Eurosystem operations that provide financing to credit institutions for periods of up to four years. The changes in fair value of this interest rate swap substantially offset the changes in fair value of the TLTROs in relation to changes of interest rates.

The VUB Group used four interest rate swaps to hedge the interest rate risk of three fixed rate state bonds from the FVOCI portfolio. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used fourteen interest rate swaps and five cross currency swaps to hedge interest rate risk of nineteen corporate loans. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

Furthermore, the VUB Group used thirty six interest rate swaps to hedge the interest rate risk arising from the issuance of twenty fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

In 2018, the VUB Group recognised a net gain of € 714 thousand (2017: net gain of € 11,801 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 542 thousand (2017: net loss of € 11,867 thousand). Both items are disclosed within 'Net trading result'.

€ '000	2018 Assets Fair values	2018 Liabilities Fair values	2018 Assets Notional values	2018 Liabilities Notional values	2018 Change in fair value used for calculating hedge ineffective-ness for 2018	2018 Ineffecti-veness recogni sed in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	247	1,503	156,371	156,371	1,486	–
Hedge of corporate loans	2,897	2,101	471,464	471,464	(1,559)	–
Hedge of covered bonds	20,720	533	1,944,036	1,944,036	12,044	4
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	74	2,839	135,430	134,285	(1,235)	9
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of corporate loans	–	181	63,000	63,000	(140)	7
Hedge of mortgage loans	944	8,059	1,892,000	1,892,000	(11,478)	84
Hedge of TLTROs	7	–	250,000	250,000	(1)	17
Hedge of current accounts	1,876	–	565,500	565,500	1,597	51

The amounts relating to items designated as hedged items were as follows:

€ '000	Line item in SOFP	2018 Carrying amount	2018 Accumulated amount of fair value adjustments included in carrying amount	2018 Change in fair value used for calculating hedge ineffectiveness for 2018	2018 Accumulated amount of fair value adjustment after termination of hedging relationship
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	124,832	(836)	(1,486)	–
Corporate loans	Financial assets at AC: Due from customers	604,713	(1,036)	2,803	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1,370,550	24,521	12,040	5,798
Macro hedges					
Corporate loans	Financial assets at AC: Due from customers	63,146	146	147	–
Mortgage loans	Financial assets at AC: Due from customers	1,899,246	7,246	11,562	1,790
TLTROs	Financial liabilities at AC: Due to banks	247,842	(18)	(18)	–
Current accounts	Financial liabilities at AC: Due to customers	626,017	1,517	1,546	–

Maturity of notional values of hedging instruments designated as fair value hedges of interest rate risk and their average interest rates:

€ '000		2018	
	Less than 1 year	1 – 5 years	More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	86,671	50,000	20,000
	1.15%	0.26%	0.32%
Hedge of corporate loans	13,606	366,812	154,046
	0.83%	0.07%	0.52%
Hedge of mortgage loans	159,000	1,733,000	–
	(0.26%)	(0.07%)	–
Hedge of TLTROs	250,000	–	–
	(0.35%)	–	–
Hedge of current account	512,000	–	112,500
	(0.35%)	–	0.64%
Hedge of covered bonds	670,736	321,000	952,300
	0.17%	0.66%	1.14%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	41,847	5,382	87,057
	0.00%	0.00%	2.63%

11. Financial assets at fair value through other comprehensive income

€ '000	2018
Government debt securities of EU countries	681,809
Bank debt securities	59,305
Equity instruments:	
VISA Inc. Seria C	7,676
Intesa Sanpaolo S.p.A.	1,112
S.W.I.F.T.	72
	8,860
	749,974

€ '000	2017
Available-for-sale financial assets	
Government debt securities of EU countries	439,744
Bank debt securities	72,467
Equity instruments:	
VISA Inc. Seria C	6,309
Intesa Sanpaolo S.p.A.	1,831
S.W.I.F.T.	65
	8,205
	520,416
Held-to-maturity investments	
Government debt securities of EU countries	376,472

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

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

At 31 December 2018, bonds in the total nominal amount of € 599,935 thousand from FVOCI portfolio were pledged by the VUB Group to secure collateralized transactions (31 December 2017: € 306,371 thousand from available-for-sale portfolio and € 362,147 thousand from held-to-maturity portfolio). These bonds were pledged in favor of the ECB within the pool of assets used as collateral for received funds needed for liquidity management purposes.

12. Financial assets and liabilities at amortised cost

12.1.Due from other banks

€ '000	Note	2018	2017
Current accounts	7	24,442	25,212
Loans and advances:			
with contractual maturity over 90 days		72,098	34,028
Cash collateral		31,110	31,746
Impairment losses	22	(754)	(73)
		126,896	90,913

12.2. Due from customers

2018 € '000	Gross amount	Impairment losses (note 22)	Net amount
Municipalities			
Municipalities	140,781	(2,599)	138,182
Municipalities – Leasing	547	(2)	545
	141,328	(2,601)	138,727
Corporate			
Large Corporates	2,144,957	(5,484)	2,139,473
Large Corporates – debt securities	53,360	(619)	52,741
Specialized Lending	848,312	(46,630)	801,682
SME	1,487,693	(39,963)	1,447,730
Other Non-banking Financial Institutions	480,611	(265)	480,346
Public Sector Entities	2,905	(73)	2,832
Leasing	258,736	(17,200)	241,536
Factoring	105,337	(1,219)	104,118
	5,381,911	(111,453)	5,270,458
Retail			
Small Business	265,987	(13,377)	252,610
Small Business – Leasing	13,243	(400)	12,843
Consumer Loans	1,726,500	(201,242)	1,525,258
Mortgages	6,172,729	(34,081)	6,138,648
Credit Cards	183,527	(32,705)	150,822
Overdrafts	96,511	(8,586)	87,925
Leasing	4,267	(217)	4,050
Flat Owners Associations	33,286	(250)	33,036
	8,496,050	(290,858)	8,205,192
	14,019,289	(404,912)	13,614,377

2017 € '000	Gross amount	Impairment losses (note 22)	Net amount
Sovereigns			
Municipalities	128,152	(97)	128,055
Municipalities – Leasing	442	(1)	441
	128,594	(98)	128,496
Corporate			
Large Corporates	1,720,127	(5,677)	1,714,450
Specialized Lending	748,099	(40,322)	707,777
SME	1,452,374	(62,640)	1,389,734
Other Non-banking Financial Institutions	293,158	(1,386)	291,772
Public Sector Entities	1,158	(3)	1,155
Leasing	257,361	(15,760)	241,601
Factoring	98,205	(1,580)	96,625
	4,570,482	(127,368)	4,443,114
Retail			
Small Business	257,572	(12,913)	244,659
Small Business – Leasing	10,894	(393)	10,501
Consumer Loans	1,715,269	(165,222)	1,550,047
Mortgages	5,341,959	(25,402)	5,316,557
Credit Cards	203,609	(32,265)	171,344
Overdrafts	101,710	(9,346)	92,364
Leasing	4,163	(211)	3,952
Flat Owners Associations	27,651	(358)	27,293
Other	12,403	(1)	12,402
	7,675,230	(246,111)	7,429,119
	12,374,306	(373,577)	12,000,729

At 31 December 2018, the 20 largest corporate customers represented a total balance of € 1,523,949 thousand (31 December 2017: € 1,470,348 thousand) or 11.19% (31 December 2017: 11.88%) of the gross loan portfolio.

12.3. Due to banks

€ '000	2018	2017
Due to central banks:		
Current accounts	658	1,147
Loans received from central banks	247,860	248,874
	248,518	250,021
Due to other banks:		
Current accounts	20,337	37,991
Term deposits	620,785	16,137
Loans received from other banks	301,765	453,003
Cash collateral received	610	11,629
	943,497	518,760
	1,192,015	768,781

At 31 December 2018, 'Loans received from central banks' contains three loans from National Bank of Slovakia in the nominal amount of € 100,000 thousand, € 100,000 thousand and € 50,000 thousand (31 December 2017: three loans in the nominal amount of € 100,000 thousand, € 100,000 thousand and € 50,000 thousand). The interest rate for all loans is –0.4% (31 December 2017: –0.4%) and the maturity is in 2020 and 2021 (31 December 2017: in 2020 and 2021). The principal and interests are due at maturity of loans.

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

€ '000	2018	2017
European Investment Bank	152,790	185,599
CIB Bank Zrt.	50,001	–
Intesa Sanpaolo Bank Ireland P. L. C.	35,026	35,025
Intesa Sanpaolo Bank Luxembourg S. A.	30,123	30,124
European Bank for Reconstruction and Development	13,437	21,898
Intesa Sanpaolo S. p. A.	13,345	144,689
Council of Europe Development Bank	7,042	10,646
Tatra banka, a. s.	–	25,002
Other	1	20
	301,765	453,003

European Investment Bank

Loans from the European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2018, the balance comprised of fourteen loans in the nominal amount of € 50,000 thousand, € 10,904 thousand, € 8,750 thousand, € 8,286 thousand, € 7,479 thousand, € 2,856 thousand, € 1,827 thousand with variable interest rates and € 14,985 thousand, € 14,985 thousand, € 9,900 thousand, € 7,691 thousand, € 5,000 thousand, € 4,995 thousand, € 4,995 thousand with fix interest rate (31 December 2017: sixteen loans in the nominal amount of € 50,000 thousand, € 20,000 thousand, € 15,380 thousand, € 14,985 thousand, € 14,985 thousand, € 13,125 thousand, € 12,720 thousand, € 9,990 thousand, € 9,141 thousand, € 6,429 thousand, € 4,995 thousand, € 4,995 thousand, € 3,808 thousand, € 2,222 thousand, € 2,159 thousand and € 625 thousand) with interest rates between 0.00% and 1.73% (31 December 2017: 0.00% to 1.73%) and with maturity between 2019 and 2028 (31 December 2017: 2018 – 2028). The principal of the loans is payable on an annual or semi-annual basis or at maturity and the interest is payable semi-annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

CIB Bank Zrt.

The VUB Group received from CIB Bank Zrt. two loans both in the nominal amount of € 25,000 thousand. The variable interest rates of both loans were 0.08% as at 31 December 2018. The principal is payable at maturity in 2019 and the interest are payable monthly.

Intesa Sanpaolo Bank Ireland P. L. C.

Loans received as at 31 December 2018 and 31 December 2017 from the Intesa Sanpaolo Bank Ireland P. L. C. consisted of two loans in the nominal amount of € 25,000 thousand and € 10,000 thousand with the fixed interest rates 0.15% and 0.19%, both maturing in 2019. The principal is payable at maturity and the interest are payable annually.

Intesa Sanpaolo Bank Luxembourg S. A.

As at 31 December 2018 and 31 December 2017 loans from the Intesa Sanpaolo Bank Luxembourg S. A. consisted of two loans in the nominal amount of € 20,000 thousand and € 10,000 thousand. The fixed interest rates are 1.52% and 2.10%, respectively, the interest is payable quarterly and the principal is payable at the maturity of the loan contracts in 2019.

European Bank for Reconstruction and Development ('EBRD')

Loans received from the EBRD represented funds granted to support the energy savings in large corporations. At 31 December 2018, there were five loan arrangements concluded in the nominal amount of € 3,571 thousand, € 3,571 thousand, € 3,571 thousand, € 2,143 thousand and € 558 thousand

(31 December 2017: five loan arrangements in the nominal amount of € 5,000 thousand, € 5,000 thousand, € 5,000 thousand, € 3,571 thousand and € 3,285 thousand). The maturity of the loans is between 2020 and 2023 (31 December 2017: 2020 – 2023). At 31 December 2017 the variable interest rates are in the range between 0.35% and 1.64% (31 December 2017: 0.35% – 1.63%). The frequency of the repayment of both the interest and the principal is semi – annual.

Intesa Sanpaolo S. p. A.

At 31 December 2018, there were one loan arrangements concluded with the Parent Company (31 December 2017: eleven loan arrangements) in the nominal amount of € 13,000 thousand (31 December 2017: € 20,000 thousand, € 20,000 thousand, € 20,000 thousand, € 20,000 thousand, € 15,000 thousand, € 13,000 thousand, € 10,000 thousand, € 10,000 thousand, € 8,000 thousand, € 5,000 thousand and € 3,000 thousand) maturing in 2019 (31 December 2017: 2018 – 2019) and with the fixed interest rate in the range of 2.76% (31 December 2017: (0.31%) to 3.45%). The principal is payable at maturity of the loan and the interest is payable on an annual basis.

Council of Europe Development Bank

At 31 December 2018, loans from the Council of Europe Development Bank comprised of four loans in the nominal amount of € 2,667 thousand, € 2,000 thousand, € 1,500 thousand and € 874 thousand (31 December 2017: four loans in the nominal amount of € 3,333 thousand, € 3,000 thousand, € 3,000 thousand and € 1,311 thousand). The purpose of these loans is to fund SME projects and development of municipalities in the Slovak republic. The interest rates of these loans are linked to 3M Euribor and are between 0.15% and 0.30% at 31 December 2018 (31 December 2017: 0.14% –0.31%)The maturity of the individual loans is between 2019 and 2022 (31 December 2017: 2019 – 2022). The interest is payable quarterly and the principal is payable on an annual basis.

Tatra banka, a. s.

As at 31 December 2017 the VUB Group had loan received from the Tatra banka, a. s. in the nominal amount of € 25,000 thousand with maturity in 2018 and the interest rate 0.65%. The principal was payable at maturity of the loan and the interest was payable on a monthly basis.

12.4. Due to customers

€ '000	2018	2017
Current accounts	7,395,934	6,407,771
Term deposits	2,475,038	2,576,930
Government and municipal deposits	850,893	513,664
Savings accounts	246,494	238,263
Loans received	76,201	–
Promissory notes	–	9,988
Other deposits	86,077	116,304
	11,130,637	9,939,121

12.5. Subordinated debt

€ '000	2018	2017
Subordinated debt	200,181	200,164

At 31 December 2018, the balance of subordinated debt comprised of one ten-year loan drawn on 22 December 2016, in the nominal amount of € 200,000 thousand (31 December 2017: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. The variable interest rate was 2.96% as at 31 December 2018. In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

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

				Non-cash changes			
2018 € '000	1 January	Cash flow	Accruals	Revalua-tion	Exchange difference	Other	31 December
Subordinated debt	200,164	–	17	–	–	–	200,181

				Non-cash changes			
2017 € '000	1 January	Cash flow	Accruals	Revalua-tion	Exchange difference	Other	31 December
Subordinated debt	200,165	–	(1)	–	–	–	200,164

12.6. Debt securities in issue

€ '000	2018	2017
Covered bonds	838,698	262,037
Covered bonds subject to cash flow hedges	80,378	281,063
Covered bonds subject to fair value hedges	1,388,658	1,696,454
	2,307,734	2,239,554
Revaluation of fair value hedged covered bonds	18,722	8,465
Unamortized part of revaluation related to terminated fair value hedges	5,797	4,361
	2,332,253	2,252,380

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the VUB Group (note 12.2.).

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

2018 € '000	1 January	Cash flow Proceeds from issue	Cash flow Repay-ments	Non-cash changes Accruals	Non-cash changes Re-valuation	Non-cash changes Exchange differ-rence	Non-cash changes Other	31 De-cember
Covered bonds	2,252,380	300,000	(235,545)	2,618	10,259	2,541	–	2,332,253

2017 € '000	1 January	Cash flow Proceeds from issue	Cash flow Repay-ments	Non-cash changes Accruals	Non-cash changes Re-valuation	Non-cash changes Exchange differ-rence	Non-cash changes Other	31 De-cember
Covered bonds	1,715,308	750,000	(186,155)	(1,754)	(19,557)	(5,415)	(47)	2,252,380

Name	Interest rate %	Currency	Number in circulation as at 31 December 2018	Nominal value in original currency per piece	Issue date	Maturity date	2018 € '000	2017 € '000
Mortgage bonds VÚB, a. s. XX.	4.300	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a. s. XXX.	5.000	EUR	1,000	33,194	5.9.2007	5.9.2032	33,476	33,457
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,738	19,724
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	560	33,194	31.3.2008	31.3.2020	19,189	19,140
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,165	16,067
Mortgage bonds VÚB, a. s. 57.	1.039	EUR	100	1,000,000	30.9.2010	30.9.2018	–	100,262
Mortgage bonds VÚB, a. s. 58.	1.531	EUR	80	1,000,000	10.12.2010	10.12.2019	80,073	80,071
Mortgage bonds VÚB, a. s. 62.	1.712	EUR	100	1,000,000	28.7.2011	28.7.2018	–	100,730
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,479	25,463
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	50,838	50,795
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	72,014	71,967
Mortgage bonds VÚB, a. s. 75.	2.000	EUR	300	100,000	5.4.2013	5.4.2019	30,447	30,456
Mortgage bonds VÚB, a. s. 76.	2.400	EUR	–	10,000	22.4.2013	22.4.2018	–	3,141
Mortgage bonds VÚB, a. s. 77.	1.800	CZK	–	100,000	20.6.2013	20.6.2018	–	19,759
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	905	10,000	3.3.2014	3.3.2020	9,220	9,227
Mortgage bonds VÚB, a. s. 79.	2.000	EUR	10,000	1,000	24.3.2014	24.9.2020	10,154	10,154
Mortgage bonds VÚB, a. s. 80.	1.850	EUR	31	1,000,000	27.3.2014	27.3.2021	31,622	31,704
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	39,425	39,556
Mortgage bonds VÚB, a. s. 82.	1.650	EUR	1,701	1,000	16.6.2014	16.12.2020	1,716	1,716
Mortgage bonds VÚB, a. s. 83.	0.900	EUR	500	100,000	28.7.2014	28.7.2019	50,151	50,088
Mortgage bonds VÚB, a. s. 84.	0.600	EUR	500	100,000	29.9.2014	30.9.2019	50,040	49,996
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,628	49,581
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	1,000	100,000	27.4.2015	27.4.2020	99,610	99,135
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	98,281	97,916
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	965	100,000	11.9.2015	11.9.2020	96,704	96,733
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,456	99,338
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,192	98,011
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	100,066	99,972

(Table continues on the next page)

Name	Interest rate %	Currency	Number in circulation as at 31 December 2018	Nominal value in original currency per piece	Issue date	Maturity date	2018 € '000	2017 € '000
Mortgage bonds VÚB, a. s. 92.	1.700	USD*	700	100,000	27.6.2016	27.6.2019	48,433	58,779
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	248,641	248,139
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	248,253	247,830
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	248,789	248,401
Covered bonds VÚB, a. s. 1	0.500	EUR	2,500	100,000	26.6.2018	26.6.2023	249,605	–
Covered bonds VÚB, a. s. 2	1.500	EUR	500	100,000	5.10.2018	15.12.2027	50,082	–
							2,307,734	2,239,555

* The VUB Group issued the mortgage bonds in USD due to lower funding costs in USD, funding needs in USD and interests from investor side regarding securities denominated in USD.

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

€ '000	2018
Financial assets at AC:	
Due from customers	
Corporate	147
Retail	
Mortgages	9,036
	9,183
Financial liabilities at AC:	
Due to banks	(18)
Due to customers	1,517
	1,499

14. Investments in joint ventures and associates

2018 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50.00%	16,597	(7,920)	8,677
SBCB	33.33%	3	78	81
		16,600	(7,842)	8,758

2017 € '000	Share (%)	Cost	Revaluation	Carrying amount
VÚB Generali	50.00%	16,597	(7,692)	8,905
SBCB	33.33%	3	64	67
		16,600	(7,628)	8,972

SBCB is associates of the VUB Group for which equity method of consolidation is used.

VÚB Generali is a joint arrangement in which the Group has a joint control and a 50% ownership interest. The company was founded in 2004 by VUB Bank and Generali Poisťovňa, a. s. and it is structured as a separate vehicle in which the Group has a residual share on net assets. Accordingly, the Group has classified its interest in VÚB Generali as a joint venture which is also equity-accounted.

VÚB Generali and SBCB are incorporated in the Slovak Republic.

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

€ '000	2018 VÚB Generali	SBCB	VÚB Generali	2017 SBCB
Net profit for the year*	4,233	44	3,895	52
Other comprehensive income	(690)	–	437	–
Total comprehensive income for the year	3 543	44	4,332	52
Assets**	18,216	241	18,745	225
Liabilities	(856)	(6)	(936)	(25)
Equity	17,360	235	17,809	200
VUB Group's interest on equity at 1 January	8,905	67	8,739	49
Share of profit/(loss)	2,117	14	1,948	18
Share of other comprehensive income	(345)	–	218	–
Dividends received during the year	(2,000)	–	(2,000)	–
VUB Group's interest on equity at 31 December	8,677	81	8,905	67
Carrying amount at 31 December	8,677	81	8,905	67
* *includes: Interest income*	372	–	327	–
Depreciation and amortization	(92)	(2)	(85)	(8)
Income tax expense	(1,133)	–	(1,042)	(3)
** *includes: Cash and cash equivalents*	12	7	3	3

15. Property and equipment and Non-current assets classified as held for sale

2018 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or revalued amount					
At 1 January	103,635	62,138	49,609	4,042	219,424
Additions	7	4	4	11,386	11,403
Disposals	(2,701)	(7,801)	(6,104)	–	(16,606)
Transfers	246	2,599	7,195	(10,040)	–
Revaluation	2	–	–	–	–
Exchange differences	(1)	–	–	–	(1)
At 31 December	101,188	56,940	50,704	5,388	214,220
Accumulated depreciation					
At 1 January	–	(57,328)	(35,157)	–	(92,485)
Depreciation for the period	(4,764)	(2,641)	(3,403)	–	(10,808)
Disposals	2,621	7,780	4,494	–	14,895
Transfers	–	265	(265)	–	–
At 31 December	(2,143)	(51,924)	(34,331)	–	(88,398)
Impairment losses					
At 1 January	–	–	(91)	–	(91)
Creation	(7,090)	–	(36)	–	(7,126)
At 31 December	(7,090)	–	(127)	–	(7,217)
Carrying amount					
At 1 January	103,635	4,810	14,361	4,042	126,848
At 31 December	91,955	5,016	16,246	5,388	118,605

2017 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or revalued amount					
At 1 January	201,806	67,934	50,861	4,118	324,719
Additions	–	–	–	11,500	11,500
Disposals	(3,249)	(7,441)	(4,406)	–	(15,096)
Transfers	1,020	1,640	3,150	(11,576)	(5,666)
Exchange differences	6	5	4	–	15
Revaluation	27,805	–	–	–	27,468
Other*	(123,853)	–	–	–	(122,733)
At 31 December	103,635	62,138	49,609	4,042	219,424
Accumulated depreciation					
At 1 January	(111,587)	(61,494)	(36,236)	–	(209,317)
Depreciation for the year	(5,871)	(3,324)	(2,939)	–	(12,134)
Disposals	2,571	7,494	3,150	–	13,215
Exchange differences	(6)	(4)	(4)	–	(14)
Other*	114,893	–	–	–	114,893
At 31 December	–	(57,328)	(35,157)	–	(92,485)
Impairment losses (note 21)					
At 1 January	(10,502)	–	(47)	–	(10,549)
Creation	–	–	(44)	–	(44)
Release	1,542	–	–	–	1,542
Other*	8,960	–	–	–	8,960
At 31 December	–	–	(91)	–	(91)
Carrying amount					
At 1 January	79,717	6,440	14,578	4,118	104,853
At 31 December	103,635	4,810	14,361	4,042	126,848

* 'Other' represents elimination of the accumulated depreciation and impairment losses to 'Buildings and land' due to application of revaluation model.

In 2018 the VUB Group reviewed the carrying amount of its buildings. An impairment test was carried out to determine the recoverable amount of these assets which was based on the fair value less costs to sell. As a result of the impairment test the VUB Group recognized an impairment loss in total amount of € 7,090 thousand (31 December 2017: € 8,960 thousand).

At 31 December 2017, the VUB Group changed the accounting policy for 'Buildings and land', before evaluated from the cost to the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The VUB Group used income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs. The impact of the revaluation model on equity was in the total amount of € 21,966 thousand and on profit in the amount of € 1,521 thousand due to release of previously booked impairment.

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2018	2017
Cost	174,242	199,683
Accumulated depreciation	(98,506)	(114,893)
Impairment losses	(10,438)	(10,481)
	65,298	74,309

At 31 December 2018 and 31 December 2017, the VUB Group held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2018	2017
Cost	35,141	–
Accumulated depreciation	(1,129)	–
Impairment losses	(7,090)	–
	26,922	–

At 31 December 2018, the gross book value of fully depreciated tangible assets that are still used by the VUB Group amounted to € 84,232 thousand (31 December 2017: € 92,881 thousand).

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

At 31 December 2018, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2017: € nil thousand).

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

16. Intangible assets

2018 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	239,425	19,483	24,238	283,146
Additions	–	–	25,212	25,212
Disposals	(137)	(8,983)	(137)	(9,257)
Transfers	12,622	334	(12,956)	–
Exchange differences	(3)	(1)	–	(4)
At 31 December	251,907	10,833	36,357	299,097
Accumulated amortisation				
At 1 January	(184,525)	(18,521)	–	(203,046)
Amortization for the year	(12,059)	(389)	–	(12,448)
Disposals	274	8,983	–	9,257
Exchange differences	2	1	–	3
At 31 December	(196,308)	(9,926)	–	(206,234)
Carrying amount				
At 1 January	54,900	962	24,238	80,100
At 31 December	55,599	907	36,357	92,863

2017 **€ '000**	**Software**	**Other intangible assets**	**Assets in progress**	**Total**
Cost				
At 1 January	225,845	55,440	21,009	302,294
Additions	35	–	23,802	23,837
Disposals	(6,843)	(36,181)	–	(43,024)
Transfers	20,355	218	(20,573)	–
Exchange differences	33	6	–	39
At 31 December	239,425	19,483	24,238	283,146
Accumulated amortisation				
At 1 January	(179,052)	(54,354)	–	(233,406)
Amortisation for the year	(12,290)	(345)	–	(12,635)
Disposals	6,843	36,181	–	43,024
FX differences	(26)	(3)	–	(29)
At 31 December	(184,525)	(18,521)	–	(203,046)
Carrying amount				
At 1 January	46,793	1,086	21,009	68,888
At 31 December	54,900	962	24,238	80,100

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

At 31 December 2018, the gross book value of fully amortised intangible assets that are still used by the VUB Group amounted to € 141,298 thousand (31 December 2017: € 138,033 thousand).

At 31 December 2018, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2017: € 1,833 thousand).

17. Goodwill

€ '000	**2018**	**2017**
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a. s.	18,871	18,871
	29,305	29,305

Goodwill related to VÚB Leasing includes both goodwill related to the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million) from 2007 and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million from 2010).

Goodwill related to Consumer Finance Holding, a. s. arose in 2005 on the acquisition of CFH, the VUB Group's consumer finance subsidiary.

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

The VUB Group uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on the ISP Group level specifically for the Slovak market.

The following rates are used by the VUB Group:

€ '000	2018	2017
Discount rate-cash flows	6.39%	7.66%
Discount rate-terminal value	7.81%	8.62%
Projected growth rate	4.48%	4.40%

The calculation considers the following key assumptions:
- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

18. Current and deferred income tax assets and liabilities

€ '000	2018	2017
Current income tax assets	1,181	9,478
Deferred income tax assets	70,731	53,779
Current income tax liabilities	10,724	–

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

€ '000	2018	Profit/ (loss) (note 35)	Equity	Impact of adopting IFRS 9	2017
Derivative financial instruments designated as cash flow hedges	2	–	145	–	(143)
Financial assets at FVOCI	(1,452)	–	9,152	(10,604)	–
Available-for-sale financial assets	–	–	1,181	–	(1,181)
Financial assets at AC:		–	–	–	
Due from other banks	159	42	–	101	16
Due from customers	78,195	12,189	–	9,491	56,515
	78,354	12,231	–	9,592	56,531
Property and equipment	(5,487)	5,333	(71)	–	(10,749)
Other assets	7	–	–	7	–
Provisions	616	(137)	–	(315)	1,068
Other liabilities	9,785	536	–	–	9,249
Other	(11,094)	(10,239)	55	86	(996)
Deferred income tax assets	70,731	7,724	10,462	(1,234)	53,779

19. Other assets

€ '000	Note	2018	2017
Operating receivables and advances		17,836	15,013
Prepayments and accrued income		5,664	7,008
Other tax receivables		1,504	1,315
Inventories		1,393	1,819
Receivables from termination of leasing		42	3
Settlement of operations with financial instruments		9	7
Other		637	632
Impairment losses	22	(3,338)	(2,669)
		23,747	23,128

20. Provisions

€ '000	Note	2018	2017
Financial guarantees and commitments	22	14,380	19,781
Litigation	23, 25	9,408	8,991
Restructuring provision	23	924	924
Other provisions	23	11	47
		24,723	29,743

21. Other liabilities

€ '000	2018	2017
Various creditors	51,771	43,448
Settlement with employees	33,314	27,493
Severance and Jubilee benefits	5,411	4,729
Accruals and deferred income	2,749	5,367
VAT payable and other tax payables	2,313	2,583
Settlement with shareholders	1,723	1,508
Share remuneration scheme	440	850
Investment certificates	434	449
Settlement of operations with financial instruments	1	25
Factoring	–	9,096
Other	1,233	368
	99,389	95,916

At 31 December 2018 and 31 December 2017 there were no overdue balances within 'Other liabilities'.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to current rates of return on Slovak government bonds with a 15 years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the Projected Unit Credit Method. For the calculation there was used an average turnover rate which is based on historical data on employees' turnover at the VUB Group for the last three years. The average age-specific turnover rate is calculated as the ratio of number of terminations and the average number of employees. All employees of the VUB Group are covered by the retirement and jubilee employee benefits program.

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

		2018		2017
	Jubilee benefits	**Retirement benefits**	**Jubilee benefits**	**Retirement benefits**
Discount rate	(0.28%)	1.23%	(0.35%)	0.94%
Growth of wages*	–	4.00%	–	3.50%
Future growth of wages*	–	4.00%	–	3.50%
Fluctuation of employees (based on age)	6.1% – 41.6%	6.1% – 41.6%	5.7% – 36.8%	5.7% – 36.8%
Retirement age	Based on valid legislation		Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic		Based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

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

2018 **€ '000**	**1 January**	**Creation (note 32)**	**Use**	**31 December**
Social fund	614	3,919	(1,733)	2 801

2017 **€ '000**	**1 January**	**Creation (note 32)**	**Use**	**31 December**
Social fund	702	1,483	(1,571)	614

22. Movements in impairment losses

2018 € '000	Note	31 December 2017	FTA	1 January	Net creation (note 34)	Assets written-off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		–	226	226	(92)	–	–	–	134
Financial assets at AC:	12								
Due from other banks		73	482	555	130	–	69	–	754
Due from customers		373,577	45,604	419,181	59,375	(61,877)	(1,271)	(10,496)	404,912
		373,650	46,086	419,736	59,505	(61,877)	(1,202)	(10,496)	405,666
Property and equipment and Non-current assets classified as held for sale	15	91	–	91	7,126	–	–	–	7,217
Other assets	19	2,669	32	2,701	205	–	–	432	3,338
Financial guarantees and commitments	20, 35	19,781	(1,498)	18,283	(5,347)	–	1,450	–	14,386
		396,191	44,846	441,037	61,397	(61,877)	248	(10,064)	430,741

2017 € '000	**Note**	**1 January**	**Net creation (note 34)**	**Assets written-off/sold**	**Exchange difference**	**Other***	**31 December**
Financial assets at AC:	12						
Due from other banks		18	55	–	–	–	73
Due from customers		394,136	65,614	(74,119)	(1,662)	(10,392)	373,577
		412,136	248,618	(74,119)	(1,662)	(10,392)	373,650
Property and equipment and Non-current assets classified as held for sale	15	10,549	(1,498)	–	–	(8,960)	91
Other assets	18	2,483	187	–	–	(1)	2,669
Financial guarantees and commitments	20, 35	20,552	(1,391)	–	620	–	19,781
		445,720	245,916	(74,119)	(1,042)	(19,353)	396,191

* 'Other' represents:
- The elimination of impairment losses to 'Buildings and land' due to application of revaluation model (note 14);
- Change in reporting due to merger with CFH the on the line 'Other assets'.

23. Movements in provisions

2018 € '000	Note	1 January	Net creation	Use	Other	31 December
Litigation	20, 25, 34	8,991	390	(14)	41	9,408
Restructuring provision	20, 34	924	1,210	(1,210)	–	924
Other provisions	20, 34	47	11	(47)	–	11
		28,239	1,611	(1,271)	41	10,343

2017 € '000	Note	1 January	Net creation	Use	Other	31 December
Litigation	20, 25, 34	25,514	(16,425)	(98)	–	8,991
Restructuring provision	20, 34	425	710	(238)	–	924
Other provisions	20, 34	35	12	–	–	47
		25,974	(15,703)	(336)	–	9,962

24. Equity

€ '000	2018	2017
Share capital – authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,719	13,719
Reserves	116,472	127,548
Retained earnings (excluding net profit for the year)	892,625	885,503
	1,453,635	1,421,589

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

€ '000	2018	2017
Net profit for the year attributable to shareholders	160,318	174,997

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

The structure of shareholders is as follows:

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

The rights and responsibilities of shareholders are set out in the legal regulations and the Articles of Association of the Company. The right of a shareholder to participate in the management of the Bank, the right to a share of the profits and the right to a share of the liquidation balance, in the event of the winding up of the Bank with liquidation, are attached to a registered share. Each shareholder is entitled to attend the General Meeting, to vote, to request information and seek explanations and submit proposals. The number of votes allocated to each shareholder is determined by the ratio of the nominal value of its share to the amount of registered capital. A shareholder may exercise the shareholder rights attached to book-entered shares at the General Meeting if the shareholder is entitled to exercise these rights as of the decisive date specified in the invitation to the General Meeting. The exercise of a shareholder's voting rights may only be restricted or suspended by the law. The shares are freely transferable by registration of transfer in line with relevant regulation. The General Meeting of the Company as the main decision making body of the Company is entitled to decide on share issues or on the acquisition of the Company's own shares.

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

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

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

€ '000	2018	2017
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings*	883,379	877,040
Other reserves	98,232	108,517
Accumulated other comprehensive income	27,493	26,056
Fair value gains and losses arising from the VUB Group's own credit risk related to derivative liabilities	(6)	531
Other transitional adjustments to CET 1 Capital	42,633	–
CET 1 capital elements or deductions – other	(2,872)	–
Less goodwill and intangible assets	(122,168)	(109,405)
	1,371,229	1,347,277
Tier 2 capital		
IRB excess of provisions over expected losses eligible	21,091	10,736
Subordinated debt	200,000	200,000
Other transitional adjustments to T2 Capital	(9,767)	–
	211,323	210,736
Total regulatory capital	1,582,552	1,558,013

* Excluding net profit for the year and other capital funds.

€ '000	2018	2017
Retained earnings	883,379	877,040
Net profit for the year	160,318	174,997
Other capital funds	8,464	8,464
	1,052,943	1,060,501

€ '000	2018	2017	2018 Required	2017 Required
Tier 1 capital	1,371,229	1,347,277	736,961	683,392
Tier 2 capital	211,323	210,736	211,323	210,736
Total regulatory capital	1,582,552	1,558,013	736,961	894,128
Total Risk Weighted Assets	9,212,015	8,542,395	9,212,015	8,542,395
CET 1 capital ratio	14.89%	15.77%	12.50%	11.75%
Total capital ratio	17.18%	18.24%	15.00%	14.25%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, accumulated other comprehensive income, foreign currency translation and reserves. The distracted amounts in Tier 1 capital are goodwill, intangible assets and IPC commitments (contribution to SRF). Certain adjustments are made to IFRS-based results and reserves, as prescribed by the CRR regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and IRB excess of provisions over expected losses.

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

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that VÚB must comply with on consolidated level. Starting from 1 January 2018, the overall capital requirement the VUB Group has to meet in terms of Common Equity Tier 1 ratio is 10.25%. This is the result of:

- the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.25%, entirely of Common Equity Tier 1 ratio;
- additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an O-SII Buffer (Other Systemically Important Institutions Buffer) of 1% and SRB (Systemic Risk Buffer) of 1%.

For the sake of completeness, please note that CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer ('CCyB') starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Slovakia by National Bank of Slovakia in relevant regulation, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the National Bank of Slovakia decided to set the countercyclical ratio (relating to the exposures towards Slovak counterparties) for period starting 1 August 2017 at 0.5% and 1.25% since 1 August 2018 (bringing the total CET 1 capital requirement to 11.75% since 1 January 2018 and 12.5% since 1 August 2018 including Pillar 2 Capital Guidance buffer of 1%).

The Overall Capital Requirement was as of 1 January 2018 set at 14.25%, 15% from 1 August 2018 and 15.25% from 1 August 2019.

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

Internally, within Risk Appetite framework, the VUB Group has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

25. Financial commitments and contingencies

25.1. Issued guarantees and Commitments and undrawn credit facilities

€ '000	2018	2017
Issued guarantees	772,588	783,667
Commitments and undrawn credit facilities	3,165,991	2,779,312
of which revocable	310,169	293,630
	3,938,579	3,562,979

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

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

25.2. Lease obligations

The VUB Group enters into operating lease agreements for cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 December 2018 and 31 December 2017 was as follows:

€ '000	2018	2017
Up to 1 year	–	33

25.3. Operating lease – the Group as a lessor

The VUB Group has entered into a number of non-cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 31 December 2018 and 31 December 2017 are as follows:

€ '000	2018	2017
Up to 1 year	3,531	3,122
1 to 5 years	4,074	3,980
	7,605	7,102

25.4. Legal proceedings

In the normal course of business, the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2018. Pursuant to this review, management has recorded total provisions of € 9,408 thousand (31 December 2017: € 8,991 thousand) in respect of such legal proceedings (see also note 20). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 32,039 thousand, as at 31 December 2018 (31 December 2017: € 27,909 thousand). This amount represents existing legal proceedings against the VUB Group that will most probably not result in any payments due by the VUB Group.

€ '000	2018	2017
Legal proceedings for damages	5,589	5,390
Legal proceedings related to leasing contracts	2,833	2,660
Legal proceedings on credit collection	593	583
Legal proceedings related to credit contracts	392	336
Legal proceedings to rates, interests calculation and other economic conditions applied	1	1
Legal proceedings related to credit positions sold	–	21
	9,408	8,991

26. Net interest income

€ '000	2018	2017
Interest and similar income		
Financial assets at fair value through other comprehensive income	17,838	–
Available-or-sale financial assets	–	8,749
Held-to-maturity investments	–	17,209
Financial assets at amortized cost:		
Due from other banks	12,159	3,207
Due from customers	394,156	412,995
	406,315	416,202
Derivatives – Hedge accounting	(9,912)	(9,515)
Interest income on liabilities	2,157	1,496
	416,398	434,140
Interest and similar expense		
Financial liabilities measured at amortized cost:		
Due to banks	(2,766)	(3,498)
Due to customers and subordinated debt	(19,197)	(20,412)
Debt securities in issue	(33,697)	(32,748)
	(55,660)	(56,658)
Derivatives – Hedge accounting	7,177	6,803
Interest expense on assets	(1,216)	(372)
	(49,699)	(50,227)
	366,699	383,913

Interest income on impaired loans and advances to customers for 2018 amounted to € 12,802 thousand (2017: € 19,291 thousand).

27. Net fee and commission income

Nature and timing of satisfaction of performance obligations, including significant payment terms:

Current accounts	Fees for ongoing account management are charged to the customer's account on a monthly basis. The VUB Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.
Cards	Credit card and debit card fees relate to both fees for issuance of credit card for the period of card's validity as well as fees for specific transactions.
Payments and cash management	Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.
Loans	Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration. They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the VUB Group.
Indirect deposits	These fees mainly relate to providing VUB Group's retail network for the mediation of investments into funds. These fees are paid to the VUB Group by VÚB Asset Management, správ. spol., a. s. Since the VUB Group does not have any ongoing performance obligation regarding these fees, they are recognised in full when charged.
Insurance	The VUB Group provides insurance mediation along with selling its products. Except for life insurance mediation, only aliquote part of commission is sent by the insurance company on monthly basis, therefore the Bank only recognises aliquot part of commission as income with the passage of time. In case client cancels insurance contract with insurance company, the insurance company stops paying the aliquot part of the commission and the VUB Group therefore stops to recognise these fees. The VUB Group is not liable to return aliquote part of commissions recognised in fees to insurance company. Regarding life insurance mediation the VUB Group is exposed to clawbacks if client cancels the insurance contract within certain periods. The Bank calculated effect of IFRS 15 impact and evaluated this impact as non-material and continues to recognise income on these fees as the related mediation service is provided.
Trade finance, Structured finance	Fees for loan commitments which are not expected to result in the draw -down of a loan are recognised on a straight-line basis over the commitment period. Administration of a loan syndication, execution of client transactions with exchanges and securities underwriting, charges for premature termination of loans and other are charged when transaction takes place.
Factoring	Services related to factoring include: – Facility commitment, where fee is recognised on a straight-line basis over the commitment period; – Invoice processing fee, where fixed amount for each processed invoice is charged; – Factoring fee, where fee represent a percentage on total receivable amount factored.

Revenue recognition under IFRS 15 (applicable from 1 January 2018):

Current accounts	Revenue from account service and servicing fees is recognised over time as the services are provided.
Cards	Revenue from card issuance is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Payments and cash management	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loans	Overdraft fee is recognised on a straight-line basis over the overdraft duration. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Indirect deposits	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Insurance	Revenue from insurance mediation services is recognised over time for the duration of contract, except for life insurance mediation where service fee is recognised when service is provided and clawbacks are recognised when they occur.
Trade finance, Structured finance	Loan commitment fee is recognised on a straight-line basis over the commitment period. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Factoring	Facility fee is recognised on a straight-line basis over the commitment period. Revenues related to invoice processing and factoring fee are recognised at the point in time when the transaction takes place.

2018 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	39,029	3,108	–	7	42,144
Cards	38,901	349	–	–	39,250
Payments and cash management	11,037	6,485	372	5	17,899
Loans	7,606	7,463	–	863	15,932
Indirect deposits	15,006	–	–	–	15,006
Insurance	11,730	5	–	–	11,735
Trade finance	19	6,971	2,738	–	9,728
Structured finance	–	1,677	–	–	1,677
Factoring	–	1,503	–	–	1,503
Other	681	1,799	30	305	2,815
	124,009	29,360	3,140	1,180	157,689
Fee and commission expense					
Cards	(23,125)	–	–	–	(23,125)
Payments and cash management	(31)	(8)	(874)	(449)	(1,362)
Current accounts	–	–	–	(517)	(517)
Insurance	(376)	–	–	–	(376)
Factoring	–	(295)	–	–	(295)
Indirect deposits	(9)	(30)	–	–	(39)
Other	(223)	–	(99)	(3,715)	(4,037)
	(23,764)	(333)	(973)	(4,681)	(29,751)
Net fee and commission income	100,245	29,027	2,167	(3,501)	127,938

2017 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current Accounts	39,430	3,044	–	10	42,484
Cards	37,816	270	–	–	38,086
Loans	6,766	8,265	–	26	15,057
Payments & Cash management	9,364	5,057	410	1	14,832
Indirect Deposits	13,257	–	–	–	13,257
Insurance	12,575	1	–	–	12,576
Trade Finance	6	8,279	1,740	–	10,025
Factoring	–	1,475	–	–	1,475
Structured Finance	–	1,102	–	–	1,102
Other	491	346	1,297	–	2,134
	119,705	27,839	3,447	37	151,028
Fee and commission expense					
Cards	(14,180)	–	–	–	(14,180)
Payments & Cash management	(31)	(2)	(319)	(432)	(784)
Current Accounts	–	–	–	(555)	(555)
Loans	(8,143)	–	–	(4)	(8,147)
Insurance	(408)	–	–	–	(408)
Structured Finance	–	–	–	(46)	(46)
Other	(10,146)	–	–	(3,113)	(13,259)
	(32,908)	(2)	(319)	(4,150)	(37,379)
Net fee and commission income	86,797	27,837	3,128	(4,113)	113,649

28. Net trading result

€ '000	2018	2017
Financial assets at FVOCI	32,193	–
Available-for-sale financial assets	-	2,510
Held-to-maturity investments	-	1,208
Customer foreign exchange margins	7,431	6,361
Interest rate derivatives	1,278	2,249
Financial assets held for trading – debt securities	429	(165)
Cross currency swaps	266	17,466
Net result from hedging transactions	172	66
Dividends from equity shares held in FVOCI	168	172
Interest income from financial assets HFT	113	47
Dividends from equity shares held in FVTPL	55	40
Equity derivatives	(7)	(9)
Other derivatives	(67)	(4)
Non-trading financial assets at FVTPL	(151)	83
Foreign currency derivatives and transactions	(1,992)	10,367
	39,888	40,391

29. Other operating income

€ '000	2018	2017
Income from leasing	4,293	4,413
Rent	698	664
Net profit from sale of fixed assets	244	751
Financial revenues	68	554
Services	37	3
Sales of consumer goods	–	47
Other	1,019	2,074
	6,359	8,506

30. Other operating expenses

€ '000	2018	2017
Resolution fund*	(6,336)	(4,489)
Contribution to the Deposit Protection Fund**	(541)	(488)
Other damages	(98)	(39)
Net loss from sale of fixed assets	(90)	–
Other	(8,730)	(10,502)
	(16,092)	(15,518)

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

** The annual contribution for 2018 was determined by the Deposit Protection Fund under the valid methodology. As at 30 June 2018, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2018 was set at 0.0075% p. q. of the amount of protected deposits.

31. Special levy of selected financial institutions

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

€ '000	2018	2017
Special levy of selected financial institutions	(26,286)	(24,823)

Commencing 1 January 2012, banks operating in the Slovak Republic are subject to a special levy of selected financial institutions, originally set to 0.4% p. a. of selected liabilities with the extension of the basis for calculation by deposits subject to a protection based on the special regulation from 1 September 2012. As at 25 July 2014, the total amount of the levy paid by the financial institutions subject to levy exceeded the threshold of € 500,000 thousand and therefore, based on the amendment to the Act on the Special levy of selected financial institutions effective from 2015, the levy rate has been decreased to 0.2% p.a. The levy is recognized in the statement of profit or loss and other comprehensive income on an accrual basis and is payable at the beginning of each quarter.

32. Salaries and employee benefits

€ '000	2018	2017
Remuneration	(89,610)	(89,189)
Social security costs	(35,010)	(34,658)
Social fund	(3,919)	(1,483)
Severance and Jubilee benefits	(684)	(857)
Net restructuring provision	–	(472)
	(129,223)	(126,659)

At 31 December 2018, the total number of employees of the VUB Group was 3,809 (31 December 2017: 3,942). The average number of employees of the VUB Group during the period ended 31 December 2018 was 3,868 (31 December 2017: 3,941).

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

33. Other administrative expenses

€ '000	2018	2017
Information technologies systems maintenance	(22,485)	(25,139)
Rental of buildings and related expenses	(8,782)	(9,428)
Maintenance and repairs	(7,428)	(7,366)
Advertising and sponsorship	(7,142)	(8,484)
Third parties' services	(6,665)	(6,543)
Telephone and telecommunication costs	(5,998)	(5,547)
Postage costs	(3,888)	(4,955)
Forms and office supplies	(3,471)	(3,961)
Indirect personnel costs and compensation	(2,828)	(2,737)
Energy costs	(2,709)	(2,934)
Transport	(1,739)	(1,954)
Cleaning of premises	(1,621)	(1,024)
Security	(1,555)	(1,633)
Information and research	(1,545)	(1,538)
Other rentals	(1,525)	(1,559)
Cost of legal services	(1,384)	(1,527)
Electronic data processing system leasing	(1,310)	(181)
Insurance	(1,161)	(1,184)
Archives and documents	(968)	(698)
Consultations and other fees*	(900)	(873)
Other expenses	(2,431)	(2,175)
Value added tax and other taxes	(333)	(342)
Recovery	2,075	956
	(85,793)	(90,826)

* 'Consultations and other fees' includes the fee for the statutory audit of € 259 thousand (2017: € 328 thousand), other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the VUB Group's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the VUB Group's compliance with the covenants of the loan agreement between the VUB Group and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h – 71k of the Act No. 566/2001 Coll on securities, audit of receivables towards a client of the VUB Group for bankruptcy procedure purposes and agreed-upon procedures on the merger of a Bank's subsidiary with the VUB Group amounted to € 369 thousand (2017: € 348 thousand).

34. Provisions

€ '000	Note	2018	2017
Provisions for Litigations	19, 22, 24	(376)	16,523
Provisions for Other provisions	19, 22	36	(12)
		(340)	16,511

35. Impairment losses and Net gain arising from the derecognition of financial assets measured at amortised cost

€ '000	Note	2018
Impairment losses		(66,744)
Net provisions for financial guarantees and commitments	20, 22	5,347
		(61,397)
Net gain arising from the derecognition of financial assets measured at AC:		
Net write-off/sale		(22,527)
Proceeds from receivables written-off		4,753
Proceeds from receivables sold		21,299
		3,525

€ '000	Note	2017
Impairment losses	22	(64,358)
Provisions for financial guarantees and commitments	20, 22	1,391
Net write-off/sale		(20,568)
Proceeds from receivables written-off		5,580
Proceeds from receivables sold		18,750
		(59,205)

36. Income tax expense

€ '000	Note	2018	2017
Current income tax	17	(51,559)	(44,221)
Deferred income tax	17	7,724	(3,917)
		(43,835)	(48,138)

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

€ '000	2018	2017
Due from other banks	42	12
Due from customers	12,189	(4,919)
Property and equipment	5,333	135
Provisions	(137)	(7)
Other liabilities	536	107
Other	(10,239)	(1,003)
	7,724	(3,917)

The effective tax rate differs from the statutory tax rate in 2018 and in 2017. The reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

€ '000	Note	2018 Tax base	2018 Tax at applicable tax rate (21%)	2017 Tax base	2017 Tax at applicable tax rate (21%)
Profit before tax		204,153	(42,872)	223,135	(46,583)
Tax effect of expenses that are not deductible in determining taxable profit:					
Creation of provisions and other reserves		73,923	(15,524)	97,288	(20,430)
Creation of impairment losses		257,970	(54,174)	277,001	(58,170)
Write-off and sale of assets		14,653	(3,077)	11,068	(2,324)
Other		36,020	(7,564)	14,387	(3,021)
		382,566	(80,339)	399,744	(83,945)
Tax effect of revenues that are deductible in determining taxable profit:					
Release of provisions and other reserves		(71,664)	15,049	(104,191)	21,880
Release of impairment losses		(256,111)	53,783	(303,789)	63,796
Dividends		(223)	47	–	–
Other		(9,687)	2,034	(4,280)	899
		(337,685)	70,914	(412,260)	86,575
Adjustments for current tax of prior periods		(3,524)	740	(85)	18
Withholding tax paid abroad – settlement of advance payments		10	(2)	54	(11)
Current income tax		245,520	(51,559)	210,588	(44,221)
Deferred income tax at 21 %	18		7,724		(3,917)
Income tax expense			(43,835)		(48,138)
Effective tax rate			21.47%		21.57%

37. Other comprehensive income

€ '000	2018	2017
Items that shall not be reclassified to profit or loss in the future		
Net revaluation gain from property and equipment	3	27,804
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation gains arising during the period	680	–
	683	27,804
Items that may be reclassified to profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation (losses)/gains arising during the year	(689)	1,744
Change in value of financial assets at FVOCI (debt instruments):		
Losses arising during the year	(13,894)	–
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(36,435)	–
	(50,329)	–
Change in value of available-for-sale financial assets:		
Gains arising during the year	–	1,780
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	–	(1,072)
	–	708
Exchange difference on translating foreign operation	(400)	269
	(51,418)	2,721
Total other comprehensive income	(50,735)	30,525
Income tax relating to components of other comprehensive income (note 38)	10,654	(6,306)
Other comprehensive income for the year after tax	(40,081)	24,219

38. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense)/ benefit	2018 Net of tax amount	Before tax amount	Tax expense	2017 Net of tax amount
Items that shall not be reclassified to profit or loss in the future						
Net revaluation gain from property and equipment	3	(1)	2	27,804	(5,838)	21,966
Change in value of financial assets at FVOCI (equity instruments)	680	(143)	537	–	–	–
	683	(144)	539	27,804	(5,838)	21,966
Items that may be reclassified to profit or loss in the future						
Change in value of cash flow hedges	(689)	145	(544)	1,744	(366)	1,378
Change in value of financial assets at FVOCI (debt instruments)	(50,329)	10,569	(39,760)	–	–	–
Change in value of Available-for-sale financial assets	–	–	–	708	(102)	606
Exchange differences on translating foreign operations	(400)	84	(316)	269	–	269
	(51,418)	10,798	(40,620)	2,721	(468)	2,253
	(50,735)	10,654	(40,081)	30,525	(6,306)	24,219

39. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates – enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the VUB Group that gives them significant influence over the VUB Group, and anyone expected to influence, or be influenced by, that person in their dealings with the VUB Group;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the VUB Group, including directors and officers of the VUB Group and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the VUB Group and enterprises that have a member of key management in common with the VUB Group.

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

In 2018, the remuneration and other benefits provided to members of the Management Boards were € 3,497 thousand (2017: € 4,102 thousand), of which the severance benefits € 30 thousand (2017: € 66 thousand), and to members of the Supervisory Board € 94 thousand (2017: € 126 thousand).

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

€ '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Financial assets at FVTPL:						
Financial assets held for trading	–	–	–	124	28,540	28,664
Non-trading financial assets at FVTPL	–	–	–	440	–	440
Derivatives – Hedge accounting	–	–	–	–	26,638	26,638
Financial assets at FVOCI	–	–	–	1,112	–	1,112
Financial assets at AC:						
Due from other banks	–	–	–	8,641	31,908	40,549
Due from customers	291	4	–	–	–	295
Other assets	–	7	–	6	2,518	2,531
	291	11	–	10,323	89,604	100,229
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	–	–	–	3,998	30,645	34,643
Derivatives – Hedge accounting	–	–	–	–	11,010	11,010
Financial liabilities at AC:						
Due to banks	–	–	–	580,743	180,883	761,626
Due to customers	1,821	–	228	–	80,736	82,785
Subordinated debt	–	–	–	–	200,181	200,181
Debt securities in issue	–	–	–	–	80,073	80,073
Other liabilities	440	–	–	–	4,387	4,827
	2,261	–	228	584,741	587,915	1,175,145

€ '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	–	–	–	3,848	–	3,848
Issued guarantees	–	–	–	15,024	1,819	16,843
Received guarantees	–	–	–	32,542	14,783	47,325
Derivative transactions (notional amount – receivable)	–	–	–	1,118,191	8,781,977	9,900,168
Derivative transactions (notional amount – payable)	–	–	–	1,123,156	8,778,591	9,901,747

For the year ended 31 December 2018, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	3	–	–	173	47	223
Interest and similar expense	(3)	–	–	(590)	(10,218)	(10,811)
Fee and commission income	1	–	–	90	13,364	13,455
Fee and commission expense	–	–	–	(449)	(23)	(472)
Net trading result	–	–	–	1,605	275	1,880
Other operating income	–	–	–	–	306	306
Other operating expenses	–	39	–	(220)	–	(181)
Other administrative expenses	–	–	–	367	(10,021)	(9,654)
	1	39	–	976	(6,270)	(5,254)

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

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Financial assets at fair value through profit or loss	–	–	–	850	–	850
Derivative financial instruments	–	–	–	995	41,937	42,932
Available-for-sale financial assets	–	–	–	1,832	–	1,832
Financial assets at AC:						
Due from other banks	–	–	–	9,978	32,659	42,637
Due from customers	251	1	–	–	–	252
Other assets	–	7	–	95	1,509	1,611
	251	8	–	13,750	76,105	90,114
Liabilities						
Derivative financial instruments	–	–	–	1,130	20,855	21,985
Financial liabilities at AC:						
Due to banks	–	–	–	201,605	77,412	279,017
Due to customers	2,651	–	214	–	78,199	81,064
Subordinated debt	–	–	–	–	200,164	200,164
Debt securities in issue	–	–	–	–	281,064	281,064
Other liabilities	850	–	–	–	2,644	3,494
	3,501	–	214	202,735	660,338	866,788
Commitments and undrawn credit facilities	–	–	–	3,460	–	3,460
Issued guarantees	–	–	–	9,629	861	10,490
Received guarantees	–	–	–	52,499	15,213	67,712
Derivative transactions (notional amount – receivable)	–	–	–	427,675	5,685,464	6,113,139
Derivative transactions (notional amount – payable)	–	–	–	427,589	5,680,478	6,108,067

For the year ended 31 December 2017, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	4	–	–	161	–	165
Interest and similar expense	(5)	–	–	(1,316)	(7,178)	(8,499)
Fee and commission income	1	–	–	121	12,433	12,555
Fee and commission expense	–	–	–	(446)	(25)	(471)
Net trading result	–	–	–	(5,590)	(9,850)	(15,440)
Other operating income	–	71	–	–	533	604
Other operating expenses	–	–	–	(137)	(270)	(407)
Other administrative expenses	–	–	–	(86)	(8,475)	(8,561)
	–	71	–	(7,293)	(12,832)	(20,054)

40. Events after the end of the reporting period

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

These financial statements were authorised for issue by the Management Board on 22 February 2019.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
Member of the Management Board

Separate financial statements

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

Contents

KPMG Slovensko spol. s r.o.
Dvořákovo nábrežie 10
P.O. Box 7
820 04 Bratislava 24
Slovakia

Telephone +421 (0)2 59 98 41 11
Fax +421 (0)2 59 98 42 22
Internet www.kpmg.sk

Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

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

Report on the Audit of the Separate Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

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

KPMG

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2018: € 13,324,663 thousand; impairment loss recognised in 2018: € 56,341 thousand; total impairment loss as at 31 December 2018: € 370,798 thousand.

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

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

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

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

IT systems and controls over financial reporting

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

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

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

In preparing the separate financial statements, the Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Separate Annual Report

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

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

With respect to the annual report of the Bank, we consider whether it includes the disclosures required by the Act on Accounting.
Based on the work undertaken in the course of the audit of the separate financial statements, in our opinion:

- the information given in the annual report for the year 2018 is consistent with the separate financial statements prepared for the same financial year; and

- the annual report contains information according to the Act on Accounting.

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

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

Appointment and approval of an auditor

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

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

22 February 2019
Bratislava, Slovak Republic

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

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

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

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

	Note	2018	2017
Assets			
Cash, balances at central banks	8	1,747,556	1,595,078
Financial assets at fair value through profit or loss:	9		
Financial assets held for trading		39,548	–
Non-trading financial assets at fair value through profit or loss		440	–
Derivatives – Hedge accounting	10	26,765	–
Financial assets at fair value through profit or loss	9	–	5,783
Derivative financial instruments	9, 10	–	49,856
Financial assets at fair value through other comprehensive income	11	749,974	–
of which pledged as collateral		620,922	–
Available-for-sale financial assets	11	–	520,416
of which pledged as collateral		–	300,043
Held-to-maturity investments	11	–	376,472
of which pledged as collateral		–	376,472
Financial assets at amortised cost:	12		
Due from other banks		126,889	90,744
Due from customers		13,324,663	11,487,518
of which pledged as collateral		199,170	207,661
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13	9,183	–
Investments in subsidiaries, joint ventures and associates	14	42,186	92,745
Property and equipment	15	76,294	111,512
Intangible assets	16	92,201	74,882
Goodwill	17	18,871	–
Current income tax assets	18	1,181	5,813
Deferred income tax assets	18	66,298	38,626
Other assets	19	20,300	19,848
Non-current assets classified as held for sale	15	26,922	–
		16,369,271	14,469,293

The accompanying notes on pages 228 to 380 form an integral part of these financial statements.

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

	Note	2018	2017
Liabilities			
Financial liabilities at fair value through profit or loss:	9		
Financial liabilities held for trading		39,335	–
Derivatives – Hedge accounting	10	15,226	–
Derivative financial instruments	9, 10	–	52,184
Financial liabilities at amortised cost:	12		
Due to banks		992,079	449,815
Due to customers		11,055,766	9,855,433
Subordinated debt		200,181	200,164
Debt securities in issue		2,332,253	2,252,380
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13	1,499	–
Current income tax liabilities	18	8,955	–
Provisions	20	21,918	27,083
Other liabilities	21	93,371	76,254
		14,760,583	12,913,313
Equity	24		
Share capital		430,819	430,819
Share premium		13,719	13,719
Legal reserve fund		87,493	87,493
Retained earnings		1,049,076	997,059
Equity reserves		27,581	26,890
		1,608,688	1,555,980
		16,369,271	14,469,293

The accompanying notes on pages 228 to 380 form an integral part of these financial statements.

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

	Note	2018	2017
Interest and similar income		398,528	366,179
Interest and similar expense		(47,632)	(47,169)
Net interest income	26	350,896	319,010
Fee and commission income		156,078	148,614
Fee and commission expense		(29,645)	(48,967)
Net fee and commission income	27	126,433	99,647
Dividend income		2,000	2,000
Net trading result	28	39,893	40,402
Other operating income	29	1,642	3,026
Other operating expenses	30	(13,233)	(9,884)
Special levy of selected financial institutions	31	(26,286)	(24,823)
Salaries and employee benefits	32	(124,491)	(110,913)
Other administrative expenses	33	(83,434)	(76,290)
Amortisation	16	(12,272)	(10,892)
Depreciation	15	(7,774)	(9,171)
Profit before provisions, impairment and tax		253,374	222,112
Provisions	23, 34	(166)	19,122
Impairment losses	22, 35	(56,341)	(38,047)
Net gains arising from the derecognition of financial assets measured at amortised cost	35	3,441	–
Profit before tax		200,308	203,187
Income tax expense	36	(44,022)	(43,166)
NET PROFIT FOR THE YEAR		156,286	160,021
Other comprehensive income for the year, after tax:	37, 38		
Items that shall not be reclassified to profit or loss in the future:			
Net revaluation gain from property and equipment		2	21,700
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		537	–
		539	21,700
Items that may be reclassified to profit or loss in the future:			
Change in value of cash flow hedges		(544)	1,378
Change in value of financial assets at fair value through other comprehensive income (debt securities)		(39,419)	–
Change in value of Available-for-sale financial assets		–	387
Exchange difference on translating of foreign operations		(224)	210
		(40,187)	1,975
Other comprehensive income for the year, net of tax		(39,648)	23,675
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		116,638	183,696
Basic and diluted earnings per € 33.2 share in €		12.04	12.33

The accompanying notes on pages 228 to 380 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2018

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Buildings and land	Financial assets at FVOCI	Available-for-sale financial assets	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2017	430,819	13,719	87,493	908,926	–	–	4,055	(840)	2	1,444,174
Total comprehensive income for the year, net of tax	–	–	–	160,021	21,700	–	387	1,378	210	183,696
Exchange difference	–	–	–	2	–	–	–	–	(2)	–
Transactions with owners, recorded directly in equity										
Dividends to shareholders	–	–	–	(72,020)	–	–	–	–	–	(72,020)
Reversal of dividends distributed but not collected	–	–	–	130	–	–	–	–	–	130
	–	–	–	(71,890)	–	–	–	–	–	(71,890)
At 31 December 2017	430,819	13,719	87,493	997 059	21,700	–	4,442	538	210	1,555,980
Impact of adopting IFRS 9	–	–	–	(30,078)	–	44,516	(4,442)	–	–	9,996
At 1 January 2018	430,819	13,719	87,493	966,981	21,700	44,516	–	538	210	1,565,976
Total comprehensive income for the year, net of tax	–	–	–	156,286	2	(38,882)	–	(544)	(224)	116,638
Transactions under common control (note 2.2)	–	–	–	69,449	265	–	–	–	–	69,714
Exchange difference	–	–	–	203	–	–	–	–	–	203
Transactions with owners, recorded directly in equity										
Dividends to shareholders	–	–	–	(144,025)	–	–	–	–	–	(144,025)
Reversal of dividends distributed but not collected	–	–	–	182	–	–	–	–	–	182
	–	–	–	(143,843)	–	–	–	–	–	(143,843)
At 31 December 2018	430,819	13,719	87,493	1,049,076	21,967	5,634	–	(6)	(14)	1,608,688

The accompanying notes on pages 228 to 380 form an integral part of these financial statements.

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

	Note	2018	2017
Cash flows from operating activities:			
Profit before tax		200,308	203,187
Adjustments for:			
Amortisation	16	12,272	10,892
Depreciation	15	7,774	9,171
Gain from revaluation of debt securities in issue		(12,800)	(25,019)
Interest income	26	(398,528)	(366,179)
Interest expense	26	47,632	47,169
Dividend income		(2,000)	(2,000)
Loss/(gain) on sale of intangible assets and property and equipment	30	60	(542)
Impairment losses and similar charges	34, 35	78,630	35,579
Interest received		408,407	374,994
Interest paid		(45,712)	(50,686)
Tax paid		(43,239)	(43,237)
Increase in balances at central banks		(485,780)	(7,264)
Increase in financial assets at fair value through profit or loss		(8,714)	–
Increase in derivatives – hedge accounting (assets)		(2,400)	–
Increase in financial assets at fair value through profit or loss		–	(5,309)
Increase in derivative financial instruments (assets)		–	(1,229)
Financial assets at amortised cost:			
(Increase)/decrease in due from other banks		(36,884)	11,023
Increase in due from customers		(1,847,036)	(1,363,417)
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		(11,616)	–
Decrease in other assets		4,338	111
Increase in financial liabilities at fair value through profit or loss		1,793	–
Increase in derivatives – hedge accounting (liabilities)		584	–
Decrease in derivative financial instruments (liabilities)		–	(13,170)
Financial liabilities measured at amortised cost:			
Increase/(Decrease) in due to banks		532,737	(23,848)
Increase in due to customers		1,200,266	361,367
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		1,469	–
Increase in provisions		1,454	–
Increase in other liabilities		267	10,841
Net cash used in operating activities		(396,718)	(838,566)
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(220,000)	–
Disposal of financial assets at fair value through other comprehensive income		244,393	–
Repayments of financial assets at fair value through other comprehensive income		150,000	–
Purchase of available-for-sale financial assets		–	(20,000)
Disposal of available-for-sale financial assets		–	726,872
Repayments of available-for-sale financial assets		–	69,000
Repayments of held-to-maturity investments		–	147,282
Purchase of intangible assets and property and equipment		(30,103)	(32,427)
Disposal of intangible assets and property and equipment		61	1,218
Dividends received		2,000	2,000
Increase of share capital in subsidiary		(3,982)	–
Net cash from investing activities		142,369	893,945

The accompanying notes on pages 228 to 380 form an integral part of these financial statements.

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

	Note	2018	2017
Cash flows from financing activities:			
Proceeds from issue of debt securities	12	300,000	750,000
Repayments of debt securities in issue	12	(235,545)	(186,155)
Dividends paid		(144,025)	(72,020)
Net cash (used in)/from financing activities		(79,570)	491,825
Net change in cash and cash equivalents		(333,919)	547,204
Cash and cash equivalents at the beginning of the year	7	1,612,857	1,065,653
Cash and cash equivalents at 31 December	7	1,278,938	1,612,857

The accompanying notes on pages 228 to 380 form an integral part of these financial statements.

1. Basis of preparation

1.1. Reporting entity – general information

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

At 31 December 2018, the Bank had a network of 212 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2017: 236). The Bank also has one branch in the Czech Republic (31 December 2017: 1).

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

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

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

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

1.2. Basis of accounting

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

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

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value though profit or loss, financial assets at fair value through other comprehensive income, derivatives – hedge accounting, buildings and land in property and equipment under revaluation model (31 December 2017: available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial instruments and buildings and land in property and equipment) to fair value and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

This is the first set of the Group's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in note 2.

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

1.3. Functional and presentation currency

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

Negative balances are presented in brackets.

1.4. Use of judgements and estimates

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

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

1.4.1. Judgements

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

Applicable to 2018 only:
- Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest ('SPPI') on the principal amount outstanding. (note 3.5)
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL. (note 4.1.2)

Applicable to 2017 only:
- Classification of financial instruments: assessment of category within which financial instruments are held: Held-to-maturity investments, Financial assets held for trading or Financial assets designated at fair value through profit or loss on initial recognition. (note 3.5)

1.4.2. Assumptions and estimation uncertainties

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

Applicable to 2018 only:
- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information. (note 4.1.2)

Applicable to 2018 and 2017:

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

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

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

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

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

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

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

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

– Accounting for merger: key assumptions relating to recognition criteria and measurement concepts of assets, liabilities and income and expenses of the merged company (note 2.2).

2. Changes in accounting policies

2.1. Adoption of IFRS 9 and IFRS 15

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

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

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

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

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

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

2.1.1. IFRS 9 Financial Instruments

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

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

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

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

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

Classification of financial assets and financial liabilities

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

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

Measurement

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

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

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

Impairment of financial assets

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

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

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

Impact of the introduction of IFRS 9 on own funds

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

€ '000	2018	2019	2020	2021	2022
Decreasing factor	95%	85%	70%	50%	25%
Impact to CET 1	39,281	35,146	28,944	20,674	10,337

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

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

Transition

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

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

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

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

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

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

€ '000				Remeasurement		
IAS 39 categories	**IFRS 9 categories**	**IAS 39 measurement**	**Reclassification**	**Expected credit losses**	**Other**	**IFRS 9 measurement**
Liabilities	**Liabilities**					
Due to central and other banks	Financial liabilities measured at amortised cost: due to banks	449,815	–	–	–	449,815
Derivative financial instruments	Financial liabilities held for trading	52,184	(14,642)	–	–	37,542
	Derivatives – Hedge accounting	–	14,642	–	–	14,642
Due to customers	Financial liabilities measured at amortised cost: due to customers	9,855,433	(30)	–	–	9,855,403
	Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	30	–	–	30
Subordinated debt	Financial liabilities measured at amortised cost: subordinated debt	200,164	–	–	–	200,164
Debt securities in issue	Financial liabilities measured at amortised cost: debt securities in issue	2,252,380	–	–	–	2,252,380
Provisions	Provisions	7,302	19,781	(1,498)	–	25,585
Other liabilities	Other liabilities	96,035	(19,781)	–	–	76,254
		12,913,313	–	(1,498)	–	12,911,815
Equity	**Equity**					
Equity (excluding net profit for the year)	Equity (excluding net profit for the year)	1,395,959	–	(30,078)	40,074	1,405,955
Net profit for the year	Net profit for the year	160,021	–	–	–	160,021
		1,555,980	–	(30,078)	40,074	1,565,976
		14,469,293	–	(31,576)	40,074	14,477,791

2.1.2. IFRS 15 Revenue from Contracts with Customers

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

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

2.2.Group restructuring under common control

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

On 11 December 2017, VUB as the sole shareholder of Consumer Finance Holding, a. s. and VÚB Leasing, a. s. ('VÚB Leasing') decided to merge Consumer Finance Holding, a. s. without liquidation and to divide it into VUB and VÚB Leasing, a. s. as successor companies as at 1 January 2018. The whole net equity was transferred into VUB. Within this transaction VÚB Leasing acquired amount of assets equal to amount of liabilities, which resulted in the nil amount of equity transferred into VÚB Leasing, therefore no change in VUB's investment in VUB Leasing was recorded.

The merger was accounted for under continuity of values principle, where IFRS compliant book values of Consumer Finance Holding, a. s. ('CFH') and VÚB Factoring, a. s. ('VUB Factoring') were used.

Accounting steps were as follows:
1. The values from 2017 separate financial statements were taken from both CFH and VUB Factoring.
2. Intercompany transactions were eliminated.
3. Investment in VUB presented under 'Investments in subsidiaries, joint ventures and associates' was derecognised against net equity of both CFH and VUB Factoring.
4. Remaining net equity of both CFH and VUB Factoring in amount of € 69,449 thousand was transferred into 'Retained earnings' of VUB.

The reconciliation to the amount presented in Transactions under common control in 'Retained earnings' in Statement of changes in equity is as follows:

€ '000	1 January 2018
Retained earnings of VÚB Factoring	3,087
Retained earnings of CFH	59,068
Eliminations:	
Pre-acquisition reserves of VÚB Factoring	(14,303)
Pre-acquisition reserves of CFH	(4)
Impairment loss to investment in VÚB Factoring	10,533
Transfer from Legal reserved fund of VÚB Factoring	446
Transfer from Legal reserved fund of CFH	10,622
	7,294
	69,449

The impact of merger on Statement of financial position is as follows:

€ '000	1 January 2018 (after IFRS 9)	Merger of VÚB Factoring	Merger of part of CFH	Eliminations	1 January 2018 (after merger)
Assets					
Cash, balances at central banks	1,595,078	–	9	–	1,595,087
Financial assets at fair value through profit or loss:					
Financial assets held for trading	30,424	–	–	–	30,424
Non-trading financial assets at fair value through profit or loss	850	–	–	–	850
Derivatives – Hedge accounting	24,365	–	–	–	24,365
Financial assets at fair value through other comprehensive income	947,387	–	–	–	947,387
Financial assets at amortised cost:					
Due from other banks	90,262	–	163	(6)	90,419
Due from customers	11,451,120	75,397	261,520	(232,891)	11,555,146
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(2,433)	–	–	–	(2,433)
Investments in subsidiaries, joint ventures and associates	92,745	–	4,575	(59,116)	38,204
Property and equipment	111,512	–	1,590	–	113,102
Intangible assets	74,882	13	4,574	–	79,469
Goodwill	–	–	18,871	–	18,871
Current income tax assets	5,813	35	3,070	–	8,918
Deferred income tax assets	35,970	39	14,380	–	50,389
Other assets	19,816	140	5,434	(856)	24,534
	14,477,791	75,624	314,186	(292,869)	14,574,732
Liabilities					
Financial liabilities at fair value through profit or loss:					
Financial liabilities held for trading	37,542	–	–	–	37,542
Derivatives – Hedge accounting	14,642	–	–	–	14,642
Financial liabilities measured at amortised cost:					
Due to banks	449,815	59,774	183,462	(232,891)	460,160
Due to customers	9,855,403			(6)	9,855,397
Subordinated debt	200,164	–	–	–	200,164
Debt securities in issue	2,252,380	–	–	–	2,252,380
Fair value changes of the hedged items in portfolio hedge of interest rate risk	30	–	–	–	30
Provisions	25,585	–	–	–	25,585
Other liabilities	76,254	10,085	7,659	(856)	93,142
	12,911,815	69,859	191,121	(233,753)	12,939,042

€ '000	1 January 2018 (after IFRS 9)	Merger of VÚB Factoring	Merger of part of CFH	Eliminations	1 January 2018 (after merger)
Equity					
Share capital	430,819	2,232	53,110	(55,342)	430,819
Share premium	13,719	–	–	–	13,719
Legal reserve fund	87,493	446	10,622	(11,068)	87,493
Retained earnings	966,981	3,087	59,068	7,294	1,036,430
Equity reserves	66,964	–	265	–	67,229
	1,565,976	5,765	123,065	(59,116)	1,635,690
	14,477,791	75,624	314,186	(292,869)	14,574,732

2.3. Changes in presentation

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

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

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

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

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

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

€ '000	2017	Changes	Restated 2017
Liabilities			
Provisions	7,302	19,781	27,083
Other liabilities	96,035	(19,781)	76,254
Other operating income	5,988	(2,962)	3,026
Other operating expense	(70,014)	60,130	(9,884)
Other administrative expenses	–	(76,290)	(76,290)
Provisions	–	19,122	19,122

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

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

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

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

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

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

The new Standard introduces a number of limited scope exceptions for lessees which include:
- Leases with a lease term of 12 months or less and containing no purchase options;
- Leases where the underlying asset has a low value ('small-ticket' leases).

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

Leases in which the Bank is a lessee

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

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

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

In addition the Bank will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Bank will include payments due under the lease in lease liability.

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

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

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

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

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

Transition

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

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

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

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

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

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

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

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

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

Other standards

The following interpretations and amended standards are not expected to have a significant impact on the Bank's separate financial statements:
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2019);
- Annual Improvements to IFRS 2015 – 2017 Cycle (Effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19: Employee Benefits;
- Amendments to IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2020).

3. Significant accounting policies

3.1. Foreign currency transactions

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

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

3.2. Foreign operations

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

3.3. Cash and cash equivalents

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

3.4. Cash, balances at central banks

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

3.5. Financial instruments

Date of recognition

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

Financial assets and liabilities are recognised in the statement of financial position on value date when funds are transferred.

Classification of financial assets and liabilities

Policy applicable from 1 January 2018

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms into following portfolios:
– Fair value through profit or loss,
– Fair value through other comprehensive income, or
– Amortised cost.

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

The Bank uses the following business models:
– Hold to collect,
– Hold to collect and sell,
– Held for trading/Other.

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

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

Policy applicable before 1 January 2018

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

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

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

Initial and subsequent measurement of financial instruments

Policy applicable from 1 January 2018

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

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

Policy applicable before 1 January 2018

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

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

Reclassification of financial instruments

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

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

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

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. From 1 January 2018 when assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the factors such as change in currency of the loan, introduction of an equity feature, change in counterparty, whether the modification is such that the instrument would no longer meet the SPPI criterion.

Derecognition other than due to substantial modification

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

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

Modifications of financial instruments

Policy applicable from 1 January 2018

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

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

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

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

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

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

Policy applicable before 1 January 2018

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

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

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

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

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

3.5.1.1. Financial assets and liabilities held for trading

Policy applicable from 1 January 2018

The Bank classifies trading portfolio as financial assets or financial liabilities measured at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Financial assets and liabilities held for trading are recorded and measured in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the 'Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities' and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL considered to be incidental to the Bank's trading operations and is presented together with all other changes in the fair value of instruments designated at FVTPL in net trading result. Dividend income from equity instruments measured at FVTPL is also considered to be incidental to the Bank's trading operations and is recorded in profit or loss as net trading result when the right to the payment has been established.

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

The Bank monitors changes in fair values on a daily basis and recognises unrealised gains and losses in the statement of profit or loss and other comprehensive income in 'Net trading result'.

Policy applicable before 1 January 2018

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

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

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

Derivative financial instruments

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

Derivative financial instruments not used for hedge accounting purposes are initially recognised and subsequently re-measured in the statement of financial position at fair value as part of:
– from 1 January 2018: 'Financial assets held for trading'
– before 1 January 2018: 'Derivative financial instruments'

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives are included in 'Net trading result'.

Fair values are obtained from quoted market prices. If such values are not available, discounted cash flow models and option pricing models are used. The fair values of derivative positions are computed using standard formulas and prevailing interest rates applicable for respective currencies available on the market at reporting dates.

Embedded derivatives

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

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

Policy applicable from 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:
- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

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

Policy applicable before 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounted for an embedded derivative separately from the host contract when:
- the host contract was not itself carried at FVTPL;
- the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

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

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

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

Policy applicable from 1 January 2018

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

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

Policy applicable before 1 January 2018

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

Financial instruments classified in this category were those that had been designated by management on initial recognition. This designation could have been used only when at least one of the following conditions was met:
- The designation eliminated or significantly reduced a measurement or recognition inconsistency that would otherwise have arisen from measuring assets or liabilities or recognising the gains and losses on them on a different basis;

– The assets and financial liabilities were part of a group of financial assets, financial liabilities or both that were managed and their performance was evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
– The financial instrument contained one or more embedded derivatives that significantly modified the cash flows that otherwise would have been required by the contract.

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

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

3.5.2. Financial assets at fair value through other comprehensive income

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

Policy applicable from 1 January 2018

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:
– The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
– The contractual terms of the financial asset meet the SPPI test.

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

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

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

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

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

Policy applicable before 1 January 2018

Available-for-sale financial assets

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

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

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

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

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

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

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

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

Held-to-maturity investments

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

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

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

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

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

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

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

3.5.3. Financial assets and liabilities at amortised costs

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

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

Policy applicable from 1 January 2018

From 1 January 2018, the Bank only measures 'Due from other banks' and 'Due from customers' at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Due from other banks

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

Due from customers

Due from customers balances comprise loans and advances and securities with fixed or determinable payments and fixed maturities. These receivables are recorded at amortised cost less any impairment losses. (note 12.2)

Impairment

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

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

Policy applicable before 1 January 2018

Due from other banks

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

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

Due from customers

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

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

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

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

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

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

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

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

3.6. Repurchase and reverse repurchase agreements

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

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

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

3.7. Offsetting financial instruments

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

3.8. Derivatives – Hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

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

3.9. Investments in subsidiaries, joint ventures and associates

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

Dividend discount model

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

3.10. Transactions under common control

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

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

3.11. Property and equipment

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

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

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

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

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

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

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

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

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

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

3.12. Intangible assets

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

	Years
Software and Other intangible assets	7

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

3.13. Goodwill

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

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

3.14 Non-current assets held for sale

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

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

3.15. Provisions

Policy applicable from 1 January 2018

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

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

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

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

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

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

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

Policy applicable before 1 January 2018

Provisions comprised litigations and claims.

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

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

Provision for financial guarantees were recognised in accordance with IAS 37 and subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee had become probable). Financial guarantees were included within 'Other liabilities'. Any increase in the liability relating to financial guarantees was recorded in the statement of profit or loss and other comprehensive income in 'Impairment losses'.

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

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

3.16. Provisions for employee benefits

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

3.17. Equity reserves

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

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

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

Reserve regarding revaluation of financial assets previously measured at FVOCI that were classified as available-for-sale under IAS 39:
- From 1 January 2018: 'Financial assets at fair value through other comprehensive income' reserve which comprises changes in the fair value of Financial assets at FVOCI.
- Before 1 January 2018: 'Available-for-sale financial assets' reserve which comprises changes in the fair value of available-for-sale investments.

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

3.18. Net interest income

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

3.19. Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 3.18).

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

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

3.20. Net trading result

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

3.21. Dividend income

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

3.22. Current and deferred income tax

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

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

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

4. Financial and operational risk management

The Bank has exposure to the following risks from its use of financial instruments:
- Credit risk,
- Market risk,
- Liquidity risk,
- Operational risk.

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

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

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

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

4.1. Credit risk

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

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

More specifically, CRC defines both the general and specific (retail, corporate) credit risk requirements for applied methodologies and procedures, and includes, as separate sections, the policies governing the key aspects of the Bank's credit risk management process:
- Authorized Approval Authority,
- Collateral Management Policy,
- Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

4.1.1. Management of credit risk

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

4.1.2. Impairment losses

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

If there is evidence of impairment for any individually significant client of the Bank, such as a breach of contract, problems with repayments or collateral, the Bank transfers such a client to management of the Recovery Department for pursuing collection activities. Such clients exceeding significant thresholds (€ 500 thousand) are considered to be individually impaired. For collective impairment (other than individually significant client), the Bank uses historical evidence of impairment on a portfolio basis, mainly based on the payment discipline of the clients.

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

The 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.

Inputs, assumptions and techniques used for estimating impairment

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

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

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

For PD models of the portfolios where the Bank uses internal models, the advanced approach is used. The modelling approach consists of the following steps:
- Creation of migration matrices using the internal ratings;
- Removal of macroeconomic effect from the migration matrices using the Merton formula;
- Creation of Through-the-cycle ('TTC') matrix computed as the average of the annual migration matrices obtained after the removal of the macroeconomic effect;
- Creation of the future Point-in-Time ('PIT') matrices obtained by conditioning the TTC matrix using Merton formula and forward looking information;
- Obtaining the final Lifetime PD vectors by multiplying the predicted PIT and TTC matrices adjusted by add-on for incorporation of other economic scenarios.

For LGD models of the portfolios where the Bank uses internal models, the modelling approach consists of the following steps:
- Calculation of nominal LGD values based on the same pools as used by internal models;
- Incorporation of forward looking information using EBA coefficients;
- Obtaining the final LGD values by discounting the recovery rates using Effective interest rate and Average time to recovery.

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

The counterparties with low number of observations and with low numbers of observed defaults, where it was unable to create reliable migration matrices or develop the macroeconomic satellite models for prediction of default rate, were defined as the Low default portfolio. This portfolio, as also defined by Parent Company, consists of exposures with the following parties:
– Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
– Institutions (Banks, and Other Non-banking Financial Institutions);
– Large Corporate (Corporate with turnover more than € 500 million).

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

Staging methodology

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

IFRS 9 proposed the three-stage approach based on changes in credit quality since initial recognition:
– Stage 1 includes financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date.
– Stage 2 includes financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event.
– Stage 3 includes financial assets that have objective evidence of impairment at the reporting date.

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

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

DPD = Banking Date – Due Date for repayment

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

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

The Bank's classification of exposures into the stages is based on the following criteria:

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

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

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

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

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

a) overdue amount at reporting date breach the 5% threshold calculated at a counterparty level:

$$\frac{\text{Overdue Exposure at client level}}{\text{Cash Exposure at client level}} \geq 5\,\%$$

or

b) overdue amount at reporting date or average overdue amount in the last 30 days breach the 5% threshold calculated at a counterparty level:

$$\frac{\text{Average Overdue Exposure at client level for the last 30 days}}{\text{Average Cash Exposure at client level for the last 30 days}} \geq 5\,\%$$

Consequently, the overall exposure of a counterparty is classified to Stage 2 if, at reporting date, the greater of the amounts calculated in a) and b) is equal or higher than the 5% threshold.

Stage 2 criterion: Forborne performing exposures

Forborne status for performing exposures is identified as another criterion of credit deterioration since it represents concession towards a client facing or about to face difficulties in meeting its financial commitments. Forborne performing exposures represents Forborne performing (originally) and Forborne performing stemming from Non-performing. Minimum probation period for these contracts is 24 months, after this period the contract might migrate to Stage 1 if meets exit criteria from Forborne classification (for example there is not more than 30 DPD, contract is Performing or counterparty has repaid more than significant amount of its debt since entering to Forborne).

Stage 2 criterion: Performing exposures showing early warning signals and proactive credit management

Exposures with active Early Warning Signals ('EWS') and clients reported on PCM are classified in Stage 2 since they can be considered as exposures that have deteriorated significantly in credit quality since their recognition. Similarly to forborne status, identification and application of EWS follow the rules defined by the Bank. For IFRS 9 purposes, exposures with orange, red and light blue EWS should be classified into Stage 2.

Early warning system performs regular monitoring of corporate clients portfolio; their risk assessment based on pre-defined criteria, grouped into 6 particular triggers families (Asset Quality Review Fatal indicators, Additional Asset Quality Review indicators, Client Missing Ptayments, Handling Account, Balance Sheet, and Client Management). Level of the riskiness for every particular detected case is expressed by the final EWS „traffic lights" as follows:

Traffic light	Meaning	Related action
Dark blue	Harder severity signals Fast Track activation	Classification to NPL
Light blue	Very high intensity signals Fast Track activation	Impairment proposal Classification proposal
Red	High intensity signals	Proactive management
Orange	Medium intensity signals	Proactive management
Dark green	Low intensity signals	Anomaly check (e.g. rating update)
Light Green	No negative signals	–

Once the counterparty is detected automatically by EWS or manually by Proactive credit management ('PCM') team with risk severity HIGH and the respective deliberative body decides about inclusion of the counterparty in the PCM perimeter, the counterparty is flagged as PCM. The flag PCM is deactivated when the counterparty is excluded to full performing portfolio (Stage 1) or non-performing portfolio (Stage 3).

Stage 2 criterion: Defaulted exposures classified as performing

This criterion contains such exposures which do not satisfy condition for Non-performing classification, but satisfy conditions for the default definition.

Stage 2 criterion: Performing exposures with significant increase in PD

Significant increase of PD between origination (or initial recognition) and reporting date is used as indicator of credit quality deterioration according to the IFRS9 principle par. 5.5.9: 'At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument.' PD at origination is used solely for the purposes of staging.

This criterion is applied for all the portfolios. The thresholds for each portfolio can vary. In order to assess whether credit risk has increased significantly since the origination, it is necessary to compare Lifetime PD between origination and reporting date.

This criterion is set individually for each portfolio however the main features of the methodology are common.

According to the methodology, the comparison should be performed between:
- $PD_{origination}$ – the lifetime PD over the residual maturity related to the rating to which the instrument belonged at the origination (if some other risk drivers e.g. year of life are used in addition to the rating, the values as of the reporting date are taken) and
- $PD_{reporting}$ – the lifetime PD over the residual maturity related to the rating to which the instrument belongs at the reporting date.

The relative change of the lifetime PD is calculated as $PD_{reporting}/PD_{origination}$-1. If this relative change is greater than the set PD threshold then the exposure should be classified to the stage 2.

The proper setting of PD threshold is the core of this criterion. The Group methodology states the PD threshold could be different based on portfolio/model, residual maturity, rating class or other potential drivers. Indeed, the cumulative PDs and their relative differences (between some two rating grades) are changing very swiftly with increasing residual maturity. That's why the one common threshold for all maturities would not lead to proper staging. The differentiation of thresholds between rating classes is important, too – generally, the worse rating leads to the lower threshold.

Stage 3 criterion

Stage 3 financial assets are considered credit impaired. It is when one or more events that have a detrimental impact on the estimated future cash flows have occurred.

Evidence that a financial asset is credit – impaired includes the following observable data:
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Staging criteria for debt securities

Staging process for Bonds is performed in parallel to the staging of Loans. The criteria used to assess whether the credit quality of Bond has deteriorated significantly since origination is Lifetime PDs comparison.

The following criteria are approved for each stage for debt securities:

STAGE 1	STAGE 2	STAGE 3
Bonds with no significant credit quality deterioration Investment grade Bonds (Low Credit Risk Exemption rule valid only for FVOCI Bonds for FTA)	Bonds with significant increase in PD since origination	Defaulted Bonds

In addition to the above-mentioned criteria, the following rules should be followed for Stage Assignment:
- at origination financial instruments are classified in Stage 1;
- if there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2;
- at the date of acquisition all defaulted Bonds are classified in Stage 3.

Staging criteria for Low Default Portfolio and Intragroup exposures

Low Default Portfolio consists of exposures with the following parties:
- Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
- Institutions (Banks, and Other Non-banking Financial Institutions);
- Large Corporate (Corporate with turnover more than € 500 million).

Intragroup exposures are exposures with the following parties:
- Parent Company;
- Bank's own subsidiaries;
- Other ISP Group subsidiaries.

Given their particular nature (exposures are within own bank group with low risk profile), intragroup transactions are always classified as Stage 1 with a 12-months ECL.

Since the models for Low Default Portfolio were developed by Parent Company the staging rules for Low Default Portfolio and Intragroup exposures are set by the Parent Company for Loans and Bonds and valid at ISP Group level. Exposures are classified to Stage 2 based on the significant increase of credit risk criterion measured by Lifetime PD comparison. This criterion for Low Default Portfolio is defined based on the specific rating and residual maturity of exposure. Thresholds are provided by Parent Company. The thresholds are applied in the same way as described above in Stage 2 criterion: Performing exposures with significant increase in PD.

Expected loss calculation

Stage 1

The Expected Loss for exposures in Stage 1 is calculated as:

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

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

In the calculation of Expected Credit Loss for positions expiring during the first year, in order to avoid the counting of an entire PD on yearly basis and to consider the real expiration date, PD can be adjusted as follows:

$$PD_n = 1 - \sqrt[12/n]{1 - PD_{1year}}$$

where n is the number of months to maturity.
For the transactions without a maturity date, it is assumed that they are subjected to annual review and their maturity is assumed to be equal to one year.

Stage 2

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

For exposures with remaining maturity less or equal than 1 year (see Stage 1):

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

For exposures with remaining maturity greater than 1 year :

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

where:
- PD_t is cumulative PD estimated between time 0 and time *t* (time 0 is the reporting date, time *t* is the number of years till maturity);
- LGD_t is percentage of loss in case of default, estimated at time *t*;
- EAD_t is exposure at default, estimated at the beginning of the year *t*;
- EIR is Effective Interest Rate;
- M is residual maturity in years.

To illustrate the application of formula 2 for ECL calculation for exposures in Stage 2 with residual maturity of 3 years, the following example is provided:

$$EL_{lifetime} = EAD_1 \times PD_1 \times LGD_1 + \frac{EAD_2 \times (PD_2\text{-}PD_1) \times LGD_2}{(1+EIR)^1} + \frac{EAD_3 \times (PD_3\text{-}PD_2) \times LGD_3}{(1+EIR)^2}$$

where:
- EAD1, EAD2, EAD3 are exposure at default at the beginning of each residual year;
- PD_1 is probability that exposure enters in default during the first year of residual maturity;
- $PD_2 - PD_1$ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- $PD_3 - PD_2$ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- $LGD_{1,}$ $LGD_{2,}$ LGD_3 is percentage of loss in case of default of each residual year;
- EIR is Effective Interest Rate.

In the calculation of Expected Credit Loss for position expiring during the first year in order to avoid the counting of an entire PD on yearly basis and to consider the real expiration date, PD should be adjusted.

For the transactions without a maturity date, it is assumed that they are subjected to annual review and their maturity is assumed to be equal to one year.

Additionally, for cases when residual maturity is a fraction of years, the Bank can choose to use the maturity as follows:
- When the portion of residual maturity that exceeds the year is greater than six months, the maturity will be rounded to the year immediately after;
- When the portion of residual maturity that exceeds the year is equal or lower than six months, the maturity will be rounded to the previous year.

Stage 3

The Bank decided to determine the provision for Non Performing exposures (transactions in Stage 3) including an Add-on, which estimation is based on forward looking elements, increasing the current level of coverage on NPLs.

The methodology for the estimation of the Add-on on Stage 3 needs to be applied to the whole Non Performing perimeter (both collective and individual assessments) including revocable and irrevocable margins.

The calculation of provision on Stage 3 exposures is based on the following formula:

$$EL_{Stage3} = PCBS^* \, (1 + \text{Add-on}_{Performing})$$

where:
- PCBS is the provision calculated based on scenarios determined by the Bank on NPLs;
- $\text{Add-on}_{Performing}$ is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, Mots-Likely and Worst scenarios from satellite models or obtained with scenarios given by EBA Stress Test coefficients.

Incorporation of forward-looking information

The Bank incorporates forward-looking information by using the Base scenario from the internal satellite models or the Baseline stress test coefficient issued by the European Banking Authority ('EBA'). Other scenarios are incorporated in the form of „Add-on".

The Bank uses internally developed satellite models for the prediction of default rate for various segments. These models are based on relevant macroeconomic variables such as for instance gross domestic product ('GDP'), unemployment rate, consumer prices index, EURIBOR. The development of these models contains the model for the base scenario as well as the models for the other scenarios, which are used to calculate the Add-on. This approach is used for the most of the PD models.

The Bank uses also the stress test coefficients issued by EBA. Since EBA issues the coefficients only for Adverse and Baseline scenario, the Best coefficient is calculated additionally based on these two scenarios. The scenarios are then used for the calculation of the Add-on. Using the EBA coefficients is characteristic for LGD models. Moreover, a similar approach is used for the calculation of Add-on for the exposures in Stage 3.

The satellite models for prediction of default rates are also used for other purpose such as stress testing. The base scenario represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out recalibration of the satellite models.

The Bank identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The economic scenarios used the following ranges of the inputs for the quarters of years 2018, 2019, and 2020 for the satellite model development in 2017.

	GDP, (constant prices, % change)		Unemployment rate (Labour Force Sample Survey, %)		Consumer prices index (quarterly average, % change)		EURIBOR 3M (end of period)	
	Base scenario	Range	Base scenario	Range	Base scenario	Range	Base scenario	Range
1Q 2018	3.6	2.0 – 4.5	8.1	7.1 – 9.5	1.3	0.0 – 2.8	(0.29)	(0.50) – 0.25
2Q 2018	3.8	1.4 – 4.9	7.5	7.5 – 9.7	1.5	0.0 – 2.5	(0.27)	(0.50) – 0.50
3Q 2018	3.9	0.8 – 5.4	8.0	7.5 – 10.1	1.9	0.1 – 2.5	(0.24)	(0.50) – 0.75
4Q 2018	4.0	(0.2) – 6.1	7.7	6.8 – 10.0	2.1	0.1 – 3.3	(0.20)	(0.50) – 1.00
1Q 2019	4.1	(0.6) – 6.4	7.5	6.6 – 10.3	2.0	0.1 – 4.3	(0.00)	(0.40) – 1.25
2Q 2019	4.0	(0.7) – 6.3	6.9	7.0 – 10.5	2.0	0.1 – 4.6	(0.04)	(0.40) – 1.50
3Q 2019	4.0	(0.2) – 6.1	7.4	7.0 – 10.9	2.0	0.1 – 4.9	0.05	(0.40) – 1.75
4Q 2019	3.9	0.8 – 5.4	7.1	6.3 – 10.8	2.0	0.1 – 4.1	0.39	(0.40) – 2.00
1Q 2020	3.6	1.3 – 4.8	6.9	6.1 – 10.5	2.0	0.5 – 4.3	0.48	(0.30) – 2.00
2Q 2020	3.5	1.5 – 4.6	6.3	6.5 – 10.7	2.0	0.5 – 4.6	0.72	(0.30) – 2.25
3Q 2020	3.4	1.7 – 4.3	6.8	6.5 – 11.1	2.0	0.5 – 4.9	0.88	(0.30) – 2.25
4Q 2020	3.4	2.0 – 4.2	6.5	5.8 – 11.0	2.0	0.5 – 4.1	1.11	(0.30) – 2.50

Predicted relationships between the relevant drivers and default rates for various segments have been developed based on analysing historical data over the past 6 to 12 years. (note 4.1.11)

The split of the stage 1 credit portfolio to individually and portfolio assessed is shown below:

	Portfolio assessed			Individually assessed		
2018 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 1						
Balances at central banks	1,592,505	–	1,592,505	–	–	–
Financial assets at AC:						
Due from other banks	125,113	(656)	124,457	–	–	–
Due from customers:						
Municipalities	119,277	(1,238)	118,039	–	–	–
Corporate	4,852,563	(26,166)	4,826,397	–	–	–
Retail	7,369,968	(15,408)	7,354,560	–	–	–
	12,341,808	(42,812)	12,298,996	–	–	–
	12,466,921	(43,468)	12,423,453	–	–	–
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–
Financial commitments and contingencies	3,814,268	(7,021)	3,807,247	–	–	–

The split of the stage 2 credit portfolio to individually and portfolio assessed is shown below:

2018 € '000	Portfolio assessed Gross amount	Portfolio assessed Impairment losses	Portfolio assessed Net amount	Individually assessed Gross amount	Individually assessed Impairment losses	Individually assessed Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	2,530	(98)	2,432	–	–	–
Due from customers:						
Municipalities	21,392	(1,361)	20,031	–	–	–
Corporate	298,271	(11,939)	286,332	–	–	–
Retail	613,750	(52,066)	561,684	–	–	–
	933,413	(65,366)	868,047	–	–	–
	935,943	(65,464)	870,479	–	–	–
Financial commitments and contingencies	206,588	(3,664)	202,924	–	–	–

The split of the stage 3 credit portfolio to individually and portfolio assessed is shown below:

2018 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Municipalities	1	–	1	–	–	–
Corporate	14,091	(4,003)	10,088	64,545	(47,336)	17,209
Retail	336,571	(207,623)	128,948	5,032	(3,658)	1,374
	350,663	(211,626)	139,037	69,577	(50,994)	18,583
	350,663	(211,626)	139,037	69,577	(50,994)	18,583
Financial commitments and contingencies	7,875	(1,305)	6,570	11,918	(2,418)	9,500

The split of the total credit portfolio to individually and portfolio assessed is shown below:

	Portfolio assessed			Individually assessed		
2018 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Balances at central banks	1,592,505	–	1,592,505	–	–	–
Financial assets at AC:						
Due from other banks	127,643	(754)	126,889	–	–	–
Due from customers:						
Municipalities	140,670	(2,599)	138,071	–	–	–
Corporate	5,164,925	(42,108)	5,122,817	64,545	(47,336)	17,209
Retail	8,320,289	(275,097)	8,045,192	5,032	(3,658)	1,374
	13,625,884	(319,804)	13,306,080	69,577	(50,994)	18,583
	13,753,527	(320,558)	13,432,969	69,577	(50,994)	18,583
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–
Financial commitments and contingencies	4,028,731	(11,990)	4,016,741	11,918	(2,418)	9,500

€ '000	Amortised cost	Impairment losses	2017 Carrying amount
Portfolio assessed			
Financial assets at AC:			
Due from other banks	90,817	(73)	90,744
Due from customers:			
Municipalities	128,144	(97)	128,047
Corporate	4,339,142	(37,491)	4,301,651
Retail	7,178,152	(162,187)	7,015,965
	11,645,438	(199,775)	11,445,663
	11,736,255	(199,848)	11,536,407
Securities:			
FVTPL	5,783	–	5,783
Available for sale	520,416	–	520,416
Held to maturity	376,472	–	376,472
	902,671	–	902,671
Individually assessed			
Financial assets at AC:			
Due from customers:			
Corporate	110,253	(69,136)	41,117
Retail	4,332	(3,594)	738
	114,585	(72,730)	41,855

The reconciliation from the opening balance to the closing balance of the impairment losses to explain the changes in the impairment losses and the reasons for those changes:

2018 € '000	1 January 2018 (after IFRS 9)	Merger	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/ sold	31 December 2018
Stage 1										
Financial assets at FVOCI	226	–	38	(79)	–	–	–	(51)	–	134
Financial assets at AC:										
Due from other banks	205	–	1,569	232	–	–	–	(1,350)	–	656
Due from customers	39,378	7,592	25,598	(62,326)	62,879	(15,344)	(405)	(14,560)	–	42,812
	39,583	7,592	27,167	(62,094)	62,879	(15,344)	(405)	(15,910)	–	43,468
Financial commitments and contingencies	7,275	–	8,523	(14,226)	8,097	(649)	(6)	(1,993)	–	7,021
Stage 2										
Financial assets at AC:										
Due from other banks	350	–	–	(252)	–	–	–	–	–	98
Due from customers	52,641	12,012	5,506	46,512	(48,628)	34,408	(29,114)	(7,971)	–	65,366
	52,991	12,012	5,506	46,260	(48,628)	34,408	(29,114)	(7,971)	–	65,464
Financial commitments and contingencies	8,296	–	638	2,148	(7,154)	850	(710)	(404)	–	3,664
Stage 3										
Financial assets at AC:										
Due from customers	219,318	57,537	4,487	48,254	(14,251)	(19,064)	29,518	(2,445)	(60,734)	262,620
Financial commitments and contingencies	2,712	–	1,427	1,107	(943)	(201)	716	(1,095)	–	3,723

2018 € '000	1 January 2018 (after IFRS 9)	Merger	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/ sold	31 December 2018
Total										
Financial assets at FVOCI	226	–	38	(79)	–	–	–	(51)	–	134
Financial assets at AC:										
Due from other banks	555	–	1,569	(20)	–	–	–	(1,350)	–	754
Due from customers	311,337	77,141	35,590	32,440	–	–	–	(24,976)	(60,734)	370,798
	311,892	77,141	37,159	32,420	–	–	–	(26,326)	(60,734)	371,552
Financial commitments and contingencies	18,283	–	10,588	(10,971)	–	–	–	(3,492)	–	14,408

The changes in the gross carrying amount of financial instruments during the year contributed to changes in the impairment losses:

2018 € '000	1 January 2018 (after IFRS 9)	Merger	Origina-tion	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Dere-cognition	Assets written-off/sold	31 Decem-ber 2018
Stage 1									
Financial assets at FVOCI	947,387	–	275,406	–	–	–	(237,286)	(244,393)	741,114
Financial assets at AC:									
Due from other banks	86,600	–	11,817,109	–	–	–	(11,778,596)	–	125,113
Due from customers	10,535,281	53,166	7,459,313	932,929	(1,218,041)	(11,921)	(5,408,919)	–	12,341,808
	10,621,881	53,166	19,276,422	932,929	(1,218,041)	(11,921)	(17,187,515)	–	12,466,921
Financial commitments and contingencies	3,181,185	–	4,689,741	342,017	(200,063)	(8,310)	(4,190,302)	–	3,814,268
Stage 2									
Financial assets at AC:									
Due from other banks	4,217	–	–	–	–	–	(1,687)	–	2,530
Due from customers	839,357	42,620	146,589	(909,376)	1,279,924	(122,899)	(342,802)	–	933,413
	843,574	42,620	146,589	(909,376)	1,279,924	(122,899)	(344,489)	–	935,943
Financial commitments and contingencies	440,323	–	29,138	(329,461)	201,144	(11,054)	(123,502)	–	206,588
Stage 3									
Financial assets at AC:									
Due from customers	385,385	85,381	12,328	(23,553)	(61,883)	134,820	(29,381)	(82,857)	420,240
Financial commitments and contingencies	20,617	–	3,396	(12,556)	(1,081)	19,364	(9,947)	–	19,793

2018 € '000	1 January 2018 (after IFRS 9)	Merger	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/ sold	31 December 2018
Total									
Financial assets at FVOCI	947,387	–	275,406	–	–	–	(237,286)	(244,393)	741,114
Financial assets at AC:									
Due from other banks	90,817	–	11,817,109	–	–	–	(11,780,283)	–	127,643
Due from customers	11,760,023	181,167	7,618,230	–	–	–	(5,781,102)	(82,857)	13,695,461
	11,850,840	181,167	19,435,339	–	–	–	(17,561,385)	(82,857)	13,823,104
Financial commitments and contingencies	3,642,125	–	4,722,275	–	–	–	(4,323,751)	–	4,040,649

4.1.3. Non-performing loan classification

The Bank considers a financial asset to be in Non-performing status in compliant with the Commission's Implementing Regulation (EU) No 680/2014 and its further amendments (Implementing Technical Standards, 'ITS') when:
- The borrower is unlikely to pay its credit obligations to the 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 uses the definitions of non-performing loans derived from the Harmonisation project. The Harmonisation project was driven by Intesa Sanpaolo in order to unify the definitions and categories of non-performing loans across the foreign subsidiaries of the ISP Group. The definition of non-performing loans, which comprise three classification categories (past due, unlikely to pay, doubtful), is based on delinquency (days past due) and judgemental criteria for the categories doubtful and unlikely to pay. In case of the past due category, DPD and materiality thresholds of borrower are taken into account.

The description of the classification categories of loans is as follows:

Classification category	Description
Doubtful	Exposures to borrowers being in a state of insolvency (although not yet legally) or in a de facto equivalent status, regardless of any loss forecasts made by the Bank.
Unlikely to pay	Exposures to borrowers assessed as improbable to thoroughly meet their credit obligations without recourse to actions such as the enforcement of guarantees/collateral.
Past due	Exposures other than those classified as doubtful or unlikely to pay that, as at the reporting date, are past due for over 90 days and exceed the materiality threshold of higher than 5% of outstanding total credit exposures to client.
Performing	All exposures that are not classified as doubtful, unlikely to pay or past due.

The overall borrower exposure is recognised as Past due if, as at reporting date, the higher of the following two values is equal to or exceeding the 5% materiality threshold:
- Borrower's average overdue amounts reported to the total outstanding cash exposure, recorded on a daily basis over the last 90 calendar days;
- Borrower's overdue amount reported to the total outstanding cash exposure as at reporting date.

For category Unlikely to pay are taken into account qualitative indicators such as:
- Borrowers facing difficulties in meeting payment obligations in a timely manner (thus exposed to their creditors' tolerance), despite the confident expectation of positive future operating cash flows;
- Borrowers under negotiations with the Bank for defining an out of Court restructuring/ settlement agreement;
- Borrowers which signed out of Court restructuring/settlement agreements and that are regularly servicing their financial obligations
- Borrowers whose credit quality indicators significantly worsened and where future cash flows are not expected to fully service the debt toward the Bank;
- Serious difficulties in borrower's business (additional equity required, liquidity seriously stretched)

For category Doubtful are taken into account qualitative indicators such as:
- If the borrower is under voluntary dissolution or under any legally binding liquidation, without possibility to operate on 'going concern basis';
- If the Court already ordered the legal liquidation, even if the borrower's operations are not suspended under the legal procedures;
- If according to any public Registry or by Court order the borrower ceases to exist as legal entity;
- If the borrower has been registered (has to be registered) on the Fraud/Black List;
- Borrowers which expected cash flows will not be generated from the borrowers' operations, but from the enforcement of collateral/ guarantees ('gone concern' approach);
- Borrowers (typically, Individuals) against whom the Bank initiates receivership or enforcement proceedings.

Non-performing status is carried out on borrower level following united rules of Parent Company. However, Bank's definition of default (approved by National bank of Slovakia) is in case of Retail Mortgages on transaction level and uses only absolute threshold.

The following table describes the Bank's credit portfolio in terms of classification categories:

€ '000	Category	Gross amount	Impairment losses	2018 Net amount
Balances at central banks				
	Performing	1,592,505	–	1,592,505
Financial assets at AC:				
Due from other banks				
	Performing	127,643	(754)	126,889
Due from customers:				
Municipalities				
	Performing	140,669	(2,599)	138,070
	Doubtful	1	–	1
		140,670	(2,599)	138,071
Corporate				
	Performing	5,150,834	(38,105)	5,112,729
	Past due	8,050	(17)	8,033
	Unlikely to pay	30,748	(13,866)	16,882
	Doubtful	39,838	(37,456)	2,382
		5,229,470	(89,444)	5,140,026
Retail				
	Performing	7,983,718	(67,474)	7,916,244
	Past due	13,183	(7,586)	5,597
	Unlikely to pay	46,146	(26,323)	19,823
	Doubtful	282,274	(177,372)	104,902
		8,325,321	(278,755)	8,046,566
		13,695,461	(370,798)	13,324,663
		13,823,104	(371,552)	13,451,552
Financial assets at FVOCI – debt securities				
	Performing	741,248	(134)	741,114
Financial commitments and contingencies				
	Performing	4,020,857	(10,686)	4,010,171
	Past due	179	(39)	140
	Unlikely to pay	13,127	(2,790)	10,337
	Doubtful	6,486	(893)	5,593
		4,040,649	(14,408)	4,026,241

€ '000	Category	Gross amount	Impairment losses	2017 Net amount
Financial assets at AC:				
Due from other banks				
	Performing	90,817	(73)	90,744
Due from customers:				
Municipalities				
	Performing	128,143	(97)	128,046
	Doubtful	1	–	1
		128,144	(97)	128,047
Corporate				
	Performing	4,323,654	(33,392)	4,290,262
	Past due	2	–	2
	Unlikely to pay	73,411	(27,269)	46,142
	Doubtful	52,328	(45,966)	6,362
		4,449,395	(106,627)	4,342,768
Retail				
	Performing	6,922,721	(33,080)	6,889,641
	Past due	5,635	(1,878)	3,757
	Unlikely to pay	45,748	(20,147)	25,601
	Doubtful	208,380	(110,676)	97,704
		7,182,484	(165,781)	7,016,703
		11,760,023	(272,505)	11,487,518
		11,850,840	(272,578)	11,578,262
Securities				
	Performing	902,671	–	902,671

The payment discipline of each client is monitored regularly via days past due.

DPD = Banking Date – Due Date for repayment

When the client fail to pay more than one agreed instalment, the date of the first unpaid instalment is considered as Due date for repayment.

The following table shows the Bank's credit portfolio in terms of delinquency of payments:

€ '000	Gross amount	Impairment losses	2018 Net amount
Balances at central banks			
No delinquency	1,592,505	–	1,592,505
Financial assets at AC:			
Due from other banks			
No delinquency	126,549	(726)	125,823
1 – 30 days	1,094	(28)	1,066
	127,643	(754)	126,889
Due from customers:			
Municipalities			
No delinquency	140,502	(2,599)	137,903
1 – 30 days	167	–	167
Over 181 days	1	–	1
	140,670	(2,599)	138,071
Corporate			
No delinquency	5,164,979	(56,966)	5,108,013
1 – 30 days	25,658	(1,498)	24,160
31 – 60 days	4,728	(1,348)	3,380
61 – 90 days	455	(18)	437
91 – 180 days	3,565	(1,725)	1,840
Over 181 days	30,085	(27,889)	2,196
	5,229,470	(89,444)	5,140,026
Retail			
No delinquency	7,797,389	(54,391)	7,742,998
1 – 30 days	187,046	(24,174)	162,872
31 – 60 days	43,565	(9,408)	34,157
61 – 90 days	24,701	(7,168)	17,533
91 – 180 days	34,409	(17,356)	17,053
Over 181 days	238,211	(166,258)	71,953
	8,325,321	(278,755)	8,046,566
	13,695,461	(370,798)	13,324,663
	13,823,104	(371,552)	13,451,552
Financial assets at FVOCI – debt securities			
No delinquency	741,248	(134)	741,114
Financial commitments and contingencies			
No delinquency	4,040,649	(14,408)	4,026,241

€ '000	Gross amount	Impairment losses	2017 Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	90,817	(73)	90,744
Due from customers:			
Municipalities			
No delinquency	127,441	(97)	127,344
1 – 30 days	702	–	702
Over 181 days	1	–	1
	128,144	(97)	128,047
Corporate			
No delinquency	4,368,194	(58,938)	4,309,256
1 – 30 days	28,496	(1,662)	26,834
31 – 60 days	1,021	(811)	210
61 – 90 days	1,988	(1,581)	407
91 – 180 days	2	–	2
Over 181 days	49,694	(43,635)	6,059
	4,449,395	(106,627)	4,342,768
Retail			
No delinquency	6,704,945	(24,864)	6,680,081
1 – 30 days	223,982	(10,353)	213,629
31 – 60 days	34,373	(3,315)	31,058
61 – 90 days	22,316	(3,010)	19,306
91 – 180 days	34,160	(14,371)	19,789
Over 181 days	162,708	(109,868)	52,840
	7,182,484	(165,781)	7,016,703
	11,760,023	(272,505)	11,487,518
	11,850,840	(272,578)	11,578,262
Securities			
No delinquency	902,671	–	902,671

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk. Past due but not individually impaired financial assets are more than one day overdue.

	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
2018 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Balances at central banks	1,592,505	–	1,592,505	–	–	–	–	–	–
Financial assets at AC:									
Due from other banks	126,549	(726)	125,823	1,094	(28)	1,066	–	–	–
Due from customers:									
Municipalities	140,501	(2,598)	137,903	167	–	167	1	–	1
Corporate									
Large Corporates	2,137,176	(3,294)	2,133,882	554	(1)	553	7,227	(2,189)	5,038
Large Corporates – debt securities	53,360	(619)	52,741	–	–	–	–	–	–
Specialized Lending	826,812	(30,414)	796,398	100	(2)	98	21,400	(16,214)	5,186
SME	1,255,147	(3,080)	1,252,067	10,787	(103)	10,684	39,471	(31,785)	7,686
Other Non-banking Financial Institutions	769,192	(450)	768,742	–	–	–	2	(1)	1
Public Sector Entities	2,895	(72)	2,823	3	–	3	7	(1)	6
Factoring	82,531	(12)	82,519	12,277	(58)	12,219	10,529	(1,149)	9,380
	5,127,113	(37,941)	5,089,172	23,721	(164)	23,557	78,636	(51,339)	27,297

2018 € '000	Neither past due nor impaired Gross amount	Impair-ment losses	Net amount	Past due but not individually impaired Gross amount	Impair-ment losses	Net amount	Impaired (non-performing) Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	231,639	(3,774)	227,865	6,946	(420)	6,526	11,316	(9,083)	2,233
Consumer Loans	1,270,922	(26,308)	1,244,614	106,758	(18,880)	87,878	211,687	(144,668)	67,019
Mortgages	6,017,227	(5,834)	6,011,393	84,448	(4,173)	80,275	71,054	(24,074)	46,980
Credit Cards	136,531	(4,195)	132,336	9,823	(1,887)	7,936	37,173	(26,623)	10,550
Overdrafts	72,543	(882)	71,661	13,595	(871)	12,724	10,373	(6,833)	3,540
Flat Owners Associations	33,253	(248)	33,005	34	(3)	31	–	–	–
	7,762,115	(41,241)	7,720,874	221,604	(26,234)	195,370	341,603	(211,281)	130,322
	13,029,729	(81,780)	12,947,949	245,492	(26,398)	219,094	420,240	(262,620)	157,620
	13,156,278	(82,506)	13,073,772	246,586	(26,426)	220,160	420,240	(262,620)	157,620
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–	–	–	–
Financial commitments and contingencies	4,020,857	(10,686)	4,010,171	–	–	–	19,792	(3,722)	16,070

2017 € '000	Neither past due nor impaired Amortised cost	Impairment losses	Carrying amount	Impaired (non-performing) Amortised cost	Impairment losses	Carrying amount	Past due but not individually impaired Amortised cost	Impairment losses	Carrying amount
Financial assets at AC:									
Due from other banks	90,817	(73)	90,744	–	–	–	–	–	–
Due from customers:									
Sovereigns									
Municipalities	127,441	(97)	127,344	1	–	1	702	–	702
Corporate									
Large Corporates	1,706,107	(3,602)	1,702,505	2,956	(1,962)	994	11,064	(113)	10,951
Specialized Lending	674,115	(12,449)	661,666	73,934	(27,872)	46,062	50	(1)	49
SME	1,233,566	(14,662)	1,218,904	48,843	(43,401)	5,442	16,019	(806)	15,213
Other Non-banking Financial Institutions	659,982	(1,386)	658,596	3	–	3	–	–	–
Public Sector Entities	1,070	(3)	1,067	5	–	5	83	–	83
Factoring	21,598	(370)	21,228	–	–	–	–	–	–
	4,296,438	(32,472)	4,263,966	125,741	(73,235)	52,506	27,216	(920)	26,296
Retail									
Small Business	202,501	(3,056)	199,445	10,981	(9,068)	1,913	29,569	(698)	28,871
Consumer Loans	1,014,587	(9,937)	1,004,650	124,580	(69,129)	55,451	112,934	(6,521)	106,413
Mortgages	5,192,697	(4,852)	5,187,845	73,776	(17,858)	55,918	75,486	(2,692)	72,794
Credit Cards	152,820	(2,131)	150,689	39,549	(28,939)	10,610	11,240	(1,195)	10,045
Overdrafts	77,347	(993)	76,354	10,876	(7,707)	3,169	13,487	(646)	12,841
Flat Owners Associations	27,651	(358)	27,293	–	–	–	–	–	–
Other	12,393	–	12,393	1	–	1	9	(1)	8
	6,679,996	(21,327)	6,658,669	259,763	(132,701)	127,062	242,725	(11,753)	230,972
	11,103,875	(53,896)	11,049,979	385,505	(205,936)	179,569	270,643	(12,673)	257,970
	11,194,692	(53,969)	11,140,723	385,505	(205,936)	179,569	270,643	(12,673)	257,970

An analysis of past due but not individually impaired credit exposures in terms of the delinquency is presented in the table below:

€ '000	Gross amount	Impairment losses	2018 Net amount
Financial assets at AC:			
Due from other banks			
1 – 30 days	1,094	(28)	1,066
Due from customers:			
Sovereigns			
1 – 30 days	167	–	167
Corporate			
1 – 30 days	21,720	(115)	21,605
31 – 60 days	1,618	(33)	1,585
61 – 90 days	383	(16)	367
	23,721	(164)	23,557
Retail			
1 – 30 days	167,809	(15,862)	151,947
31 – 60 days	33,081	(5,578)	27,503
61 – 90 days	15,010	(3,284)	11,726
91 – 180 days	5,523	(1,493)	4,030
Over 181 days	181	(17)	164
	221,604	(26,234)	195,370
	245,492	(26,398)	219,094
	246,586	(26,426)	220,160

€ '000	Gross amount	Impairment losses	2017 Net amount
Due from customers:			
Sovereigns			
1 – 30 days	702	–	702
Corporate			
1 – 30 days	27,138	(910)	26,228
31 – 60 days	1	–	1
61 – 90 days	77	(10)	67
	27,216	(920)	26,296
Retail			
1 – 30 days	199,036	(7,193)	191,843
31 – 60 days	25,574	(2,062)	23,512
61 – 90 days	12,295	(1,295)	11,000
91 – 180 days	5,789	(1,192)	4,597
Over 181 days	31	(11)	20
	242,725	(11,753)	230,972
	270,643	(12,673)	257,970

4.1.4. Loans with renegotiated terms and forbearance policy

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. The Bank implements a forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, an exposure is identified as forborne if both of these two conditions are satisfied:

- The Bank has identified the financial difficulties that the debtor is facing or is about to face;
- The exposure has been subject to renegotiation or refinancing, granted in relation to the borrower's current financial difficulties or financial difficulties that would have occurred in the absence of the renegotiation or refinancing measures.

Both retail and corporate customers are subject to the forbearance policy:

	Performing forborne			Non-performing forborne		
2018 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	56,953	(7,368)	49,585	24,520	(20,154)	4,366
Retail	53,399	(2,605)	50,794	21,175	(12,940)	8,235
	110,352	(9,973)	100,379	45,695	(33,094)	12,601
Financial commitments and contingencies	948	(1)	947	1,480	(876)	604

	Performing forborne			Non-performing forborne		
2017 € '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Financial assets at AC:						
Corporate	13,865	(438)	13,427	98,075	(48,316)	49,759
Retail	45,586	(1,247)	44,339	21,700	(10,997)	10,703
	59,451	(1,685)	57,766	119,775	(59,313)	60,462

Certain non-performing forborne exposures were reclassified to performing forborne due to improved credit quality or repaid.

4.1.5. Write-off Policy

The Bank writes off a loan or security balance when it determines that the loans or securities are uncollectible. In principle, the Bank considers the credit balances to be uncollectible based on the past due days (1,080 days past due). Credit balances may be written off only if the collateral has already been realized. Receivables subject to write-off are being collected by external collection agencies until they qualify for write-off.

The credit balance can be written off earlier than defined in the conditions described above if there is evidence that the receivable cannot be collected. The write-off of such receivables is subject to the approval of the Credit Risk Officer.

Financial assets that are written-off are subject of continuous enforcement process. The majority of such assets are subject of sale to third parties for the best offered prices.

4.1.6. Collateral Policy

The Bank's collateral policy is an integral and indispensable part of the credit risk management and credit risk mitigation for VUB Bank. Collateral is used primarily to provide the Bank with the means for repayment of an exposure in the event of the default of the borrower. The principal objective of the policy is to clearly set up rules for a common and standard set of collateral types used by the Bank in its lending activities. The rules, as the minimum, describe and state:
- Conditions for legal enforceability;
- Conditions for the process of valuation and the maximum values accepted by the Bank at the origination for specific types of collaterals; and
- Conditions for the process of revaluation.

However, collateral management has a wider meaning than the simple taking of collateral in order to secure the repayment of the Bank's exposures. This includes the following:
- The establishment and maintenance of a collateral policy defining the types of collateral taken by the Bank, the legal documentation used by the Bank to secure its right to this collateral in the event of default and the valuation of this collateral at origination. These aspects of collateral management are addressed in the internal policy document;
- The relevant and proper implementation and registration of collateral to secure the Bank's right to collateral in the event of default by the borrower;
- The regular monitoring and re-valuation of collateral held by the Bank during the life of the exposure;
- The analysis, monitoring and review of realization rates achieved by Recovery Department activities in order to assess the effectiveness of the collateral policy as a risk mitigant.

The Banks's decisions on the enforcement of collateral is individual and depends on factors such as the actual amount of the receivable, the current condition and value of the collateral, the length of the collateral realization period or collection related costs. The relevant competent body of the Bank decides which collateral instrument will be used.

The Bank mainly uses the following means of enforcement of collateral:
- Voluntary auction,
- Foreclosure procedure,
- Realization of the collateral for the receivable in a bankruptcy procedure,
- Sale of receivables including collateral.

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The collateral against loans and advances to customers is held in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and the Bank updates the fair value on a regular basis.

The Bank mitigates the credit risk of derivatives, reverse sale and repurchase agreements by entering into master netting agreements and holding collateral in the form of cash and marketable securities. Derivative transactions are either transacted on an exchange or entered into under International Swaps and Derivatives Association ('ISDA') master netting agreements. Under ISDA master netting agreements in certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

The value of collateral accepted by the Bank (fair value adjusted by internal haircuts limited to outstanding amount of credit exposure) and other security enhancements held against financial assets is shown below:

€ '000	Clients 2018	Banks 2018	Clients 2017	Banks 2017
Property	7,090,201	–	6,331,722	–
of which covering mortgages:	6,299,708	–	5,491,876	–
LTV* lower than 60%	1,768,089	–	1,542,439	–
LTV higher than 60% and lower than 80%	2,582,685	–	2,028,955	–
LTV higher than 80% and lower than 100%	1,943,856	–	1,915,581	–
LTV higher than 100%	5,078	–	4,901	–
Debt securities	31,312	70,987	33,952	–
Other	483,834	–	559,883	44,655
	7,605,347	70,987	6,925,557	44,655

* LTV means loan to value ratio.

The value of collateral and other security enhancements held against stage 3 financial assets:

€ '000	Clients 2018	Banks 2018
Property	135,921	–
of which covering mortgages:	99,218	–
LTV lower than 60%	39,519	–
LTV higher than 60% and lower than 80%	41,203	–
LTV higher than 80% and lower than 100%	16,537	–
LTV higher than 100%	1,958	–
Debt securities	–	–
Other	2,567	–
	138,488	–

4.1.7. Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are:
- Offset in the statement of financial position; or
- Subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In general, the similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Bank receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:
- Derivatives,
- Sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms including, when appropriate, an ISDA Credit Support Annex. This means that securities received or given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The following tables show the financial assets and financial liabilities that are subject to enforceable master netting arrangements and similar agreements in the statement of financial position (‚SOFP'):

2018 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	8	1,069,327	–	1,069,327	(1,069,327)	–	–
Derivative financial instruments	9, 10	57,929	–	57,929	–	(968)	56,961

2018 € '000		Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP Financial instrument and non-cash collateral	Cash collateral pledged	Net amount
Types of financial liabilities							
Derivative financial instruments	9, 10	51,774	–	51,774	–	(31,110)	20,664

2017 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	8	724,427	–	724,427	(724,437)	–	–
Derivative financial instruments	9, 10	47,277	–	47,277	–	(11,629)	35,648

2017 € '000		Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP Financial instrument and non-cash collateral	Cash collateral pledged	Net amount
Types of financial liabilities							
Derivative financial instruments	9, 10	43,449	–	43,449	–	(39,918)	3,531

Below is the reconciliation of the net amount of financial instruments subject to enforceable master netting arrangements and similar agreements to the total carrying amount presented in the statement of financial position:

				2018			2017
€ '000	**Note**	**Total carrying amount presented in SOFP**	**In scope of offsetting disclosure**	**Not in scope of offsetting disclosure**	**Total carrying amount presented in SOFP**	**In scope of offsetting disclosure**	**Not in scope of offsetting disclosure**
Financial assets							
Cash, balances at central banks	8	1,747,556	1,069,327	678,229	1,595,078	724,427	870,651
Financial assets at FVTPL:	9						
Financial assets held for trading		39,548	31,164	8,384	–	–	–
Derivatives – Hedge accounting	10	26,765	26,765	–	–	–	–
Derivative financial instruments	9, 10	–	–	–	49,856	47,277	2,579
Financial liabilities							
Financial liabilities at FVTPL:	9						
Financial liabilities held for trading		39,548	36,548	3,000	–	–	–
Derivatives – Hedge accounting	10	15,226	15,226	–	–	–	–
Derivative financial instruments	9, 10	–	–	–	52,184	43,449	8,735

4.1.8. Concentrations of credit risk

The Bank monitors concentrations of credit risk by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below.

€ '000	Gross amount	Impairment losses/ provisions	Net amount
			2018
Europe			
Balances at central banks	1,592,505	–	1,592,505
Financial assets at AC:			
Due from other banks	58,719	(404)	58,315
Due from customers:			
Municipalities	140,670	(2,599)	138,071
Corporate	5,165,915	(89,291)	5,076,624
Retail	8,320,022	(278,565)	8,041,457
	13,626,607	(370,455)	13,256,152
	13,685,326	(370,859)	13,314,467
Financial assets at FVOCI – debt securities	741,248	(134)	741,114
Financial commitments and contingencies	3,974,590	(14,309)	3,960,281
North America			
Financial assets at AC:			
Due from other banks	384	–	384
Due from customers:			
Corporate	35,876	(47)	35,829
Retail	3,436	(154)	3,282
	39,312	(201)	39,111
	39,696	(201)	39,495
Financial commitments and contingencies	1,695	–	1,695
Asia			
Financial assets at AC:			
Due from other banks	1,158	–	1,158
Due from customers:			
Corporate	27,398	(106)	27,292
Retail	677	(2)	675
	28,075	(108)	27,967
	29,233	(108)	29,125
Financial commitments and contingencies	43,945	(46)	43,899
Rest of the World			
Financial assets at AC:			
Due from other banks	67,382	(350)	67,032
Due from customers:			
Corporate	281	–	281
Retail	1,186	(34)	1,152
	1,467	(34)	1,433
	68,849	(384)	68,465
Financial commitments and contingencies	20,419	(53)	20,366

€ '000	Gross amount	Impairment losses/ provisions	2017 Net amount
Europe			
Financial assets at AC:			
Due from other banks	59,773	(15)	59,758
Due from customers:			
Municipalities	128,144	(97)	128,047
Corporate	4,405,575	(106,335)	4,299,240
Retail	7,179,147	(165,609)	7,013,538
	11,712,866	(272,041)	11,440,825
	11,772,639	(272,056)	11,500,583
Securities	896,362	–	896,362
America			
Financial assets at AC:			
Due from other banks	30,370	(57)	30,313
Due from customers:			
Corporate	42,577	(127)	42,450
Retail	495	(3)	492
	43,072	(130)	42,942
	73,442	(187)	73,255
Securities	6,309	–	6,309
Asia			
Financial assets at AC:			
Due from other banks	607	(1)	606
Due from customers:			
Corporate	1,243	(165)	1,078
Retail	2,305	(148)	2,157
	3,548	(313)	3,235
	4,155	(314)	3,841
Rest of the World			
Financial assets at AC:			
Due from other banks	67	–	67
Due from customers:			
Retail	537	(21)	516
	604	(21)	583

An analysis of concentrations of credit risk of debt securities at the reporting date is shown below.

€ '000	Gross amount	Impairment losses	2018 Net amount	Gross amount	Impairment losses	2017 Net amount
Europe						
Slovakia	516,936	(30)	516,906	629,706	–	629,706
Italy	204,137	(96)	204,041	266,591	–	266,591
Poland	20,175	(8)	20,167	–	–	–
Other	–	–	–	65	–	65
	741,248	(134)	741,114	896,362	–	896,362
North America						
USA	–	–	–	6,309	–	6,309

An analysis of exposures by industry sector is shown in the table below.

2018 € '000	Banks	Munici-palities	Financial assets at AC: Corporate	Retail*	Financial assets at FVOCI – debt securities	Financial commit-ments and contin-gencies
Agriculture, forestry and fishing	–	–	149,913	24,302	–	51,408
Mining and quarrying	–	–	46,676	99	–	43,796
Manufacturing	–	–	701,835	28,291	–	775,217
Electricity, gas, steam and air conditioning supply	–	–	670,720	1,225	–	400,955
Water supply	–	62	92,792	2,996	–	23,506
Construction	–	–	180,539	25,965	–	445,655
Wholesale and retail trade	–	–	867,044	66,073	–	389,175
Transport and storage	–	3,188	267,761	12,247	–	156,579
Accommodation and food service activities	–	–	29,469	11,991	–	6,539
Information and communication	–	–	35,290	4,677	–	50,099
Financial and insurance activities**	126,889	–	1,033,748	102	59,305	355,709
Real estate activities	–	–	448,760	47,485	–	91,428
Professional, scientific and technical activities	–	–	163,930	19,295	–	120,500
Administrative and support service activities	–	–	189,960	4,007	–	44,650
Public administration and defense, compulsory social security	–	134,820	337	153	681,809	15,737
Education	–	1	74	1,302	–	234
Human health services and social work activities	–	–	12,218	12,930	–	16,387
Arts, entertainment and recreation	–	–	16,864	2,624	–	5,107
Other services	–	–	232,096	3,895	–	35,911
Consumer Loans	–	–	–	1,638,259	–	390,789
Mortgage Loans	–	–	–	6,138,648	–	606,860
	126,889	138,071	5,140,026	8,046,566	741,114	4,026,241

2017 € '000	Banks	Municipa-lities	Financial assets at AC: Corporate	Retail*	Securities
Agriculture, forestry and fishing	–	–	139,209	19,494	–
Mining and quarrying	–	–	28,889	70	–
Manufacturing	–	–	594,851	27,179	–
Electricity, gas, steam and air conditioning supply	–	–	466,097	1,745	–
Water supply	–	120	89,898	2,499	–
Construction	–	–	120,842	23,970	–
Wholesale and retail trade	–	–	863,146	70,428	–
Transport and storage	–	4,707	239,512	12,168	–
Accommodation and food service activities	–	–	29,334	12,511	–
Information and communication	–	–	77,588	3,778	–
Financial and insurance activities**	90,744	–	672,730	–	81,523
Real estate activities	–	–	473,632	37,940	–
Professional, scientific and technical activities	–	–	112,929	17,444	–
Administrative and support service activities	–	–	179,011	3,328	–
Public administration and defense, compulsory social security	–	123,219	466	130	821,148
Education	–	1	–	1,232	–
Human health services and social work activities	–	–	13,435	12,047	–
Arts, entertainment and recreation	–	–	20,654	1,180	–
Other services	–	–	220,545	3,540	–
Consumer Loans	–	–	–	1,449,463	–
Mortgage Loans	–	–	–	5,316,557	–
	90,744	128,047	4,342,768	7,016,703	902,671

* 'Retail' includes Small Business and Flat Owners Associations.

** 'Financial and insurance activities' involves financial services, leasing and insurance.

4.1.9. Internal and external ratings

The overview of the internal rating scales applicable for corporate and retail exposures is shown below.

Large Corporates above € 500 million turnover	Large Corporates below € 500 million turnover and SME	Retail Small Business ('SB') and Flat Owners Associations ('FOA')	Risk Profile	Description
LC_I1 – LC_I4	I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
LC_I5 – LC_I6	I5 – I6	I5 – I6	Low	Satisfactory quality and chargeability of assets, market penetration and managerial quality on the average; well set solvency, capital structure and debt composition; above average debt coverage capacity.
LC_M1 – LC_M2	M1 – M2	M1 – M2	Lower – Intermediate	Acceptable quality and chargeability of available assets, even if with a not negligible degree of risk; well-balanced solvency, capital structure and debt composition with slight liquidity surplus and weaker debt coverage capacity.
LC_M3 – LC_M4	M3 – M4	M3 – M4	Intermediate	Acceptable quality and chargeability of available assets even if with a significant degree of risk; vulnerable margin at times, capital structure and debt composition that show worsening signals; low level of liquidity and short debt coverage margin.
LC_R1 – LC_R3	R1 – R3	R1 – R3	Upper – Intermediate	Still acceptable asset quality even if with possible liquidity stress; high level of gearing; managerial weakness, little market penetration and positioning; margins and competitiveness under pressure.
LC_R4 – LC_R5	R4 – R5	R4 – R5	High	In addition to riskiness features for R1 – R3 rating, there are evident difficulties as well as problematic debt management.
D	D	D	Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: – the obligor is past due more than 90 days on any material credit obligation to the Bank, the Parent Company undertaking or any of its subsidiaries (absolute threshold is set according to NBS directive); – the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

Specialized Lending comprises of rating segments SPV and RED. For Specialized Lending the Slotting approach is used by the Bank. Clients are assigned into five slotting categories based on a qualitative valuation and information about the risk of default. Risk weights and expected loss used for the capital requirement calculation are also defined for each category. Categories are predefined by the CRR regulation and internally, the categories used are as follows:

Specialized Lending – SPV and RED
- Strong
- Good
- Satisfactory
- Weak
- Default

For mortgages and unsecured retail, the retail segment incorporates many individually insignificant exposures with various characteristics, therefore the description of ratings correlates with the risk profiles.

Retail Mortgages	Unsecured Retail	Risk Profile	Description
L1a – L4	U01a – U02	Very Low	High level of client's socio-demographic information and financial discipline.
N1	U03	Low	Above average level of client's socio-demographic information and financial discipline.
N2 – W1	U04 – U07	Lower – Intermediate	Acceptable level of client's socio- demographic information and financial discipline.
W2	U08 – U09	Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there are some signals of worsening credit quality.
–	U10 – U11	Upper – Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there is worsening credit quality.
W3	U12	High	Acceptable level of client's socio-demographic information and financial discipline, but there is negative credit behaviour.
D	D	Default	A default is considered to have occurred with regard to a particular mortgage/obligor when either or both of the two following events have taken place: – The obligor is past due more than 90 days on any material credit obligation to the Bank (absolute threshold is set according to NBS directive); – The Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

Capital requirement calculation

The Bank generally uses the standardised approach for the calculation of the capital requirements. However, for the calculation of the credit and counterparty risk capital requirements, the Bank, having received authorisation from the Supervisory Authority NBS, uses the Advanced IRB approach for its portfolio of residential mortgages from July 2012 and for the Corporate segment and for Retail Small Business from June 2014. The Foundation IRB approach is used for corporate exposures where a LGD is not available. Simple IRB approach is used for equity exposures. The Bank is also proceeding with the development of rating models for other segments, to which the standard methods are currently applied, and also with the extension of the scope to subsidiaries in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

The following table shows the quality of the Bank's stage 1 credit portfolio in terms of internal ratings used for IRB purposes:

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Balances at central banks				
	Unrated	1,592,505	–	1,592,505
Financial assets at AC:				
Due from other banks				
	Unrated	125,113	(656)	124,457
Due from customers:				
Municipalities				
	Unrated	119,277	(1,238)	118,039
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,130,688	(1,175)	1,129,513
	LC_M1 – LC_M4	411,388	(1,639)	409,749
	LC_R1 – LC_R5	10,029	(532)	9,497
	I1 – I6	624,070	(63)	624,007
	M1 – M4	885,504	(949)	884,555
	R1 – R5	169,321	(823)	168,498
	Unrated	5	–	5
Specialized Lending – SPV, RED				
	Strong	246,107	(1,509)	244,598
	Good	249,544	(3,388)	246,156
	Satisfactory	256,514	(13,202)	243,312
	Weak	16,701	(2,299)	14,402
	Unrated	3,242	(31)	3,211
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	227,863	(111)	227,752
	LC_M1 – LC_M4	13,554	(86)	13,468
	I1 – I6	238,645	(57)	238,588
	M1 – M4	289,130	(196)	288,934
	Unrated	2,897	(72)	2,825
Factoring				
	Unrated	77,361	(34)	77,327
		4,852,563	(26,166)	4,826,397

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	36,162	(34)	36,128
	M1 – M4	146,832	(661)	146,171
	R1 – R5	31,158	(610)	30,548
	Unrated	1	–	1
Mortgages				
	L1 – L4	5,326,277	(372)	5,325,905
	N1	258,370	(111)	258,259
	N2 – W1	250,524	(307)	250,217
	W2	14,113	(102)	14,011
	W3	2,810	(84)	2,726
	Unrated	2,491	(5)	2,486
Unsecured Retail				
	U01a – U02	317,600	(380)	317,220
	U3	100,649	(247)	100,402
	U04 – U07	411,399	(2,373)	409,026
	U08 – U09	75,986	(1,456)	74,530
	U10 – U11	23,327	(1,248)	22,079
	U12	6,185	(1,127)	5,058
	Unrated	366,084	(6,291)	359,793
		7,369,968	(15,408)	7,354,560
		12,341,808	(42,812)	12,298,996
		12,466,921	(43,468)	12,423,453
Financial assets at FVOCI – debt securities				
	Unrated	741,248	(134)	741,114

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,054,046	(384)	1,053,662
	LC_M1 – LC_M4	96,444	(156)	96,288
	LC_R1 – LC_R5	21,308	(155)	21,153
	I1 – I6	607,555	(79)	607,476
	M1 – M4	591,607	(548)	591,059
	R1 – R5	52,777	(236)	52,541
	Strong	20,971	(102)	20,869
	Good	88,195	(880)	87,315
	Satisfactory	95,741	(3,415)	92,326
	Weak	469	(43)	426
	L1 – L4	495,541	(52)	495,489
	N1	40,535	(24)	40,511
	N2 – W1	60,397	(120)	60,277
	W2	6,965	(71)	6,894
	W3	200	(12)	188
	U01a – U02	239,286	(39)	239,247
	U3	22,012	(18)	21,994
	U04 – U07	30,685	(79)	30,606
	U08 – U09	1,571	(21)	1,550
	U10 – U11	274	(9)	265
	U12	266	(44)	222
	Unrated	287,423	(534)	286,889
		3,814,268	(7,021)	3,807,247

The following table shows the quality of the Bank's stage 2 credit portfolio in terms of internal ratings used for IRB purposes:

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks				
	Unrated	2,530	(98)	2,432
Due from customers:				
Municipalities				
	Unrated	21,392	(1,361)	20,031
Corporate				
Large Corporates, SME				
	LC_M1 – LC_M4	23,523	(93)	23,430
	I1 – I6	1,283	(1)	1,282
	M1 – M4	45,615	(67)	45,548
	R1 – R5	155,598	(1,754)	153,844
Specialized Lending – SPV, RED				
	Satisfactory	3,286	(376)	2,910
	Weak	51,519	(9,611)	41,908
Other Non-banking Financial Institutions, Public Sector Entities				
	Unrated	1	–	1
Factoring				
	Unrated	17,446	(37)	17,409
		298,271	(11,939)	286,332

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	10	–	10
	M1 – M4	16,571	(397)	16,174
	R1 – R5	40,686	(2,618)	38,068
	Unrated	451	(124)	327
Mortgages				
	L1 – L4	17,699	(106)	17,593
	N1	5,714	(47)	5,667
	N2 – W1	104,171	(1,925)	102,246
	W2	56,954	(1,829)	55,125
	W3	58,647	(4,070)	54,577
	D (default)	3,905	(1,050)	2,855
Unsecured Retail				
	U01a – U02	887	(5)	882
	U3	529	(5)	524
	U04 – U07	69,177	(1,587)	67,590
	U08 – U09	62,161	(3,263)	58,898
	U10 – U11	59,203	(6,061)	53,142
	U12	59,270	(13,076)	46,194
	D (default)	4,297	(1,982)	2,315
	Unrated	53,418	(13,921)	39,497
		613,750	(52,066)	561,684
		933,413	(65,366)	868,047
		935,943	(65,464)	870,479

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies				
	LC_I1 – LC_I6	5,000	(3)	4,997
	LC_M1 – LC_M4	100,182	(150)	100,032
	LC_R1 – LC_R5	988	(44)	944
	I1 – I6	229	–	229
	M1 – M4	7,822	(39)	7,783
	R1 – R5	31,381	(405)	30,976
	Weak	954	(254)	700
	L1 – L4	100	(3)	97
	N2 – W1	2,017	(83)	1,934
	W2	1,109	(75)	1,034
	W3	220	(22)	198
	U01a – U02	75	–	75
	U3	21	–	21
	U04 – U07	8,628	(67)	8,561
	U08 – U09	2,495	(60)	2,435
	U10 – U11	1,182	(63)	1,119
	U12	935	(284)	651
	D (default)	3,624	(284)	3,340
	Unrated	39,626	(1,828)	37,798
		206,588	(3,664)	202,924

The following table shows the quality of the Bank's stage 3 credit portfolio in terms of internal ratings used for IRB purposes:

2018 **€ '000**	**Internal rating**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 3				
Financial assets at AC:				
Due from customers:				
Municipalities				
	Unrated	1	–	1
Corporate				
Large Corporates, SME				
	M1 – M4	7,562	(2,078)	5,484
	R1 – R5	6,884	(4,504)	2,380
	D (default)	32,252	(27,393)	4,859
Specialized Lending – SPV, RED				
	Weak	7,934	(3,339)	4,595
	D (default)	13,465	(12,875)	590
Other Non-banking Financial Institutions, Public Sector Entities				
	M1 – M4	2	(1)	1
	Unrated	7	(1)	6
Factoring				
	Unrated	10,530	(1,148)	9,382
		78,636	(51,339)	27,297

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	M1 – M4	6	(5)	1
	R1 – R5	1,198	(952)	246
	D (default)	10,112	(8,126)	1,986
Mortgages				
	L1 – L4	1,837	(377)	1,460
	N1	1,056	(166)	890
	N2 – W1	1,702	(328)	1,374
	W2	1,802	(388)	1,414
	W3	28,222	(6,613)	21,609
	D (default)	36,434	(16,201)	20,233
	Unrated	1	–	1
Unsecured Retail				
	U01a – U02	19	(12)	7
	U3	34	(22)	12
	U04 – U07	281	(178)	103
	U08 – U09	398	(254)	144
	U10 – U11	764	(488)	276
	U12	6,326	(4,007)	2,319
	D (default)	154,007	(107,288)	46,719
	Unrated	97,404	(65,876)	31,528
		341,603	(211,281)	130,322
		420,240	(262,620)	157,620
		420,240	(262,620)	157,620

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 3				
Financial commitments and contingencies				
	M1 – M4	8,601	(390)	8,211
	R1 – R5	3,148	(1,996)	1,152
	L1 – L4	168	–	168
	W2	70	–	70
	U01a – U02	25	–	25
	U3	11	–	11
	U04 – U07	87	–	87
	U08 – U09	17	–	17
	U10 – U11	21	–	21
	U12	172	–	172
	D (default)	6,228	(883)	5,345
	Unrated	1,245	(454)	791
		19,793	(3,723)	16,070

The following table shows the quality of the Bank's total credit portfolio in terms of internal ratings used for IRB purposes and the sensitivity analyses by improvement and deterioration by one internal rating grade:

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Balances at central banks				
	Unrated	1,592,505	–	1,592,505
Financial assets at AC:				
Due from other banks				
	Unrated	127,643	(754)	126,889
Due from customers:				
Municipalities				
	Unrated	140,670	(2,599)	138,071
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,130,688	(1,175)	1,129,513
	LC_M1 – LC_M4	434,911	(1,732)	433,179
	LC_R1 – LC_R5	10,029	(532)	9,497
	I1 – I6	625,353	(64)	625,289
	M1 – M4	938,681	(3,094)	935,587
	R1 – R5	331,803	(7,081)	324,722
	D (default)	32,252	(27,393)	4,859
	Unrated	5	–	5
Specialized Lending – SPV, RED				
	Strong	246,107	(1,509)	244,598
	Good	249,544	(3,388)	246,156
	Satisfactory	259,800	(13,578)	246,222
	Weak	76,154	(15,249)	60,905
	D (default)	13,465	(12,875)	590
	Unrated	3,242	(31)	3,211
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	227,863	(111)	227,752
	LC_M1 – LC_M4	13,554	(86)	13,468
	I1 – I6	238,645	(57)	238,588
	M1 – M4	289,132	(197)	288,935
	Unrated	2,905	(73)	2,832
Factoring				
	Unrated	105,337	(1,219)	104,118
		5,229,470	(89,444)	5,140,026

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	36,172	(34)	36,138
	M1 – M4	163,409	(1,063)	162,346
	R1 – R5	73,042	(4,180)	68,862
	D (default)	10,112	(8,126)	1,986
	Unrated	452	(124)	328
Mortgages				
	L1 – L4	5,345,813	(855)	5,344,958
	N1	265,140	(324)	264,816
	N2 – W1	356,397	(2,560)	353,837
	W2	72,869	(2,319)	70,550
	W3	89,679	(10,767)	78,912
	D (default)	40,339	(17,251)	23,088
	Unrated	2,492	(5)	2,487
Unsecured Retail				
	U01a – U02	318,506	(397)	318,109
	U3	101,212	(274)	100,938
	U04 – U07	480,857	(4,138)	476,719
	U08 – U09	138,545	(4,973)	133,572
	U10 – U11	83,294	(7,797)	75,497
	U12	71,781	(18,210)	53,571
	D (default)	158,304	(109,270)	49,034
	Unrated	516,906	(86,088)	430,818
		8,325,321	(278,755)	8,046,566
		13,695,461	(370,798)	13,324,663
		13,823,104	(371,552)	13,451,552
Financial assets at FVOCI – debt securities				
	Unrated	741,248	(134)	741,114

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,059,046	(387)	1,058,659
	LC_M1 – LC_M4	196,626	(306)	196,320
	LC_R1 – LC_R5	22,296	(199)	22,097
	I1 – I6	607,784	(79)	607,705
	M1 – M4	608,030	(977)	607,053
	R1 – R5	87,306	(2,637)	84,669
	Strong	20,971	(102)	20,869
	Good	88,195	(880)	87,315
	Satisfactory	95,741	(3,415)	92,326
	Weak	1,423	(297)	1,126
	L1 – L4	495,809	(55)	495,754
	N1	40,535	(24)	40,511
	N2 – W1	62,414	(203)	62,211
	W2	8,144	(146)	7,998
	W3	420	(34)	386
	U01a – U02	239,386	(39)	239,347
	U3	22,044	(18)	22,026
	U04 – U07	39,400	(146)	39,254
	U08 – U09	4,083	(81)	4,002
	U10 – U11	1,477	(72)	1,405
	U12	1,373	(328)	1,045
	D (default)	9,852	(1,167)	8,685
	Unrated	328,294	(2,816)	325,478
		4,040,649	(14,408)	4,026,241

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortised cost: due from other banks is in the rating scale from Aa3 to Ba1. The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on Moody's ratings.

2018 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aa3	20,175	(8)	20,167
	A2	477,786	(18)	477,768
	Baa1	39,150	(12)	39,138
	Baa3	204,137	(96)	204,041
		741,248	(134)	741,114

4.1.10. Sensitivity analysis of impairment losses

In the table below the Bank shows the sensitivity of ECL calculation to a decrease of PD parameter by 10%:

2018 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	754	688	(66)	(8.75%)
Due from customers:				
Municipalities	2,599	2,339	(260)	(10.00%)
Corporate				
Large Corporates	5,484	5,158	(326)	(5.94%)
Large Corporates – debt securities	619	557	(62)	(10.02%)
Specialized Lending	46,630	43,588	(3,042)	(6.52%)
SME	34,968	34,649	(319)	(0.91%)
Other Non-banking Financial Institutions	451	421	(30)	(6.65%)
Public Sector Entities	73	66	(7)	(9.59%)
Factoring	1,219	1,217	(2)	(0.16%)
	89,444	85,656	(3,788)	(4.24%)
Retail				
Small Business	13,277	12,858	(419)	(3.16%)
Consumer Loans	189,856	185,475	(4,381)	(2.31%)
Mortgages	34,081	33,186	(895)	(2.63%)
Credit Cards	32,705	32,222	(483)	(1.48%)
Overdrafts	8,586	8,411	(175)	(2.04%)
Flat Owners Associations	250	224	(26)	(10.40%)
	278,755	272,376	(6,379)	(2.29%)
	370,798	360,371	(10,427)	(2.81%)
	371,552	361,059	(10,493)	(2.82%)
Financial assets at FVOCI – debt securities	134	121	(13)	(9.70%)

In the table below the Bank shows the sensitivity of ECL calculation to an increase of PD parameter by 10%:

2018 € '000	Base scenario	Increase PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	754	821	67	8.89%
Due from customers:				
Municipalities	2,599	2,859	260	10.00%
Corporate				
Large Corporates	5,484	5,810	326	5.94%
Large Corporates – debt securities	619	681	62	10.02%
Specialized Lending	46,630	49,672	3,042	6.52%
SME	34,968	35,286	318	0.91%
Other Non-banking Financial Institutions	451	482	31	6.87%
Public Sector Entities	73	81	8	10.96%
Factoring	1,219	1,221	2	0.16%
	89,444	93,233	3,789	4.24%
Retail				
Small Business	13,277	13,696	419	3.16%
Consumer Loans	189,856	194,237	4,381	2.31%
Mortgages	34,081	34,976	895	2.63%
Credit Cards	32,705	33,187	482	1.47%
Overdrafts	8,586	8,760	174	2.03%
Flat Owners Associations	250	275	25	10.00%
	278,755	285,131	6,376	2.29%
	370,798	381,223	10,425	2.81%
	371,552	382,044	10,492	2.82%
Financial assets at FVOCI – debt securities	134	147	13	9.70%

The following table shows the quality of the Bank's credit portfolio in 2017 in terms of internal ratings used for IRB purposes and the sensitivity analyses by improvement and deterioration by one internal rating grade:

					Sensitivity analysis	
2017 € '000	**Internal rating**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Impact of IR deteri-oration**	**Impact of IR im-prove-ment**
Financial assets at AC:						
Due from other banks						
	Unrated	90,817	(73)	90,744	–	–
Due from customers:						
Municipalities						
	Unrated	128,144	(97)	128,047	–	–
Corporate						
Large Corporates, SME						
	I1 – I6	883,885	(690)	883,195	(358)	266
	M1 – M4	826,418	(6,202)	820,216	(702)	2,780
	R1 – R5	352,900	(13,746)	339,154	(2,307)	6,309
	LC_I1 – LC_I6	370,753	(258)	370,495	(142)	93
	LC_M1 – LC_M4	538,790	(1,405)	537,385	(806)	510
	D (default)	45,810	(42,245)	3,565	–	–
Specialized Lending – SPV, RED						
	Strong	129,220	(335)	128,885	(130)	–
	Good	292,373	(3,792)	288,581	(3,107)	3,792
	Satisfactory	199,231	(5,576)	193,655	(8,529)	4,871
	Weak	103,183	(13,213)	89,970	–	8,044
	D (default)	24,091	(17,406)	6,685	–	–
Other Non-banking Financial Institutions, Public Sector Entities						
	I1 – I6	289,143	(89)	289,054	(48)	30
	M1 – M4	182,957	(763)	182,194	(592)	178
	Unrated	189,043	(537)	188,506	–	–
Factoring						
	Unrated	21,598	(370)	21,228	–	–
		4,449,395	(106,627)	4,342,768	(16,721)	26,873

2017 € '000	Internal rating	Gross amount	Impair-ment losses	Net amount	Sensitivity analysis Impact of IR deteri-oration	Impact of IR impro vement
Financial assets at AC:						
Due from customers:						
Retail						
Small Business, Flat Owners Associations						
	I3 – I6	35,561	(61)	35,500	(32)	26
	M1 – M4	157,489	(1,540)	155,949	(796)	531
	R1 – R5	66,201	(2,564)	63,637	(1,062)	931
	D (default)	10,454	(9,012)	1,442	–	–
	Unrated	997	(3)	994	–	–
Mortgages						
	L1 – L4	4,554,342	(1,073)	4,553,269	(928)	463
	N1	248,515	(357)	248,158	(210)	165
	N2 – W1	342,472	(1,342)	341,130	(1,525)	562
	W2	69,460	(1,035)	68,425	(3,764)	638
	W3	84,550	(4,338)	80,212	–	3,403
	D (default)	42,620	(17,257)	25,363	–	–
Unsecured Retail						
	U01a – U02	291,765	(170)	291,595	(65)	64
	U3	91,421	(126)	91,295	(62)	41
	U04 – U07	448,510	(2,088)	446,422	(1,104)	721
	U08 – U09	135,207	(2,185)	133,022	(1,182)	745
	U10 – U11	85,543	(3,319)	82,224	(3,164)	1,221
	U12	73,025	(8,294)	64,731	–	4,708
	D (default)	154,947	(105,842)	49,105	–	–
	Unrated	277,002	(5,174)	271,828	–	–
Other						
	Unrated	12,403	(1)	12,402	–	–
		7,182,484	(165,781)	7,016,703	(13,894)	14,219
Securities						
	Unrated	902,671	–	902,671	–	–

4.1.11. Impact of the possible scenarios on the impairment losses and provisions

The behaviour of the model is described by six possible scenarios simulating a worsening of the macroeconomic situation. The scenarios resulted in the increase of expected loss in both stage 1 and stage 2. The simulation was run on the most significant segment Mortgages.

If the predicted GDP growth will be decreased by 91 bps (30% of the last available value at the time of development of the model – the last available values as of 4th Quarter 2016: GDP year/year growth = 3.02%; CPI = (0.1%)) then the impact on the profit or loss will be € 26 thousand for stage 1 and € 89 thousand for stage 2.

Other scenarios and their impact are depicted in the tables below:

2018 € '000					Stage 1
Scenario	**Scenario description**		**Impair-ment losses**	**Provisions**	**Total**
Base	without stressing				
		ECL	976	279	1,255
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 30 bps				
		ECL	983	281	1,264
		Absolute change	7	2	9
		Relative change	0.69%	0.64%	0.68%
CPI stress 10%	CPI decrease by 1 bps				
		ECL	977	279	1,256
		Absolute change	1	–	1
		Relative change	0.09%	0.08%	0.08%
GDP&CPI stress 10%	GDP growth decrease by 30 bps and CPI decrease by 1 bps				
		ECL	984	281	1,265
		Absolute change	8	2	10
		Relative change	0.76%	0.71%	0.75%
GDP stress 30%	GDP growth decrease by 91 bps				
		ECL	996	285	1,281
		Absolute change	20	6	26
		Relative change	2.05%	1.91%	2.02%
CPI stress 30%	CPI decrease by 3 bps				
		ECL	979	280	1,259
		Absolute change	3	1	4
		Relative change	0.23%	0.22%	0.23%
GDP&CPI stress 30%	GDP growth decrease by 91 bps and CPI decrease by 3 bps				
		ECL	999	285	1,284
		Absolute change	23	6	29
		Relative change	2.28%	2.11%	2.24%

2018 € '000 Scenario	Scenario description		Impair-ment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	9,027	183	9,210
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 30 bps				
		ECL	9,056	183	9,239
		Absolute change	29	–	29
		Relative change	0.32%	0.33%	0.32%
CPI stress 10%	CPI decrease by 1 bps				
		ECL	9,030	183	9,213
		Absolute change	3	–	3
		Relative change	0.04%	0.04%	0.04%
GDP&CPI stress 10%	GDP growth decrease by 30 bps and CPI decrease by 1 bps				
		ECL	9,059	184	9,243
		Absolute change	32	1	33
		Relative change	0.36%	0.36%	0.36%
GDP stress 30%	GDP growth decrease by 91 bps				
		ECL	9,114	185	9,299
		Absolute change	87	2	89
		Relative change	0.97%	0.98%	0.97%
CPI stress 30%	CPI decrease by 3 bps				
		ECL	9,036	183	9,219
		Absolute change	9	–	9
		Relative change	0.11%	0.11%	0.11%
GDP&CPI stress 30%	GDP growth decrease by 91 bps and CPI decrease by 3 bps				
		ECL	9,124	185	9,309
		Absolute change	97	2	99
		Relative change	1.07%	1.08%	1.07%

4.1.12. Credit risk of financial derivatives

Credit exposure or the replacement cost of derivative financial instruments represents the Bank's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses in the event that counterparties fail to perform their obligations. It is usually a small proportion of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to the generally applicable methodology using the current exposure method and involves the market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of the nominal value, which indicates the potential change in market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity. The Bank assesses the credit risk of all financial instruments on a daily basis.

With regard to IFRS 13 which contains a clarification in reference to non-performance risk in determining the fair value of over-the-counter derivatives, the Bank uses the Bilateral Credit Value Adjustment model ('bCVA'). It takes fully into account the effects of changes in counterparty credit ratings as well as the changes in own credit rating. The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment ('CVA') and Debit Value Adjustment ('DVA'):

- The CVA (negative) takes into account scenarios whereby the counterparty fails before the Bank that has a positive exposure to the counterparty. In these scenarios the Bank suffers a loss equal to the cost of replacing the derivative,
- The DVA (positive) takes into account scenarios whereby the Bank fails before the counterparty and has a negative exposure to the counterparty. In these scenarios the Bank achieves a gain equal to the cost of replacing the derivative.

The bCVA depends on the exposure, probability of default and the loss given default of the counterparties. The Bank is selective in its choice of counterparties and sets limits for transactions with customers. The Bank takes its own and its counterparties' credit risk into consideration to the extent it believes the market participants would do so.

The table below shows the maximum amount of credit risk of derivative financial instruments. To express the maximum amount of credit risk, the fair value of derivative financial assets is increased by the value of the potential credit exposure ('add on') calculated as the nominal value of the derivative financial instrument multiplied by the respective coefficient depending on the type of the instrument. The credit risk of the remaining financial assets not reported in the table below approximates their carrying amounts.

€ '000	2018
Financial assets	
Financial assets at fair value through profit or loss:	
Financial assets held for trading:	
Derivative financial instruments	87,565
Derivatives – Hedge accounting	65,113
	152,678

€ '000	2017
Financial assets	
Derivative financial instruments	121,142

4.2. Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices or foreign exchange rate will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

4.2.1. Management of market risk

The Bank separates its exposures to market risk between trading ('trading book') and Non-trading portfolios ('banking book'). Trading portfolios are held by the Trading sub-department and include positions arising from market-making and proprietary position taking. All foreign exchange risk within the Bank is transferred each day to the Trading sub-department and forms part of the trading portfolio for risk management purposes. The Non-trading portfolios are managed by the sub-department Asset Liability Management ('ALM'), and include all positions which are not intended for trading.

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. All other financial instruments are part of banking book.

Overall authority for market risk is vested in ALCO. The Enterprise Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for their implementation and day-to-day risk monitoring and reporting.

In the normal course of business, the Bank enters into derivative financial instrument transactions to hedge its liquidity, foreign exchange and interest rate risks. The Bank also enters into proprietary derivative financial transactions for the purpose of generating profits from short-term fluctuations in market prices. The Bank operates a system of market risk and counterparty limits, which are designed to restrict exposure to movements in market prices and counterparty concentrations. The Bank also monitors adherence to these limits on a daily basis.

4.2.2. Exposure to market risk-trading portfolios

The principal tool used to measure and control market risk exposures within the Bank's trading portfolio is Value at Risk ('VaR'). A derivation of VaR is the stress VaR ('sVaR'), which represents maximal VaR of a selected one year period generating the highest value of VaR during the last five years. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99% confidence level and assumes a one – day holding period.

The VaR and sVaR models used are based on historical simulations. Taking into account market data from the previous year and in case of sVaR a one year scenario from five years of history and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements evaluated in the model. The VaR model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

The Bank uses VaR limits for total market risk in the trading book, foreign exchange risk and interest rate risk. The overall structure of VaR and sVaR limits is subject to review and approval by ALCO and Intesa Sanpaolo. VaR is measured on a daily basis. Daily reports of utilisation of VaR and sVaR limits are submitted to the trading unit, the head of the Division Risk Management and the head of the Department Treasury and ALM. Regular summaries are submitted to Intesa Sanpaolo and ALCO.

A summary of the VaR and sVaR position of the Bank's trading portfolios:

				2018				2017
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	44	43	124	12	13	32	102	4
Interest rate risk	343	1,492	3,942	343	1,492	2,122	4,094	41
Total VaR	332	1,495	3,926	332	1,493	2,123	4,102	43
Total sVaR	791	1,479	3,445	334	343	1,615	4,238	101

Although VaR is a popular and widely used risk management tool, there are known limitations, among which the following are the most important ones:
- VaR does not measure the worst case loss, since a 99% confidence interval means that in 1% of cases the loss is expected to be greater than the VaR amount,
- VaR calculated using a one day holding period assumes hedge or disposal of a position within one day, which might not be realistic in the case of a longer illiquid situation on the market,
- For calculating VaR of a portfolio, the return, the volatility but also the correlation between various assets needs to be recognized which might represent a difficult task when taking into account the growing number and diversity of positions in a given portfolio.

These limitations are recognized, by supplementing VaR limits with other position limit structures. In addition, the Bank uses a wide range of stress tests, to model the financial impact of a variety of exceptional market scenarios on the Bank's position. Furthermore, integrating the sVaR measure into the VaR concept adds to mitigation of the limitation of using historical series and possibly omitting scenarios of an extraordinary nature.

4.2.3. Exposure to interest rate risk

Interest rate risk comprises of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and of the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates the extent to which it is exposed to interest rate risk.

All the assumptions, methodologies and responsibilities are described in internal document 'Guidelines on the Governance of Interest Rate Risk in the Banking Book' ('IRRBB') and 'Rules on the Measurement and control of IRRBB in VÚB Group' which are approved by Management Board and are consistent with ISP Group IRRBB guidelines and rules.

The main risk to which Non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. Financial instruments are mapped to re-pricing gaps either by maturity, i. e. fixed rate instruments, or by next re-pricing date, i.e. floating rate instruments. Assets and liabilities that do not have a contractual maturity date or are not interest – bearing are mapped according to internal models based on behavioural assumptions.

The Risk Management division is responsible for monthly monitoring of these gaps. The management of interest rate risk is measured by shift sensitivity analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and uniform shift of +/ –100 basis points of the rate curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and uniform shift of +/ –200 basis points, and additionally non-parallel steeper and flatter scenarios. These standard scenarios are applied on a monthly basis. Furthermore, six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision Guidelines, have been introduced in 2017, calculated on a quarterly basis.

The sensitivity of the interest margin is also measured with a set of scenarios similar to shift sensitivity analysis – baseline, internal stress and regulatory scenarios. The baseline scenario is calculated on the basis of parallel and instantaneous shocks in the interest rate curve of +/ –50 basis points, in a period of 12 months. Furthermore, additional internal stress and regulatory scenarios are applied: +/ –100, +/ –200 and six stress scenarios according to the Basel Committee on Banking Supervision Guidelines.

Overall banking book interest rate risk positions are managed by the Treasury and ALM Department, which uses different balance and off balance sheet instruments to manage the overall positions arising from the banking book activities.

Models applied for the interest rate risk ('IRR') calculation

Each financial and non-financial instrument is mapped to a gap based on its contractual or behavioural re-pricing date:

Contractual

This category includes instruments where the Bank knows exactly when the maturity or next re-pricing takes place. This treatment is applied mainly to: securities bought and issued loans and term deposits.

Behavioural

These are items for which it is not exactly known when the maturity or next re-pricing will take place (e. g. current accounts). There are also some items where the maturity or re-pricing period is known but it can be assumed that they will behave differently (e. g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the most probable behaviour of these items. The assumptions are based on a detailed analysis of the Bank's historical data and statistical models.

At 31 December 2018, the interest margin sensitivity of banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 20,882 thousand (31 December 2017: € 15,862 thousand).

At 31 December 2018, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (15,745) thousand (31 December 2017: € 3,241 thousand).

At 31 December 2018, the interest margin sensitivity of banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (36,287) thousand (31 December 2017: € (24,861) thousand).

At 31 December 2018, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € (9,675) thousand (31 December 2017: € (24,277) thousand).

At 31 December 2018, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2,301) thousand (31 December 2017: € (673) thousand).

At 31 December 2018, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € 391 thousand (31 December 2017: € 10,568 thousand).

The re-pricing structure of interest rate bearing financial assets and liabilities based on contractual discounted cash-flows for the Non-trading portfolios was as follows:

2018 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash, balances at central banks	1,747,556	–	–	–	–	–	1,747,556
Financial assets at FVTPL (excluding Trading derivatives)	440	–	–	–	–	–	440
Financial assets at FVOCI	117	39,138	578,559	103,373	28,787	–	749,974
Financial assets at AC:							
Due from other banks	24,671	66,211	4,897	–	–	31,110	126,889
Due from customers	2,060,838	1,721,829	1,365,742	7,009,806	979,072	187,376	13,324,663
	3,833,622	1,827,178	1,949,198	7,113,179	1,007,859	218,486	15,949,522
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(351,895)	(5,994)	(359,673)	(272,804)	–	(1,713)	(992,079)
Due to customers	(4,854,875)	(1,189,915)	(2,604,790)	(2,144,645)	(261,541)	–	(11,055,766)
Subordinated debt	–	(200,181)	–	–	–	–	(200,181)
Debt securities in issue	(8,802)	(3,197)	(266,640)	(1,003,053)	(1,050,561)	–	(2,332,253)
	(5,215,572)	(1,399,287)	(3,231,103)	(3,420,502)	(1,312,102)	(1,713)	(14,580,279)
Net position of financial instruments	(1,381,950)	427,891	(1,281,905)	3,692,677	(304,243)	216,773	1,369,243
Cumulative net position of financial instruments	(1,381,950)	(954,059)	(2,235,964)	1,456,713	1,152,470	1,369,243	–
Cash inflow from derivatives	3,089,568	2,766,558	1,804,562	1,751,119	1,815,018	–	11,226,825
Cash outflow from derivatives	(3,848,480)	(1,637,784)	(722,597)	(4,126,768)	(891,236)	–	(11,226,865)
Net position from derivatives	(758,912)	1,128,774	1,081,965	(2,375,649)	923,782	–	(40)
Total net position	(2,140,862)	1,556,665	(199,940)	1,317,028	619,539	216,773	1,369,203
Cumulative total net position	(2,140,862)	(584,197)	(784,137)	532,891	1,152,430	1,369,203	–

2017 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash, balances at central banks	1,595,078	–	–	–	–		1,595,078
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	4,933	850	5,783
Available-for-sale financial assets	–	42,329	357,392	109,717	10,978	–	520,416
Held-to-maturity investments	–	–	11,749	264,821	99,902	–	376,472
Financial assets at AC:							
Due from other banks	56,266	27,453	7,025	–	–	–	90,744
Due from customers	1,362,411	1,560,528	1,972,042	5,671,826	735,507	185,204	11,487,518
	3,013,755	1,630,310	2,348,208	6,046,364	851,320	186,054	14,076,011
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(84,283)	(27,081)	(87,329)	(251,122)	–	–	(449,815)
Due to customers	(7,925,994)	(676,713)	(1,008,305)	(244,421)	–	–	(9,855,433)
Subordinated debt	–	(200,164)	–	–	–	–	(200,164)
Debt securities in issue	(108,531)	(103,460)	(110,808)	(771,152)	(1,158,429)	–	(2,252,380)
	(8,118,808)	(1,007,418)	(1,206,442)	(1,266,695)	(1,158,429)	–	(12,757,792)
Net position of financial instruments	(5,105,053)	622,892	1,141,766	4,779,669	(307,109)	186,054	1,318,219
Cumulative net position of financial instruments	(5,105,053)	(4,482,161)	(3,340,395)	1,439,274	1,132,165	1,318,219	–
Cash inflow from derivatives	2,805,217	1,941,325	1,523,212	411,477	1,769,764	–	8,450,995
Cash outflow from derivatives	(3,556,656)	(641,502)	(950,402)	(2,552,610)	(759,529)	–	(8,460,699)
Net position from derivatives	(751,439)	1,299,823	572,810	(2,141,133)	1,010,235	–	(9,704)
Total net position	(5,856,492)	1,922,715	1,714,576	2,638,536	703,126	186,054	1,308,515
Cumulative total net position	(5,856,492)	(3,933,777)	(2,219,201)	419,335	1,122,461	1,308,515	–

The average interest rates for financial assets and liabilities were as follows:

	2018
Financial assets	
Cash, balances at central banks	0.82%
Financial assets at FVTPL	0.80%
Financial assets at FVOCI	1.85%
Financial assets at AC:	
Due from other banks	1.46%
Due from customers	2.89%
Financial liabilities	
Financial liabilities at AC:	
Due to banks	0.35%
Due to customers	0.17%
Debt securities in issue	1.17%

	2017
Financial assets	
Cash, balances at central banks	0.00%
Financial assets at FVTPL	1.45%
Available-for-sale financial assets	0.47%
Held-to-maturity investments	4.46%
Financial assets at AC:	
Due from other banks	0.45%
Due from customers	3.07%
Financial liabilities	
Financial liabilities at AC:	
Due to banks	0.24%
Due to customers	0.20%
Debt securities in issue	1.23%

4.2.4. Currency denominations of assets and liabilities

Foreign exchange rate risk comprises the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. It is the policy of the Bank to manage its exposure to fluctuations in exchange rates through regular monitoring and reporting of open positions and the application of a matrix of exposure and position limits.

2018 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash, balances at central banks	636,825	1,287	1,104,881	4,563	1,747,556
Financial assets at FVTPL	37,155	1,673	1,142	18	39,988
Derivatives – Hedge accounting	23,960	55	2,676	74	26,765
Financial assets at FVOCI	749,974	–	–	–	749,974
Financial assets at AC:					
Due from other banks	108,743	15,086	–	3,060	126,889
Due from customers	12,717,283	218,559	307,225	81,596	13,324,663
Fair value changes of the hedged items in portfolio hedge of IRR	9,183	–	–	–	9,183
	14,283,123	236,660	1,415,924	89,311	16,025,018
Financial liabilities					
Financial liabilities at FVTPL	36,718	1,341	1,272	4	39,335
Derivatives – Hedge accounting	12,130	2,665	–	431	15,226
Financial liabilities measured at AC:					
Due to banks	970,597	13,412	–	8,069	992,078
Due to customers	10,672,514	176,360	128,570	78,322	11,055,766
Subordinated debt	200,181	–	–	–	200,181
Debt securities in issue	2,283,820	48,433	–	–	2,332,253
Fair value changes of the hedged items in portfolio hedge of IRR	1,499	–	–	–	1,499
	14,177,459	242,211	129,842	86,826	14,636,338
Net position	105,664	(5,551)	1,286,082	2,485	1,388,680

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2018 € '000	EUR	USD	CZK	Other	Total
Receivables	1,448,171	78,067	32,021	103,953	1,662,212
Payables	(166,826)	(94,706)	(1,290,481)	(110,202)	(1,662,215)
Net position from derivatives	1,281,345	(16,639)	(1,258,460)	(6,249)	(3)

2017 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash, balances at central banks	123,596	1,109	1,467,216	3,157	1,595,078
Financial assets at FVTPL	5,783	–	–	–	5,783
Derivative financial instruments	42,310	4,294	3,252	–	49,856
Available-for-sale financial assets	514,107	6,309	–	–	520,416
Held-to-maturity investments	376,472	–	–	–	376,472
Financial assets at AC:					
Due from other banks	85,070	2,172	422	3,080	90,744
Due from customers	10,873,743	265,150	298,812	49,813	11,487,518
	12,021,081	279,034	1,769,702	56,050	14,125,867
Financial liabilities					
Derivative financial instruments	(45,474)	(633)	(4,471)	(1,606)	(52,184)
Financial liabilities measured at AC:					
Due to banks	(412,639)	(83)	(36,821)	(272)	(449,815)
Due to customers	(9,447,968)	(158,499)	(169,357)	(79,609)	(9,855,433)
Subordinated debt	(200,164)	–	–	–	(200,164)
Debt securities in issue	(2,173,842)	(58,779)	(19,759)	–	(2,252,380)
	(12,280,087)	(217,994)	(230,408)	(81,487)	(12,809,976)
Net position	(259,006)	61,040	1,539,294	(25,437)	1,315,891

4.3. Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit.

The Guidelines for Liquidity Risk Management adopted by the Bank outline the set of principles, methods, regulations and control processes required to prevent the occurrence of a liquidity crisis and call for the Bank to develop prudent approaches to liquidity management, making it possible to maintain the overall risk profile at low levels.

The basic principles underpinning the Liquidity Policy of the Bank are:
- The existence of an operating structure that works within set of limits and of a control structure that is independent from the operating structure;
- A prudential approach to the estimate of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity;
- An assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time;
- The maintenance of an adequate level of unencumbered highly liquid assets, capable of enabling ordinary operations, also on an intraday basis, and overcoming the initial stages of a shock involving the Bank's liquidity or system liquidity.

The Bank is regularly stress testing its liquidity position in order to simulate potential stress scenarios. The level of unencumbered highly liquid assets are kept at levels, which should support the bank also in case of these extraordinary events. The bank is also able to seek short term funding from the parent company or interbank market in order to support its liquidity position.

The departments of the Bank responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department responsible for liquidity management and the Enterprise Risk Management Department responsible for monitoring indicators and verifying the observation of limits. These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process.

The Short term Liquidity Policy includes a set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management. Main regulatory indicator used for monitoring and managing short term liquidity is Liquidity coverage ratio. It is required by CRR regulation, more precisely defined in Delegated Regulation (EU) 2015/61. Main content of the Liquidity coverage ratio: Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows.

The Structural Liquidity Policy of the Bank incorporates a set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.

Together with the Short term and Structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

The Contingency Liquidity Plan sets the objectives of safeguarding the Bank's capital and, at the same time, guarantees the continuity of operations under conditions of extreme liquidity emergency. It also ensures the identification of the pre-warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and intervention measures for the resolution of emergencies. The pre-warning indices, aimed at identifying signs of a potential liquidity strain, both systemic and specific, are continuously recorded and reported to the departments responsible for the management and monitoring of liquidity.

The liquidity position of the Bank is regularly presented by Enterprise Risk Management Department and discussed during the ALCO meetings.

The remaining maturities of assets and liabilities based on contractual undiscounted cash-flows were as follows:

2018 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash, balances at central banks	1,747,556	–	–	–	–	–	1,747,556
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	440	440
Financial assets at FVOCI	127	46	530,417	192,796	20,150	8,860	752,396
Financial assets at AC:							
Due from other banks	55,784	1,052	3,726	50,763	23,854	–	135,179
Due from customers	1,042,309	399,378	1,078,398	5,358,843	8,161,128	146,288	16,186,344
	2,845,776	400,476	1,612,541	5,602,402	8,205,132	155,588	18,821,915
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(28,372)	(309,893)	(309,420)	(303,677)	(42,140)	–	(993,502)
Due to customers	(8,589,223)	(596,841)	(1,637,741)	(233,995)	(386)	–	(11,058,186)
Subordinated debt	–	(1,461)	452	(1,385)	(207,488)	–	(209,882)
Debt securities in issue	(3,595)	(3,255)	(286,295)	(1,031,670)	(1,215,320)	–	(2,540,135)
	(8,621,190)	(911,450)	(2,233,004)	(1,570,727)	(1,465,334)	–	(14,801,705)
Net position of financial instruments	(5,775,414)	(510,974)	(620,463)	4,031,675	6,739,797	155,588	4,020,209
Cash inflows from derivatives	1,400,348	113,652	78,210	35,538	130,651	–	1,758,399
Cash outflows from derivatives	(1,405,695)	(111,797)	(76,382)	(38,202)	(111,243)	–	(1,743,319)
Net position from derivatives	(5,347)	1,854	1,827	(2,663)	19,408	–	15,079
Net position from financial commitments and contingencies	(4,040,649)	–	–	–	–	–	(4,040,649)

* The high negative liquidity gap in the first bucket is caused by a huge volume of deposits on demand (without contractual maturity) which are presented under 'Due to customers'. For the purpose of internal liquidity management monitoring the behavioural profile of on-demand deposits is taken into account based on a statistical model using internal historical data. According to when they are expected to be settled such deposits are then placed into later buckets.

2017 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and balances with central banks	1,595,393	–	–	–	–	–	1,595,393
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	4,933	850	5,783
Available-for-sale financial assets	–	874	260,972	246,526	–	–	508,372
Held-to-maturity investments	–	–	18,474	294,379	117,531	–	430,384
Financial assets at AC:							
Due from other banks	33,222	1,197	4,682	12,723	42,672	–	94,496
Due from customers	683,354	368,208	1,377,495	4,770,716	6,796,322	217,738	14,213,833
	2,311,969	370,279	1,661,623	5,324,344	6,961,458	218,588	16,848,261
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(66,394)	(1,699)	(16,723)	(295,472)	(64,299)	–	(444,587)
Due to customers	(7,811,394)	(750,740)	(965,882)	(327,159)	(469)	–	(9,855,644)
Subordinated debt	–	(1,458)	(471)	(2,295)	(210,706)	–	(214,930)
Debt securities in issue	(4,459)	(3,254)	(246,929)	(952,020)	(1,238,785)	–	(2,445,447)
	(7,882,247)	(757,151)	(1,230,005)	(1,576,946)	(1,514,259)	–	(12,960,608)
Net position of financial instruments	(5,570,278)	(386,872)	431,618	3,747,398	5,447,199	218,588	3,887,653
Cash inflows from derivatives	1,702,187	55,507	81,630	90,645	36,063	–	1,966,032
Cash outflows from derivatives	(1,710,454)	(56,858)	(89,608)	(84,221)	(24,456)	–	(1,965,597)
Net position from derivatives	(8,267)	(1,351)	(7,978)	6,424	11,607	–	435
Net position from financial commitments and contingencies	(3,642,125)	–	–	–	–	–	(3,642,125)

The table below shows an analysis of assets and liabilities (discounted cash flow basis) according to when they are expected to be recovered or settled:

2018 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash, balances at central banks	1,747,556	–	1,747,556
Financial assets at FVTPL	6,028	33,960	39,988
Derivatives – Hedge accounting	686	26,079	26,765
Financial assets at FVOCI	528,662	221,312	749,974
Financial assets at AC:			
Due from other banks	58,832	68,057	126,889
Due from customers	2,263,992	11,060,671	13,324,663
Fair value changes of the hedged items in portfolio hedge of IRR	–	9,183	9,183
Investments in subsidiaries, joint ventures and associates	–	42,186	42,186
Property and equipment	–	76,294	76,294
Intangible assets	–	92,201	92,201
Goodwill	–	18,871	18,871
Current income tax assets	1,181	–	1,181
Deferred income tax assets	–	66,298	66,298
Other assets	20,300	–	20,300
Non-current assets classified as held for sale	26,922	–	26,922
	4,654,159	11,715,112	16,369,271
Liabilities			
Financial liabilities at FVTPL	(6,665)	(32,670)	(39,335)
Derivatives – Hedge accounting	(1,208)	(14,018)	(15,226)
Financial liabilities measured at AC:			
Due to banks	(641,924)	(350,155)	(992,079)
Due to customers	(1,759,176)	(9,296,590)	(11,055,766)
Subordinated debt	(181)	(200,000)	(200,181)
Debt securities in issue	(262,291)	(2,069,962)	(2,332,253)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(1,499)	(1,499)
Current income tax liabilities	(8,955)	–	(8,955)
Provisions	–	(21,918)	(21,918)
Other liabilities	(86,297)	(7,074)	(93,371)
	(2,766,697)	(11,993,886)	(14,760,583)
Net position	1,887,462	(278,774)	1,608,688

2017 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash, balances at central banks	1,595,078	–	1,595,078
Financial assets at FVTPL	–	5,783	5,783
Derivative financial instruments	5,902	43,954	49,856
Available-for-sale financial assets	262,952	257,464	520,416
Held-to-maturity investments	11,750	364,722	376,472
Financial assets at AC:			
Due from other banks	36,936	53,808	90,744
Due from customers	2,148,102	9,339,416	11,487,518
Investments in subsidiaries, joint ventures and associates	–	92,745	92,745
Intangible assets	–	74,882	74,882
Property and equipment	–	111,512	111,512
Current income tax assets	5,813	–	5,813
Deferred income tax assets	–	38,626	38,626
Other assets	19,848	–	19,848
	4,086,381	10,382,912	14,469,293
Liabilities			
Derivative financial instruments	(50,297)	(399,518)	(449,815)
Financial liabilities at AC:			
Due to banks	(24,278)	(27,906)	(52,184)
Due to customers	(1,750,104)	(8,105,329)	(9,855,433)
Subordinated debt	(164)	(200,000)	(200,164)
Debt securities in issue	(238,066)	(2,014,314)	(2,252,380)
Provisions	–	(27,083)	(27,083)
Other liabilities	(71,563)	(4,691)	(76,254)
	(2,134,472)	(10,778,841)	(12,913,313)
Net position	1,951,909	(395,929)	1,555,980

4.4. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and from non-compliance with generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

4.4.1. Operational risk management strategies and processes

The Bank, in coordination with Intesa Sanpaolo, has defined the overall operational risk management framework by setting up a VUB Group policy and organisational process for measuring, managing and controlling operational risk.

The control of operational risk was attributed to the Operational Risk Committee, which identifies risk management policies. The Supervisory and Management Boards of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of Anti-Money Laundering Department; permanent invitees without voting rights**:** Head of Corporate & SME Division, Head of Retail Division, Head of Enterprise Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Internal Audit Department, Head of Information Security sub-department, Head of Business Continuity Management sub-department, Head of Physical Security sub-department and Member of the Management Board of VUB Leasing, a. s.), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

4.4.2. Organisational structure of the associated risk management function

For some time, the Bank has had a centralised function within the Risk Management Division for the management of the Bank's operational risks. This function is responsible, in coordination with the Parent Company, for the definition, implementation and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to senior Management. In compliance with current requirements, the individual organisational units participate in the process and each of them is responsible for the identification, assessment, management and mitigation of its operational risks. Specific offices and departments have been identified within these organisational units to be responsible for Operational Risk Management. These functions are responsible for the collection and structured census of information relating to operational events, scenario analyses and evaluation of the level of risk associated with the business environment, including information and communication technology risk. The Risk Management Division carries out second level monitoring of these activities.

4.4.3. Scope of application and characteristics of the risk measurement and reporting system

In February 2010 upon a VUB Group request, the Bank as part of the VUB Group received, from the relevant Supervisory authorities an approval for usage and thus adopted the Advanced Measurement Approach ('AMA'), for Operational Risk management and measurement. In June 2013, the Bank as part of the VUB Group received an approval for usage and thus adopted the AMA for subsidiaries Consumer Finance Holding Česká republika, a. s. and VUB Leasing, a. s.. Part of this decision has been an approval of the insurance effect inclusion, as well as approval of a new allocation mechanism, which led to fulfilment of a regulatory condition for the approval of diversification usage.

For the use of the AMA, the Bank has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank and VUB Group companies that fall within the scope of

AMA. This process is verified by the Internal Audit Department and submitted to the relevant Bank's Committee for the annual certification of compliance with the requirements established by the regulation.

Under the AMA approach, the capital requirement is calculated by an internal model, which combines all elements stipulated in Supervisory regulation, allowing to measure the exposure in a more risk-sensitive way. Monitoring of operational risks is performed by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.

4.4.4. Policies for hedging and mitigating risk

The Bank, in coordination with its Parent Company, has set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does include the benefit from this transfer of operational risk through insurance policies, which contributes to reducing the risk capital calculated through the internal models.

5. Estimated fair value of financial assets and liabilities

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market measurement criterion that is not entity-specific. An entity has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market operators to determine the price of an asset or liability, presuming that the market operators act with a view to satisfying their own economic interest in the best way possible.

The Bank uses the following fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the Bank as at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and

Level 3: inputs unobservable for the asset or liability.

The highest priority is attributed to effective market quotes (Level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (Level 2) and the lowest priority to unobservable inputs (Level 3). Following this hierarchy, where available, fair value estimates made by the Bank are based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, fair value is estimated using discounted cash flow models or other pricing models as appropriate.

Under Level 2, the principal valuation technique used by the Bank for debt instruments involves the method of discounting future cash flows. The calculation takes into account the time value of money (risk-free rate of interest) and the credit risk expressed in the form of credit spreads applied to the bonds' yield and representing the risk premium the investor claims against a risk free investment. In the case of derivative financial instruments the Bank uses standard fair value calculation models based on the principal net present value using the yield curve to discount all future cash flows from derivatives for all relevant currencies. The principal input parameters used by the models comprise interest rate curves, volatility curves, spot and forward prices and the correlation between underlying assets. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. The Bank also considers its own and counterparty's credit risk.

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument. The Bank monitors the occurrence of these changes and accordingly reassesses the classification into the fair value hierarchy. For determining the timing of the transfers between the levels, the Bank uses the end of the reporting period as the day when the transfer is deemed to have occurred.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

(a) Cash, balances at central banks

The carrying values of cash and cash equivalents are deemed to approximate their fair value.

(b) Due from other banks

The fair value of due from other banks balances with longer maturities and material amounts is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. For shorter maturities and not significant balances, the carrying amounts of amounts due from other banks approximates their estimated fair value. Impairment losses are taken into consideration when calculating fair values.

(c) Due from customers

The fair value of loans and advances to customers is estimated using discounted cash flow analyses, based upon the risk free interest rate curve and risk reflecting credit-worthiness of the counterparty. Impairment losses are taken into consideration when calculating fair values.

(d) Due to banks and Due to customers

The carrying amounts of due to banks approximates their estimated fair value. The fair value of due to customers is estimated by discounting their future expected cash flows using the risk free interest rate curve.

(e) Subordinated debt

The fair value of subordinated debt is discounted using the risk free interest rate curve and own credit risk.

(f) Debt securities in issue

The fair value of debt securities issued by the Bank is based on quoted market prices. Where no market prices are available, the fair value was calculated by discounting future cash flows using the risk free interest rate curve adjusted by credit spreads reflecting the credit quality of VUB as the issuer.

2018 € '000	Note	At amor-tised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
			Carrying amount					Fair value
Financial assets								
Cash, balances at central banks	8	1,747,556	–	1,747,556	–	1,747,556	–	1,747,556
Financial assets at FVTPL	9	–	39,988	39,988	440	39,548	–	39,988
Derivatives – Hedge accounting	10	–	26,765	26,765	–	26,765	–	26,765
Financial assets at FVOCI	11	–	749,974	749,974	225,760	524,214	–	749,974
Financial assets at AC:	12							
Due from other banks		126,889	–	126,889	–	126,889	–	126,889
Due from customers		13,324,663	–	13,324,663	–	–	13,788,765	13,788,765
		15,199,108	816,727	16,015,835	226,200	2,464,972	13,788,765	16,479,937
Financial liabilities								
Financial liabilities at FVTPL	9	–	39,335	39,335	–	39,335	–	39,335
Derivatives – Hedge accounting	10	–	15,226	15,226	–	15,226	–	15,226
Financial liabilities at AC:								
Due to banks	12	992,079	–	992,079	–	992,079	–	992,079
Due to customers		11,055,766	–	11,055,766	–	11,061,829	–	11,061,829
Subordinated debt		200,181	–	200,181	–	180,158	–	180,158
Debt securities in issue		2,332,253	–	2,332,253	–	2,314,698	–	2,314,698
		14,580,279	54,561	14,634,840	–	14,603,325	–	14,603,325

2017 € '000	Note	At amor-tised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
				Carrying amount				Fair value
Financial assets								
Cash, balances at central banks	8	1,595,078	–	1,595,078	–	1,595,078	–	1,595,078
Financial assets at FVTPL	9	–	5,783	5,783	850	4,933	–	5,783
Derivative financial instruments	9, 10	–	49,856	49,856	–	49,856	–	49,856
Available-for-sale financial assets	11	–	520,416	520,416	265,742	248,365	6,309	520,416
Held-to-maturity investments	11	376,472	–	376,472	–	426,970	–	426,970
Financial assets at AC:	12							
Due from other banks		90,744	–	90,744	–	90,744	–	90,744
Due from customers		11,487,518	–	11,487,518	–	–	12,552,785	12,552,785
		13,549,812	576,055	14,125,867	266,592	2,415,946	12,559,094	15,241,632
Financial liabilities								
Derivative financial instruments	9, 10	–	52,184	52,184	–	52,184	–	52,184
Financial liabilities at AC:	12							
Due to banks		449,815	–	449,815	–	449,815	–	449,815
Due to customers		9,855,433	–	9,855,433	–	9,863,989	–	9,863,989
Subordinated debt		200,164	–	200,164	–	199,693	–	199,693
Debt securities in issue		2,252,380	–	2,252,380	–	2,336,806	–	2,336,806
		12,757,792	52,184	12,809,976	–	12,902,487	–	12,902,487

At 31 December 2018 the Bank transfers the shares of companies VISA Inc. Seria C and S.W.I.F.T. from Level 3 to Level 2 to be in line with the methodology of the Parent Company.

There were no other transfers of financial instruments among the levels during 2018 and 2017.

6. Segment reporting

The Bank reports financial and descriptive information about its operating segments in these financial statements. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank), whose operating results are regularly reviewed by the Bank's management to make decisions about resources to be allocated to the segment and to assess its performance, and for which separate financial information is available.

The Bank operates in three operating segments – Retail Banking, Corporate Banking and Central Treasury. Each segment is exposed to different risks and differs in the nature of its services, business processes and types of customers for its products and services.

For all segments the Bank reports a measure of segment assets and liabilities and income and expense items, a reconciliation of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the Bank's financial statements.

Most of the transactions of the Bank are related to the Slovak market. Due to the market size, the Bank operates as a single geographical segment unit.

Operating segments pay and receive interest to and from the Central Treasury on an arm's length basis in order to reflect the costs of funding.

Retail Banking includes loans, deposits and other transactions and balances with households, sole traders and small business segment.

Corporate Banking comprises SME, the Corporate Customer Desk ('CCD'), Municipalities and Public Sector Entities. SME includes loans, deposits and other transactions and balances with SME (company revenue in the range of € 1 million to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes loans, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

Central Treasury undertakes the Bank's funding, issues of debt securities as well as trading book.

The Bank also has a central Governance Centre (included within 'Other' in the table below) that manages the Bank's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

2018 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	278,144	91,498	18,441	10,445	398,528
Interest and similar expense	(10,129)	(5,884)	(23,527)	(8,092)	(47,632)
Inter-segment revenue	(22,429)	(16,329)	33,447	5,311	–
Net interest income	245,586	69,285	28,361	7,664	350,896
Net fee and commission income	100,149	27,631	2,155	(3,502)	126,433
Dividend income	–	–	–	2,000	2,000
Net trading result	4,063	5,608	29,913	309	39,893
Other operating income	–	–	66	1,576	1,642
Other operating expense	(7,733)	(6)	–	(5,494)	(13,233)
Special levy of selected financial institutions*	–	–	–	(26,286)	(26,286)
Salaries and employee benefits*	–	–	–	(124,491)	(124,491)
Other administrative expenses*	–	–	–	(83,434)	(83,434)
Amortisation	(5,474)	(206)	(7)	(6,585)	(12,272)
Depreciation	(4,710)	(38)	(4)	(3,022)	(7,774)
Profit before provisions and impairment	331,881	102,274	60,484	(241,265)	253,374
Provisions*	–	–	–	(166)	(166)
Impairment losses	(58,848)	7,950	55	(5,498)	(56,341)
Net gains/(losses) arising from the derecognition of financial assets measured at amortised cost	4,996	(1,457)	–	(98)	3,441
Total segment operating income	278,029	108,767	60,539	(247,027)	200,308
Segment assets	8,009,364	5,392,811	2,461,426	505,670	16,369,271
Segment liabilities	6,426,304	4,457,663	3,559,978	316,638	14,760,583

* The Bank does no allocate these items to the individual segments.

2017 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	251,454	83,664	19,824	11,237	366,179
Interest and similar expense	(10,572)	(5,265)	(23,717)	(7,615)	(47,169)
Inter-segment revenue	(17,086)	(11,923)	23,445	5,564	–
Net interest income	223,796	66,476	19,552	9,186	319,010
Net fee and commission income	74,464	26,357	2,939	(4,113)	99,647
Dividend income	–	–	–	2,000	2,000
Net trading result	3,712	5,339	31,030	321	40,402
Other operating income	–	2,914	31	81	3,026
Other operating expense	(5,947)	–	–	(3,937)	(9,884)
Special levy of selected financial institutions*	–	–	–	(24,823)	(24,823)
Salaries and employee benefits*	–	–	–	(110,913)	(110,913)
Other administrative expenses*	–	–	–	(76,290)	(76,290)
Amortisation	(5,617)	(865)	(6)	(4,404)	(10,892)
Depreciation	(6,443)	(44)	(3)	(2,681)	(9,171)
Profit before provisions and impairment	283,965	100,177	53,543	(215,573)	222,112
Provisions*	–	–	–	19,122	19,122
Impairment losses	(32,328)	(5,774)	(1,432)	1,487	(38,047)
Total segment operating income	251,637	94,403	52,111	(194,964)	203,187
Segment assets	6,978,913	4,149,354	2,844,700	496,326	14,469,293
Segment liabilities	5,864,057	3,959,208	2,829,933	260,115	12,913,313

* The Bank does no allocate these items to the individual segments.

7. Cash and cash equivalents

For the purposes of the Statement of cash flows, Cash and cash equivalents comprise the following balances with contractual maturity of less than 90 days:

€ '000	Note	2018	2017
Cash, balances at central banks (excluding Compulsory minimum reserves)	8	1,254,503	1,587,814
Current accounts in other banks	12.1	24,435	25,043
		1,278,938	1,612,857

8. Cash, balances at central banks

€ '000	2018	2017
Cash in hand	155,051	125,531
Balances at central banks:		
Compulsory minimum reserves	493,053	7,264
Current accounts	2,914	1,753
Term deposits	27,211	736,103
Loans and advances	1,069,327	724,427
	1,592,505	1,469,547
	1,747,556	1,595,078

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and Česká národní banka ('ČNB'). The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the Bank and the amount of issued bonds, both with a maturity of up to two years. The rate for the calculation of the compulsory minimum reserve is 1% for the reserves held at the NBS and 2% for the reserves held at ČNB. The required balance is calculated as the total of individual items multiplied by the valid rate.

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation.

At 31 December 2018 the balance of 'Loans and advances' comprised of one reverse repo trade concluded with ČNB in the nominal amount of CZK 27,500 million (€ 1,068,999 thousand) (31 December 2017: CZK 18,500 million (€ 724,354 thousand)). The repo trade was secured by four treasury bills of ČNB (31 December 2017: four treasury bills of ČNB).

9. Financial assets and liabilities at fair value through profit or loss

€ '000	2018
Financial assets held for trading:	
Trading derivatives	39,548
Non-trading financial assets at fair value through profit or loss:	
Equities	440
Financial liabilities held for trading:	
Trading derivatives	39,335

€ '000	2017
Assets	
Financial assets at fair value through profit or loss:	
Government debt securities of EU countries	4,933
Equities	850
	5,783
Derivative financial instruments*:	
Trading derivatives	27,961
Liabilities	
Derivative financial instruments*:	
Trading derivatives	37,542

* Part of 'Derivative financial instruments' related to hedge accounting is disclosed in the note 10.

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and they form the part of the incentive plan introduced by the Parent Company. The Bank did not elect the option to present these at FVOCI. In the last annual financial statements these were presented as 'Financial assets designated at fair value through profit or loss on initial recognition'.

€ '000	2018 Assets	2017 Assets	2018 Liabilities	2017 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	33,346	21,385	32,585	18,403
Options	–	51	–	51
	33,346	21,436	32,585	18,454
Foreign currency instruments:				
Forwards and swaps	5,428	4,322	5,943	16,896
Options	163	42	215	42
	5,591	4,364	6,158	16,938
Equity and commodity instruments:				
Equity options	446	2,146	443	2,137
Commodity forwards and swaps	165	15	149	13
	611	2,161	592	2,150
	39,548	27,961	39,335	37,542

€ '000	2018 Assets	2017 Assets	2018 Liabilities	2017 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	3,927,603	1,974,174	3,927,603	1,974,174
Options	66,105	49,014	66,105	49,014
Futures	–	3,431	–	3,431
	3,993,708	2,026,619	3,993,708	2,026,619
Foreign currency instruments:				
Forwards and swaps	1,519,362	1,837,936	1,520,462	1,847,944
Options	24,171	7,201	24,256	7,201
	1,543,533	1,845,137	1,544,718	1,855,145
Equity and commodity instruments:				
Equity options	5,487	7,087	5,487	7,087
Commodity forwards and swaps	5,675	7,407	5,675	7,407
	11,162	14,494	11,162	14,494
	5,548,403	3,886,250	5,549,588	3,896,258

10. Derivatives – Hedge accounting

€ '000	2018 Assets	2018 Liabilities
Cash flow hedges of interest rate risk	–	10
Fair value hedges of interest rate risk	26,765	15,216
	26,765	15,226

€ '000	2017 Assets	2017 Liabilities
Derivative financial instruments*:		
Cash flow hedges of interest rate risk	1,312	631
Fair value hedges of interest rate risk	20,583	14,011
	21,895	14,642

* Part of 'Derivative financial instruments' related to trading is disclosed in the note 9.

10.1. Cash flow hedges of interest rate risk

The Bank uses one interest rate swap to hedge the interest rate risk arising from the issuance of one variable rate covered bond denominated in EUR. The cash flows on the floating leg of these interest rate swap substantially match the cash flows profile of the variable rate covered bond. The fix deal interest rate is –0.21%. The maturity of this hedging instrument is in 2019.

The Bank used one interest rate swap to hedge the interest rate risk of a subordinated loan denominated in EUR as at 31 December 2017. The cash flows on the floating leg of this interest rate swap substantially matched the cash flows profile of the subordinated loan with variable interest rate.

€ '000	2018 Assets Fair values	2018 Liabilities Fair values	2018 Assets Notional values	2018 Liabilities Notional values	2018 Change in fair value used for calculating hedge ineffectiveness for 2018	2018 Change in fair value recognised in OCI	2018 Hedge ineffectiveness recognised in profit or loss	2018 Amount reclassified from hedge reserve to profit or loss
Micro hedges								
Interest rate instruments:								
Swaps	–	10	80,000	80,000	(94)	(94)	–	(689)

The amounts relating to items designated as hedged items were as follows:

€ '000	Line item in SOFP	Carrying amount	Change in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	2018 Balances remaining in the cash flow hedge reserve after termination of hedging relationship
Covered bonds	Financial liabilities at AC: Debt securities in issue	80,000	(24)	(6)	–

Below is a schedule indicating the periods when the hedged cash flows are expected to occur:

€ '000			2018			2017
	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Covered bonds	(1,264)	–	–	(4,078)	(1,414)	–
Subordinated debt	–	–	–	(6,010)	(25,326)	–

10.2. Fair value hedges of interest rate risk

The Bank used one interest rate swap to hedge the interest rate risk of a pool of corporate loans in EUR. The changes in fair value of this interest rate swap substantially offset the changes in fair value of loans in relation to changes of interest rates.

The Bank used twenty eight interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The Bank used thirty four interest rate swaps to hedge the interest rate risk of a pool of current accounts. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The Bank used one interest rate swap to hedge the interest rate risk of a pool of targeted longer-term refinancing operations ('TLTROs') denominated in EUR. TLTROs are Eurosystem operations that provide financing to credit institutions for periods of up to four years. The changes in fair value of this interest rate swap substantially offset the changes in fair value of the TLTROs in relation to changes of interest rates.

The Bank used four interest rate swaps to hedge the interest rate risk of three fixed rate state bonds from the FVOCI portfolio. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The Bank used fourteen interest rate swaps and five cross currency swaps to hedge interest rate risk of nineteen corporate loans. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

Furthermore, the Bank used thirty six interest rate swaps to hedge the interest rate risk arising from the issuance of twenty fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

In 2018, the Bank recognised a net gain of € 714 thousand (2017: net gain of € 11,801 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 542 thousand (2017: net loss of € 11,867 thousand). Both items are disclosed within 'Net trading result'.

€ '000	2018 Assets Fair values	2018 Liabilities Fair values	2018 Assets Notional values	2018 Liabilities Notional values	2018 Change in fair value used for calculating hedge in-effective-ness for 2018	2018 Ineffec-tiveness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	247	1,503	156,371	156,371	1,486	–
Hedge of corporate loans	2,897	2,101	471,464	471,464	(1,559)	–
Hedge of covered bonds	20,720	533	1,944,036	1,944,036	12,044	4
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	74	2,839	135,430	134,285	(1,235)	9
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of corporate loans	–	181	63,000	63,000	(140)	7
Hedge of mortgage loans	944	8,059	1,892,000	1,892,000	(11,478)	84
Hedge of TLTROs	7	–	250,000	250,000	(1)	17
Hedge of current accounts	1,876	–	565,500	565,500	1,597	51

The amounts relating to items designated as hedged items were as follows:

€ '000	Line item in SOFP	2018 Carrying amount	2018 Accumulated amount of fair value adjustments included in carrying amount	2018 Change in fair value used for calculating hedge ineffectiveness for 2018	2018 Accumulated amount of fair value adjustment after termination of hedging relationship
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	124,832	(836)	(1,486)	–
Corporate loans	Financial assets at AC: Due from customers	604,713	(1,036)	2,803	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1,370,550	24,521	12,040	5,798
Macro hedges					
Corporate loans	Financial assets at AC: Due from customers	63,146	146	147	–
Mortgage loans	Financial assets at AC: Due from customers	1,899,246	7,246	11,562	1,790
TLTROs	Financial liabilities at AC: Due to banks	247,842	(18)	(18)	–
Current accounts	Financial liabilities at AC: Due to customers	626,017	1,517	1,546	–

Maturity of notional values of hedging instruments designated as fair value hedges of interest rate risk and their average interest rates:

€ '000	Less than 1 year	1 – 5 years	2018 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	86,671	50,000	20,000
	1.15%	0.26%	0.32%
Hedge of corporate loans	13,606	366,812	154,046
	0.83%	0.07%	0.52%
Hedge of mortgage loans	159,000	1,733,000	–
	(0.26%)	(0.07%)	–
Hedge of TLTROs	250,000	–	–
	(0.35%)	–	–
Hedge of current account	512,000	–	112,500
	(0.35%)	–	0.64%
Hedge of covered bonds	670,736	321,000	952,300
	0.17%	0.66%	1.14%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	41,847	5,382	87,057
	0.00%	0.00%	2.63%

11. Financial assets at fair value through other comprehensive income

€ '000	2018
Government debt securities of EU countries	681,809
Bank debt securities	59,305
Equity instruments:	
VISA Inc. Seria C	7,676
Intesa Sanpaolo S.p.A.	1,112
S.W.I.F.T.	72
	8,860
	749,974

€ '000	2017
Available-for-sale financial assets	
Government debt securities of EU countries	439,744
Bank debt securities	72,467
Equity instruments:	
VISA Inc. Seria C	6,309
Intesa Sanpaolo S.p.A.	1,831
S.W.I.F.T.	65
	8,205
	520,416
Held-to-maturity investments	
Government debt securities of EU countries	376,472

The Bank assessed the business model of its debt securities previously classified as 'Available-for-sale financial assets' and 'Held-to-maturity investments' as held to collect and sell and all of these securities passed through SPPI test, therefore the Bank classified them as 'Financial assets at fair value through other comprehensive income'.

The Bank designated its equities previously classified as 'Available-for-sale financial assets' as 'Financial assets at fair value through other comprehensive income' on the basis that these are not held for trading.

At 31 December 2018, bonds in the total nominal amount of € 599,935 thousand from FVOCI portfolio were pledged by the Bank to secure collateralized transactions (31 December 2017: € 306,371 thousand from available-for-sale portfolio and € 362,147 thousand from held-to-maturity portfolio). These bonds were pledged in favor of the ECB within the pool of assets used as collateral for received funds needed for liquidity management purposes.

12. Financial assets and liabilities at amortised cost

12.1. Due from other banks

€ '000	Note	2018	2017
Current accounts	7	24,435	25,043
Loans and advances:			
with contractual maturity over 90 days		72,098	34,028
Cash collateral		31,110	31,746
Impairment losses	22	(754)	(73)
		126,889	90,744

12.2. Due from customers

2018 € '000	Gross amount	Impairment losses (note 22)	Carrying amount
Municipalities			
Municipalities	140,670	(2,599)	138,071
Corporate			
Large Corporates	2,144,957	(5,484)	2,139,473
Large Corporates – debt securities	53,360	(619)	52,741
Specialized Lending	848,312	(46,630)	801,682
SME	1,305,405	(34,968)	1,270,437
Other Non-banking Financial Institutions	769,194	(451)	768,743
Public Sector Entities	2,905	(73)	2,832
Factoring	105,337	(1,219)	104,118
	5,229,470	(89,444)	5,140,026
Retail			
Small Business	249,901	(13,277)	236,624
Consumer Loans	1,589,367	(189,856)	1,399,511
Mortgages	6,172,729	(34,081)	6,138,648
Credit Cards	183,527	(32,705)	150,822
Overdrafts	96,511	(8,586)	87,925
Flat Owners Associations	33,286	(250)	33,036
	8,325,321	(278,755)	8,046,566
	13,695,461	(370,798)	13,324,663

2017 € '000	Gross amount	Impairment losses (note 22)	Carrying amount
Sovereigns			
Municipalities	128,144	(97)	128,047
Corporate			
Large Corporates	1,720,127	(5,677)	1,714,450
Specialized Lending	748,099	(40,322)	707,777
SME	1,298,428	(58,869)	1,239,559
Other Non-banking Financial Institutions	659,985	(1,386)	658,599
Public Sector Entities	1,158	(3)	1,155
Factoring	21,598	(370)	21,228
	4,449,395	(106,627)	4,342,768
Retail			
Small Business	243,051	(12,822)	230,229
Consumer Loans	1,252,101	(85,587)	1,166,514
Mortgages	5,341,959	(25,402)	5,316,557
Credit Cards	203,609	(32,265)	171,344
Overdrafts	101,710	(9,346)	92,364
Flat Owners Associations	27,651	(358)	27,293
Other	12,403	(1)	12,402
	7,182,484	(165,781)	7,016,703
	11,760,023	(272,505)	11,487,518

At 31 December 2018, the 20 largest corporate customers represented a total balance of € 1,762,523 thousand (31 December 2017: € 1,726,272 thousand) or 13.23% (31 December 2017: 14.68%) of the gross loan portfolio.

12.3. Due to banks

€ '000	2018	2017
Due to central banks:		
Current accounts	658	1,147
Loans received from central banks	247,860	248,874
	248,518	250,021
Due to other banks:		
Current accounts	20,337	37,991
Term deposits	620,785	16,137
Loans received from other banks	101,829	134,037
Cash collateral received	610	11,629
	743,561	199,794
	992,079	449,815

At 31 December 2018 and 31 December 2017, 'Loans received from central banks' contains three loans from National Bank of Slovakia in the nominal amount of € 100,000 thousand, € 100,000 thousand and € 50,000 thousand The interest rate for all loans is –0.4% and the maturity is in 2020 and 2021. The principal and interests are due at maturity of loans.

The breakdown of 'Loans received from other banks' according to the counterparty is presented below:

€ '000	2018	2017
European Investment Bank	81,350	101,493
European Bank for Reconstruction and Development	13,437	21,898
Council of Europe Development Bank	7,042	10,646
	101,829	134,037

European Investment Bank

Loans from the European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2018, the balance comprised of six loans in the nominal amount of € 50,000 thousand, € 8,750 thousand, € 8,286 thousand, € 7,479 thousand, € 1,827 thousand with variable interest rates and € 5,000 thousand with fix interest rate, the interest rates were between 0.00% and 1.73% (31 December 2017: seven loans in the nominal amount of € 50,000 thousand, € 20,000 thousand, € 13,125 thousand, € 9,141 thousand, € 6,429 thousand, € 2,159 thousand and € 625 thousand with interest rates between 0.00% and 1.73%) and with maturity between 2020 and 2028 (31 December 2017: 2018 – 2028). The principal of the loans is payable on an annual or semi-annual basis and the interest is payable semi-annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

European Bank for Reconstruction and Development ('EBRD')

Loans received from the EBRD represented funds granted to support the energy savings in large corporations. At 31 December 2018, there were five loan arrangements concluded in the nominal amount of 3,571 thousand, € 3,571 thousand, € 3,571 thousand, € 2,143 thousand and € 558 thousand (31 December 2017: five loan arrangements in the nominal amount of € 5,000 thousand, € 5,000 thousand, € 5,000 thousand, € 3,571 thousand and € 3,285 thousand). The maturity of the loans is between 2020 and 2023 (31 December 2017: 2020 – 2023). At 31 December 2018 the variable interest rates are in the range between 0.35% and 1.64% (31 December 2017: 0.35% –1.63%). The frequency of the repayment of both the interest and the principal is semi-annual.

Council of Europe Development Bank

At 31 December 2018, loans from the Council of Europe Development Bank comprised of four loans in the nominal amount of € 2,667 thousand, € 2,000 thousand, € 1,500 thousand and € 874 thousand (31 December 2017: four loans in the nominal amount of € 3,333 thousand, € 3,000 thousand, € 3,000 thousand and € 1,311 thousand). The purpose of these loans is to fund SME projects and development of municipalities in the Slovak republic. The interest rates of these loans are linked to 3M Euribor and are between 0.15% and 0.30% at 31 December 2018 (31 December 2017: 0.14% –0.31%)The maturity of the individual loans is between 2019 and 2022 (31 December 2017: 2019 – 2022). The interest is payable quarterly and the principal is payable on an annual basis.

12.4. Due to customers

€ '000	2018	2017
Current accounts	7,397,264	6,410,272
Term deposits	2,475,038	2,576,930
Government and municipal deposits	850,893	513,664
Savings accounts	246,494	238,263
Other deposits	86,077	116,304
	11,055,766	9,855,433

12.5. Subordinated debt

€ '000	2018	2017
Subordinated debt	200,181	200,164

At 31 December 2018, the balance of subordinated debt comprised of one ten-year loan drawn on 22 December 2016, in the nominal amount of € 200,000 thousand (31 December 2017: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. The variable interest rate was 2.96% as at 31 December 2018. In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

				Non-cash changes			
2018 € '000	1 January	Cash flow	Accruals	Re-valuation	Exchange difference	Other	31 December
Subordinated debt	200,164	–	17	–	–	–	200,181

				Non-cash changes			
2017 € '000	1 January	Cash flow	Accruals	Re-valuation	Exchange difference	Other	31 December
Subordinated debt	200,165	–	(1)	–	–	–	200,164

12.6. Debt securities in issue

€ '000	2018	2017
Covered bonds	838,698	262,037
Covered bonds subject to cash flow hedges	80,378	281,063
Covered bonds subject to fair value hedges	1,388,658	1,696,454
	2,307,734	2,239,554
Revaluation of fair value hedged covered bonds	18,722	8,465
Unamortized part of revaluation related to terminated fair value hedges	5,797	4,361
	2,332,253	2,252,380

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the Bank (note 12.2.).

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

		Cash flow			Non-cash changes			
2017 € '000	**1 January**	**Proceeds from issue**	**Repay-ments**	**Accruals**	**Re-valuation**	**Exchange differ-rence**	**Other**	**31 De-cember**
Covered bonds	2,252,380	300,000	(235,545)	2,618	10,259	2,541	–	2,332,253

		Cash flow			Non-cash changes			
2017 € '000	**1 January**	**Proceeds from issue**	**Repay-ments**	**Accruals**	**Re-valuation**	**Exchange differ-rence**	**Other**	**31 De-cember**
Covered bonds	1,715,308	750,000	(186,155)	(1,754)	(19,557)	(5,415)	(47)	2,252,380

Name	Interest rate %	Currency	Number in circulation as at 31 December 2018	Nominal value in original currency per piece	Issue date	Maturity date	2018 € '000	2017 € '000
Mortgage bonds VÚB, a. s. XX.	4.300	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a. s. XXX.	5.000	EUR	1,000	33,194	5.9.2007	5.9.2032	33,476	33,457
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,738	19,724
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	560	33,194	31.3.2008	31.3.2020	19,189	19,140
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,165	16,067
Mortgage bonds VÚB, a. s. 57.	1.039	EUR	–	1,000,000	30.9.2010	30.9.2018	–	100,262
Mortgage bonds VÚB, a. s. 58.	1.531	EUR	80	1,000,000	10.12.2010	10.12.2019	80,073	80,071
Mortgage bonds VÚB, a. s. 62.	1.712	EUR	–	1,000,000	28.7.2011	28.7.2018	–	100,730
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,479	25,463
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	50,838	50,795
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	72,014	71,967
Mortgage bonds VÚB, a. s. 75.	2.000	EUR	300	100,000	5.4.2013	5.4.2019	30,447	30,456
Mortgage bonds VÚB, a. s. 76.	2.400	EUR	–	10,000	22.4.2013	22.4.2018	–	3,141
Mortgage bonds VÚB, a. s. 77.	1.800	CZK	–	100,000	20.6.2013	20.6.2018	–	19,759
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	905	10,000	3.3.2014	3.3.2020	9,220	9,227
Mortgage bonds VÚB, a. s. 79.	2.000	EUR	10,000	1,000	24.3.2014	24.9.2020	10,154	10,154
Mortgage bonds VÚB, a. s. 80.	1.850	EUR	31	1,000,000	27.3.2014	27.3.2021	31,622	31,704
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	39,425	39,556
Mortgage bonds VÚB, a. s. 82.	1.650	EUR	1,701	1,000	16.6.2014	16.12.2020	1,716	1,716
Mortgage bonds VÚB, a. s. 83.	0.900	EUR	500	100,000	28.7.2014	28.7.2019	50,151	50,088
Mortgage bonds VÚB, a. s. 84.	0.600	EUR	500	100,000	29.9.2014	30.9.2019	50,040	49,996
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,628	49,581
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	1,000	100,000	27.4.2015	27.4.2020	99,610	99,135
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	98,281	97,916
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	965	100,000	11.9.2015	11.9.2020	96,704	96,733
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,456	99,338
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,192	98,011
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	100,066	99,972

(Table continues on the next page)

Name	Interest rate %	Currency	Number in circulation as at 31 December 2018	Nominal value in original currency per piece	Issue date	Maturity date	2018 € '000	2017 € '000
Mortgage bonds VÚB, a. s. 92.	1.700	USD*	550	100,000	27.6.2016	27.6.2019	48,433	58,779
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	248,641	248,139
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	248,253	247,830
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	248,789	248,401
Covered bonds VÚB, a. s. 1	0.500	EUR	2,500	100,000	26.6.2018	26.6.2023	249,605	–
Covered bonds VÚB, a. s. 2	1.500	EUR	500	100,000	5.10.2018	15.12.2027	50,082	–
							2,307,734	2,239,555

* The Bank issued the mortgage bonds in USD due to lower funding costs in USD, funding needs in USD and interests from investor side regarding securities denominated in USD.

13. Fair value changes of the hedged items in portfolio hedge of interest rate risk

€ '000	2018
Financial assets at AC:	
Due from customers:	
Corporate	147
Retail	
Mortgages	9,036
	9,183
Financial liabilities at AC:	
Due to banks	(18)
Due to customers	1,517
	1,499

14. Investments in subsidiaries, joint ventures and associates

2018 € '000	Share	Cost	Impairment losses (note 22)	Carrying amount
VÚB Leasing, a. s.	100.00%	44,410	(27,381)	17,029
Consumer Finance Holding ČR, a. s.	100.00%	8,557	–	8,557
VÚB Generali d. s. s., a. s.	50.00%	16,597	–	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3
		69,567	(27,381)	42,186

2017 € '000	Share (%)	Cost	Impairment losses (note 22)	Carrying amount
Consumer Finance Holding, a. s.	100.00%	53,114	–	53,114
VÚB Leasing, a. s.	100.00%	44,410	(27,381)	17,029
VÚB Factoring, a. s.	100.00%	16,535	(10,533)	6,002
VÚB Generali d. s. s., a. s.	50.00%	16,597	–	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3
		130,659	(37,914)	92,745

VÚB Leasing, a. s., VÚB Generali d. s. s., a. s. and Slovak Banking Credit Bureau, s. r. o. are incorporated in the Slovak Republic.

Consumer Finance Holding ČR, a. s. is incorporated in the Czech Republic.

15. Property and equipment and Non-current assets classified as held for sale

2018 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	102,617	60,026	28,931	3,432	195,006
Additions from merger	983	1,673	618	42	3,316
Additions	7	4	4	5,046	5,061
Disposals	(2,701)	(7,801)	(1,286)	–	(11,788)
Transfers	264	2,879	96	(3,239)	–
Revaluation	2	–	–	–	2
Exchange differences	(1)	–	–	–	(1)
At 31 December	101,171	56,781	28,363	5,281	191,596
Accumulated depreciation					
At 1 January	–	(55,703)	(27,791)	–	(83,494)
Additions from merger	–	(1,251)	(475)	–	(1,726)
Depreciation for the year	(4,762)	(2,626)	(386)	–	(7,774)
Disposals	2,621	7,780	1,303	–	11,704
At 31 December	(2,141)	(51,800)	(27,349)	–	(81,290)
Impairment losses					
At 1 January	–	–	–	–	–
Creation	(7,090)	–	–	–	(7,090)
At 31 December	(7,090)	–	–	–	(7,090)
Carrying amount					
At 1 January	102,617	4,323	1,140	3,432	111,512
At 31 December	91,940	4,981	1,014	5,281	103,216

2017 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	200,093	64,668	29,396	3,308	297,465
Additions	–	–	–	3,950	3,950
Disposals	(3,231)	(6,863)	(1,065)	–	(11,159)
Transfers	1,014	2,216	596	(3,826)	–
Exchange differences	6	5	4	–	15
Revaluation	27,468	–	–	–	27,468
Other*	(122,733)	–	–	–	(122,733)
At 31 December	102,617	60,026	28,931	3,432	195,006
Accumulated depreciation					
At 1 January	(110,699)	(59,376)	(28,529)	–	(198,604)
Depreciation for the year	(5,664)	(3,146)	(361)	–	(9,171)
Disposals	2,553	6,823	1,103	–	10,479
Exchange differences	(6)	(4)	(4)	–	(14)
Other*	113,816	–	–	–	113,816
At 31 December	–	(55,703)	(27,791)	–	(83,494)
Impairment losses (note 22)					
At 1 January	(10,459)	–	–	–	(10,459)
Release	1,542	–	–	–	1,542
Other*	8,917	–	–	–	8,917
At 31 December	–	–	–	–	–
Carrying amount					
At 1 January	78,935	5,292	867	3,308	88,402
At 31 December	102,617	4,323	1,140	3,432	111,512

* 'Other' represents elimination of the accumulated depreciation and impairment losses to 'Buildings and land' due to application of revaluation model.

In 2018 the Bank reviewed the carrying amount of its buildings. An impairment test was carried out to determine the recoverable amount of these assets which was based on the fair value less costs to sell. As a result of the impairment test the Bank recognized an impairment loss in total amount of € 7,090 thousand (31 December 2017: € 8,917 thousand).

At 31 December 2017, the Bank changed the accounting policy for 'Buildings and land', before evaluated from the cost to the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The Bank used income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs. The impact of the revaluation model on equity was in the total amount of € 21,700 thousand and on profit in the amount of € 1,521 thousand due to release of previously booked impairment.

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2018	2017
Cost	174,242	197,882
Accumulated depreciation	(98,506)	(113,816)
Impairment losses	(10,438)	(10,438)
	65,298	73,628

At 31 December 2018 and 31 December 2017, the Bank held in its portfolio of Non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2018	2017
Cost	35,141	–
Accumulated depreciation	(1,129)	–
Impairment losses	(7,090)	–
	26,922	–

At 31 December 2018, the gross book value of fully depreciated tangible assets that are still used by the Bank amounted to € 83,855 thousand (31 December 2017: € 92,881 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

At 31 December 2018, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2017: € nil thousand).

The Bank's insurance covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism and other damages).

16. Intangible assets

2018 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	225,628	10,500	23,633	259,761
Additions from merger	12,657	–	246	12,903
Additions	–	–	25,005	25,005
Transfers	12,193	334	(12,527)	–
Exchange differences	(3)	(1)	–	(4)
At 31 December	250,475	10,833	36,357	297,665
Accumulated amortisation				
At 1 January	(175,341)	(9,538)	–	(184,879)
Additions from merge	(8,317)	–	–	(8,317)
Amortization for the year	(11,883)	(389)	–	(12,272)
Exchange differences	3	1	–	4
At 31 December	(195,538)	(9,926)	–	(205,464)
Carrying amount				
At 1 January	50,287	962	23,633	74,882
At 31 December	54,937	907	36,357	92,201

2017 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	209,768	10,276	19,887	239,931
Additions	9	–	22,697	22,706
Disposals	(2,911)	–	–	(2,911)
Transfers	18,733	218	(18,951)	–
Exchange differences	29	6	–	35
At 31 December	225,628	10,500	23,633	259,761
Accumulated amortisation				
At 1 January	(167,679)	(9,190)	–	(176,869)
Amortisation for the year	(10,547)	(345)	–	(10,892)
Disposals	2,911	–	–	2,911
FX differences	(26)	(3)	–	(29)
At 31 December	(175,341)	(9,538)	–	(184,879)
Carrying amount				
At 1 January	42,089	1,086	19,887	63,062
At 31 December	50,287	962	23,633	74,882

Assets in progress include mainly the costs for the technical upgrade of software and for the development of new software applications that have not yet been put in use.

At 31 December 2018, the gross book value of fully amortised intangible assets that are still used by the Bank amounted to € 141,180 thousand (31 December 2017: € 138,033 thousand).

At 31 December 2018, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2017: € 1,833 thousand).

17. Goodwill

€ '000	2018	2017
Consumer Finance Holding, a. s.	18,871	–

Goodwill related to Consumer Finance Holding, a. s. arose in 2005 on the acquisition of CFH, the VUB Group's consumer finance subsidiary.

Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses on goodwill were recognized during 2018.

The Bank uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on ISP Group level specifically for the Slovak market.

The following rates are used by the Bank:

€ '000	2018	2017
Discount rate – cash flows	6.39%	–
Discount rate – terminal value	7.81%	–
Projected growth rate	4.48%	–

The calculation considers the following key assumptions:
- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

18. Current and deferred income tax assets and liabilities

€ '000	2018	2017
Current income tax assets	1,181	5,813
Deferred income tax assets	66,298	38,626
Current income tax assets liabilities	8,955	–

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2017: 21%) as follows:

€ '000	2018	Profit/ (loss) (note 36)	Equity	Merger	Impact of adopting IFRS 9	2017
Derivative financial instruments designated as cash flow hedges	2	–	145	–	–	(143)
Financial assets at FVOCI	(1,452)	–	9,152	–	(10,604)	–
Available-for-sale financial assets	–	–	1,181	–	–	(1,181)
Financial assets at AC:	–	–	–		–	
Due from other banks	159	42	–	–	101	16
Due from customers	75,460	11,713	–	13,576	8,155	42,016
	75,619	11,755	–	13,576	8,256	42,032
Property and equipment	(4,348)	5,507	(71)	(8)	–	(9,776)
Other assets	7	–	–	–	7	–
Provisions	616	(146)	–	–	(315)	1,077
Other liabilities	9,520	739	–	810	–	7,971
Other	(13,666)	(12,423)	71	40	–	(1,354)
	66,298	5,432	10,478	14,418	(2,656)	38,626

19. Other assets

€ '000	Note	2018	2017
Operating receivables and advances		15,840	13,856
Prepayments and accrued income		5,057	6,046
Other tax receivables		999	1,200
Inventories		550	731
Settlement of operations with financial instruments		9	7
Impairment losses	22	(2,155)	(1,992)
		20,300	19,848

20. Provisions

€ '000	Note	2018	2017
Financial guarantees and commitments	22, 25	14,409	19,781
Litigation	23, 25	6,575	6,331
Restructuring provision	23	924	924
Other provisions	23	10	47
		21,918	27,083

21. Other liabilities

€ '000	2018	2017
Various creditors	47,153	37,839
Settlement with employees	32,091	26,527
Severance and Jubilee benefits	5,411	4,691
Accruals and deferred income	2,749	2,684
VAT payable and other tax payables	2,223	1,681
Settlement with shareholders	1,723	1,508
Share remuneration scheme	440	850
Investment certificates	434	449
Settlement of operations with financial instruments	1	–
Other	1,146	25
	93,371	76,254

At 31 December 2018 and 31 December 2017 there were no overdue balances within 'Other liabilities'.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to current rates of return on Slovak government bonds with a 15 years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the Projected Unit Credit Method. For the calculation there was used an average turnover rate which is based on historical data on employees' turnover at the Bank for the last three years. The average age-specific turnover rate is calculated as the ratio of number of terminations and the average number of employees. All employees of the Bank are covered by the retirement and jubilee employee benefits program.

The calculation for the respective program takes into account the following parameters:

		2018		2017
	Jubilee benefits	Retirement benefits	Jubilee benefits	Retirement benefits
Discount rate	(0.28%)	1.23%	(0.35%)	0.94%
Growth of wages*	–	4.00%	–	3.50%
Future growth of wages*	–	4.00%	–	3.50%
Turnover rate (based on age)**	6.1% – 41.6%	6.1% – 41.6%	5.7% – 36.8%	5.7% – 36.8%
Retirement age	Based on valid legislation		Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic		Based on mortality tables issued by the Statistical Office of the Slovak Republic	

* Growth of wages and Future growth of wages is not part of calculation for Jubilee benefits.

The movements in social fund liability presented within 'Settlement with employees' were as follows:

2018 € '000	1 January	Creation (note 32)	Use	31 December
Social fund	594	3,887	(1,686)	2,795

2017 € '000	1 January	Creation (note 32)	Use	31 December
Social fund	670	1,395	(1,471)	594

22. Movements in impairment losses

2018 € '000	Note	31 December 2017	FTA	1 January	Merger	Net creation (note 34)	Assets written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		–	226	226	–	(92)	–	–	–	134
Financial assets at AC:	12									
Due from other banks		73	482	555	–	130	–	69	–	754
Due from customers		272,505	38,831	311,336	77,141	54,642	(60,734)	(1,091)	(10,496)	370,798
		272,578	39,313	311,891	77,141	54,772	(60,734)	(1,022)	(10,496)	371,552
Investments in subsidiaries, joint ventures and associates	14	37,914	–	37,914	(10,533)	–	–	–	–	27,381
Property and equipment and Non-current assets classified as held for sale	15	–	–	–		7,090	–	–	–	7,090
Other assets	19	1,992	32	2,024	235	(104)	–	–	–	2,155
Financial guarantees and commitments	20, 35	19,781	(1,498)	18,283	–	(5,325)	–	1,451	–	14,409
		332,265	38,073	370,338	66,843	56,341	(60,734)	429	(10,496)	422,721

2017 € '000	Note	1 January	Merger	Net creation (note 34)	Assets written – off/sold	Exchange difference	Other*	31 December
Financial assets at AC:	11							
Due from other banks		18	–	55	–	–	–	73
Due from customers		283,134	–	42,216	(43,991)	(1,639)	(7,215)	272,505
		283,152	–	42,271	(43,991)	(1,639)	(7,215)	272,578
Investments in subsidiaries, joint ventures and associates	13	37,914	–	–	–	–	–	37,914
Property and equipment and Non-current assets classified as held for sale	14	10,459	–	(1,542)	–	–	(8,917)	–
Other assets	18	1,937	–	55	–	–	–	1,992
Financial guarantees and commitments	20, 35	20,552	–	(1,391)	–	620	–	19,781
		354,014	–	39,393	(43,991)	(1,019)	(16,132)	332,265

* 'Other' represents:
- The elimination of impairment losses to 'Buildings and land' due to application of revaluation model (note 15).

23. Movements in provisions

2018 € '000	Note	1 January	Merger	Net creation	Use	Other	31 December
Litigation	20, 25, 34	6,331	38	217	(14)	3	6,575
Restructuring provision	20, 34	924	–	1,210	(1,210)	–	924
Other provisions	20, 34	47	–	11	(47)	(1)	10
		7,302	38	1,438	(1,271)	2	7,509

2017 € '000	Note	1 January	Merger	Net creation	Use	Other	31 December
Litigation	20, 25, 34	25,465	–	(19,036)	(98)	–	6,331
Restructuring provision	20, 34	452	–	710	(238)	–	924
Other provisions	20, 34	35	–	12	–	–	47
		25,952	–	(18,314)	(336)	–	7,302

24. Equity

€ '000	2018	2017
Share capital – authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,719	13,719
Reserves	115,074	114,383
Retained earnings (excluding net profit for the year)	892,790	837,038
	1,452,402	1,395,959

In accordance with the law and statutes of the Bank, the Bank is obliged to contribute at least 10% of its annual net profit to the 'Legal reserve fund' until it reaches 20% of the share capital. Usage of the 'Legal reserve fund' is restricted by the law and the fund can be used for the coverage of the losses of the Bank.

	2018	2017
Net profit for the year attributable to shareholders in € '000	156,286	160,021
Divided by the weighted average number of ordinary shares, calculated as follows:		
89 shares of € 3,319,391.89 each in €	295,425,878	295,425,878
4,078,108 shares of € 33.2 each in €	135,393,186	135,393,186
	430,819,064	430,819,064
Divided by the value of one ordinary share of € 33.2		
The weighted average number of ordinary shares of € 33.2 each	12,976,478	12,976,478
Basic and diluted earnings per € 33.2 share in €	12.04	12.33

The rights and responsibilities of shareholders are set out in the legal regulations and the Articles of Association of the Company. The right of a shareholder to participate in the management of the Bank, the right to a share of the profits and the right to a share of the liquidation balance, in the event of the winding up of the Bank with liquidation, are attached to a registered share. Each shareholder is entitled to attend the General Meeting, to vote, to request information and seek explanations and submit proposals. The number of votes allocated to each shareholder is determined by the ratio of the nominal value of its share to the amount of registered capital. A shareholder may exercise the shareholder rights attached to book-entered shares at the General Meeting if the shareholder is entitled to exercise these rights as of the decisive date specified in the invitation to the General Meeting. The exercise of a shareholder's voting rights may only be restricted or suspended by the law. The shares are freely transferable by registration of transfer in line with relevant regulation. The General Meeting of the Company as the main decision making body of the Company is entitled to decide on share issues or on the acquisition of the Company's own shares.

The structure of shareholders is as follows:

€ '000	2018	2017
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.08%	2.08%
Foreign shareholders	0.89%	0.89%
	100.00%	100.00%

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have been made in the objectives, policies and processes from the previous years.

The Bank's regulatory capital position at 31 December 2018 and 31 December 2017 was determined based on the rules for capital adequacy calculation set by the CRR regulation:

€ '000	2018	2017
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings*	884,326	828,574
Other reserves	95,957	95,957
Accumulated other comprehensive income	27,587	25,575
Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities	(6)	531
Other transitional adjustments to CET1 Capital	39,281	–
CET1 capital elements or deductions — other	(2,872)	–
Less goodwill and intangible assets	(111,072)	(74,882)
	1,377,739	1,320,293
Tier 2 capital		
IRB excess of provisions over expected losses eligible	21,091	10,736
Subordinated debt	200,000	200,000
Other transitional adjustments to T2 Capital	(9,767)	–
	211,324	210,736
Total regulatory capital	1,589,063	1,531,029

* Excluding net profit for the year and other capital funds.

€ '000	2018	2017
Retained earnings	884,326	828,574
Net profit for the year	156,286	160,021
Other capital funds	8,464	8,464
	1,049,076	997,059

€ '000	2018	2017	2018 Required	2017 Required
Tier 1 capital	1,377,739	1,320,293	722,920	662,260
Tier 2 capital	211,323	210,736	211,323	210,736
Total regulatory capital	1,589,062	1,531,029	722,920	662,260
Total Risk Weighted Assets	9,036,500	8,278,248	9,036,500	8,278,248
CET 1 capital ratio	15.25%	15.95%	12.50%	11.75%
Total capital ratio	17.58%	18.49%	15.00%	14.25%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, accumulated other comprehensive income, foreign currency translation and reserves. The distracted amounts in Tier 1 capital are goodwill, intangible assets and IPC commitments (contribution to SRF). Certain adjustments are made to IFRS – based results and reserves, as prescribed by the CRR regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and IRB excess of provisions over expected losses.

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2018 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU ('CRD IV') and in CRR regulation of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that VÚB must comply with on sub-consolidated and individual level. Starting from 1 January 2018, the overall capital requirement the VUB Group has to meet in terms of Common Equity Tier 1 ratio is 10.25%. This is the result of:
- the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.25%, entirely of Common Equity Tier 1 ratio;
- additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an O-SII Buffer (Other Systemically Important Institutions Buffer) of 1% and SRB (Systemic Risk Buffer) of 1%.

For the sake of completeness, please note that CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer ('CCyB') starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Slovakia by National Bank of Slovakia in relevant regulation, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the National Bank of Slovakia decided to set the countercyclical ratio (relating to the exposures towards Slovak counterparties) for period starting 1 August 2017 at 0.5% and 1.25% since 1 August 2018 (bringing the total CET1 capital requirement to 11.75% since 1 January 2018 and 12.5% since 1 August 2018 including Pillar 2 Capital Guidance buffer of 1%).

The Overall Capital Requirement was as of 1 January 2018 set at 14.25%, 15% from 1 August 2018 and 15.25% from 1 August 2019.

Since November 2014, the Bank has been under the supervision of the European Central Bank.

Internally, within Risk Appetite framework, the Bank has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

25. Financial commitments and contingencies

25.1. Issued guarantees and Commitments and undrawn credit facilities

€ '000	2018	2017
Issued guarantees	772,588	783,667
Commitments and undrawn credit facilities	3,238,061	2,858,458
of which revocable	387,128	343,547
	4,040,649	3,642,125

Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Bank books liabilities against these instruments on a similar basis as is applicable to loans.

The primary purpose of commitments to extend credit is to ensure that funds are available to the customer as required. Commitments to extend credit issued by the Bank represent undrawn portions of commitments and approved overdraft loans.

25.2. Lease obligations

The Bank enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non-cancellable operating leasing contracts at 31 December 2018 and 31 December 2017 was as follows:

€ '000	2018	2017
Up to 1 year	1,272	741
1 to 5 years	3,079	1,224
	4,351	1,965

25.3. Legal proceedings

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2018. Pursuant to this review, management has recorded total provisions of € 6,575 thousand (31 December 2017: € 6,331 thousand) in respect of such legal proceedings (see also note 20). The Bank will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 32,039 thousand, as at 31 December 2018 (31 December 2017: € 27,909 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

€ '000	2018	2017
Legal proceedings for damages	5,589	5,390
Legal proceedings on credit collection	593	583
Legal proceedings related to credit contracts	392	336
Legal proceedings to rates, interests calculation and other economic conditions applied	1	1
Legal proceedings related to credit positions sold	–	21
	6,575	6,331

26. Net interest income

€ '000	2018	2017
Interest and similar income		
Financial assets at fair value through other comprehensive income	17,838	–
Available-for-sale financial assets	–	8,749
Held-to-maturity investments	–	17,209
Financial assets at amortized cost:		
Due from other banks	12,159	3,145
Due from customers	376,286	345,095
	388,445	348,240
Derivatives – Hedge accounting	(9,912)	(9,515)
Interest income on liabilities	2,157	1,496
	398,528	366,179
Interest and similar expense		
Financial liabilities measured at amortized cost:		
Due to banks	(699)	(859)
Due to customers and Subordinated debt	(19,197)	(19,993)
Debt securities in issue	(33,697)	(32,748)
	(53,593)	(53,600)
Derivatives – Hedge accounting	7,177	6,803
Interest expense on assets	(1,216)	(372)
	(47,632)	(47,169)
	350,896	319,010

Interest income on impaired loans and advances to customers for 2018 amounted to € 11,923 thousand (2017: € 16,979 thousand).

27. Net fee and commission income

Nature and timing of satisfaction of performance obligations, including significant payment terms:

Current accounts	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.
Cards	Credit card and debit card fees relate to both fees for issuance of credit card for the period of card's validity as well as fees for specific transactions.
Payments and cash management	Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.
Loans	Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration. They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.
Indirect deposits	These fees mainly relate to providing Bank's retail network for the mediation of investments into funds. These fees are paid to the Bank by VÚB Asset Management, správ. spol., a.s. Since the Bank does not have any ongoing performance obligation regarding these fees, they are recognised in full when charged.
Insurance	The Bank provides insurance mediation along with selling its products. Except for life insurance mediation, only aliquote part of commission is sent by the insurance company on monthly basis, therefore the Bank only recognises aliquot part of commission as income with the passage of time. In case client cancels insurance contract with insurance company, the insurance company stops paying the aliquot part of the commission and the Bank therefore stops to recognise these fees. The Bank is not liable to return aliquote part of commissions recognised in fees to insurance company. Regarding life insurance mediation the Bank is exposed to clawbacks if client cancels the insurance contract within certain periods. The Bank calculated effect of IFRS 15 impact and evaluated this impact as non-material and continues to recognise income on these fees as the related mediation service is provided.
Trade finance, Structured finance	Fees for loan commitments which are not expected to result in the drawdown of a loan are recognised on a straight-line basis over the commitment period. Administration of a loan syndication, execution of client transactions with exchanges and securities underwriting, charges for premature termination of loans and other are charged when transaction takes place.
Factoring	Services related to factoring include: – Facility commitment, where fee is recognised on a straight-line basis over the commitment period; – Invoice processing fee, where fixed amount for each processed invoice is charged; – Factoring fee, where fee represent a percentage on total receivable amount factored.

Revenue recognition under IFRS 15 (applicable from 1 January 2018):

Current accounts	Revenue from account service and servicing fees is recognised over time as the services are provided.
Cards	Revenue from card issuance is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Payments and cash management	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loans	Overdraft fee is recognised on a straight-line basis over the overdraft duration. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Indirect deposits	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Insurance	Revenue from insurance mediation services is recognised over time for the duration of contract, except for life insurance mediation where service fee is recognised when service is provided and clawbacks are recognised when they occur.
Trade finance, Structured finance	Loan commitment fee is recognised on a straight-line basis over the commitment period. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Factoring	Facility fee is recognised on a straight-line basis over the commitment period. Revenues related to invoice processing and factoring fee are recognised at the point in time when the transaction takes place.

2018 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	39,029	3,108	–	7	42,144
Cards	38,901	349	–	–	39,250
Payments and cash management	11,037	6,485	372	5	17,899
Loans	7,606	7,463	–	863	15,932
Indirect deposits	15,006	–	–	–	15,006
Insurance	11,673	5	–	–	11,678
Trade finance	19	6,971	2,738	–	9,728
Structured finance	–	1,677	–	–	1,677
Factoring	–	1,503	–	–	1,503
Other	545	403	20	293	1,261
	123,816	27,964	3,130	1,168	156,078
Fee and commission expense					
Cards	(23,125)	–	–	–	(23,125)
Payments and cash management	(31)	(8)	(874)	(449)	(1,362)
Current accounts	–	–	–	(517)	(517)
Insurance	(376)	–	–	–	(376)
Factoring	–	(295)	–	–	(295)
Indirect deposits	(9)	(30)	–	–	(39)
Other	(126)	–	(101)	(3,704)	(3,931)
	(23,667)	(333)	(975)	(4,670)	(29,645)
Net fee and commission income	100,149	27,631	2,155	(3,502)	126,433

2017 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current Accounts	39,430	3,044	–	10	42,484
Cards	37,816	270	–	–	38,086
Loans	6,766	8,265	–	26	15,057
Payments & Cash management	9,364	5,057	410	1	14,832
Indirect Deposits	13,257	–	–	–	13,257
Insurance	11,819	1	–	–	11,820
Trade Finance	6	8,279	1,740	–	10,025
Structured Finance	–	1,102	–	–	1,102
Other	502	341	1,108	–	1,951
	118,960	26,359	3,258	37	148,614
Fee and commission expense					
Cards	(35,555)	–	–	–	(35,555)
Payments & Cash management	(31)	(2)	(319)	(432)	(784)
Current Accounts	–	–	–	(555)	(555)
Loans	(8,143)	–	–	(4)	(8,147)
Insurance	(408)	–	–	–	(408)
Structured Finance	–	–	–	(46)	(46)
Other	(359)	–	–	(3,113)	(3,472)
	(44,496)	(2)	(319)	(4,150)	(48,967)
Net fee and commission income	74,464	26,357	2,939	(4,113)	99,647

28. Net trading result

€ '000	2018	2017
Financial assets at FVOCI	32,193	–
Available-for-sale financial assets	–	2,510
Held-to-maturity investments	–	1,208
Customer foreign exchange margins	7,431	6,361
Interest rate derivatives	1,278	2,249
Financial assets held for trading – debt securities	429	(165)
Cross currency swaps	266	17,466
Net result from hedging transactions	172	66
Dividends from equity shares held in FVOCI	168	172
Interest income from financial assets HFT	113	47
Dividends from equity shares held in FVTPL	55	40
Equity derivatives	(7)	(9)
Other derivatives	(67)	(4)
Non-trading financial assets at FVTPL	(151)	83
Foreign currency derivatives and transactions	(1,988)	10,378
	39,893	40,402

29. Other operating income

€ '000	2018	2017
Rent	698	825
Financial revenues	109	554
Services	34	3
Net profit from sale of fixed assets	–	542
Other	801	1,102
	1,642	3,026

30. Other operating expenses

€ '000	2018	2017
Resolution fund*	(6,336)	(4,489)
Contribution to the Deposit Protection Fund**	(541)	(488)
Other damages	(383)	–
Net loss from sale of fixed assets	(60)	–
Other	(5,913)	(4,905)
	(13,233)	(9,882)

* Starting from 1 January 2015 the new Bank Recovery and Resolution Directive 2014/59/EU ('BRRD') is effective for all EU member states. The Directive was implemented to Slovak legislation by Act No. 371/2014 on Resolution. The Directive sets an obligation for banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of a bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023.

** The annual contribution for 2018 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2018, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2018 was set at 0.0075% p. q. of the amount of protected deposits.

31. Special levy of selected financial institutions

At 31 December 2018 and 31 December 2017, the special levy recognized by the Bank was as follows:

€ '000	2018	2017
Special levy of selected financial institutions	(26,286)	(24,823)

Commencing 1 January 2012, banks operating in the Slovak Republic are subject to a special levy of selected financial institutions, originally set to 0.4% p. a. of selected liabilities with the extension of the basis for calculation by deposits subject to a protection based on the special regulation from 1 September 2012. As at 25 July 2014, the total amount of the levy paid by the financial institutions subject to levy exceeded the threshold of € 500,000 thousand and therefore, based on the amendment to the Act on the Special levy of selected financial institutions effective from 2015, the levy rate has been decreased to 0.2% p.a. The levy is recognized in the statement of profit or loss and other comprehensive income on an accrual basis and is payable at the beginning of each quarter.

32. Salaries and employee benefits

€ '000	2018	2017
Remuneration	(86,221)	(77,888)
Social security costs	(33,699)	(30,301)
Social fund	(3,887)	(1,395)
Severance and Jubilee benefits	(684)	(857)
Termination benefit	–	(472)
	(124,491)	(110,913)

At 31 December 2018, the total number of employees of the Bank was 3,692 (31 December 2017: 3,329). The average number of employees of the Bank during the period ended 31 December 2018 was 3,741 (31 December 2017: 3,331).

The Bank does not have any pension arrangements separate from the pension system established by law, which requires mandatory contributions of a certain percentage of gross salaries to the State owned social insurance and privately owned pension funds. These contributions are recognised in the period when salaries are earned by employees. No further liabilities are arising to the Bank from the payment of pensions to employees in the future.

33. Other administrative expenses

€ '000	2018	2017
Information technologies systems maintenance	(22,201)	(21,914)
Rental of buildings and related expenses	(8,646)	(8,182)
Maintenance and repairs	(7,337)	(7,204)
Advertising and sponsorship	(7,113)	(5,112)
Third parties' services	(6,624)	(6,105)
Telephone and telecommunication costs	(5,964)	(5,302)
Postage costs	(3,808)	(3,734)
Forms and office supplies	(3,440)	(3,491)
Indirect personnel costs and compensation	(2,761)	(2,247)
Energy costs	(2,702)	(2,813)
Transport	(1,663)	(1,685)
Cleaning of premises	(1,610)	(950)
Security	(1,552)	(1,592)
Information and research	(1,545)	(1,533)
Other rentals	(1,525)	(1,315)
Cost of legal services	(1,374)	(867)
Electronic data processing system leasing	(1,300)	(1,157)
Insurance	(1,110)	(1,048)
Archives and documents	(966)	(698)
Consultations and other fees*	(797)	(613)
Other expenses	(2,305)	(1,953)
Value added tax and other taxes	(244)	(253)
Recovery	3,153	3,478
	(83,434)	(76,290)

* 'Consultations and other fees' includes the fee for the statutory audit of € 170 thousand (2017: € 207 thousand). Other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the Bank's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h – 71k of the Act No. 566/2001 Coll on securities, audit of receivables towards a client of the Bank for bankruptcy procedure purposes and agreed-upon procedures on the merger of a Bank's subsidiary with the Bank amounted to € 337 thousand (2017: € 296 thousand).

34. Provisions

€ '000	Note	2018	2017
Net provisions for Litigations	20, 23, 25	(202)	19,134
Net provisions for Other provisions	20, 23	36	(12)
		(166)	19,122

35. Impairment losses and Net gain arising from the derecognition of financial assets measured at amortised cost

€ '000	Note	2018
Impairment losses		(61,666)
Net provisions for financial guarantees and commitments	20, 22	5,325
		(56,341)
Net gain arising from the derecognition of financial assets measured at AC:		
Net write-off/sale		(22,123)
Proceeds from receivables written-off		4,735
Proceeds from receivables sold		20,829
		3,441

€ '000	Note	2017
Impairment losses	22	(40,784)
Provisions for financial guarantees and commitments	20, 22	1,391
Net write-off/sale		(13,979)
Proceeds from receivables written-off		4,445
Proceeds from receivables sold		10,880
		(38,047)

36. Income tax expense

€ '000	Note	2018	2017
Current income tax	18	(49,454)	(40,484)
Deferred income tax	18	5,432	(2,682)
		(44,022)	(43,166)

The movement in deferred taxes in the statement of profit or loss and other comprehensive income is as follows:

€ '000	2018	2017
Due from other banks	42	12
Due from customers	11,713	(3,671)
Property and equipment	5,507	135
Provisions	(146)	99
Other liabilities	739	2,079
Other	(12,423)	(1,336)
	5,432	(2,682)

The effective tax rate differs from the statutory tax rate in 2018 and in 2017. The reconciliation of the Bank's profit before tax with the actual corporate income tax is as follows:

€ '000	Note	2018 Tax base	2018 Tax at applicable tax rate (21%)	2017 Tax base	2017 Tax at applicable tax rate (21%)
Profit before tax		200,308	(42,065)	203,187	(42,669)
Tax effect of expenses that are not deductible in determining taxable profit:					
Creation of provisions and other reserves		72,618	(15,250)	71,553	(15,026)
Creation of impairment losses		256,573	(53,880)	208,365	(43,757)
Write-off and sale of assets		14,602	(3,066)	11,059	(2,322)
Other		30,574	(6,421)	10,373	(2,178)
		374,367	(78,617)	301,350	(63,283)
Tax effect of revenues that are deductible in determining taxable profit:					
Release of provisions and other reserves		(70,825)	14,873	(80,192)	16,840
Release of impairment losses		(256,111)	53,783	(227,901)	47,859
Dividends		(2,223)	467	(2,212)	465
Other		(6,509)	1,367	(1,924)	404
		(335,668)	70,490	(312,229)	65,568
Adjustments for current tax of prior periods		(3,524)	740	424	(89)
Withholding tax paid abroad – settlement of advance payments		10	(2)	54	(11)
Current income tax		235,493	(49,454)	192,786	(40,484)
Deferred income tax at 21 %	18		5,432		(2,682)
Income tax expense			(44,022)		(43,166)
Effective tax rate			21.98%		21.24%

37. Other comprehensive income

€ '000	2018	2017
Items that shall not be reclassified to profit or loss in the future		
Net revaluation gain from property and equipment	3	27,468
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation gains arising during the year	680	–
	683	27,468
Items that may be reclassified to profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation (losses)/gains arising during the year	(689)	1,744
Change in value of financial assets at FVOCI (debt instruments):		
Losses arising during the year	(13,462)	–
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(36,435)	–
	(49,897)	–
Change in value of Available-for-sale financial assets:		
Gains arising during the year	–	1,561
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	–	(1,072)
	–	489
Exchange difference on translating foreign operation	(224)	210
	(50,810)	2,443
Total other comprehensive income	(50,127)	29,911
Income tax relating to components of other comprehensive income (note 38)	10,479	(6,236)
Other comprehensive income for the year after tax	(39,648)	23,675

38. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense)/ benefit	2018 Net of tax amount	Before tax amount	Tax expense	2017 Net of tax amount
Items that shall not be reclassified to profit or loss in the future						
Net revaluation gain from property and equipment	3	(1)	2	27,468	(5,768)	21,700
Change in value of financial assets at FVOCI (equity instruments)	680	(143)	537	–	–	–
	683	(144)	539	27,468	(5,768)	21,700
Items that may be reclassified to profit or loss in the future						
Change in value of cash flow hedges	(689)	145	(544)	1,744	(366)	1,378
Change in value of financial assets at FVOCI (debt instruments)	(49,897)	10,478	(39,419)	–	–	–
Change in value of Available-for-sale financial assets	–	–	–	489	(102)	387
Exchange differences on translating foreign operations	(224)	–	(224)	210	–	210
	(50,810)	10,623	(40,187)	2,443	(468)	1,975
	(50,127)	10,479	(39,648)	29,911	(6,236)	23,675

39. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates – enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The stated transactions have been made under arms-length commercial and banking conditions.

In 2018, the remuneration and other benefits provided to members of the Management Board were € 3,111 thousand (2017: € 2,897 thousand), of which the severance benefits € 30 thousand (2017: € 66 thousand), and to members of the Supervisory Board € 94 thousand (2017: € 126 thousand).

As at 31 December 2018, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Financial assets at FVTPL:							
Financial assets held for trading	–	–	–	–	124	28,540	28,664
Non-trading financial assets at FVTPL	–	–	–	–	440	–	440
Derivatives – Hedge accounting	–	–	–	–	–	26,638	26,638
Financial assets at FVOCI	–	–	–	–	1,112	–	1,112
Financial assets at AC:							
Due from other banks	–	–	–	–	8,641	31,908	40,549
Due from customers	291	288,397	4	–	–	–	288,692
Other assets	–	15	7	–	6	2,517	2,545
	291	288,412	11	–	10,323	89,603	388,640
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	–	–	–	–	3,998	30,645	34,643
Derivatives – Hedge accounting	–	–	–	–	–	11,010	11,010
Financial liabilities at AC:							
Due to banks	–	–	–	–	567,398	65,734	633,132
Due to customers	1,821	1,329	–	228	–	4,535	7,913
Subordinated debt	–	–	–	–	–	200,181	200,181
Debt securities in issue	–	–	–	–	–	80,073	80,073
Provisions	–	28	–	–	–	–	28
Other liabilities	440	441	–	–	–	4,387	5,268
	2,261	1,798	–	228	571,396	396,565	972,248

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	–	102,099	–	–	3,848	–	105,947
Issued guarantees	–	–	–	–	15,024	1,819	16,843
Received guarantees	–	–	–	–	32,542	14,783	47,325
Derivative transactions (notional amount – receivable)	–	–	–	–	1,118,191	8,781,977	9,900,168
Derivative transactions (notional amount – payable)	–	–	–	–	1,123,156	8,778,591	9,901,747

For the year ended 31 December 2018, the outstanding balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	3	1,829	–	–	173	47	2,052
Interest and similar expense	(3)	(1)	–	–	(48)	(8,909)	(8,961)
Fee and commission income	1	43	–	–	90	13,364	13,498
Fee and commission expense	–	(1)	–	–	(449)	(23)	(473)
Dividend income	–	–	2,000	–	–	–	2,000
Net trading result	–	–	–	–	1,605	275	1,880
Other operating income	–	159	–	–	–	288	447
Other operating expenses	–	–	–	–	(220)	–	(220)
Other administrative expenses	–	930	39	–	367	(9,955)	(8,619)
Impairment losses	–	(163)	–	–	–	–	(163)
	1	2,796	2,039	–	1,518	(4,913)	1,441

As at 31 December 2017, the outstanding balances with related parties comprised:

€ '000	KMP	Sub-sidiaries	Joint ventures	Associa-tes	Intesa Sanpaolo	ISP Group compa-nies	Total
Assets							
Financial assets at fair value through profit or loss	–	–	–	–	850	–	850
Derivative financial instruments	–	–	–	–	995	41,937	42,932
Available-for-sale financial assets	–	–	–	–	1,832	–	1,832
Financial assets at AC:							
Due from other banks	–	–	–	–	9,978	32,659	42,637
Due from customers	251	366,835	1	–	–	–	367,087
Other assets	–	1,514	7	–	6	1,503	3,030
	251	368,349	8	–	13,661	76,099	458,368
Liabilities							
Derivative financial instruments	–	–	–	–	1,130	20,855	21,985
Financial liabilities at AC:							
Due to banks	–	–	–	–	56,917	12,263	69,180
Due to customers	2,651	2,501	–	214	–	1,998	7,364
Subordinated debt	–	–	–	–	–	200,164	200,164
Debt securities in issue	–	–	–	–	–	281,064	281,064
Other liabilities	850	4,542	–	–	–	2,644	8,036
	3,501	7,043	–	214	58,047	518,988	587,793
Commitments and undrawn credit facilities	–	79,147	–	–	3,460	–	82,607
Issued guarantees	–	–	–	–	9,629	861	10,490
Received guarantees	–	–	–	–	52,499	15,213	67,712
Derivative transactions (notional amount – receivable)	–	–	–	–	427,675	5,685,464	6,113,139
Derivative transactions (notional amount – payable)	–	–	–	–	427,589	5,680,478	6,108,067

For the year ended 31 December 2017, the outstanding balances with related parties comprised:

€ '000	KMP	Sub-sidiaries	Joint ventures	Associa-tes	Intesa Sanpaolo	ISP Group compa-nies	Total
Income and expense items							
Interest and similar income	4	2,496	–	–	161	–	2,661
Interest and similar expense	(5)	–	–	–	(28)	(5,919)	(5,952)
Fee and commission income	1	122	–	–	59	12,433	12,615
Fee and commission expense	–	(21,376)	–	–	(446)	(25)	(21,847)
Dividend income	–	–	–	–	(5,590)	(9,850)	(15,440)
Net trading result	–	–	2,000	–	–	–	2,000
Other operating income	–	290	–	–	–	460	750
Other operating expenses	–	–	–	–	(137)	–	(137)
Other administrative expenses	–	1,780	71	–	595	(8,562)	(6,116)
	–	(16,688)	2,071	–	(5,386)	(11,463)	(31,466)

40. Profit distribution

On 23 March 2018, the Bank's shareholders approved the following profit distribution for 2017.

€ '000	
Dividends to shareholders (€ 11.10 per € 33.2 share)	144,025
Retained earnings	15,996
	160,021

The Management Board will propose the following 2018 profit distribution:

€ '000	
Dividends to shareholders (€ 9.64 per € 33.2 share)	125,049
Retained earnings	31,237
	156,286

41. Events after the end of the reporting period

From 31 December 2018, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue by the Management Board on 22 February 2019.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
Member of the Management Board

Information on Securities issued by the Bank

Debt securities issued by the Bank

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OP-TION
Mortgage bonds VÚB, a.s., XX.	SK4120004946	9.3.2006	9.3.2021	EUR	331,939.19	50	4.30%	annually	no
Mortgage bonds VÚB, a.s., XXX.	SK4120005547	5.9.2007	5.9.2032	EUR	33,193.92	1,000	5.00%	annually	no
Mortgage bonds VÚB, a.s., 31	SK4120005679	29.11.2007	29.11.2037	EUR	33,193.92	600	4.90%	annually	no
Mortgage bonds VÚB, a.s., 36	SK4120005893	31.3.2008	31.3.2020	EUR	33,193.92	560	4.75%	annually	no
Mortgage bonds VÚB, a.s., 43	SK4120006271	26.9.2008	26.9.2025	EUR	33,193.92	500	5.10%	annually	no
Mortgage bonds VÚB, a.s., 58	SK4120007642	10.12.2010	10.12.2019	EUR	1,000,000.00	80	6M EURIBOR +1.80%	semi – annually	no
Mortgage bonds VÚB, a.s., 67	SK4120008228	29.11.2011	29.11.2030	EUR	50,000.00	300	5.35%	annually	no
Mortgage bonds VÚB, a.s., 72	SK4120008608	21.6.2012	21.6.2027	EUR	100,000.00	250	4.70%	annually	no
Mortgage bonds VÚB, a.s., 73	SK4120008624	11.7.2012	11.7.2022	EUR	100,000.00	500	4.20%	annually	no
Mortgage bonds VÚB, a.s., 74	SK4120008939	16.1.2013	15.12.2023	EUR	100,000.00	700	3.35%	annually	no
Mortgage bonds VÚB, a.s., 75	SK4120009093	5.4.2013	5.4.2019	EUR	100,000.00	300	2.00%	annually	no
Mortgage bonds VÚB, a.s., 78	SK4120009820	3.3.2014	3.3.2020	EUR	10,000.00	905	2.16%	annually	no
Mortgage bonds VÚB, a.s., 79	SK4120009846	24.3.2014	24.9.2020	EUR	1,000.00	10,000	2.00%	annually	no
Mortgage bonds VÚB, a.s., 80	SK4120009879	27.3.2014	27.3.2021	EUR	1,000,000.00	31	1.85%	annually	no
Mortgage bonds VÚB, a.s., 81	SK4120009887	27.3.2014	27.3.2024	EUR	1,000,000.00	38	2.55%	annually	no
Mortgage bonds VÚB, a.s., 82	SK4120010042	16.6.2014	16.12.2020	EUR	1,000.00	1,701	1.65%	annually	no
Mortgage bonds VÚB, a.s., 83	SK4120010141	28.7.2014	28.7.2019	EUR	100,000.00	500	0.90%	annually	no
Mortgage bonds VÚB, a.s., 84	SK4120010182	29.9.2014	30.9.2019	EUR	100,000.00	500	0.60%	annually	no
Mortgage bonds VÚB, a.s., 85	SK4120010364	14.11.2014	14.11.2029	EUR	100,000.00	500	2.25%	annually	no
Mortgage bonds VÚB, a.s., 86	SK4120010646	27.4.2015	27.4.2020	EUR	100,000.00	1,000	0.30%	annually	no
Mortgage bonds VÚB, a.s., 87	SK4120010794	9.6.2015	9.6.2025	EUR	100,000.00	1,000	1.25%	annually	no

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., 88	SK4120011040	11.9.2015	11.9.2020	EUR	100,000.00	965	0.50%	annually	no
Mortgage bonds VÚB, a.s., 89	SK4120011065	29.9.2015	29.9.2025	EUR	100,000.00	1,000	1.20%	annually	no
Mortgage bonds VÚB, a.s., 90	SK4120011149	29.10.2015	29.10.2030	EUR	100,000.00	1,000	1.60%	annually	no
Mortgage bonds VÚB, a.s., 91	SK4120011529	21.3.2016	21.3.2023	EUR	100,000.00	1,000	0.60%	annually	no
Mortgage bonds VÚB, a.s., 92	SK4120011792	27.6.2016	27.6.2019	USD	100,000.00	550	1.70%	annually	no
Mortgage bonds VÚB, a.s., 93	SK4120012469	18.1.2017	18.1.2024	EUR	100,000.00	2,500	0.50%	annually	no
Mortgage bonds VÚB, a.s., 94	SK4120012824	27.4.2017	27.4.2027	EUR	100,000.00	2,500	1.05%	annually	no
Mortgage bonds VÚB, a.s., 95	SK4120013251	26.9.2017	26.9.2022	EUR	100,000.00	2,500	0.375%	annually	no
Covered bonds VÚB, a.s., 1	SK4120014168	26.6.2018	26.6.2023	EUR	100,000.00	2,500	0.50%	annually	no
Covered bonds VÚB, a.s., 2	SK4120014531	5.10.2018	15.12.2027	EUR	100,000.00	500	1.50%	annually	no

All debt securities issued by VÚB, a.s., are bearer bonds in book entry form. No person took any guarantee for the repayment of the nominal value and/or coupon payment.

As of 31 December 2018 VÚB, a.s., did not issue and did not decide to issue bonds with pre-emption rights or convertible rights associated therewith.

The bonds are transferable to another holder without any restrictions. The rights associated with the bonds are based on the terms and conditions of the bonds pursuant to Act No. 530/1990 Coll. on Bonds as amended, Act No 483/2001 Coll. on Banks as amended, Act No 566/2001 Coll. on Securities as amended and in accordance with applicable legislation.

Investment certificates issued by the Bank

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Investment certificates VÚB, a.s., 2019	SK5110000570	13.6.2016	13.6.2019	EUR	1.00	115,800	0.00%	–	no
Investment certificates VÚB, a.s., 2020	SK5110000687	23.6.2017	23.6.2020	EUR	1.00	48,000	0.00%	–	no
Investment certificates VÚB, a.s., 2020 02	SK5110000745	18.12.2017	18.12.2020	EUR	1.00	38,400	0.00%	–	no
Investment certificates VÚB, a.s., 2021	SK5110000828	28.6.2018	28.6.2021	EUR	1.00	231,300	0.00%	–	no

During the accounting year 2018, the company issued the Investment certificates VÚB, a.s., 2021. The reason for issuing investment certificates was to fulfil the obligations arising from the Act on Banks no. 483/2001 Coll. as amended in conjunction with Regulation EU No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and the internal procedure of VÚB, a.s. – Remuneration Policy. Based on these documents, part of the variable component of total compensation, severance payments, retirement allowances and other compensation payable to selected personnel acc. to § 23a par. 1 of the Act on Banks is provided in the form of securities or other financial instruments.

Investment certificates issued by VUB, a.s., are registered securities in book-entry form. No person has taken any guarantee for the repayment of the nominal value and/or coupon payment.

No pre-emption or convertible rights are associated with investment certificates.

Investment certificates are not transferable to another holder. The rights associated with the investment certificates are based on the applicable legislation of the Slovak Republic, in particular on Act No 566/2001 Coll. on Securities as amended and in the relevant issue conditions and prospectus of the investment certificates.

List of VUB Retail Branches

Name	Postcode	Address
Regional Retail Business Network Bratislava		
Bratislava – Poštová	811 01	Poštová 1
Bratislava – Aupark	851 01	Einsteinova 18
Bratislava – Páričkova	821 08	Páričkova 2
Bratislava – Ružinov	827 61	Kaštielska 2
Bratislava – Polus	831 04	Vajnorská 100
Bratislava – Gorkého	813 20	Gorkého 7
Bratislava – Dúbravka	841 01	Sch. Trnavského 6/A
Bratislava – Eurovea	811 09	Pribinova 8
Bratislava – Dolné hony	821 06	Kazanská 41
Bratislava – OC Centrál	821 08	Metodova 6
Bratislava – Avion	82104	Ivánska cesta 16
Bratislava – Šintavská	851 05	Šintavská 24
Bratislava – Dunajská	811 08	Dunajská 24
Bratislava – Devínska N. Ves	841 07	Eisnerova 48
Bratislava – Špitálska	811 01	Špitálska 10
Bratislava – Vlastenecké nám.	851 01	Vlastenecké námestie 6
Bratislava – Furdekova	851 04	Furdekova 16
Bratislava – Lamač	841 03	Heyrovského 1
Bratislava – Dlhé diely	841 05	Ľ. Fullu 5
Bratislava – OC BORY MALL	841 03	Lamač 6780
Bratislava – Dulovo nám.	821 08	Dulovo nám. 1
Bratislava – Rača	831 06	Detvianska 22
Bratislava – Herlianska	821 03	Komárnická 11
Bratislava – Kramáre	831 01	Stromová 54
Bratislava – Magnifica	811 09	Pribinova 8
Mortgage Centres		
Bratislava – Poštová	811 01	Poštová 1
Bratislava – Aupark	851 01	Einsteinova 18
Bratislava – Páričkova	821 08	Páričkova 2
Regional Retail Business Network West		
Trnava – Dolné bašty	917 68	Dolné bašty 2
Piešťany	921 01	Námestie slobody 11
Nové Zámky	940 33	Hlavné námestie 5
Komárno	945 23	Tržničné námestie 1
Dunajská Streda	929 35	Alžbetínske nám. 328
Galanta	924 41	Mierové námestie 2
Topoľčany – Moyzesova	955 19	Moyzesova 585/2
Malacky	901 01	Záhorácka 15
Hlohovec	920 01	Podzámska 37
Trnava – Hlavná	917 68	Hlavná 31
Senica	905 33	Nám. oslobodenia 8
Šaľa	927 00	Hlavná 5
Bánovce nad Bebravou	957 01	Námestie Ľ. Štúra 5/5
Partizánske	958 01	L. Svobodu 4

Nové Mesto nad Váhom	915 01	Hviezdoslavova 19
Pezinok	902 01	Štefánikova 14
Senec	903 01	Námestie 1. mája 25
Stupava	900 31	Mlynská 1
Trnava – Arkadia	917 01	Veterná 40/A
Holíč	908 51	Bratislavská 1518/7
Myjava	907 01	Nám. M.R.Štefánika 525/21
Skalica	909 01	Potočná 20
Šamorín	931 01	Hlavná 64
Sereď	926 00	Cukrovarská 3013/1
Vrbové	922 03	Nám. Slobody 285/9
Topoľčany – Pribinova	955 01	Pribinova 2
Stará Turá	916 01	SNP 275/67
Hurbanovo	947 01	Komárňanská 98
Ivanka pri Dunaji	900 28	Štefánikova 25/A
Smolenice	919 04	SNP 81
Šaštín – Stráže	908 41	Námestie slobody 648
Veľký Meder	932 01	Komárňanská 135/22
Gabčíkovo	930 05	Mlynársky rad 185/1
Sládkovičovo	925 21	Fučíkova 131
Tvrdošovce	941 10	Bratislavská cesta 3
Dolné Vestenice	972 23	M. R. Štefánika 300
Trnava – Magnifica	917 68	Dolné bašty 2
Mortgage Centres		
Trnava – Dolné bašty	917 68	Dolné bašty 2

Regional Retail Business Network Centre

Prievidza	971 01	Námestie slobody 10
Banská Bystrica	975 55	Námestie slobody 1
Nitra – Štefánikova 44	949 31	Štefánikova 44
Levice	934 01	Štúrova 21
Zvolen	960 94	Námestie SNP 2093/13
Nitra – OC Mlyny	949 01	Štefánikova 61
Žiar nad Hronom	965 01	Námestie Matice slov. 21
Lučenec	984 35	T. G. Masaryka 24
Veľký Krtíš	990 20	Novohradská 7
Rimavská Sobota	979 13	Francisciho 1
Zlaté Moravce	953 00	Župná 10
BB – SC Európa	974 01	Na troskách 26
Handlová	972 51	SNP 1
Prievidza – Bojnická cesta	971 01	Bojnická cesta 15
Vráble	952 01	Levická 1288/16
Centro Nitra	949 01	Akademická 1/A
Štúrovo	943 01	Hlavná 59
Šurany	942 01	SNP 25
Želiezovce	937 01	Komenského 8
Turčianske Teplice	039 01	Hájska 3
Brezno	977 01	Boženy Němcovej 1/A
Banská Štiavnica	969 01	Radničné námestie 15
Prievidza	971 01	Námestie slobody 10
Nová Baňa	968 01	Námestie slobody 11

Žarnovica	966 81	Námestie SNP 26
Krupina	963 01	Svätotrojičné námestie 8
Detva	962 11	M. R. Štefánika 65
Zvolen – SC Európa	960 01	Námestie SNP 9690/63
Fiľakovo	986 01	Biskupická 1
Hnúšťa	981 01	Francisciho 372
Revúca	050 01	Námestie slobody 3
Tornaľa	982 01	Mierová 37
Nitrianske Pravno	972 13	Námestie SNP 389
Poltár	987 01	Sklárska 289
Nitra – Magnifica	949 31	Štefánikova 44
Banská Bystrica – Magnifica	975 55	Námestie slobody 1
Mortgage Centres		
Nitra	949 31	Štefánikova 44
Banská Bystrica	975 55	Námestie slobody 1

Regional Retail Business Network North

Považská Bystrica	017 21	Nám. A. Hlinku 23/28
Žilina	010 43	Na bráne 1
Martin	036 01	M. R. Štefánika 2
Trenčín	911 62	Mierové námestie 37
Poprad	058 17	Mnoheľova 2832/9
Čadca	022 24	Fraňa Kráľa 1504
Dubnica nad Váhom	018 41	Nám. Matice slov. 1712/7
Púchov	020 01	Námestie slobody 1657
Dolný Kubín	026 01	Radlinského 1712/34
Liptovský Mikuláš	031 31	Štúrova 19
Žilina – Dubeň	010 08	Vysokoškolákov 52
Žilina – Aupark	010 01	Veľká okružná 59A
Ružomberok	034 01	Podhora 48
Trenčín – OC Laugarício	911 01	Belá 7271
Trenčín – Legionárska	911 01	Legionárska 7158/5
Ilava	019 01	Mierové námestie 77
Nová Dubnica	018 51	Mierove námestie 29/34
Bytča	014 01	Sidónie Sakalovej 138/1
Žilina – Nám. A. Hlinku	010 43	Nám. A. Hlinku 1
Kysucké Nové Mesto	024 01	Námestie Slobody 184
Turzovka	023 54	R. Jašíka 20
Námestovo	029 01	Hviezdoslavovo nám. 200/5
Tvrdošín	027 44	Trojičné nám. 191
Trstená	028 01	Nám. M. R. Štefánika 15
Vrútky	038 61	1. čsl. brigády 12
Martin – OC Tulip	036 01	Pltníky 2
Kežmarok	060 01	Hviezdoslavova 5
Spišská Belá	059 01	SNP 2522
Poprad – OC Forum	058 01	Nám. sv. Egídia 3290/124
Rajec	015 01	Hollého 25
Nižná	027 43	Nová Doba 481
Svit	059 21	Štúrova 87
Trenčín – Magnifica	911 01	Legionárska 7158/5
Žilina – Magnifica	010 43	Na bráne 1

Mortgage Centres

Trenčín	911 01	Legionárska 7158/5
Žilina	010 43	Na bráne 1
Poprad	058 17	Mnoheľova 2832/9

Regional Retail Business Network East

Prešov	081 86	Masarykova 13
Michalovce	071 80	Námestie slobody 3
Rožňava	048 73	Šafárikova 21
Spišská Nová Ves	052 14	Letná 33
Stará Ľubovňa	064 01	Nám. SV. Mikuláša 27
Vranov nad Topľou	093 01	Námestie slobody 6
Bardejov	085 61	Kellerova 1
Humenné	066 80	Námestie slobody 26/10
Košice – Štúrova	042 31	Štúrova 27/A
Košice – Hlavná 1	042 31	Hlavná 1
Košice – Letná	040 01	Letná 40
Trebišov	075 17	M.R. Štefánika 3197/32
Levoča	054 01	Nám. Majstra Pavla 38
Krompachy	053 42	Lorencova 20
Gelnica	056 01	Banícke nám. 52
Sabinov	083 01	Námestie slobody 90
Lipany	082 71	Nám. sv. Martina 8
Prešov – Hlavná	080 01	Hlavná 61
OC MAX Prešov	080 01	Vihorlatská 2A
Svidník	089 27	Centrálna 584/5
Stropkov	091 01	Mlynská 692/1
Snina	069 01	Strojárska 2524
Medzilaborce	068 10	Mierová 289/1
Košice – Bukovecká	040 12	Bukovecká 18
Košice – OC Optima	040 11	Moldavská cesta 32
Košice – Hlavná 41	040 01	Hlavná 41
Košice – OC Galéria	040 11	Toryská 5
Košice – Bačíkova	042 81	Bačíkova 2
Moldava nad Bodvou	045 01	Hviezdoslavova 13
Michalovce – mesto	071 01	Nám. Osloboditeľov 2
Kráľovský Chlmec	077 01	Hlavná 710
Veľké Kapušany	079 01	Sídl.P.O.Hviezdoslava 79
Hanušovce nad Topľou	094 31	Komenského 52
Giraltovce	087 01	Dukelská 58
Košice – Sídlisko KVP	040 23	Trieda KVP 1
Sobrance	073 01	Štefánikova 9
Prešov – Magnifica	081 86	Masarykova 13
Košice – Magnifica	042 31	Štúrova 27/A

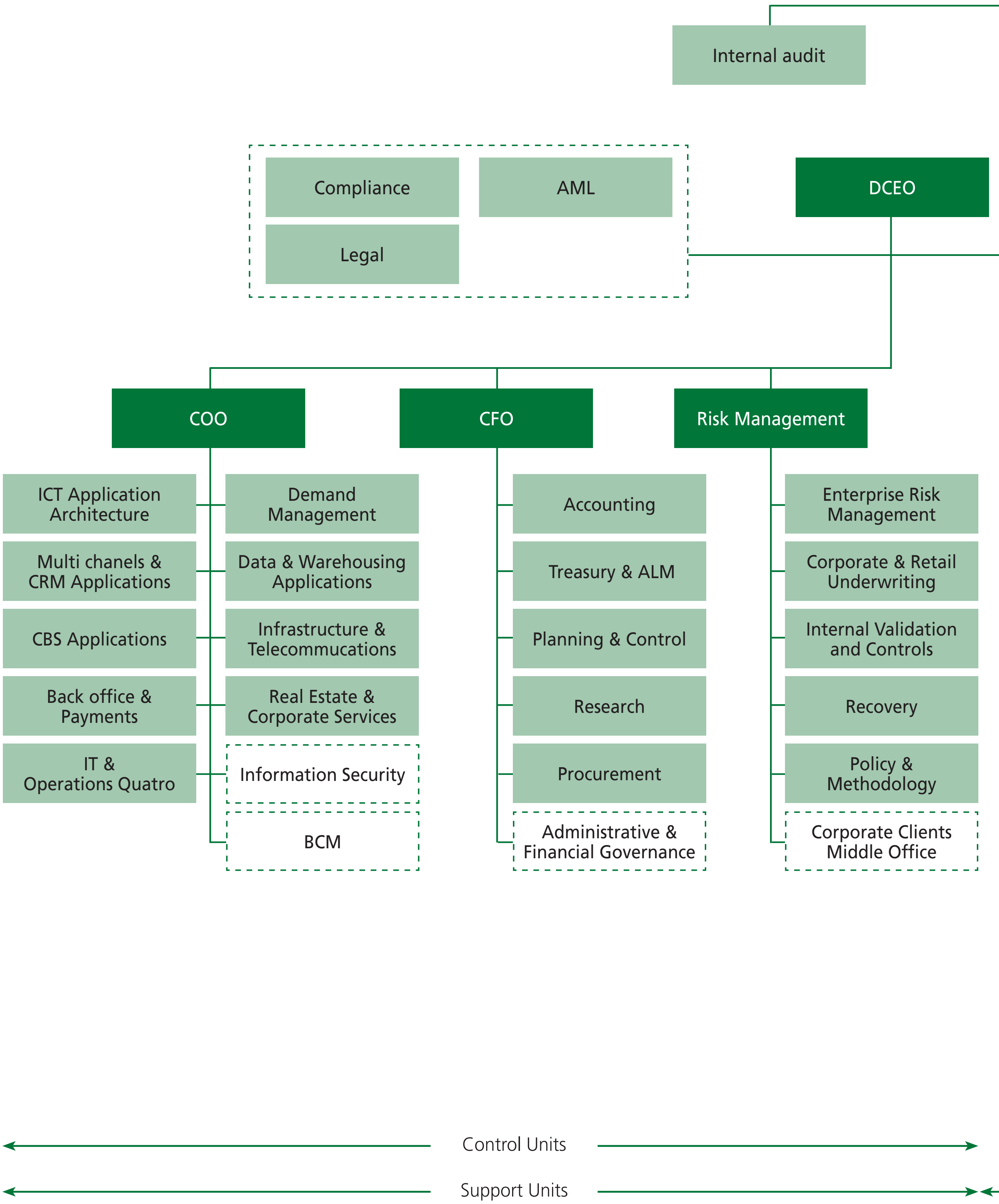
Mortgage Centres

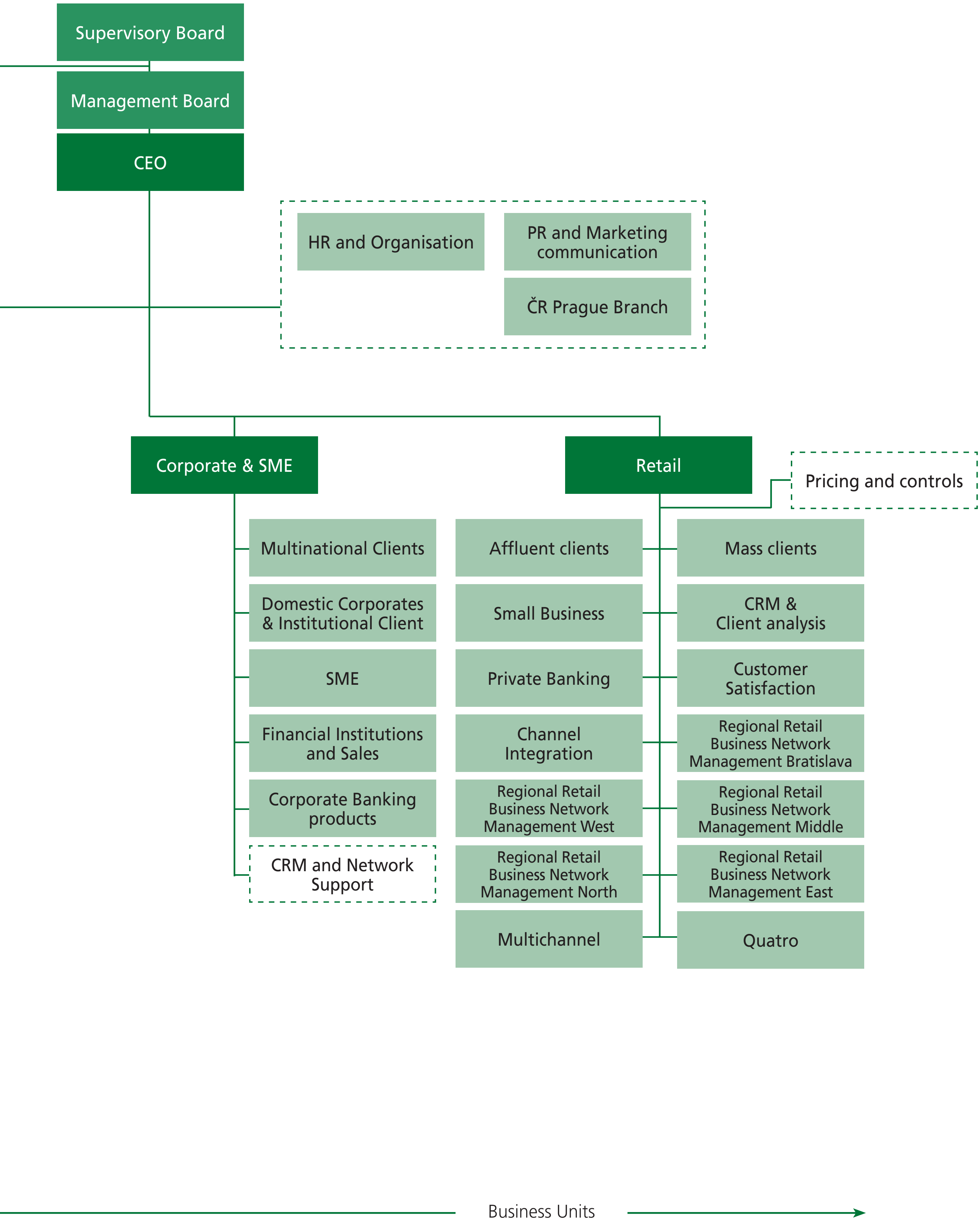
Prešov	081 86	Masarykova 13
Košice	042 31	Štúrova 27/A

List of VUB Corporate branches

Corporate Business Centre Bratislava		
BRATISLAVA	Mlynské nivy 1	02 / 5055 2765
Corporate Business Centre Bratislava 2		
BRATISLAVA	Mlynské nivy 1	02 / 5055 2039
Corporate Business Centre Trnava		
TRNAVA	Dolné bašty 2	033 / 485 4447
SENICA	Nám. oslobodenia 8	034 / 485 6037
Corporate Business Centre Nitra		
NITRA	Štefánikova 44	037 / 485 4844
TOPOĽČANY	Moyzesova 585/2	038 / 485 6237
LEVICE	Štúrova 21	036 / 485 6134
Corporate Business Centre Nové Zámky		
NOVÉ ZÁMKY	Hlavné námestie 5	035 / 485 4738
KOMÁRNO	Tržničné nám. 1	035 / 485 4766
GALANTA	Mierové námestie 2	031 / 485 4054
DUNAJSKÁ STREDA	Alžbetínske nám. 328	031 / 485 4025
Corporate Business Centre Trenčín		
TRENČÍN	Legionárska 7158/5	032 / 485 4230
POVAŽSKÁ BYSTRICA	Nám. A. Hlinku 23/28	042 / 485 6537
Corporate Business Centre Žilina		
ŽILINA	Na bráne 1	041 / 485 6346
MARTIN	M.R.Štefánika 2	043 / 485 6661
ČADCA	Fraňa Kráľa 1504	041 / 485 6400
DOLNÝ KUBÍN	Radlinského 1712/34	043 / 485 6696
Corporate Business Centre Banská Bystrica		
ŽIAR NAD HRONOM	Nám. Matice slovenskej 21	045 / 485 6883
PRIEVIDZA	Námestie slobody 10	046 / 485 7137
ZVOLEN	Námestie SNP 2093/13	045 / 485 6842
BANSKÁ BYSTRICA	Námestie slobody 1	048 / 485 5506
Corporate Business Centre Lučenec		
LUČENEC	T.G. Masaryka 24	047 / 485 7224
RIMAVSKÁ SOBOTA	Francisciho 1	047 / 485 7248
Corporate Business Centre Poprad		
POPRAD	Mnoheľova 2832/9	052 / 485 7866
LIPTOVSKÝ MIKULÁŠ	Štúrova 19	044 / 485 7035
SPIŠSKÁ NOVÁ VES	Letná 33	053 / 485 7623
Corporate Business Centre Prešov		
PREŠOV	Masarykova 13	051 / 485 7564
BARDEJOV	Kellerova 1	054 / 485 8330
VRANOV NAD TOPĽOU	Námestie slobody 6	057 / 485 8560
HUMENNÉ	Námestie slobody 26/10	057 / 485 8523
Corporate Business Centre Košice		
KOŠICE	Štúrova 27/A	055 / 485 8046
MICHALOVCE	Námestie slobody 3	056 / 485 8430

Organization Chart of VUB
as at 31 December 2018


Internal audit
Compliance
AML
Legal
DCEO
COO
CFO
Risk Management
ICT Application Architecture
Multi chanels & CRM Applications
CBS Applications
Back office & Payments
IT & Operations Quatro
Demand Management
Data & Warehousing Applications
Infrastructure & Telecommucations
Real Estate & Corporate Services
Information Security
BCM
Accounting
Treasury & ALM
Planning & Control
Research
Procurement
Administrative & Financial Governance
Enterprise Risk Management
Corporate & Retail Underwriting
Internal Validation and Controls
Recovery
Policy & Methodology
Corporate Clients Middle Office
Control Units
Support Units


Supervisory Board
Management Board
CEO
HR and Organisation
PR and Marketing communication
ČR Prague Branch
Corporate & SME
Retail
Pricing and controls
Multinational Clients
Domestic Corporates & Institutional Client
SME
Financial Institutions and Sales
Corporate Banking products
CRM and Network Support
Affluent clients
Small Business
Private Banking
Channel Integration
Regional Retail Business Network Management West
Regional Retail Business Network Management North
Multichannel
Mass clients
CRM & Client analysis
Customer Satisfaction
Regional Retail Business Network Management Bratislava
Regional Retail Business Network Management Middle
Regional Retail Business Network Management East
Quatro
Business Units

Peter Cvik
(1985, Bratislava)
Philosophers Nights/Hipsters Paradise
2017, acrylic on canvas, mesh, raw canvas, 170 × 155 cm

The competition of *Maľba – Cena Nadácie VÚB za maliarske dielo pre mladých umelcov* /Painting. Prize of the VUB Foundation for Painting for Young Artists is one of the best known projects of the VUB Foundation and also one of the initiatives with the longest history and tradition. Even after thirteen years of its existence it still adheres to the mission it was created for. The aim of the competition is to present the biggest talents of young professional artists of Slovakia, to enhance and refine the medium of painting and help young artists to enter the artistic scene. Thanks to the international jury, which evaluates the artworks Slovak painting, curators abroad become increasingly aware of the young Slovak painting opening the door to the world to the artists.