VÚB BANKA

Annual Report 2016

VUB, a bank of INTESA SANPAOLO

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<u>Translation of the Appendix to the independent Auditors' Report originally prepared in Slovak language</u>

Appendix to the independent Auditors' Report issued on the Annual Report

pursuant to Article 27 (6) 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")

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

We have audited the financial statements of Všeobecná úverová banka, a. s. ("the Bank") as of 31 December 2016 presented on pages 27 – 131 (consolidated financial Statements) and on pages 132 – 230 (separate financial statements) of the accompanying Annual Report.

We have issued an independent auditors' report on the consolidated financial statements on 15 February 2017 with the following wording:

<u>Translation of the Auditors' Report originally prepared in Slovak language</u>

Independent Auditors' Report

To the Shareholders, Supervisory Board and the 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. and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to 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 financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the 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 audits 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 2016: € 10,725,281 thousand; impairment loss recognised in 2016: € 78,453 thousand; total impairment loss as at 31 December 2016: € 394,136 thousand.

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

Key audit matter	*Our response*
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. We focused on this area as the determination of impairment allowances requires the Management Board to make complex and subjective judgements over both timing of impairment recognition and the amounts of any such impairment. Loans and advances include corporate as well as retail exposures. For corporate loans and advances, the impairment assessment is made on an individual basis, based on the knowledge of each individual borrower and often on estimation of the value of the related collateral. For retail loans and advances impairment is determined	Our audit procedures included, among others: • Assessing and testing of controls over the approval and monitoring of loans and advances, including, but not limited to, those relating to the identification of loss events, appropriateness of classification to delinquency buckets and calculation of the related impairment. For individually calculated impairment: • Selecting a sample of loans and advances, with focus on those with greatest potential impact on the consolidated financial statements due to their magnitude and/or risk

by modelling techniques for portfolios of loans and advances. The Group routinely makes adjustments to the key model parameters whose assessment also requires increased attention in our audit.

characteristics, such as watchlisted and forborne exposures;

- For the sample selected, critically assessing, by reference to the underlying loan files and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2016; and

- Where impairment triggers were identified, challenging the Group's cash flow projections and key assumptions used by reference to our knowledge of the industry and the counterparty. We also assessed reasonableness of the collateral valuation.

For collective impairment:

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

- Critically assessing the rationale for the changes made to the model parameters in 2016, by reference to our understanding of the business, current economic trends and market practices.

Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage, by benchmarking them against the publicly available industry data.

KPMG

Valuation of financial instruments held at fair value

Refer to the Note 2 (Summary of significant accounting policies) and Notes 9, 10 and 11 (Financial assets at fair value through profit or loss, Derivative financial instruments and Available-for-sale financial assets) of the consolidated financial statements.

Key audit matter	*Our response*
Financial instruments held at fair value, mainly debt securities (bonds) and derivatives, constitute a significant part of the Group's balance sheet total as presented in its consolidated financial statements. Most derivatives in the Group's consolidated financial statements, primarily foreign currency and interest rate swaps, forwards and options, are either designated as hedging instruments or, absent such formal designation, are held for risk management purposes . The derivatives are mainly not exchange-traded, but are instead transacted over-the-counter. For the majority of the bonds held, the Group's fair values are based on quoted prices of identical instruments, while valuation techniques using market observable inputs were applied to derivatives and the remaining bonds. Due to the magnitude of the amounts involved, as well as the complexity and judgment required in measuring some of these instruments, their valuation was a key area of focus during our audit. Also, there is a risk that the underlying markets for the instruments are not sufficiently active or the transaction prices do not represent the fair value of the financial instruments at the measurement date.	Our audit procedures included, among others: • Assessing the design and operating effectiveness of key controls over the identification, measurement and oversight of valuation risk of financial instruments; • Independently assessing the financial instruments' fair value hierarchy levels, considering rates of the underlying market activity, and comparing them to the hierarchy levels assigned by the Group; • Testing market-based valuations of financial instruments by comparing these amounts to independently sourced publicly available quoted prices; • For more judgemental valuations, based on inputs other than quoted prices, evaluating the assumptions, methodologies and models used by the Group, and also, on a sample basis, performing an independent valuation, using our internal valuation specialists; and • Evaluating the overall reasonableness of the Group's valuations by examining gains and losses on disposals and other events and transactions which could provide evidence about the appropriateness of the valuations.

IT systems and controls over financial reporting

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

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

The Management Board is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS EU, 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.

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 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 Annual Report

The Management Board is responsible for the information in the 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 Annual Report.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report was not available to us as of the date of this auditors' report.

When we obtain the Annual Report, we will consider whether it includes the disclosures required by the Act on Accounting and, based on the work undertaken in the course of the audit of the consolidated financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2016 is consistent with the consolidated financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the Annual Report in light of the knowledge and understanding of the accounting entity and its environment that we have acquired during the course of the audit of the consolidated financial statements.

15 February 2017
Bratislava, Slovak Republic

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

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

We have issued an independent auditors' report on the separate financial statements on 15 February 2017 with the following wording:

<u>**Translation of the Auditors' Report originally prepared in Slovak language**</u>

Independent Auditors' Report

To the Shareholders, Supervisory Board and the 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 statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to 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 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section. We are independent of the Bank in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audits 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.

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2016: € 10,188,485 thousand; impairment loss recognised in 2016: € 49,488 thousand; total impairment loss as at 31 December 2016: € 283,134 thousand.

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

Key audit matter	*Our response*
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. We focused on this area as the determination of impairment allowances requires the Management Board to make complex and subjective judgements over both timing of impairment recognition and the amounts of any such impairment. Loans and advances include corporate as well as retail exposures. For corporate loans and advances, the impairment assessment is made on an individual basis, based on the knowledge of each individual borrower and often on estimation of the value of the related collateral. For retail loans and advances impairment is determined by modelling techniques for portfolios of loans and advances. The Bank routinely makes adjustments to the key model parameters whose assessment also requires increased attention in our audit.	Our audit procedures included, among others: • Assessing and testing of controls over the approval and monitoring of loans and advances, including, but not limited to, those relating to the identification of loss events, appropriateness of classification to delinquency buckets and calculation of the related impairment. For individually calculated impairment: • Selecting a sample of loans and advances, with focus on those with greatest potential impact on the separate financial statements due to their magnitude and/or risk characteristics, such as watchlisted and forborne exposures; • For the sample selected, critically assessing, by reference to the underlying loan files and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2016; and • Where impairment triggers were identified, challenging the Bank's cash flow projections and key assumptions used by reference to our knowledge of the industry and the counterparty. We also assessed reasonableness of the collateral valuation.

For collective impairment:

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

- Critically assessing the rationale for the changes made to the model parameters in 2016, by reference to our understanding of the business, current economic trends and market practices.

Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage, by benchmarking them against the publicly available industry data.

Valuation of financial instruments held at fair value

Refer to the Note 2 (Summary of significant accounting policies) and Notes 9, 10 and 11 (Financial assets at fair value through profit or loss, Derivative financial instruments and Available-for-sale financial assets) of the separate financial statements.

Key audit matter	*Our response*
Financial instruments held at fair value, mainly debt securities (bonds) and derivatives, constitute a significant part of the Bank's balance sheet total as presented in its separate financial statements. Most derivatives in the Bank's separate financial statements, primarily foreign currency and interest rate swaps, forwards and options, are either designated as hedging instruments or, absent such formal designation, are held for risk management purposes .	Our audit procedures included, among others: • Assessing the design and operating effectiveness of key controls over the identification, measurement and oversight of valuation risk of financial instruments; • Independently assessing the financial instruments' fair value hierarchy levels, considering rates of the underlying market activity, and comparing them to the hierarchy levels assigned by the Bank;

The derivatives are mainly not exchange-traded, but are instead transacted over-the-counter.

For the majority of the bonds held, the Bank's fair values are based on quoted prices of identical instruments, while valuation techniques using market observable inputs were applied to derivatives and the remaining bonds.

Due to the magnitude of the amounts involved, as well as the complexity and judgment required in measuring some of these instruments, their valuation was a key area of focus during our audit. Also, there is a risk that the underlying markets for the instruments are not sufficiently active or the transaction prices do not represent the fair value of the financial instruments at the measurement date.

- Testing market-based valuations of financial instruments by comparing these amounts to independently sourced publicly available quoted prices;
- For more judgemental valuations, based on inputs other than quoted prices, evaluating the assumptions, methodologies and models used by the Bank, and also, on a sample basis, performing an independent valuation, using our internal valuation specialists; and
- Evaluating the overall reasonableness of the Bank's valuations by examining gains and losses on disposals and other events and transactions which could provide evidence about the appropriateness of the valuations.

IT systems and controls over financial reporting

Key audit matter	*Our response*
The Bank has a complex information technology ("IT") environment and operates various IT systems and applications. The financial accounting and reporting systems are heavily dependent on these complex IT solutions and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	Our procedures included, among others: • Using our internal IT specialists, updating our understanding of the Bank's IT environment and the framework of governance over the IT organisation, including the 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 of 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 the separate financial statements that give a true and fair view in accordance with IFRS EU, 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 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 Annual Report

The Management Board is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). 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.

The Annual Report was not available to us as of the date of this auditors' report.

When we obtain the Annual Report, we will consider whether it includes the disclosures required by the Act on Accounting and, based on the work undertaken in the course of the audit of the separate financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2016 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, we will report whether we have identified any material misstatement in the Annual Report in light of the knowledge and understanding of the accounting entity and its environment that we have acquired during the course of the audit of the separate financial statements.

15 February 2017
Bratislava, Slovak Republic

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

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

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Annual Report

The Management Board is responsible for the information in the 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 and separate financial statements does not cover other information in the Annual Report.

In connection with our audit of the consolidated financial statements and 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 consolidated financial statements and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the 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 and separate financial statements, in our opinion:

- the information given in the Annual Report for the year 2016 is consistent with the consolidated financial statements and 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 accounting entity 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.

16 February 2017
Bratislava, Slovak Republic

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

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

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

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Address by the Chairman of the VUB Supervisory Board

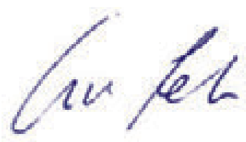
Dear Shareholders, Clients and Business Partners, Employees

VUB had in 2016 a very good year. The Group was particularly successful in the commercial area. In the loan market, it significantly outgrew competition in both retail and corporate segments and became the number one lender in Slovakia, for the first time ever! Successful also was the Group in growing its volumes of customer deposits, gaining market share. On behalf of the Supervisory Board, I would like to thank the management and the employees for all these commercial achievements.

I also would like to extend my gratitude for the effort VUB made in delivering a high profitability. Despite adverse interest rate environment and shrinking margins, the Group nearly succeeded to match previous year’s net profit. To be sure, extraordinary revenue from the sale of VISA shares was the key factor boosting the bottom line. Importantly however, exceptional strive to develop new products, grow business above expectations, and further efforts to improve operating efficiency also made a difference and I appreciate them all the more.

Looking ahead to 2017, to offset erosion in margins and rising regulatory costs, VUB must continue to improve quality, gain critical mass and further strengthen efficiency and effectiveness. As before, Intesa Sanpaolo remains committed to help in any respect. One important example is the centralization of VUB IT infrastructure into data centres of Intesa Sanpaolo. This will enable better quality service to VUB clients and at the same time effectively improve VUB’s business continuity and disaster recovery capabilities.

I realize that the targets set for VUB are demanding, but I nonetheless believe that with the continued trust of its clients and business partners, they are feasible. Particularly, if we maintain commitment and enthusiasm for work, which is a necessary and key factor for success.



Ezio Salvai
Chairman of the Supervisory Board

Address by the Chairman of the VUB Management Board

Dear Shareholders, Clients and Business Partners,

The year 2016 has been successful for VUB. I am particularly pleased to say that we delivered great commercial results, outgrew competitors and significantly increased our shares of key markets. 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 a large extent the negative impact of decreasing margins and rising regulatory costs.

To be sure, there also were positive developments in the external environment, which supported the banking industry. The Slovak economy, in particular, has been quite generous, sustaining real GDP growth of over 3% and creating jobs at a pace that brought their total to an all – time high. Increased job security and consumer confidence boosted demand for housing, which in turn led to increased demand for mortgages and other financial products. Improved financial position of households also manifested in further growth of bank deposits and other financial assets. Corporates have also seen improvement of their economic and financial situation, which led them to increase volumes of their bank loans and deposits on the one hand, while allowing banks to release part of loan loss provisions on the other.

Falling interest rates, though, continued to play against banking sector profitability. Indeed, although the banking sector was able to push loan growth in excess of 10%, interest revenues shrank from year – earlier. In fact, not even the massive 17% growth in total loans, which VUB Group achieved, was sufficient to offset the impact of shrinking margins on interest revenues. Clearly though, without growth of volumes, the negative impact of falling margins on profitability would have been even bigger. Hence, I am more than pleased that in 2016 we were able to increase significantly our market share of loans. Indeed, while at the end of 2015, our share of total bank loans on the Slovak market was 18.5% in December 2016 it stood at 19.9%.

Furthermore, we were able to increase market share of loans in all key segments across retail and corporate clientele. I am nonetheless particularly proud that we have succeeded to turn around the trend of our share of the mortgage market and after many years regain the position of number one player on this market. Thereby, I would like to extend my sincere gratitude to VUB team for delivering this turnaround. Our success owes both to the business as well as support units. Our colleagues in retail rightly anticipated the market developments set in motion by the March 2016 legislation that imposed caps on breakage costs of early termination of mortgages. Anticipating the forthcoming mortgage refinancing trend, they developed innovative product that attracted clients as well as accolades from the professional community. Crucially though, our business success would not have been possible without the support of colleagues in risk and back office functions, who successfully handled the massive increase in sales and workload, sometimes multiple of previous times.

I also would like to thank colleagues in the corporate arm of VUB. Their steady hard work has been bearing fruits in continuous business growth over many years now, which 2016 only confirmed. Indeed, growing volumes twice as fast as the market, VUB increased its share of overall corporate loans by 1.5% compared to prior period to 18.3%, the new all – time high. Importantly, the growth of corporate loans was reasonably balanced across both large corporates as well as small and medium sized enterprises, which only confirms that every client is important to us. Also the business results of our leasing subsidiary, VUB Leasing, were strong, as it succeeded to increase market share also in 2016. Last year was also successful for our factoring company, VUB Factoring, which has grown in total volume, as well as profitability.

Turning to the deposit market, we grew the volume of primary deposits by a strong 8.8%, which was quadruple the market's. Our share of total primary deposits thus increased, from 16.7% at the end of 2015 to 17.8% by December 2016. Our outperformance though owed merely to corporate deposits, which increased by nearly 22% compared to prior period. In the household deposit market, we held our share of the market steady at last year's 14.5%. Composition of the household deposit base nonetheless continued to shift, away from term deposits towards non – term accounts, reflecting the ultra – low interest rate environment.

In this environment, it is important that we offer our clients alternative ways to look after their savings. And we do, both in asset management, in which we are active with the strong support from Eurizon Capital, the leading European asset management company of Intesa Sanpaolo, and pension savings, in which we are active together with our joint venture partner Generali Slovensko. Both continued to offer superior value for clients also in 2016, as manifested in the increase of the number of clients and growth of assets under their management. In particular, VUB Generali, the pension company, outgrew the market, growing assets under its management by more than 13% and increasing its share of the market by 0.4 percentage point, to 16.7%. Importantly, the number of clients in our pension saving scheme increased by nearly 15 thousand, the most from among all players on the market.

As regards financial results, on the consolidated basis, in 2016 VUB Group posted an operating income of € 556 million, up 0.5% from a year ago. On the costs front, our operating expenses grew by 3.4% from a year ago, due primarily to higher salaries and employee benefits, which grew by 3.6% compared to prior period, but also due to higher cost of bank levy, up 10.3% compared to prior period, resp. Net of bank levy, our cost to income ratio increased by 1% from year earlier, to 45.2%, but still remained way below the market's 50.3%. Our operating profit before impairment was € 282 million, down 2.1% compared to prior period. Adjusted for impairments, provisions, and taxes, the Group booked net profit of € 156.8 million, down 4.3% compared to prior period.

Looking ahead, the operating environment will become extremely challenging in 2017. The economy, to be sure, is projected to continue to grow at a solid pace, thus supporting demand for financial intermediation. There appear, however, some issues, which make the outlook less positive than in 2016. In particular, household indebtedness rose to record levels, surpassing regional neighbours. Approaching household debt saturation will gradually limit the space for new business growth. Moreover, it also is initiating regulatory response from the central bank tightening access of clients to mortgage and consumer loans. Demand for mortgages, the key growth driver of the past year, will also slow because property prices have in the meantime increased rather sizably and start to weigh down on housing affordability in some segments.

Margins will continue to be squeezed as interest rate environment will remain low for longer than seemed likely a year ago. To be sure, as global inflation expectations unfroze in the latter part of 2016, there has been some pickup in longer – term yields recently. This upward correction in yields, to be sure, may slow down the declining trend of rates on new loans. At the same time, though, it will push up funding costs, and thus lead to little if any relief in margin pressure in the foreseeable future.

Neither the regulatory pressure will subside. In fact, due to change in Bank levy legislation, direct regulatory costs for Slovak banks will increase relative to previous expectations, because the rate of the Bank levy will remain in 2017 at the level of 2016 and not halve as foreseen by previous legislation.

Against these market and regulatory pressure, we must continue with the strategy that served us well in 2016. We must continue to improve quality, gain critical mass and further strengthen efficiency and effectiveness. On the revenue front, the main driver will remain focus on growing business. Besides going after increasing loan volumes to compensate decreasing margins, we also will continue to improve quality/mix of revenue stream to increase fee – based business. On the cost front, the focus will remain on simplification and reduction of operational waste so as to increase productivity.

Clearly, we must be ready for a tough and demanding year. Nonetheless, I firmly believe that the VUB team will continue to deliver. With this in mind, let me thank our employees for their commitment, hard work and achievements. I would also like to thank VUB clients and business partners for the trust they hold in the Bank, and the shareholders for their support. I wish all of us the best in the year 2017.

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

The real economy backdrop for the banking industry continued to remain positive in Slovakia. GDP growth was sustained at a pace exceeding 3% and labour market continued to improve further, with the number of jobs in the economy rising to an all – time high and the unemployment rate declining below the Eurozone's, for the first time ever.

To be sure, there has been a payback in EU – funded investments, which slowed construction activity in big infrastructure projects. On the other hand, new housing starts rose to levels not seen since the boom of 2006 – 07 and the number of flats under construction rose to the highest since the communist – era. Besides, growth momentum in industry remained sound, thanks especially to car manufacture, which is expanding its production capacity as Jaguar Land Rover confirmed its intention to invest in Slovakia.

On the retail front, consumer spending has finally strengthened, but its recovery still fell short of potential created by the fast improving labour market. People continued to use their improved financial situation primarily to tap housing market instead of consumer goods. As a result, demand for mortgages remained strong, supporting growth of housing loans at double digit figures.

Corresponding to these divergent trends – relatively soft consumer spending vs strong housing demand – has been price development. Consumer price inflation thus remained negative for the third year in row while housing prices rose at a fast pace approaching 5%.

Besides improving labour market and rising wages, demand for housing loans also has been supported by declining interest rates. Indeed, Slovak interest rate environment has in 2016 become one of the lowest in the whole Eurozone. In fact, Slovak government bond yields as well as rates on new housing loans in the key segment of 1 – to – 5 year fixed loans were temporarily the lowest from among all Eurozone countries but Germany.

This extreme interest rate situation owed mainly to two factors, both driven by regulators. On the government bond market, the ECB's (or Eurosystem's) asset purchases drove up prices of Slovak bonds faster than in other countries in the Eurozone. This happened simply because the local market is very shallow and bonds available for ECB purchases are scarce. Bond prices therefore got inflated, and yields, correspondingly, compressed.

On the mortgage market, regulator also played a key role compressing yields. Namely, as of March 21, the lawmakers enacted that to break out of any mortgage, variable or fixed rate, and refinance could not cost a client more than 1% of the principal. As the hitherto practice and real cost of mortgage breakage cost was in the range of 4 – 5% and kept refinancing activity at bay, this new legislation caused literary a refinancing tsunami. Aggressive competition doubled new mortgage production from year – earlier levels and brought rates on new mortgages to historic lows.

Unsurprisingly, low interest rates began to impact banking sector profitability. Net interest income of the sector declined by nearly 5% compared to prior period. In headline terms, to be sure, profits were still up compared to prior period, but only thanks to temporary factors, namely sale of VISA shares, lower bank levy and lower provisioning costs. Excluding VISA gain, for example, the sector net profit by September was down 8% compared to prior period.

Outlook for 2017

The Slovak economy should continue to enjoy strong growth momentum also in 2017, with real GDP growth of around 3.5 percent. Both domestic and foreign demand should contribute positively to the development. Within domestic demand, the private sector should be the main growth driver, for example via investments in the automotive and energy sectors.

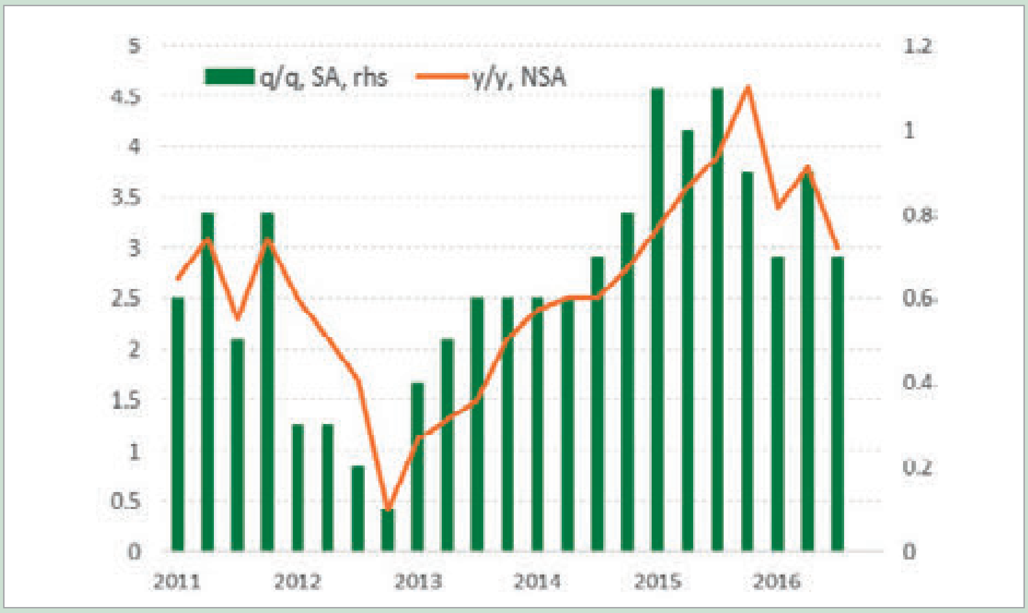
Meanwhile, the construction sector should continue to benefit from the continuing residential property boom. Relative to 2016, though, there is likely to be moderation in the growth of housing loans. Rising property prices namely start to dent housing affordability and thus demand for loans, while supply of loans will be tightened by forthcoming measures of the central bank prescribing tighter limits on loan – to – value and debt – to – income ratios.

Household consumption meanwhile should continue to recover along with further tightening of the labour market, which is about to approach a full employment scenario. There is, however, also the flip side to such a scenario. Already some companies, especially in manufacturing, complain of a lack of available skilled workers. Also in other sectors, for example IT, demand for professionals now exceeds supply, leading to remuneration issues. As the labour market tightens, such issues will become more prevalent, pushing up wage costs for some companies and curtailing expansion plans for others. Wage growth will also be boosted by the return of inflation to positive territory as global commodity prices turned around.

Unfreezing of global inflationary expectations has meanwhile begun to push yields higher, away from their historic lows. Margin pressure for banks, however, will not subside. Official interest rates in the Eurozone, will likely remain flat in 2017. And by extending its asset purchase program from March until December 2017, the ECB will also keep a lid on the yields.

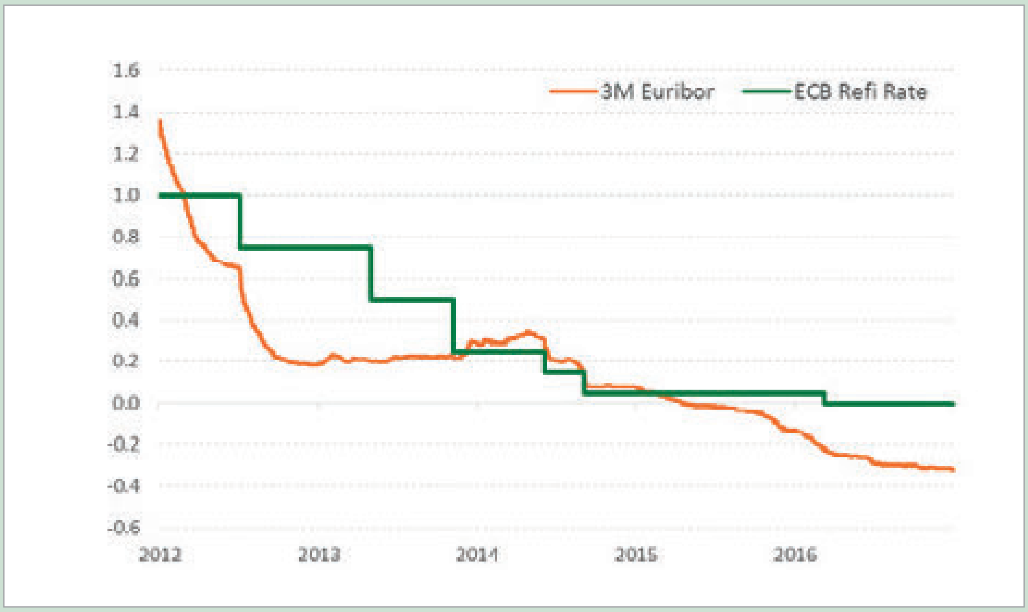
Pressure on banks will neither be alleviated on the regulatory front. Contrary to previous legislation foreseeing Slovak bank levy rate to be halved in 2017, from 0.20% to 0.10%, banks will continue to pay bank levy at the rate of 0.20% until 2020. This legislative change will directly cost the sector over €50 million net of tax per annum.

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



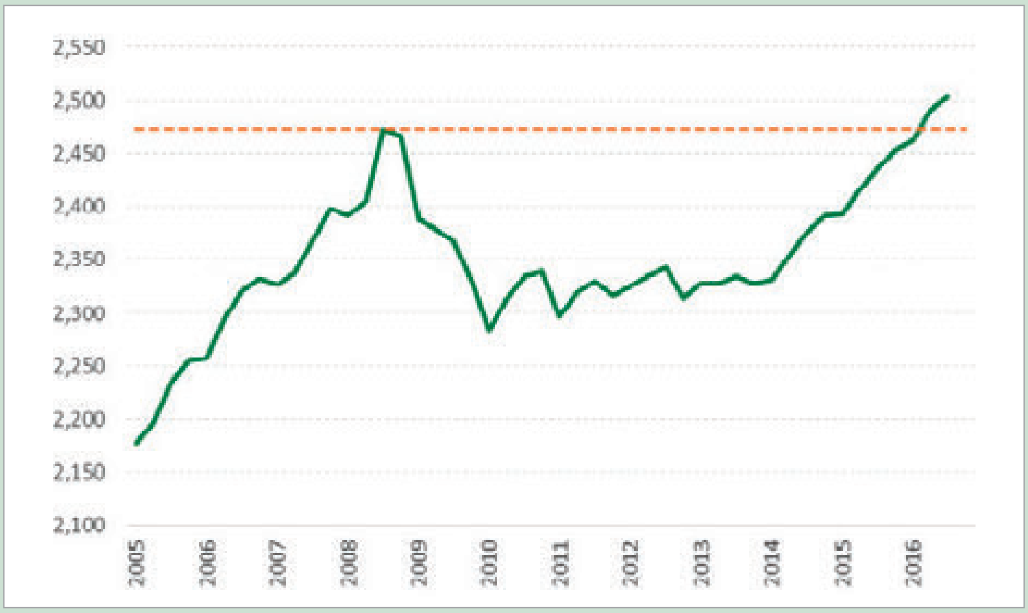
Source: Eurostat, VUB

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



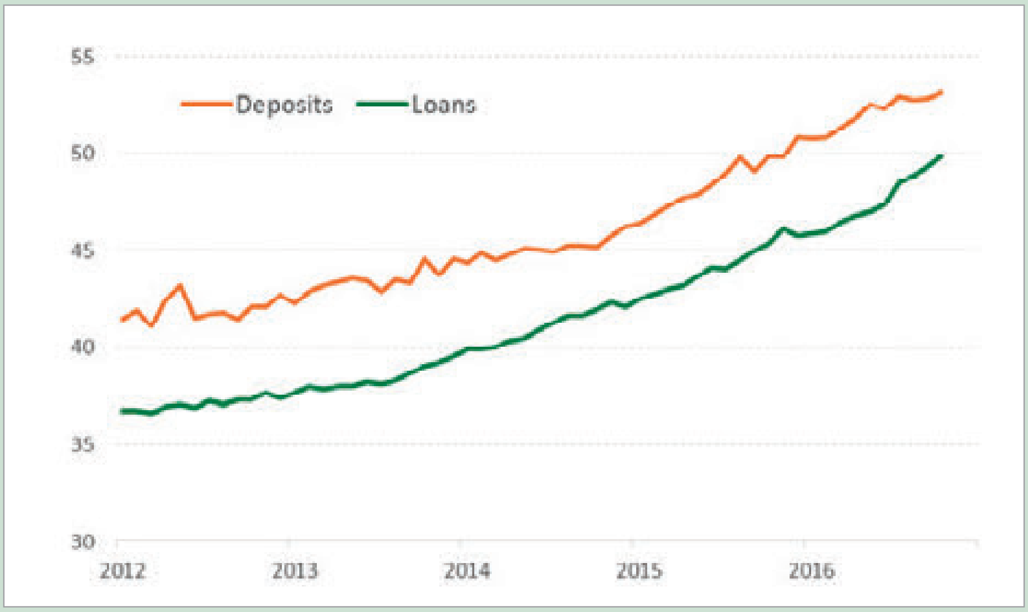
Source: Bloomberg, VUB

Employment: number of employees in thousands



Source: Slovstat, VUB

Development of bank volumes (€ bn)



Source: National Bank of Slovakia, VUB

VUB's 2016 Commercial Performance

As described on the previous pages, several factors influenced the banking environment in 2016. The overall macroeconomic growth rate was slightly lower than in 2015, however the domestic demand was even stronger compared to previous year. The decrease of growth rate was caused by lower investment activity connected to EU funds. In terms of unemployment, we have reached the pre – crisis levels and moreover we have outperformed the Eurozone average. On the other hand, deflation continued together with low interest rates. Last year, on this place we were writing about unprecedented intensity of competition. Well, this phenomenon was brought to a whole new level combined with new NBS regulations and even lower average rates on key products.

Thanks to significantly better environment and in spite of regulation obstacles, we achieved sufficient performance in the commercial area. In retail lending, at the beginning of the year VUB was successful in reacting on new NBS regulation (mortgage fees), which resulted in significant increase of market share (by 143 bps). In consumer loans, the new pro – customer based approach introduced in H2 2015 took full impact in 2016, which resulted into 9.9% y/y growth. In corporate lending, we succeeded to increase our market position from 16.8% in December 2015 to 18.3% in December 2016. On top of that, we increased our loan portfolio to SMEs by 26.6%. 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.

In order to keep on track we are focusing on our main vision to be the Best Bank in Slovakia for customer experience, while maintaining excellence in profitability and operating efficiency. Bearing this challenge in mind, the Bank is carefully watching customer behaviour and tries to identify new customer needs. As customer is getting more confident and more demanding, requiring the service which will make his life easier. We are making every effort to provide more information in their mobile phone or internet banking, less paperwork and lowest possible amount of time spent in the branch. On top of that, we are focusing on customer satisfaction, feedback and education in terms of our alternative channels services.

Deposits

The volume of bank deposits in VUB at the end of 2016 amounted to € 9.6 billion, 11.8% 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. Behind this development, we can find low interest rates on term deposits and switching to current accounts.

In corporate segment, VUB recorded very successful year resulting into 4.4% increase of our market share since the end of previous year. This was thanks to 22% y/y growth of corporate deposits.

Electronic Banking

In 2016, VUB Bank continued to expand the functionality and improve the quality of electronic banking. The tools to enhance paperless activity were in the main focus, mainly SignPad introduction, expanding the possibilities of internet banking (opening accounts, insurance and credit cards activation). With the aim to reduce the environmental ballast, we have fully adopted e – statement policy.

Moreover, the amount of active VUB mobile banking app users has doubled in 2016 to more than 70 – thousand users. All branches now provide WI – FI for clients in order to simplify the Mobil banking use. Thanks to this, the selling via alternative distribution channels has improved by almost 10%. In 2016, we have started cooperation with two new affiliate partners.

Bank Cards

VUB Bank is trying to constantly proceed and meet the needs of their clients and provide them with the new improvements.

In March 2016, VUB Bank introduced new benefits for credit card MasterCard Standard for mass segment clients. It leads to the best credit card proposition for mass segment on Slovak market. Main benefits – money back 1% from online transactions and new type of protection for online purchases.

In July 2016, we brought to the market new business credit cards MasterCard Business World and MasterCard Business Gold. We upgraded commercial credit cards for contactless functionality. One of the benefits for MC Business World is Money back which gives back 0.5% from each payment. Another additional services as travel, fraud insurance and Elite program is applied for both cards.

At the end of the year we start to print IBAN on the reversal site of Visa Inspire. IBAN should help clients to find and use account number in IBAN form.

VUB bank during the year 2016 constantly supports innovative way of payment – mobile payment through application Wave2Pay and contactless sticker. In July, VUB launched online sale of credit cards as one of the first bank on the Slovak market.

ATMs and EFT POS

VUB continuously holds 2nd place in the Slovak market share in the number of ATMs that amounted to 21% with 575 ATMs. With the aim to improve the accessibility of the bank's services, the bank was continuing with replacing of other 8 older ATMs with new ones including cash – in possibility, such that we are operating 18 ATMs with deposit functionality already.

During 2016, more than 1,600 new EFT POS terminals were installed for business customers. All new EFT POS terminals and 72% of the whole bank portfolio have contactless technology.

Contact Centre

In 2016, the Call Centre continued providing services to its clients, which resulted in 850 thousand served calls and 70 thousand processed e – mails. Our clients communicated with VUB Bank also via social networks and chat in this year.

Clients may be granted a multi – purpose loan, credit card, overdraft or conclude travel insurance, payment protection insurance or car insurance directly via telephone. In 2016, we continued to streamline processes for our clients, as proved by the positive client feedback.

Loans

Individuals – Mortgage and Consumer Loans

In 2016, the demand for mortgage loans exceeded the already substantial growth in 2015 in the market. The main reasons behind this development were new propositions connected to new legislation (fee) and continuing low interest rates. Total mortgages of VUB (including ‚American mortgages') grew by 25.0% over the year. With a market share 22.8% the Bank increased its already strong position on the mortgage loan market. More precisely, we have recorded the highest improvement of market position over the year among the peers.

Consumer loans continued to grow with substantial rate in spite of the worse development of CFH loans connected to new regulations. Consumer loans growth thus reached the level 9.9% YoY in VUB. However, on a bank level, VUB posted significantly better development than the market (even in spite of new bank BNP Paribas) and our market share in consumer loans improved by 55 bps to 19.6%.

Corporate Financing

In 2016, VUB bank outperformed the rest of the market in corporate loans segment. While corporate loans grew by 6.0% on the market, VUB increased by 15.7%. Loans to resident nonfinancial corporations increased by 5.3% YoY in the market, while in VUB went down by 0.1% and thus VUB's market share in these loans went down to 15.4% over the year. Real estate finance grew by 21.1%, project finance loans decreased by 4%, while trade finance loans fell by 69%. VUB Leasing, VUB's subsidiary, achieved considerable results on the leasing market with the growth of leasing assets by 6.7% last year.

Review of VUB's Economic and Financial Position

Stronger domestic demand, continuous slight deflation and low interest rates were among the main factors behind the favourable development of Slovak banking sector in 2016. Thanks to strong domestic demand, the unemployment reached the pre – crisis levels and moreover we have outperformed the Eurozone. In 2016, the competition intensified as each competitor had to introduce proposition reacting to new regulations. This, together with the favourable macro – environment resulted into significant growth of retail loans.

On the consolidated basis, VUB posted operating income of € 555.8 million. Compared to previous year bank grew by 0.5% due to one off effect connected to VISA Corporation. The huge increase of loan volumes only partially compensated the decrease of interest rates and thus interest revenues went down compared to previous year. Operating expenses meanwhile increased by 3.4% to the level € 273.4 million (including bank levy) at the end of 2016.

VUB Group achieved operating profit before impairment of € 282.4 million and profit adjusted by impairment losses of € 206.6 million. VUB kept its profit before tax on satisfactory level € 211.7 million (down by 0.9%). Cost – income ratio of VUB group (excl. bank levy) amounted to 45.2%, which was up by 100 basis points.

With regard to business development, VUB delivered extraordinary development with respect to loan portfolio, which grew by 17.5%, resulting into the increase of market share by 1.4%. Total assets of the whole VUB group increased substantially by 11.2% as well. Nevertheless, this increase did not negatively affect our portfolio quality as NPL ratio went down by 1.1%. Moreover, VUB remained outperforming the market in terms of loan quality. Indeed, NPLs from banking operations on the bank – level in VUB at end – 2016 amounted to a mere 3.9% of the total gross loan volume, compared to market's 4.7%, respectively. Accounting in loans provided by VUB's consumer finance and leasing arms, Consumer Finance Holding and VUB Leasing, the Group's non – performing loan ratio also went down throughout the year to approximately 4.8%.

At the same time, the bank was able to increase its primary deposits with by 11.8%, keeping sound liquidity position which is represented by the prudent loan to deposit ratio of 95.1% calculated as carrying amount of loans over due to customers and debt securities in issue.

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.

Consumer Finance Holding (CFH) in spite of the regulations introduced in 2016, increased its loans by 0.9%. VUB Leasing, VUB's subsidiary, continued to achieve substantial performance on the leasing market with the growth of leased assets by 6.7%. VUB Leasing has increased its market position with respect to total portfolio up to market share 9.7% in December 2016 from 8.7% in December 2015.

Information on the Expected Economic and Financial Situation for 2017

As described on previous pages, economy should continue to enjoy strong growth momentum also in 2017, with real GDP growth of around 3.5%. Both domestic and foreign demand should contribute positively to the development. Household consumption meanwhile will continue to recover along with further tightening of the labour market, which is about to approach a full employment scenario. On the other hand, regulatory costs for Slovak banks will not be alleviated.

Unfreezing of global inflationary expectations has meanwhile begun to push yields higher, away from their historic lows; however, interest rates will likely remain flat in 2017. In this period, banks have to fight against shrinking margins, improve the 80/20 ratio towards a fee based business and move to level of western European countries. Therefore, we have to stay innovative and introduce new products which will fulfil the new needs of our clients and help us with shifting away from interest based income dependence.

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

Within corporate banking, VUB is bound to keep market position as leader and put newly focus on additional services within regional global transaction banking and treasury.

VUB is well aware of new banking environment with significantly shrinking margin. Therefore, we will continue to focus on operational efficiency, increase productivity in the distribution network and allocate sources where it creates value.

VUB is going to continue in laying significant emphasis on risk management, keep high quality of the loan portfolio in 2017 and hold strong liquidity position. As significant bank within Single Supervisory Mechanism (SSM) we are bound to deliver strong results both with respect to stress tests and Asset Quality Reviews (AQR). In other words, we are set to be well above the macro prudential policy benchmarks announced by EU and NBS.

In 2016, we showed our flexibility and ability to adapt to the requirements and needs of customer, which showed favourable results in terms of both volumes and profitability. Therefore, VUB should not neglect the importance of proactive approach and continue to act as market leader. As always, VUB is ready to face this challenge and improve the lives of people associated to our bank.

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 2016.

Structure by Owner Type	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Other legal entities	5,421	1.26
Individuals	7,364	1.71
Total Registered Share Capital of VÚB, a.s.	**430,819**	**100.00**

Structure by Nationality	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Domestic shareholders	9,349	2.17
Other foreign shareholders	3,436	0.80
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 29,183 shareholders as at 31 December 2016. Foreign VUB shareholders come from the following countries with the following stake in the bank's registered capital (in %): Luxembourg (97.032%), Germany (0.651%), Czech Republic (0.139%), Austria (0.003%), United Kingdom (0.004%), U.S.A., Canada, Romania, France, Switzerland, Sweden, Belgium and Cyprus.

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

Further, the company during the accounting year 2016 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 1,036,861 shares. This represents 0.125% 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 2016, the Bank transferred 74,516 shares in accordance with ISP Group Remuneration Policies.

Subsidiaries of VUB

Consumer Finance Holding, a.s.

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

VÚB Leasing, a.s.

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

VÚB Factoring, a.s.

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

Statement on Compliance with the Corporate Governance Code for Slovakia

A. Company Organization

The structure of VÚB, a.s. bodies:

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

General Meeting

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

The Ordinary General Meeting of the company was held on 24 March 2016. The shareholders at this meeting approved the 2015 Annual Report of VÚB, a.s., the 2015 Statutory Separate Financial Statements and the 2015 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 2015 in the amount of € 130,357,464.26 to shareholders in dividends amounting to € 130,334,326.03 and to the retained earnings in the amount of € 23,138.23. Further, the General Meeting decided on the 2015 dividend to be paid to shareholders in the amount of € 10.04 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; approved the external auditor for the bank for 2016; and decided on personnel changes to the VÚB, a.s. Supervisory Board and Committee for Audit.

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 2016, the VUB Management Board held 28 meetings and adopted ten decisions on a per rollam basis. The VUB Supervisory Board held 4 meetings and adopted nine decisions on a per rollam basis during the 2016 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 2016

Ezio Salvai	Chairman of the Supervisory Board
Ignacio Jaquotot	Vice Chairman of the Supervisory Board
Luca Finazzi	Member of the Supervisory Board (since 23 May 2016)
Paolo Sarcinelli	Member of the Supervisory Board
Christian Schaack	Member of the Supervisory Board
Andrej Straka	Member of the Supervisory Board (employee representative)
Ján Gallo	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) a Management Board proposal regarding the termination of trading in Company securities on the stock exchange, and a decision on whether the Company should cease to operate as a public joint – stock company;
b) information from the Management Board on the major objectives related to the Company business management for the upcoming period, and expected development in VUB assets, liabilities and revenues;
c) the report by the Management Board on the business activities and assets of the Company, with related projected developments.

Committees of the Supervisory Board:

Audit Committee

The Audit Committee was comprised of five members (including the Chairman) as of 31 December 2016. The Audit Committee held four meetings and adopted one decision on a per rollam basis during 2016 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 2016, the Chairman of the Audit Committee and the Head of the Internal Audit and Control Department were invited to attend the meetings of the Supervisory Board.

Members of the Audit Committee in 2016:

Francesco Ciccarelli	Chairman of the Audit Committee (since 25 March 2016)
Christian Schaack	Member of the Audit Committee

Luca Finazzi	Member of the Audit Committee
Dario Bertoncini	Member of the Audit Committee (since 25 March 2016)
Antonio Furesi	Member of the Audit Committee (since 1 August 2016)
Mauro Oldrini	Chairman of the Audit Committee (till 24 March 2016)
Paola Giansiracusa	Member of the Audit Committee (till 24 March 2016)
Alberto Ghiretti	Member of the Audit Committee (till 11 July 2016)

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 2016

Alexander Resch	Chairman of the Management Board and Chief Executive Officer
Elena Kohútiková	Member of the Management Board and Deputy Chief Executive Officer
Antonio Bergalio	Member of the Management Board and Chief Financial Officer
Jozef Kausich	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.

Elena Kohútiková – Member of the Management Board and Deputy CEO

Elena Kohútiková has been the Deputy CEO of VÚB, a.s. since 2009, and is responsible primarily for the regulatory and support departments of the bank. Elena Kohútiková joined VÚB, a.s. in October 2006 as a member of the Management Board and Executive Director of the Financial and Capital Market Division. She entered the banking sector by her engagement in the State Bank of Czechoslovakia and is one of the key people to found the National Bank of Slovakia where, inter alia, she held the position of Deputy Governor in the period from 2000 to 2006. She was a top expert for euro introduction in Slovakia. Elena Kohútiková has been awarded many prestigious awards, including the state honour "Ľudovít Štúr Order, 2nd class" for significant achievements in the development of banking and the economy of the Slovak Republic awarded by the President of the Slovak Republic.

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.

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

Jozef Kausich has been a member of the VUB Management Board and Executive Director of the Corporate and SME Division since April 2005 and Chairman of the Supervisory Board of VÚB subsidiaries VÚB Factoring and VÚB Leasing. He gained his banking experience in the field of corporate banking, credit analyses, process adjustments, and product development, as well as in global coordination of services and relationships with corporate customers. He took part in several banking mergers and acquisitions. He started his career at Tatra banka as a branch account manager, and later worked at the headquarters of the Bank Austria – Creditanstalt Slovakia. From 2001 to 2005, he worked at the new HVB Bank Slovakia, initially as Head of the Corporate Customer and Product Management Division, and later as Head of the Corporate Client Division. Jozef Kausich is a graduate of the University of Economics in Bratislava.

Peter Magala – Member of the Management Board and Executive Director 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. 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 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 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 Management Board has established some of the following specialized committees particularly related to risk management: Corporate Credit Committee, Assets and Liabilities Committee, Corporate Risk Committee, Operational Risk Committee, New Product Committee, Project Portfolio Committee, and Recovery and Watch List Committee.

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.

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 par-

ties. 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.

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		
	2016	2015	2014	2016	2015	2014
Statement of financial position						
Loans and advances to customers	10 188 485	8 553 701	7 752 189	10 725 281	9 125 909	8 282 781
Due to customers	9 494 921	8 543 134	7 864 398	9 564 560	8 552 684	7 859 303
Equity	1 444 174	1 323 449	1 287 003	1 505 256	1 498 106	1 428 146
Balance sheet total	13 509 349	12 055 419	11 175 015	14 037 154	12 625 464	11 698 955
Statement of profit or loss						
Operating income	595 369	451 080	443 961	555 754	552 838	543 705
Operating expenses	(236 895)	(229 220)	(241 538)	(273 358)	(264 419)	(272 561)
Operating profit before impairment	358 474	221 860	202 423	282 396	288 419	271 144
Profit before tax	311 528	170 433	146 042	211 742	213 575	189 602
Income tax expense	(46 357)	(40 076)	(34 385)	(54 972)	(49 692)	(43 843)
Net profit for the year	265 171	130 357	111 657	156 770	163 883	145 759

Commercial indicators	2016	2015	2014
ATMs	575	572	572
EFT POS Terminals	8 875	8 063	8 628
Payment cards	1 247 560	1 296 733	1 298 059
of which credit cards	311 897	346 040	349 022
Mortgage loans (€ thousand, VUB Bank)	4 446 721	3 556 990	3 207 785
Consumer loans (€ thousand, VUB Bank)	1 210 008	1 059 465	956 068
Number of employees (VUB Group)	4 098	3 987	3 985
Number of branches in Slovakia (VUB Bank)	239	234	239

Key ratios of VUB Group	2016	2015	2014
Return on assets	1,12%	1,30%	1,25%
Cost-Income Ratio (without bank levy)	45,20%	44,20%	44,72%
Tier 1 capital ratio	14,73%	16,13%	16,03%
Total capital ratio	17,18%	16,30%	16,06%

Rating (status as at 31 December 2016)	
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 Auditor's Report for the year ended 31 December 2016

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and the 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. and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to 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 financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

Basis for Opinion

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

Key Audit Matters

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

KPMG

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2016: € 10,725,281 thousand; impairment loss recognised in 2016: € 78,453 thousand; total impairment loss as at 31 December 2016: € 394,136 thousand.

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

Key audit matter	*Our response*
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. We focused on this area as the determination of impairment allowances requires the Management Board to make complex and subjective judgements over both timing of impairment recognition and the amounts of any such impairment. Loans and advances include corporate as well as retail exposures. For corporate loans and advances, the impairment assessment is made on an individual basis, based on the knowledge of each individual borrower and often on estimation of the value of the related collateral. For retail loans and advances impairment is determined by modelling techniques for portfolios of loans and advances. The Group routinely makes adjustments to the key model parameters whose assessment also requires increased attention in our audit.	Our audit procedures included, among others: • Assessing and testing of controls over the approval and monitoring of loans and advances, including, but not limited to, those relating to the identification of loss events, appropriateness of classification to delinquency buckets and calculation of the related impairment. For individually calculated impairment: • Selecting a sample of loans and advances, with focus on those with greatest potential impact on the consolidated financial statements due to their magnitude and/or risk characteristics, such as watchlisted and forborne exposures; • For the sample selected, critically assessing, by reference to the underlying loan files and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2016; and • Where impairment triggers were identified, challenging the Group's cash flow projections and key assumptions used by reference to our knowledge of the industry and the counterparty. We also assessed reasonableness of the collateral valuation.

KPMG

For collective impairment:

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

- Critically assessing the rationale for the changes made to the model parameters in 2016, by reference to our understanding of the business, current economic trends and market practices.

Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage, by benchmarking them against the publicly available industry data.

Valuation of financial instruments held at fair value

Refer to the Note 2 (Summary of significant accounting policies) and Notes 9, 10 and 11 (Financial assets at fair value through profit or loss, Derivative financial instruments and Available-for-sale financial assets) of the consolidated financial statements.

Key audit matter	*Our response*
Financial instruments held at fair value, mainly debt securities (bonds) and derivatives, constitute a significant part of the Group's balance sheet total as presented in its consolidated financial statements. Most derivatives in the Group's consolidated financial statements, primarily foreign currency and interest rate swaps, forwards and options, are either designated as hedging instruments or, absent such formal designation, are held for risk	Our audit procedures included, among others: • Assessing the design and operating effectiveness of key controls over the identification, measurement and oversight of valuation risk of financial instruments; • Independently assessing the financial instruments' fair value hierarchy levels, considering rates of the underlying market activity, and comparing them to the hierarchy levels assigned by the Group;

management purposes . The derivatives are mainly not exchange-traded, but are instead transacted over-the-counter.

For the majority of the bonds held, the Group's fair values are based on quoted prices of identical instruments, while valuation techniques using market observable inputs were applied to derivatives and the remaining bonds.

Due to the magnitude of the amounts involved, as well as the complexity and judgment required in measuring some of these instruments, their valuation was a key area of focus during our audit. Also, there is a risk that the underlying markets for the instruments are not sufficiently active or the transaction prices do not represent the fair value of the financial instruments at the measurement date.

- Testing market-based valuations of financial instruments by comparing these amounts to independently sourced publicly available quoted prices;
- For more judgemental valuations, based on inputs other than quoted prices, evaluating the assumptions, methodologies and models used by the Group, and also, on a sample basis, performing an independent valuation, using our internal valuation specialists; and
- Evaluating the overall reasonableness of the Group's valuations by examining gains and losses on disposals and other events and transactions which could provide evidence about the appropriateness of the valuations.

IT systems and controls over financial reporting

Key audit matter	*Our response*
The Group has a complex information technology ("IT") environment and operates various IT systems and applications. The financial accounting and reporting systems are heavily dependent on these complex IT solutions and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	Our procedures included, among others: • Using our internal IT specialists, updating our understanding of the Group's IT environment and the framework of governance over the IT organisation, including the understanding of the controls over program development and changes, access to programs and data and IT operations; • Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting; • Testing of certain aspects of the security of the IT systems, including access management and segregation of duties; and

- Where relevant, assessing whether compensating controls were effective in mitigating deficiencies identified either by the Group or by us independently.

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

The Management Board is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS EU, 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.

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 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 Annual Report

The Management Board is responsible for the information in the 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 Annual Report.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report was not available to us as of the date of this auditors' report.

When we obtain the Annual Report, we will consider whether it includes the disclosures required by the Act on Accounting and, based on the work undertaken in the course of the audit of the consolidated financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2016 is consistent with the consolidated financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the Annual Report in light of the knowledge and understanding of the accounting entity and its environment that we have acquired during the course of the audit of the consolidated financial statements.

15 February 2017
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 at 31 December 2016

(In thousands of euro)

	Note	2016	2015
Assets			
Cash and balances with central banks	7	1,029,103	469,336
Due from banks	8	112,468	178,707
Financial assets at fair value through profit or loss	9	474	97,753
Derivative financial instruments	10	47,249	46,652
Available – for – sale financial assets	11	1,289,979	1,867,941
Loans and advances to customers	12	10,725,281	9,125,909
Held – to – maturity investments	14	530,019	531,742
Associates and joint ventures	15	8,788	17,635
Intangible assets	16	68,888	64,108
Goodwill	17	29,305	29,305
Property and equipment	18	104,853	105,925
Current income tax assets	19	1,464	–
Deferred income tax assets	19	64,002	58,804
Other assets	20	25,281	31,647
		14,037,154	12,625,464
Liabilities			
Due to central and other banks	21	855,244	774,354
Derivative financial instruments	10	65,354	62,559
Due to customers	22	9,564,560	8,552,684
Subordinated debt	23	200,165	–
Debt securities in issue	23	1,715,308	1,600,341
Current income tax liabilities	19	–	9,517
Provisions	24	26,001	25,313
Other liabilities	25	105,266	102,590
		12,531,898	11,127,358
Equity			
Equity (excluding net profit for the year)	26	1,348,486	1,334,223
Net profit for the year		156,770	163,883
		1,505,256	1,498,106
		14,037,154	12,625,464
Financial commitments and contingencies	27	3,658,239	3,351,373

The accompanying notes on pages 39 to 131 form an integral part of these financial statements.

These financial statements were prepared and approved by the Management Board on 15 February 2017.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
Member of the Management Board

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 (In thousands of euro)

	Note	2016	2015
Interest and similar income		449,361	485,379
Interest and similar expense		(49,962)	(73,420)
Net interest income	28	399,399	411,959
Fee and commission income		146,311	159,084
Fee and commission expense		(38,364)	(41,597)
Net fee and commission income	29	107,947	117,487
Net trading result	30	38,783	11,970
Other operating income	31	9,625	11,422
Operating income		555,754	552,838
Salaries and employee benefits	32	(119,710)	(114,447)
Other operating expenses	33	(103,759)	(101,865)
Special levy of selected financial institutions	33	(22,143)	(20,076)
Amortisation	16	(14,539)	(13,664)
Depreciation	18	(13,207)	(14,367)
Operating expenses		(273,358)	(264,419)
Operating profit before impairment		282,396	288,419
Impairment losses	34	(75,764)	(79,278)
Profit from operations		206,632	209,141
Share of profit of associates and joint ventures	15	5,110	4,434
Profit before tax		211,742	213,575
Income tax expense	35	(54,972)	(49,692)
NET PROFIT FOR THE YEAR		156,770	163,883
Other comprehensive income for the year, after tax:			
Items that may be reclassified to profit or loss in the future:			
Exchange difference on translating foreign operation		(19)	16
Available – for – sale financial assets		(23,137)	(4,266)
Cash flow hedges		410	(365)
Other comprehensive income for the year, net of tax	36, 37	(22,746)	(4,615)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		134,024	159,268

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

The accompanying notes on pages 39 to 131 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2016 (In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Translation of foreign operation	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2015	430,819	13,636	99,633	853,415	(9)	31,537	(885)	1,428,146
Total comprehensive income for the year, net of tax	–	–	–	163,883	16	(4,266)	(365)	159,268
Other	–	–	–	(15)	15	–	–	–
Transaction with owners, recorded directly in equity								
Dividends to shareholders	–		(89,538)	–	–	–	(89,538)	
Reversal of dividends distributed but not collected	–	–	–	147	–	–	–	147
Legal reserve fund	–	–	270	(270)	–	–	–	–
Sale of treasury shares	–	83	–	–	–	–	–	83
Total transactions with owners	–	83	270	(89,661)	–	–	–	(89,308)
At 31 December 2015	430,819	13,719	99,903	927,622	22	27,271	(1,250)	1,498,106
At 1 January 2016	430,819	13,719	99,903	927,622	22	27,271	(1,250)	1,498,106
Total comprehensive income for the year, net of tax	–	–	–	156,770	(19)	(23,137)	410	134,024
Other	–	–	–	22	(22)	–	–	–
Gain on disposal of an investment in associate under common control (Note 15)	–	–	(333)	3,643	–	–	–	3,310
Transaction with owners, recorded directly in equity								
Dividends to shareholders	–	–	–	(130,334)	–	–	–	(130,334)
Reversal of dividends distributed but not collected	–	–	–	149	–	–	–	149
Legal reserve fund	–	–	484	(483)	–	–	–	1
Total transactions with owners	–	–	484	(130,668)	–	–	–	(130,184)
At 31 December 2016	430,819	13,719	100,054	957,389	(19)	4,134	(840)	1,505,256

The accompanying notes on pages 39 to 131 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2016 (In thousands of euro)

	Note	2016	2015
Cash flows from operating activities			
Profit before tax		211,742	213,575
Adjustments for:			
Amortisation		14,539	13,664
Depreciation		13,207	14,367
Securities at fair value through profit or loss, debt securities in issue and FX differences		17,043	(2,855)
Items related to share of profit of associates and joint ventures		873	120
Interest income		(449,361)	(485,379)
Interest expense		49,962	73,420
Sale of property and equipment		(566)	(83)
Impairment losses and similar charges		110,231	100,065
Interest received		472,978	496,878
Interest paid		(56,958)	(88,617)
Tax paid		(71,151)	(57,294)
Due from banks		80,421	428,913
Financial assets at fair value through profit or loss		97,923	(97,451)
Derivative financial instruments (assets)		(187)	2,920
Available – for – sale financial assets		532,265	(355,063)
Loans and advances to customers		(1,707,240)	(943,285)
Other assets		6,607	(6,437)
Due to central and other banks		81,521	30,111
Derivative financial instruments (liabilities)		2,795	500
Due to customers		1,215,625	698,485
Other liabilities		3,098	(2,609)
Net cash from operating activities		625,367	33,945
Cash flows from investing activities			
Repayments of held – to – maturity investments		–	1
Purchase of intangible assets and property and equipment		(37,711)	(30,598)
Disposal of property and equipment		6,859	2,775
Cash flows resulting from disposal of the associate		10,851	–
Net cash used in investing activities		(20,001)	(27,822)
Cash flows from financing activities			
Proceeds from issue of debt securities		249,848	410,300
Repayments of debt securities		(150,618)	(264,569)
Sale of treasury shares		–	83
Dividends paid		(130,334)	(89,538)
Net cash (used in)/ from financing activities		(31,104)	56,276
Net change in cash and cash equivalents		574,262	62,399
Cash and cash equivalents at the beginning of the year	6	491,586	429,187
Cash and cash equivalents at the end of the year	6	1,065,848	491,586

The accompanying notes on pages 39 to 131 form an integral part of these financial statements.

1. General information

1.1 The Bank

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

At 31 December 2016, the Bank had a network of 239 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2015: 234). The Bank also has one branch in the Czech Republic.

At 31 December 2016, the members of the Management Board are: Alexander Resch (Chairman), Antonio Bergalio, Jozef Kausich, Elena Kohútiková, Peter Magala, Peter Novák and Martin Techman.

At 31 December 2016, the members of the Supervisory Board are: Ezio Salvai (Chairman), Ignacio Jaquotot (Vice Chairman), Ján Gallo, Paolo Sarcinelli, Christian Schaack, Andrej Straka and Luca Finazzi (since 23 May 2016).

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 2016	Share 2015	Principal business activity
Subsidiaries			
Consumer Finance Holding, a.s. ('CFH')	100%	100%	Consumer finance business
VÚB Leasing, a. s. ('VÚB Leasing')	100%	100%	Finance and operating leasing
VÚB Factoring, a.s.	100%	100%	Factoring of receivables
Associates			
VÚB Asset Management, správ. spol., a.s.	0.00%	40.55%	Asset management
Slovak Banking Credit Bureau, s.r.o.	33.33%	33.33%	Credit database administration
Joint ventures			
VÚB Generali DSS, a.s.	50%	50%	Pension fund administration

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

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The consolidated financial statements of the VUB Group for the year ended 31 December 2015 were authorised for issue by the Management Board on 15 February 2016.

The separate financial statements of the Bank for the year ended 31 December 2016 were issued on 15 February 2017 and are available at the registered office of the Bank.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available – for – sale financial assets, financial assets at fair value through profit or loss and all derivative financial instruments to fair value and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

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

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies and presentation

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

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

Standards issued but not yet effective or not yet adopted by the EU up to the date of issuance of the VUB Group's financial statements are listed below. This listing of standards and interpretations issued are those that the VUB Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective or after their adoption by the EU.

IFRS 9 Financial Instruments

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and the bank follows the Group's approach to continue to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

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

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

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

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

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

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items. Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, mainly due to new expected credit loss model under IFRS 9.

Based on its preliminary assessment, the VUB Group expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9.

At this stage it is still unclear what portion of the VUB Group's debt securities will be measured at FVTPL, at FVOCI or amortized cost as this determination will depend on the outcome of the business model test. It is expected that a insignificant portion of debt securities will be reclassified under IFRS 9 either into or out of FVOCI.

It is also possible that a number of equity instruments currently classified as available for sale will be measured at FVTPL under IFRS 9, but this determination will depend on an election to be made by the entity at the date of initial application that is 1 January 2018. The Entity has not yet decided how it will classify these instruments.

It is expected that deposits from customers will be continued to be measured at amortised cost under IFRS 9.

It is expected that the new expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application.

The VUB Group has already done some estimates but the total quantitative impact is not considered as necessary to provide with as this depends on variables at the transition date like the composition of credit portfolios, macro – economic forecasts, impact of changes in information systems and other variables. In this context we believe that spreading such "estimates or impacts" at the current conditions are not indicative and not reflect the situation which can influence future VUB Group´s results so they will not be useful for any reader of these financial statements.

IFRS 15 Revenue from contracts with customers

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

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

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

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the VUB Group's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the VUB Group's financial statements. The timing and measurement of the Entity's revenues are not expected to change under IFRS 15 because of the nature of the Entity's operations and the types of revenues it earns.

IFRS 16 Leases

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

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

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

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

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will require the VUB Group recognise in its statement of financial position assets and liabilities relating to operating leases for which the Entity acts as a lessee.

Amendments to IFRS 2: Classification and Measurement of Share – based Payment Transactions

The amendments clarify share – based payment accounting on the following areas:

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

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

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The VUB Group, as an insurance provider, intends to apply the exemption from adopting IFRS 9 and therefore does not expect any material impact on the financial statements of the VUB Group.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The VUB Group expects that the amendments, when initially applied, will have a material impact on the financial statements of the VUB Group as it currently recognises. However, the quantitative impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the transfer of asset or businesses to the associate or joint venture that take place during that reporting period.

Amendments to IAS 7

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non – cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The VUB Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the VUB Group.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The VUB Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the VUB Group because the VUB Group already measures future taxable profit in a manner consistent with the Amendments.

Amendments to IAS 40 Transfers of Investment Property

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The VUB Group does not expect that the amendments will have a material impact on the financial statements because VUB Group transfers a property asset to, or from, investment property only when there is an actual change in use and VUB Group does not have investment property.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non – monetary asset or non – monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non – monetary asset or non – monetary liability arising from the payment or receipt of advance consideration.

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

Annual Improvements to IFRSs

The improvements introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. These amendments are applicable to annual periods beginning on or after either 1 January 2017 or 1 January 2018, to be applied retrospectively. The VUB Group does not expect that the improvements will have a material impact on the financial statements.

2.3 Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Joint ventures

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

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

2.4 Segment reporting

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

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

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

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

2.5 Foreign currency transactions

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

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

2.6 Foreign operations

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

2.7 Cash and cash equivalents

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

2.8 Cash and balances with central banks

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

2.9 Treasury bills and other eligible bills

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

2.10 Due from banks

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

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

2.11 Securities

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

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

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

(a) Securities at fair value through profit or loss

This portfolio comprises following subcategories:

(i) Securities held for trading

These securities are financial assets acquired by the VUB Group for th– e purpose of generating profits from short – term fluctuations in prices.

(ii) Securities designated at fair value through profit or loss on initial recognition

Securities classified in this category are those that have been designated by the management on initial recognition. This designation may be used only when at least one of the following conditions is met:

– the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis;
– the assets and financial liabilities are a part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
– the financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

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

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

Day 1 profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1 profit or loss') in 'Net trading result' if the 'Day 1 profit or loss' is not significant. In cases where 'Day 1 profit or loss' is significant, the difference is amortised over the period of the respective deals. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognised.

(b) Available – for – sale securities

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

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

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

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

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

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

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

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

(c) Held – to – maturity investments

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

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

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

2.12 Repurchase and reverse repurchase agreements

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

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

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

2.13 Derivative financial instruments

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

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

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

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

Credit risk of financial derivatives

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

With regard to IFRS 13 which contains a clarification in reference to non – performance risk in determining the fair value of the 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 rating 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'):

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

(ii) The DVA (positive) takes into account scenarios whereby the Group fails before the counterparty and has a negative exposure to the counterparty. In these scenarios the Group achieves a gain equal to the cost of replacing the derivative.

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

Embedded derivatives

The VUB Group assesses whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives under IAS 39. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non – derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand – alone derivative.

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

Hedging derivatives

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

2.14 Offsetting financial instruments

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

2.15 Non – current assets held for sale

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

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

2.16 Loans and advances to customers and impairment losses

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

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

Impairment and uncollectability is measured and recognised individually for loans that are individually significant. Impairment and uncollectability for a group of similar loans that are not individually identified as impaired or loans that are not individually significant are measured and recognised on a portfolio basis.

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

2.17 Associates and joint ventures

Transactions under common control

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

2.18 Intangible assets

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

	Years
Software and Other intangible assets	7

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

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

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

2.19 Goodwill

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

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

2.20 Property and equipment

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

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

2.21 Leasing

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

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

VUB Group as a lessee

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

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

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

VUB Group as a lessor

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

2.22 Deposits, debt securities issued and subordinated liabilities

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

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

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. 2.23 Provisions

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

2.24 Provisions for employee benefits

The Group's obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is determined by reference to current rates of return on Slovak government bonds with the 15 years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the projected unit credit method. All employees of the Group are covered by the retirement and jubilee employee benefits program.

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

	Jubilee benefits	Retirement benefits
Discount rate	0.00%	1.33%
Growth of wages in 2017	n/a	1.00%
Future growth of wages after 2017	n/a	1.00%
Fluctuation of employees (based on age)	5– 43%	5– 43%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

2.25 Financial guarantees

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

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

2.26 Legal reserve fund

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

2.27 Equity reserves

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

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

'Available – for – sale financial assets' reserve which comprises changes in the fair value of available – for – sale investments.

'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.

2.28 Interest income

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

2.29 Fee and commission income

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

2.30 Net trading result

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

2.31 Dividend income

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

2.32 Current and deferred income tax

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

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

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

2.33 Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as such are not the assets of the VUB Group.

2.34 Significant accounting judgements and estimates

Judgements

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

Held – to – maturity investments

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

Financial assets held for trading

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

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

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

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

Estimates

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

Estimates are used for, but not limited to: fair values of financial instruments, impairment losses on loans and advances to customers, impairment losses for off – balance sheet risks, depreciable lives and residual values of tangible and intangible assets, impairment losses on tangible and intangible assets, liabilities from employee benefits and provisions for legal claims.

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

Impairment losses are sensitive to input parameters such as the rating of the client, the probability of default and loss given default of the client. Change of any of these parameters results in a different amount of impairment losses.

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

3. Financial risk management

Introduction and overview

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

(a) Credit risk,
(a) Market risk,
(a) Liquidity risk,
(a) Operational risk.

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

Risk management framework

The Management Board is the statutory body governing the executive management of the Bank, and has absolute authority over all matters concerning risk. The Management Board has primary responsibility for the creation and dissolution of risk related governance bodies. The primary governance bodies overseeing risk issues are:

– Asset/Liability Committee ('ALCO'),
– Credit Risk Committee ('CRC'),
– Operational Risk Committee ('ORC').

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

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

(a) Credit risk

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

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

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

- Authorized Approval Authority,
- Collateral Management Policy,
- Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

Management of credit risk

The Risk Management Division is established within the Bank as a Control Unit and managed by the Chief Risk Officer, who is a member of the Bank's Management Board. The Risk Management Division is organisationally structured to provide support to the Business Units, as well as to provide reporting of credit, market and operational risks to the Supervisory Board and Management Board. The Risk Management Division is responsible for overseeing the Group's credit risk including:

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

Impairment losses

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

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

Impairment losses are calculated individually for individually significant clients for which evidence of impairment exists and collectively for individually significant clients without evidence of impairment and for individually insignificant client groups of homogeneous assets. For the purpose of provisioning for loans collectively assessed for impairment the VUB Group follows the Intesa Sanpaolo Group methodology.

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

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

€ '000	Amortised cost	Impairment losses	Carrying amount 2016	Amortised cost	Impairment losses	Carrying amount 2015
Portfolio assessed						
Banks	112,486	(18)	112,468	178,732	(25)	178,707
Customers						
Sovereigns	132,154	(101)	132,053	164,002	(122)	163,880
Corporate	4,135,747	(40,944)	4,094,803	3,514,703	(42,177)	3,472,526
Retail	6,666,357	(253,288)	6,413,069	5,601,209	(236,872)	5,364,337
	10,934,258	(294,333)	10,639,925	9,279,914	(279,171)	9,000,743
Securities						
FVTPL	474	–	474	97,753	–	97,753
AFS	1,289,979	–	1,289,979	1,867,941	–	1,867,941
HTM	530,019	–	530,019	531,742	–	531,742
	1,820,472	–	1,820,472	2,497,436	–	2,497,436
Individually assessed						
Customers						
Corporate	176,091	(94,652)	81,439	212,348	(94,890)	117,458
Retail	9,068	(5,151)	3,917	12,937	(5,229)	7,708
	185,159	(99,803)	85,356	225,285	(100,119)	125,166
Securities						
AFS	–	–	–	574	(574)	–
	–	–	–	574	(574)	–

The VUB Group uses the definitions of non – performing loans derived from the Harmonisation project. The Harmonisation project is driven by Intesa Sanpaolo in order to unify the definitions and categories of non – performing loans across the foreign subsidiaries of the Intesa Sanpaolo Group. In March 2015 the next phase of the project was realized based on which three classification categories of non – performing loans were introduced (past due, unlikely to pay, doubtful) instead of previously used four categories (past due, restructured, substandard, doubtful). The definition of non – performing loans is based on delinquency (days past due – DPD) and judgemental criteria for categories doubtful and unlikely to pay. In case of past due category, DPD and materiality threshold of client are taken into account.

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

Classification category	Description
Doubtful	Exposures to borrowers being in a state of insolvency (although not yet legally) or in a de facto equivalent status, regardless of any loss forecasts made by the Group.
Unlikely to pay	Exposures to borrowers assessed as improbable to thoroughly meet their credit obligations without recourse to actions such as the enforcement of guarantees/collateral.
Past due	Exposures other than those classified as doubtful or unlikely to pay that, as at 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 and past due.

Capital requirement calculation

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

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

€ '000	Category	2016 Amortised cost	2016 Impairment losses	2016 Carrying amount	2015 Amortised cost	2015 Impairment losses	2015 Carrying amount
Banks							
	Performing	112,486	(18)	112,468	178,732	(25)	178,707
		112,486	(18)	112,468	178,732	(25)	178,707
Sovereigns							
	Performing	132,153	(101)	132,052	163,998	(122)	163,876
	Doubtful	1	–	1	4	–	4
		132,154	(101)	132,053	164,002	(122)	163,880
Corporate							
	Performing	4,121,667	(33,816)	4,087,851	3,491,739	(32,649)	3,459,090
	Past due	387	(151)	236	327	(152)	175
	Unlikely to pay	92,566	(22,033)	70,533	139,187	(30,531)	108,656
	Doubtful	97,218	(79,596)	17,622	95,798	(73,735)	22,063
		4,311,838	(135,596)	4,176,242	3,727,051	(137,067)	3,589,984
Retail							
	Performing	6,330,199	(57,168)	6,273,031	5,284,632	(54,523)	5,230,109
	Past due	19,424	(10,418)	9,006	17,955	(9,466)	8,489
	Unlikely to pay	54,361	(27,602)	26,759	22,221	(9,381)	12,840
	Doubtful	271,441	(163,251)	108,190	289,338	(168,731)	120,607
		6,675,425	(258,439)	6,416,986	5,614,146	(242,101)	5,372,045
Securities							
	Performing	1,820,472	–	1,820,472	2,497,436	–	2,497,436
	Doubtful	–	–	–	574	(574)	–
		1,820,472	–	1,820,472	2,498,010	(574)	2,497,436

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

€ '000	2016	2015
Financial assets		
Derivative financial instruments	94,970	78,355
Financial commitments and contingencies		
Issued guarantees	764,156	834,723
Commitments and undrawn credit facilities	2,894,083	2,516,650
	3,658,239	3,351,373

The payment discipline of each client is monitored regularly. If a client is past due with some payments, appropriate action is taken. The following table shows the Group's credit portfolio in terms of delinquency of payments.

			2016			2015
€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	112,486	(18)	112,468	178,732	(25)	178,707
	112,486	(18)	112,468	178,732	(25)	178,707
Sovereigns						
No delinquency	132,106	(101)	132,005	163,891	(122)	163,769
1 – 30 days	47	–	47	107	–	107
Over 181 days	1	–	1	4	–	4
	132,154	(101)	132,053	164,002	(122)	163,880
Corporate						
No delinquency	4,137,344	(52,617)	4,084,727	3,543,131	(60,396)	3,482,735
1 – 30 days	63,843	(4,223)	59,620	52,331	(1,642)	50,689
31 – 60 days	9,427	(661)	8,766	6,523	(702)	5,821
61 – 90 days	6,170	(347)	5,823	6,500	(672)	5,828
91 – 180 days	4,000	(3,062)	938	15,301	(7,169)	8,132
Over 181 days	91,054	(74,686)	16,368	103,265	(66,486)	36,779
	4,311,838	(135,596)	4,176,242	3,727,051	(137,067)	3,589,984

€ '000	Amortised cost	Impairment losses	Carrying amount 2016	Amortised cost	Impairment losses	Carrying amount 2015
Retail						
No delinquency	6,091,367	(41,309)	6,050,058	5,090,807	(40,697)	5,050,110
1 – 30 days	227,267	(17,029)	210,238	181,555	(14,559)	166,996
31 – 60 days	45,402	(6,158)	39,244	49,629	(6,718)	42,911
61 – 90 days	28,538	(5,160)	23,378	27,887	(4,648)	23,239
91 – 180 days	50,438	(25,280)	25,158	37,197	(20,325)	16,872
Over 181 days	232,413	(163,503)	68,910	227,071	(155,154)	71,917
	6,675,425	(258,439)	6,416,986	5,614,146	(242,101)	5,372,045
Securities						
No delinquency	1,820,472	–	1,820,472	2,498,010	(574)	2,497,436
	1,820,472	–	1,820,472	2,498,010	(574)	2,497,436

Loans with renegotiated terms and the forbearance policy

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group has 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 forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, an exposure is identified as forborne if both of these two conditions are satisfied:

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

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

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

			Performing forborne			Non – performing forborne
31 December 2015 € '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Corporate	38,737	(1,201)	37,536	136,044	(57,413)	78,631
Retail	68,154	(2,079)	66,075	15,283	(6,170)	9,113
	106,891	(3,280)	103,611	151,327	(63,583)	87,744

Write – off Policy

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

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

Collateral Policy

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

– Conditions for legal enforceability;
– Conditions for the process of valuation and the maximum values accepted by the Group at the origination for the certain types of collaterals; and
– Conditions for the process of revaluation.

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

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

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

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

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

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

The Group mitigates the credit risk of derivatives, reverse sale and repurchase agreements by entering into master netting agreements and holding collateral in the form of cash and marketable securities. Derivative transactions are either transacted on an exchange or entered into under International Swaps and Derivatives Association ('ISDA') master netting agreements. In general, 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.

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

€ '000	2016 Clients	2016 Banks	2015 Clients	2015 Banks
Debt securities	35,793	–	43,193	–
Other	1,092,965	28,948	948,384	13,116
Property	5,486,882	–	4,522,942	–
	6,615,640	28,948	5,514,519	13,116

Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

				Related amounts not offset in SOFP		
31 December 2015 € '000	**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrum. and non – cash collateral**	**Cash collateral (received)/ provided**	**Net amount**
Financial assets						
Derivative financial instruments	38,558	–	38,558	–	(1,600)	36,958
	38,558	–	38,558	–	(1,600)	36,958
Financial liabilities						
Derivative financial instruments	(60,035)	–	(60,035)	–	37,372	(22,663)
	(60,035)	–	(60,035)	–	37,372	(22,663)

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	2016 Total carrying amount presented in SOFP	2016 In scope of offsetting disclosure	2016 Not in scope of offsetting disclosure	2015 Total carrying amount presented in SOFP	2015 In scope of offsetting disclosure	2015 Not in scope of offsetting disclosure
Financial assets							
Due from banks	8	112,468	–	112,468	178,707	–	178,707
Derivative financial instruments	10	47,249	38,419	8,830	46,652	38,558	8,094
Financial liabilities							
Derivative financial instruments	10	(65,354)	(56,007)	(9,347)	(62,559)	(60,035)	(2,524)

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

€ '000	2016 Amortised cost	2016 Impairment losses	2016 Carrying amount	2015 Amortised cost	2015 Impairment losses	2015 Carrying amount
Europe						
Banks	109,930	(13)	109,917	172,645	(15)	172,630
Sovereigns	132,154	(101)	132,053	164,002	(122)	163,880
Corporate	4,216,749	(135,113)	4,081,636	3,726,546	(137,042)	3,589,504
Retail	6,672,586	(258,307)	6,414,279	5,611,971	(242,054)	5,369,917
Securities	1,795,305	–	1,795,305	2,498,010	(574)	2,497,436
	12,926,724	(393,534)	12,533,190	12,173,174	(379,807)	11,793,367
America						
Banks	2,197	(5)	2,192	5,813	(10)	5,803
Corporate	94,600	(418)	94,182	–	–	–
Retail	339	(3)	336	229	(4)	225
Securities	25,167	–	25,167	–	–	–
	122,303	(426)	121,877	6,042	(14)	6,028
Asia						
Banks	186	–	186	249	–	249
Corporate	489	(65)	424	505	(25)	480
Retail	1,927	(102)	1,825	1,298	(28)	1,270
	2,602	(167)	2,435	2,052	(53)	1,999
Rest of the World						
Banks	173	–	173	25	–	25
Retail	573	(27)	546	648	(15)	633
	746	(27)	719	673	(15)	658

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

			2016			2015
€ '000	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Europe						
Slovakia	1,019,478	–	1,019,478	1,554,708	(574)	1,554,134
Italy	753,595	–	753,595	805,454	–	805,454
Poland	–	–	–	97,046	–	97,046
Other	17,300	–	17,300	40,802	–	40,802
	1,790,373	–	1,790,373	2,498,010	(574)	2,497,436
America						
USA	4,932	–	4,932	–	–	–
Canada	25,167	–	25,167	–	–	–
	30,099	–	30,099	–	–	–

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

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

31 December 2015 € '000	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	–	–	102,938	17,389	–
Automotive	–	–	28,851	11	–
Commodity Traders	–	–	96,236	510	–
Construction	–	–	68,100	19,174	–
Consumers	–	–	17,082	5,143,665	236,826
Financial institutions	178,707	–	241,606	152	2,260,610
Government	–	155,742	1,032	–	–
Industry	–	–	624,831	23,031	–
Real estate	–	–	586,732	2,382	–
Retail and Wholesale Trade		–	461,931	55,430	
Services	–	512	311,737	85,200	–
Transportation	–	488	201,237	10,804	–
Utilities	–	7,138	814,527	3,056	–
Other	–	–	33,144	11,241	–
	178,707	163,880	3,589,984	5,372,045	2,497,436

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances. Past due but not impaired financial assets are more than one day overdue.

31 December 2016 € '000	Neither past due nor impaired Amortised cost	Impairment losses	Carrying amount	Impaired (non – performing) Amortised cost	Impairment losses	Carrying amount	Past due but not impaired Amortised cost	Impairment losses	Carrying amount
Banks	112,486	(18)	112,468	–	–	–	–	–	–
Sovereigns									
Municipalities	131,724	(100)	131,624	1	–	1	47	–	47
Municipalities – Leasing	382	(1)	381	–	–	–	–	–	–
	132,106	(101)	132,005	1	–	1	47	–	47
Corporate									
Large Corporates	1,477,274	(4,757)	1,472,517	23,884	(19,176)	4,708	1	–	1
Specialized Lending	789,331	(11,713)	777,618	79,948	(22,551)	57,397	1,251	(35)	1,216
SME	1,267,968	(13,608)	1,254,360	59,430	(41,286)	18,144	18,145	(884)	17,261
Other Fin. Institutions	256,068	(1,051)	255,017	4	(1)	3	–	–	–
Public Sector Entities	1,187	(3)	1,184	7	–	7	6	–	6
Leasing	225,058	(974)	224,084	24,391	(17,584)	6,807	18,412	(389)	18,023
Factoring	35,653	(331)	35,322	2,507	(1,182)	1,325	31,313	(71)	31,242
	4,052,539	(32,437)	4,020,102	190,171	(101,780)	88,391	69,128	(1,379)	67,749
Retail									
Small Business	188,131	(2,680)	185,451	14,193	(12,190)	2,003	27,503	(520)	26,983
Small Business – Leasing	7,860	(28)	7,832	1,376	(473)	903	797	(25)	772
Consumer Loans	1,291,821	(21,287)	1,270,534	204,441	(133,676)	70,765	141,350	(13,688)	127,662
Mortgages	4,307,191	(8,058)	4,299,133	74,266	(18,312)	55,954	65,264	(4,313)	60,951
Credit Cards	156,799	(2,964)	153,835	37,074	(26,384)	10,690	14,088	(1,802)	12,286
Overdrafts	78,874	(632)	78,242	13,650	(10,054)	3,596	16,196	(816)	15,380
Leasing	3,921	(12)	3,909	224	(182)	42	253	(23)	230
Flat Owners Associations	24,536	(318)	24,218	–	–	–	–	–	–
Other	5,580	(2)	5,578	2	–	2	35	–	35
	6,064,713	(35,981)	6,028,732	345,226	(201,271)	143,955	265,486	(21,187)	244,299
Securities									
FVTPL	474	–	474	–	–	–	–	–	–
AFS	1,289,979	–	1,289,979	–	–	–	–	–	–
HTM	530,019	–	530,019	–	–	–	–	–	–
	1,820,472	–	1,820,472	–	–	–	–	–	–

31 December 2015 € '000	Neither past due nor impaired Amortised cost	Impairment losses	Carrying amount	Impaired (non – performing) Amortised cost	Impairment losses	Carrying amount	Past due but not impaired Amortised cost	Impairment losses	Carrying amount
Banks	174,734	(17)	174,717	–	–	–	3,998	(8)	3,990
Sovereigns									
Municipalities	163,656	(121)	163,535	4	–	4	107	–	107
Municipalities – Leasing	235	(1)	234	–	–	–	–	–	–
	163,891	(122)	163,769	4	–	4	107	–	107
Corporate									
Large Corporates	1,181,422	(5,616)	1,175,806	25,453	(17,331)	8,122	–	–	–
Specialized Lending	680,581	(13,187)	667,394	113,136	(26,663)	86,473	285	(21)	264
SME	980,148	(10,578)	969,570	68,110	(43,788)	24,322	14,399	(676)	13,723
Other Fin. Institutions	240,336	(505)	239,831	7	(2)	5	–	–	–
Public Sector Entities	2,104	(6)	2,098	9	–	9	2	–	2
Leasing	212,916	(1,192)	211,724	27,064	(15,516)	11,548	19,667	(408)	19,259
Factoring	134,499	(447)	134,052	1,534	(1,118)	416	25,379	(13)	25,366
	3,432,006	(31,531)	3,400,475	235,313	(104,418)	130,895	59,732	(1,118)	58,614
Retail									
Small Business	186,446	(2,988)	183,458	14,201	(11,299)	2,902	3,682	(214)	3,468
Small Business – Leasing	6,396	(33)	6,363	2,541	(661)	1,880	738	(38)	700
Consumer Loans	1,185,519	(20,167)	1,165,352	178,817	(117,752)	61,065	126,039	(12,342)	113,697
Mortgages	3,412,865	(7,076)	3,405,789	81,719	(20,877)	60,842	62,406	(3,686)	58,720
Credit Cards	163,361	(3,635)	159,726	38,096	(26,721)	11,375	14,847	(2,394)	12,453
Overdrafts	73,004	(700)	72,304	13,762	(9,976)	3,786	17,326	(921)	16,405
Leasing	4,128	(14)	4,114	378	(292)	86	183	(7)	176
Flat Owners Associations	23,629	(308)	23,321	–	–	–	–	–	–
Other	4,063	–	4,063	–	–	–	–	–	–
	5,059,411	(34,921)	5,024,490	329,514	(187,578)	141,936	225,221	(19,602)	205,619
Securities									
FVTPL	97,753	–	97,753	–	–	–	–	–	–
AFS	1,867,941	–	1,867,941	574	(574)	–	–	–	–
HTM	531,742	–	531,742	–	–	–	–	–	–
	2,497,436	–	2,497,436	574	(574)	–	–	–	–

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

€ '000	Amortised cost	Impairment losses	2016 Carrying amount	Amortised cost	Impairment losses	2015 Carrying amount
Sovereigns						
1 – 30 days	47	–	47	107	–	107
	47	–	47	107	–	107
Corporate						
1 – 30 days	55,970	(902)	55,068	49,130	(799)	48,331
31 – 60 days	8,105	(286)	7,819	5,129	(135)	4,994
61 – 90 days	5,053	(191)	4,862	5,473	(184)	5,289
	69,128	(1,379)	67,749	59,732	(1,118)	58,614
Retail						
1 – 30 days	202,599	(11,526)	191,073	163,646	(10,505)	153,141
31 – 60 days	35,066	(4,146)	30,920	36,333	(3,965)	32,368
61 – 90 days	18,177	(2,634)	15,543	19,147	(2,555)	16,592
91 – 180 days	9,613	(2,871)	6,742	5,961	(2,520)	3,441
Over 181 days	31	(10)	21	134	(57)	77
	265,486	(21,187)	244,299	225,221	(19,602)	205,619

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

Large Corporates, SME	Retail Small Business and Flat Owners Associations	Risk Profile	Description
I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
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.
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.
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.
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.
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	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 Group or the parent undertaking; – the VUB Group considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Group to actions such as realizing security (if held).

Specialized Lending comprises of rating segments Special Purpose Vehicles ('SPV') and Real Estate Development ('RED'); Project Finance portfolio ('PF'), which previously represented a separate rating segment of Specialized Lending, was merged into SPV in June 2015. For Specialized Lending the Slotting approach is used by the Group. Clients are assigned into five slotting categories based on the qualitative valuation and information about the default. Risk weights and expected loss used for the capital requirement calculation is also defined for each category. Categories are predefined by the Regulation (EU) no. 575/2013 of the European Parliament and of the Council ('CRR regulation') and internally, the categories used are as follows:

Specialized Lending – SPV and RED

1 – Strong
2 – Good
3 – Satisfactory
4 – Weak
5 – 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**
L1 – 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 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 Group, – the Group considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Group to actions such as realizing security (if held).

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

31 December 2016 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	112,486	(18)	112,468
Sovereigns				
Municipalities, Municipalities – Leasing	Unrated	132,154	(101)	132,053
		132,154	(101)	132,053
Corporate				
Large Corporates, SME	I1 – I6	1,036,079	(986)	1,035,093
	M1 – M4	1,285,699	(6,913)	1,278,786
	R1 – R5	326,001	(11,665)	314,336
	D (default)	68,710	(57,151)	11,559
	Unrated	104,941	(1,120)	103,821
Specialized Lending – SPV, RED	Strong	221,336	(1,344)	219,992
	Good	335,073	(2,674)	332,399
	Satisfactory	213,930	(6,631)	207,299
	Weak	72,193	(11,139)	61,054
	D (default)	27,998	(12,511)	15,487
Other Financial Institutions, Public Sector Entities	I1 – I6	100,453	(112)	100,341
	M1 – M4	155,619	(365)	155,254
	D (default)	1	–	1
	Unrated	1,200	(578)	622
Other	Unrated	25,271	(1,876)	23,395
Leasing, Factoring	Unrated	337,334	(20,531)	316,803
		4,311,838	(135,596)	4,176,242

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

31 December 2015 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	178,732	(25)	178,707
Sovereigns				
Municipalities, Municipalities – Leasing	Unrated	164,002	(122)	163,880
		164,002	(122)	163,880
Corporate				
Large Corporates, SME	I1 – I6	882,262	(857)	881,405
	M1 – M4	882,940	(5,867)	877,073
	R1 – R5	324,430	(11,844)	312,586
	D (default)	75,737	(56,667)	19,070
	Unrated	85,382	(1,056)	84,326
Specialized Lending – SPV, RED	Strong	146,000	(279)	145,721
	Good	208,379	(1,394)	206,985
	Satisfactory	292,048	(9,085)	282,963
	Weak	90,280	(14,893)	75,387
	D (default)	57,296	(14,220)	43,076
Other Financial Institutions, Public Sector Entities	I1 – I6	72,384	(91)	72,293
	M1 – M4	167,956	(313)	167,643
	R1 – R5	–	–	–
	D (default)	4	(2)	2
	Unrated	2,115	(108)	2,007
Other	Unrated	18,779	(1,697)	17,082
Leasing, Factoring	Unrated	421,059	(18,694)	402,365
		3,727,051	(137,067)	3,589,984

31 December 2015 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Retail				
Small Business, Flat Owners Associations	I3 – I6	29,248	(53)	29,195
	M1 – M4	120,213	(1,176)	119,037
	R1 – R5	55,617	(2,497)	53,120
	D (default)	12,758	(11,024)	1,734
	Unrated	10,119	(61)	10,058
Mortgages	L1 – L4	2,713,755	(537)	2,713,218
	N1	262,586	(333)	262,253
	N2 – W1	334,389	(1,107)	333,282
	W2	53,828	(841)	52,987
	W3	138,471	(8,465)	130,006
	D (default)	53,960	(20,356)	33,604
Unsecured Retail	U01a – U02	366,290	(335)	365,955
	U3	76,120	(181)	75,939
	U04 – U07	293,414	(2,024)	291,390
	U08 – U09	73,343	(1,750)	71,593
	U10 – U11	53,583	(3,068)	50,515
	U12	54,166	(8,890)	45,276
	D (default)	126,158	(87,498)	38,660
	Unrated	767,700	(90,860)	676,840
Small Business – Leasing, Leasing	Unrated	14,365	(1,045)	13,320
Other	Unrated	4,063	–	4,063
		5,614,146	(242,101)	5,372,045
Securities	Unrated	2,498,010	(574)	2,497,436

(b) Market risk

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

Management of market risk

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

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

Exposure to market risk – trading portfolios

The principal tool used to measure and control market risk exposures within the Group's trading portfolio is Value at Risk (VaR). Derivation of VaR is a stress VaR (sVaR), which represents maximal VaR of selected one year period generating the highest value of VaR during the last 5 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 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 simulation. Taking into account market data from the previous year and in case of sVaR one year scenario from 5 years history and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements. The VaR model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

The Group uses VaR limits for total market risk in the trading book, foreign exchange risk and interest rate risk. The overall structure of VaR 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 Risk Management division and the head of the Finance and Capital Markets department. Regular summaries are submitted to Intesa Sanpaolo and ALCO.

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

				2016				2015
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	11	24	150	2	5	28	118	2
Interest rate risk	132	376	792	40	141	100	248	10
Overall	137	378	781	32	141	103	264	16
sVaR	159	539	959	93	129	159	849	53

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

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

These limitations are recognized, by supplementing VaR limits with other position limit structures. In addition, the Group uses a wide range of stress tests, to model the financial impact of a variety of exceptional market scenarios on the Group's position. 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.

Exposure to interest rate risk

The main risk to which non – trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. Financial instruments are mapped to re – pricing gaps either by the maturity, i.e. fixed rate instruments, or by the 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 Intesa Sanpaolo Group methodology, the shift sensitivity analysis is defined as a parallel and uniform shift of + 100 basis points of the rate curve. Bank also measures sensitivity under – 100, +/ – 200 basis points of the rate curve and under other six stress scenarios prescribed by European banking authority (EBA) Guidelines. For the shift sensitivity calculation Behavioural models for sight loans (overdrafts), sight deposits and prepayment rates for mortgages and consumer loans are taken into account. All these standard scenarios are applied on monthly basis.

The sensitivity of the interest margin is also measured on the basis of a parallel and instantaneous shock in the interest rate curve of +/ – 100 basis points, in a period of 12 months. Furthermore, additional sensitivity scenarios are applied: +/ – 50, +/ – 200 basis points and 6 stress scenarios according to EBA Guidelines. However, the Interest margin sensitivity (IMS) methodology, specifically sight models repricing structure is still under the discussion with Intesa Sanpaolo (ISP).

Overall banking book interest rate risk positions are managed by Balance Sheet Management Department, which uses various balance and off balance sheet instruments to manage the overall positions arising from the Group's banking book activities.

Interest rate risk comprises of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and 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 the interest rate risk.

Models applied for the interest rate risk calculation

Each financial and non – financial instrument is mapped to the gap based on contractual or behavioural re – pricing date.

Contractual

This category includes instruments where the 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 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 Group's historical data and statistical models.

Fixed assets, such as tangible and intangible assets and fixed liabilities like equity and also cash are treated as overnight items.

At 31 December 2016, interest margin sensitivity on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € – 17,653 thousand (31 December 2015: € – 24,573 thousand).

At 31 December 2016, interest rate risk generated by the Group banking book, measured through shift sensitivity analysis to 100 basis points, registered € – 42,725 thousand (31 December 2015: € – 37,311 thousand).

€ '000	**2016**	**2015**
EUR	(45,697)	(38,411)
Other	2,972	1,100
	(42,725)	(37,311)

At 31 December 2016, the sensitivity of the AFS reserve in equity related to the non – hedged part of the portfolio to 100 basis points rise in interest rates was € – 1,444 thousand (31 December 2015: € – 2,468 thousand). At 31 December 2016, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € 4,203 thousand (31 December 2015: € 3,145 thousand).

The re – pricing structure of financial assets and liabilities based on contractual undiscounted cash – flows for the non – trading portfolios was as follows:

31 December 2016 € '000	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Not specif.**	**Total**
Assets							
Cash and balances with central banks	1,029,104	–	–	–	–		1,029,104
Due from banks	92,150	18,566	17,811	–	47	–	128,574
Financial assets at fair values through profit or loss	–	–	–	–	–	474	474
Available – for – sale assets	84,332	42,148	503,644	388,289	271,566	–	1,289,979
Loans and advances to customers	1,146,822	1,770,553	1,709,784	5,089,690	848,621	321,281	10,886,751
Held – to – maturity investments	–	–	163,680	266,401	99,938	–	530,019
	2,352,408	1,831,267	2,394,919	5,744,380	1,220,172	321,755	13,864,901
Liabilities							
Due to central and other banks	(105,649)	(206,437)	(254,205)	(332,597)	–		(898,888)
Due to customers	(7,597,135)	(402,880)	(1,261,932)	(263,892)	–	–	(9,525,839)
Subordinated debt	–	(200,165)	–	–	–	–	(200,165)
Debt securities in issue	(209,828)	(144,706)	(130,440)	(503,513)	(726,822)	–	(1,715,309)
	(7,912,612)	(954,188)	(1,646,577)	(1,110,002)	(726,822)	–	(12,340,201)
Net position of financial instruments	(5,560,204)	877,079	748,342	4,634,378	493,350	321,755	1,524,700

31 December 2015 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specif.	Total
Assets							
Cash and balances with central banks	469,336	–	–	–	–	–	469,336
Due from banks	57,977	195	120,007	–	492	–	178,671
Financial assets at fair value through profit or loss	8	110	97,286	–	–	349	97,753
Available – for – sale financial assets	56,643	521,220	412,555	683,482	179,351	14,690	1,867,941
Loans and advances to customers	1,698,717	1,370,230	1,804,843	3,975,833	436,248	–	9,285,871
Held – to – maturity investments	–	–	16,339	415,435	99,968	–	531,742
	2,282,681	1,891,755	2,451,030	5,074,750	716,059	15,039	12,431,314
Liabilities							
Due to central and other banks	(295,381)	(144,875)	(203,455)	(136,619)	(9,286)	–	(789,616)
Due to customers	(4,874,532)	(793,609)	(1,202,724)	(1,376,623)	(295,212)	–	(8,542,700)
Debt securities in issue	(223,069)	(161,014)	(192,290)	(395,873)	(628,096)	–	(1,600,342)
	(5,392,982)	(1,099,498)	(1,598,469)	(1,909,115)	(932,594)	–	(10,932,658)
Net position of financial instruments	(3,110,301)	792,257	852,561	3,165,635	(216,535)	15,039	1,498,656

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

	2016 %	2015 %
Assets		
Cash and balances with central banks	0.05	0.00
Due from banks	0.41	0.39
Financial assets at fair value through profit or loss	0.59	4.37
Available – for – sale financial assets	0.74	1.78
Loans and advances to customers	4.06	4.75
Held – to – maturity investments	4.35	4.33
Liabilities		
Due to central and other banks	0.76	0.84
Due to customers	0.21	0.45
Debt securities in issue	1.48	1.98

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

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

31 December 2015 € '000	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	94,287	1,069	371,964	2,016	469,336
Due from banks	158,575	9,355	44	10,733	178,707
Financial assets at fair value through profit or loss	707	–	–	97,046	97,753
Derivative financial instruments	25,209	20,208	1,235	–	46,652
Available – for – sale financial assets	1,857,689	10,252	–	–	1,867,941
Loans and advances to customers	8,619,243	189,851	311,331	5,484	9,125,909
Held – to – maturity investments	531,742	–	–	–	531,742
	11,287,452	230,735	684,574	115,279	12,318,040
Liabilities					
Due to central and other banks	(712,226)	(2,044)	(59,340)	(744)	(774,354)
Derivative financial instruments	(59,598)	(2,097)	(864)	–	(62,559)
Due to customers	(8,080,422)	(260,294)	(114,931)	(97,037)	(8,552,684)
Debt securities in issue	(1,525,241)	–	(75,100)	–	(1,600,341)
	(10,377,487)	(264,435)	(250,235)	(97,781)	(10,989,938)
Net position	909,965	(33,700)	434,339	17,498	1,328,102

(c) Liquidity risk

Liquidity risk is defined as the risk that the Group is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Group is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit. With regard to the highly liquid assets in particular, there may be strains in the market that make them difficult (or even impossible) to sell or be used as collateral in exchange for funds. From this perspective, the Group's liquidity risk is closely tied to the market liquidity conditions (market liquidity risk).

The Guidelines for Liquidity Risk Management adopted by the VUB Group outline the set of principles, methods, regulations and control processes required to prevent the occurrence of a liquidity crisis and call for the Group to develop prudential approaches to liquidity management, making it possible to maintain the overall risk profile at extremely low levels.

The basic principles underpinning the Liquidity Policy of the VUB Group are:

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

The VUB Group directly manages its own liquidity and coordinates its management at VUB Group level, ensures the adoption of adequate control techniques and procedures, and provides complete and accurate information to ALCO and the Statutory Bodies.

The departments of the Bank that are responsible for ensuring the correct application of the Guidelines are the Treasury Department responsible for short term liquidity management, the Balance Sheet Management Department responsible for medium and long term 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'.

The Short term Liquidity Policy includes the set of parameters, limits and observation thresholds that enable 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.

The Structural Liquidity Policy of the VUB Group incorporates the 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 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 Group's capital and, at the same time, guarantees the continuity of operations under conditions of extreme liquidity emergency. It also ensures the identification of the pre – warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and intervention measures for the resolution of emergencies. The pre – warning indices, aimed at identifying signs of a potential liquidity strain, both systemic and specific, are continuously recorded and reported to the departments responsible for the management and monitoring of liquidity.

The liquidity position of the Bank and the subsidiaries is regularly presented by Enterprise Risk Management Department and discussed during the ALCO meetings.

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

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

31 December 2015 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	469,336	–	–	–	–	–	469,336
Due from banks	66,363	372	104,484	9,118	492	–	180,829
Financial assets at fair value through profit or loss	9	106	98,511	–	–	349	98,975
Available – for – sale financial assets	1,723	522,035	68,101	1,146,355	139,647	14,690	1,892,551
Loans and advances to customers	426,998	501,003	1,408,384	4,167,241	5,222,128	–	11,725,754
Held – to – maturity investments	–	–	24,549	475,768	126,481	–	626,798
	964,429	1,023,516	1,704,029	5,798,482	5,488,748	15,039	14,994,243
Liabilities							
Due to central and other banks	(220,159)	(72,864)	(198,503)	(247,106)	(56,526)	–	(795,158)
Due to customers	(6,875,708)	(489,404)	(815,722)	(370,094)	(5,630)	–	(8,556,558)
Debt securities in issue	(3,545)	(83,222)	(98,369)	(895,884)	(749,447)	–	(1,830,467)
	(7,099,412)	(645,490)	(1,112,594)	(1,513,084)	(811,603)	–	(11,182,183)
Net position of financial instruments	(6,134,983)	378,026	591,435	4,285,398	4,677,145	15,039	3,812,060
Cash inflows from derivatives	1,096,610	71,112	81,087	39,647	26,400	–	1,314,856
Cash outflows from derivatives	(1,082,908)	(71,002)	(80,042)	(40,238)	(26,195)	–	(1,300,385)
Net position from derivatives	13,702	110	1,045	(591)	205	–	14,471
Commitments and undrawn credit facilities	(2,380,526)	–	–	–	–	–	(2,380,526)
Issued guarantees	(567,899)	–	–	–	–	–	(567,899)
Net position from financial commitments and contingencies	(2,948,425)	–	–	–	–	–	(2,948,425)

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

31 December 2016 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	1,029,103	–	1,029,103
Due from banks	94,678	17,790	112,468
Financial assets at fair value through profit or loss	–	474	474
Derivative financial instruments	4,225	43,024	47,249
Available – for – sale financial assets	264,958	1,025,021	1,289,979
Loans and advances to customers	2,166,207	8,559,074	10,725,281
Held – to – maturity investments	151,930	378,089	530,019
Associates and joint ventures	–	8,788	8,788
Intangible assets	–	68,888	68,888
Goodwill	–	29,305	29,305
Property and equipment	–	104,853	104,853
Current income tax assets	1,464	–	1,464
Deferred income tax assets	–	64,002	64,002
Other assets	25,281	–	25,281
	3,737,846	10,299,308	14,037,154
Liabilities			
Due to central and other banks	(290,946)	(564,298)	(855,244)
Derivative financial instruments	(39,013)	(26,341)	(65,354)
Due to customers	(9,240,486)	(324,074)	(9,564,560)
Subordinated debt	(165)	(200,000)	(200,165)
Debt securities in issue	(198,648)	(1,516,660)	(1,715,308)
Current income tax liabilities	–	–	–
Provisions	–	(26,001)	(26,001)
Other liabilities	(101,432)	(3,834)	(105,266)
	(9,870,690)	(2,661,208)	(12,531,898)
	(6,132,844)	7,638,100	1,505,256

31 December 2015 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	469,336	–	469,336
Due from banks	170,209	8,498	178,707
Financial assets at fair value through profit or loss	97,404	349	97,753
Derivative financial instruments	20,704	25,948	46,652
Available – for – sale financial assets	562,922	1,305,019	1,867,941
Loans and advances to customers	2,029,620	7,096,289	9,125,909
Held – to – maturity investments	–	531,742	531,742
Associates and joint ventures	–	17,635	17,635
Intangible assets	–	64,108	64,108
Goodwill	–	29,305	29,305
Property and equipment	–	105,925	105,925
Deferred income tax assets	–	58,804	58,804
Other assets	31,647	–	31,647
	3,381,842	9,243,622	12,625,464
Liabilities			
Due to central and other banks	(460,541)	(313,813)	(774,354)
Derivative financial instruments	(5,639)	(56,920)	(62,559)
Due to customers	(8,177,426)	(375,258)	(8,552,684)
Debt securities in issue	(166,569)	(1,433,772)	(1,600,341)
Current income tax liabilities	(9,517)	–	(9,517)
Provisions	–	(25,313)	(25,313)
Other liabilities	(99,246)	(3,344)	(102,590)
	(8,918,938)	(2,208,420)	(11,127,358)
	(5,537,096)	7,035,202	1,498,106

(d) Operational risk

Operational risk management strategies and processes

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

The control of operational risk was attributed to the Group Operational Risk Committee, which identifies risk management policies. The Supervisory and Management Board of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

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

Organisational structure of the associated risk management function

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

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

Upon the request of the parent company, VUB Bank as part of the VUB Group request has received in February 2010, from the relevant Supervisory authorities, 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 request has received approval for usage and thus adopted the AMA for subsidiaries Consumer Finance Holding and VUB Leasing. The part of this decision has been an approval of the insurance effect inclusion, as well as approval of a new allocation mechanism, which led to fulfilment of a regulatory condition for the approval of diversification usage.

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

For the use of the AMA, the VUB Group has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self – assessment carried out by the Bank and VUB Group Companies that fall within the scope of AMA and TSA. This process is verified by the Internal Audit Department and submitted to the relevant Bank's Committee for the annual certification of compliance with the requirements established by the regulation.

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

Policies for hedging and mitigating risk

The VUB Group, in coordination with its parent company, has set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does include the benefit from this transfer of operational risk through insurance policies, which contributes to reducing the risk capital calculated through the internal models.

4. Estimated fair value of financial assets and liabilities

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

The VUB Group uses the following fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the Group as at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and

Level 3: inputs unobservable for the asset or liability.

The highest priority is attributed to effective market quotes (Level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market – observable parameters other than financial instruments quotes (Level 2) and the lowest priority to unobservable inputs (Level 3). Following this hierarchy, where available, fair value estimates made by the Group are based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate.

Under Level 2, the principal valuation technique used by the Group for the debt instruments involves the method of discounting forecast cash flows. The calculation takes into account the time value of money (risk – free rate of interest) and the credit risk expressed in the form of the credit spreads which are applied to the bonds' yield and represent the risk premium the investor claims against the risk free investment. In the case of derivative financial instruments the Group uses the standard fair value calculation models based on the principal net present value using the yield curve to discount all future cash flows from derivatives for all relevant currencies. The principal input parameters used by the models comprise interest rate curves, volatility curves, spot and forward prices and the correlation between underlying assets. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. The VUB Group also considers its own and counterparty's credit risk.

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument. The Group monitors the occurrence of these changes and accordingly reassesses the classification into the fair value levels hierarchy. For determining the timing of the transfers between the levels, the Group uses the end of the reporting period as a day when the transfer is deemed to have occurred.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with central banks

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

(b) Due from banks

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

(c) Loans and advances to customers

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

(d) Held – to – maturity investments

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

(e) Due to banks and customers

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

(f) Debt securities in issue

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

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

31 December 2015 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and balances with central banks	7	469,336	–	469,336	–	469,336	–	469,336
Due from banks	8	178,707	–	178,707	–	178,707	–	178,707
Financial assets at fair value through profit or loss	9	–	97,753	97,753	97,395	358	–	97,753
Derivative financial instruments	10	–	46,652	46,652	–	46,652	–	46,652
Available – for – sale financial assets	11	–	1,867,941	1,867,941	841,418	1,011,833	14,690	1,867,941
Loans and advances to customers	12	9,125,909	–	9,125,909	–	–	10,479,581	10,479,581
Held – to – maturity investments	14	531,742	–	531,742	–	614,208	–	614,208
		10,305,694	2,012,346	12,318,040	938,813	2,321,094	10,494,271	13,754,178
Financial liabilities								
Due to central and other banks	21	(774,354)	–	(774,354)	–	(774,354)	–	(774,354)
Derivative financial instruments	10	–	(62,559)	(62,559)	–	(62,559)	–	(62,559)
Due to customers	22	(8,552,684)	–	(8,552,684)	–	(8,561,807)	–	(8,561,807)
Debt securities in issue	23	(1,600,341)	–	(1,600,341)	–	(1,661,051)	–	(1,661,051)
		(10,927,379)	(62,559)	(10,989,938)	–	(11,059,771)	–	(11,059,771)

There were no transfers of financial instruments among the levels during the period ended 31 December 2016 (31 December 2015: no transfers).

5. Segment reporting

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

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

The Group comprises the following main operating segments:

– Retail Banking,
– Corporate Banking,
– Central Treasury.

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

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

Central Treasury undertakes the Group's funding, issues of debt securities as well as trading book operations. The Group also has a central Governance Centre that manages the Group's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

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

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

31 December 2015 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest and similar income	325,756	90,432	60,727	8,464	485,379
Interest and similar expense	(34,503)	(5,682)	(31,483)	(1,752)	(73,420)
Inter – segment revenue	(34,097)	(11,968)	48,035	(1,970)	–
	257,156	72,782	77,279	4,742	411,959
Net interest income					
Net fee and commission income	58,777	60,042	3,127	(4,459)	117,487
Net trading result	3,539	4,692	3,798	(59)	11,970
Other operating income	11,737	5,197	(16)	(5,496)	11,422
Total segment operating income	331,209	142,713	84,188	(5,272)	552,838
Depreciation and amortisation	(17,958)	(4,010)	(11)	(6,052)	(28,031)
Operating expenses					(236,388)
Operating profit before impairment					288,419
Impairment losses					(79,278)
Share of profit of associates and joint ventures					4,434
Income tax expense					(49,692)
Net profit for the year					163,883
Segment assets	5,397,891	3,521,655	3,216,674	489,244	12,625,464
Segment liabilities and equity	5,561,015	2,514,132	3,121,142	1,429,175	12,625,464

6. Cash and cash equivalents

€ '000	Note	2016	2015
Cash and balances with central banks	7	1,029,103	469,336
Current accounts in other banks	8	34,710	22,250
Term deposits with other banks	8	2,035	–
		1,065,848	491,586

7. Cash and balances with central banks

€ '000	2016	2015
Balances with central banks:		
Compulsory minimum reserves	810,409	251,557
Current accounts	961	1
Term deposits	119,912	119,926
	931,282	371,484
Cash in hand	97,821	97,852
	1,029,103	469,336

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and the Czech National Bank. The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the VUB Group and the amount of issued bonds, both with a maturity of up to 2 years. The rate for the calculation of the compulsory minimum reserve is 1% for the reserves held at the NBS and 2% for the reserves held at the Czech National Bank. The required balance is calculated as the total of individual items multiplied by the valid rate.

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

8. Due from banks

€ '000	Note	2016	2015
Current accounts	6	34,710	22,250
Term deposits			
with contractual maturity less than 90 days	6	2,035	–
with contractual maturity over 90 days		63	100,192
Loans and advances			
with contractual maturity over 90 days		8,551	18,618
Cash collateral		67,127	37,672
Impairment losses	13	(18)	(25)
		112,468	178,707

At 31 December 2016 the balance of 'Term deposits' includes one deposit with Intesa Sanpaolo S.p.A. in the nominal amount of € 2,035 thousand. (31 December 2015: one deposit with Intesa Sanpaolo S.p.A. in the nominal amount of € 100,000 thousand).

9. Financial assets at fair value through profit or loss

€ '000	2016	2015
Financial assets held for trading		
State bonds		
with contractual maturity over 90 days	–	97,046
Bank bonds		
with contractual maturity over 90 days	–	358
	–	97,404
Financial assets designated at fair value through profit or loss on initial recognition		
Equity shares	474	349
	474	97,753

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

At 31 December 2016 and 31 December 2015, no financial assets at fair value through profit or loss were pledged by the VUB Group to secure transactions with counterparties.

10. Derivative financial instruments

€ '000	2016 Assets	2015 Assets	2016 Liabilities	2015 Liabilities
Trading derivatives	12,923	28,623	11,732	13,570
Cash flow hedges of interest rate risk	–	–	5,428	1,573
Cash flow hedges of foreign exchange risk	–	–	–	29
Fair value hedges of interest rate and inflation risk	34,326	18,029	48,194	47,387
	47,249	46,652	65,354	62,559

Trading derivatives also include hedging instruments that are non – qualifying according to IAS 39, which are held for risk management purposes rather than for trading. These instruments currently consist of one cross – currency interest rate swap. At 31 December 2016, the negative fair value of this derivative was € 845 thousand (31 December 2015: € 856 thousand).

€ '000	2016 Assets	2015 Assets	2016 Liabilities	2015 Liabilities
Trading derivatives – Fair values				
Interest rate instruments				
Swaps	7,452	5,823	5,675	4,677
Options	325	895	357	881
	7,777	6,718	6,032	5,558
Foreign currency instruments				
Forwards and swaps	3,725	19,988	3,352	5,147
Cross currency swaps	–	–	845	856
Options	272	409	391	534
	3,997	20,397	4,588	6,537
Equity and commodity instruments				
Equity options	922	1,160	904	1,157
Commodity swaps	227	348	208	318
	1,149	1,508	1,112	1,475
	12,923	28,623	11,732	13,570

€ '000	2016 Assets	2015 Assets	2016 Liabilities	2015 Liabilities
Trading derivatives – Notional values				
Interest rate instruments				
Swaps	625,151	301,381	625,151	301,381
Options	115,342	151,985	115,342	151,985
	740,493	453,366	740,493	453,366
Foreign currency instruments				
Forwards and swaps	1,331,195	1,274,808	1,326,896	1,259,829
Cross currency swaps	29,606	29,604	30,449	30,449
Options	45,482	61,614	45,091	61,249
	1,406,283	1,366,026	1,402,436	1,351,527
Equity and commodity instruments				
Equity options	7,087	17,658	7,091	17,662
Commodity swaps	5,149	5,898	5,060	5,836
	12,236	23,556	12,151	23,498
	2,159,012	1,842,948	2,155,080	1,828,391

Cash flow hedges of interest rate risk

At 31 December 2016 the VUB Group uses four interest rate swaps to hedge the interest rate risk arising from the issuance of three variable rate mortgage bonds. The cash flows on the floating legs of these interest rate swaps substantially match the cash flow profiles of the variable rate mortgage bonds.

The Group uses one cross currency swap to hedge the interest rate risk of corporate loan denominated in USD. The cash flows on the floating leg of this interest rate swap substantially match the cash flow profiles of the variable rate of loan.

Below is a schedule indicating as at 31 December 2016 and 31 December 2015, the periods when the hedged cash flows are expected to occur. The cash flows of mortgage bonds represent the future undiscounted value of coupons.

€ '000	Up to 1 year	1 to 5 years	Over 5 years
2016			
Mortgage bonds – interest rate risk	(5,343)	(7,057)	–
2015			
Mortgage bonds – interest rate risk	(3,323)	(6,895)	–

Fair value hedges of interest rate and inflation risk

The VUB Group uses fourteen interest rate swaps and one cross currency swap to hedge the interest rate risk of twelve fixed rate bonds from the AFS portfolio. The changes in fair value of these interest rate and cross currency swaps substantially offset the changes in fair value of AFS portfolio bonds, both in relation to changes of interest rates.

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

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

Furthermore, the VUB Group uses twenty nine interest rate swaps to hedge the interest rate risk arising from the issuance of seventeen fixed rate mortgage bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage bonds, both in relation to changes of interest rates.

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

In 2016, the Group recognised a net gain of € 18,648 thousand (2015: net loss of € 2,582 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 18,419 thousand (2015: net gain of € 2,564 thousand). Both items are disclosed within 'Net trading result'.

During 2016, interest and similar income from hedged AFS securities in the amount of € 19,046 thousand (2015: € 19,736 thousand) was compensated by interest expense from interest rate swap, cross currency swap and asset swap hedging instruments in the amount of € 7,966 thousand (2015: € 5,839 thousand).

At 31 December 2016, interest expense from the hedged mortgage bonds in the amount of € 15,577 thousand (31 December 2015: € 11,583 thousand) was compensated by interest income from the interest rate swap hedging instruments in the amount of € 7,133 thousand (31 December 2015: € 4,224 thousand).

11. Available – for – sale financial assets

€ '000	Note	Share 2016	Share 2015	2016	2015
State bonds of EU countries				1,046,763	1,631,822
Bank bonds				236,197	218,246
Equity shares at fair value				6,959	17,822
Equity shares at cost					
RVS, a.s.		0.00%	8.01%	–	574
S.W.I.F.T.		0.01%	0.01%	60	51
Impairment losses to equity shares	13			–	(574)
				1,289,979	1,867,941

At 31 December 2016, bonds in the total nominal amount of € 207,371 thousand from available – for – sale portfolio were pledged by the VUB Group to secure collateralized transactions (31 December 2015: € 780,261 thousand). These bonds were pledged in favour of the NBS within the pool of assets used as collateral for received funds needed for the liquidity management purposes. The whole pool of assets can be used for any ECB operation in the future.

On 21 December 2015, Visa Europe and Visa Inc. officially announced a plan to become one entity, through the sale of 100% of share capital of Visa Europe to Visa Inc. The Bank as a stakeholder has the right to take part in the distribution of the value generated by the deal. The proportional fair value adjustment for the Bank was calculated as cash part of the proportional up – front consideration paid by Visa Inc. in the amount of € 14,690 thousand.

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

12. Loans and advances to customers

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

31 December 2015 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	163,767	(121)	163,646
Municipalities – Leasing	235	(1)	234
	164,002	(122)	163,880
Corporate			
Large Corporates	1,206,875	(22,947)	1,183,928
Specialized Lending	794,002	(39,871)	754,131
Small and Medium Enterprises ('SME')	1,062,657	(55,042)	1,007,615
Other Financial Institutions	240,343	(507)	239,836
Public Sector Entities	2,115	(6)	2,109
Leasing	259,647	(17,116)	242,531
Factoring	161,412	(1,578)	159,834
	3,727,051	(137,067)	3,589,984
Retail			
Small Business	204,329	(14,501)	189,828
Small Business – Leasing	9,675	(732)	8,943
Consumer Loans	1,490,375	(150,261)	1,340,114
Mortgages	3,556,990	(31,639)	3,525,351
Credit Cards	216,304	(32,750)	183,554
Overdrafts	104,092	(11,597)	92,495
Leasing	4,689	(313)	4,376
Flat Owners Associations	23,629	(308)	23,321
Other	4,063	–	4,063
	5,614,146	(242,101)	5,372,045
	9,505,199	(379,290)	9,125,909

At 31 December 2016, the 20 largest corporate customers represented a total balance of € 1,466,321 thousand (2015: € 990,928 thousand) or 13.19% (2015: 10.43%) of the gross loan portfolio

Maturities of gross finance lease receivables are as follows:

€ '000	2016	2015
Up to 1 year	105,564	100,010
1 to 5 years	169,810	163,680
Over 5 years	28,689	36,020
	304,063	299,710
Unearned future finance income on finance leases	(21,389)	(25,464)
Impairment losses	(19,691)	(18,162)
	262,983	256,084

Maturities of net finance lease receivables are as follows:

€ '000	2016	2015
Up to 1 year	97,813	91,308
1 to 5 years	157,873	149,556
Over 5 years	26,988	33,382
	282,674	274,246
Impairment losses	(19,691)	(18,162)
	262,983	256,084

13. Impairment losses on assets

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

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

€ '000	Note	1 Jan 2015	Creation (note 34)	Reversal (note 34)	Assets written – off/sold (note 34)	FX diff	Other *	31 Dec 2015
Due from banks	8	6	20	(1)	–	–	–	25
Available – for – sale financial assets	11	574	–	–	–	–	–	574
Loans and advances to customers	12	362,837	203,968	(118,883)	(58,029)	347	(10,950)	379,290
Property and equipment	18	10,754	36	(205)	–	–	–	10,585
Other assets	20	7,640	1,924	(2,226)	(146)	1	(2,375)	4,818
		381,811	205,948	(121,315)	(58,175)	348	(13,325)	395,292

* 'Other' represents the interest portion (unwinding of interest).

14. Held – to – maturity investments

€ '000	2016	2015
State bonds	530,019	531,742
	530,019	531,742

At 31 December 2016, bonds in the total nominal amount of € 509,428 thousand from the held – to – maturity portfolio were pledged by the Group to secure collateralized transactions (31 December 2015: € 0 thousand).

15. Associates and joint ventures

€ '000	Share %	Cost	Revaluation	Carrying amount
At 31 December 2016				
Slovak Banking Credit Bureau, s.r.o.	33.33	3	46	49
VÚB Generali DSS, a.s.	50.00	16,597	(7,858)	8,739
		16,600	(7,812)	8,788
At 31 December 2015				
Slovak Banking Credit Bureau, s.r.o.	33.33	3	50	53
VÚB Asset Management, správ. spol., a.s.	40.55	2,821	6,357	9,178
VÚB Generali DSS, a.s.	50.00	16,597	(8,193)	8,404
		19,421	(1,786)	17,635

Slovak Banking Credit Bureau, s.r.o. ('SBCB') and VÚB Asset Management, správ. spol., a.s. ('VÚB AM') are associates of the VUB Group for which equity method of consolidation is used.

VÚB Generali DSS, a.s. is a joint arrangement in which the Group has a joint control and a 50% ownership interest. The company was founded in 2004 by VUB Bank and Generali Poisťovňa, a. s. and it is structured as a separate vehicle in which the Group has a residual share on net assets. Accordingly, the Group has classified its interest in VÚB Generali DSS, a.s. as a joint venture which is also equity – accounted.

In December 2016, the Bank sold its stake in VÚB Asset Management, správ. spol., a.s. to the major shareholder Eurizon SA for cash of € 13,673 thousand (see also Note 1). The disposal of the investment in VÚB Asset Management, správ. spol., a.s. resulted in a net gain of € 8,464 thousand, which have been accounted for directly to equity, on the basis of a transaction under common control.

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

€ '000	SBCB	2016 VÚB Generali DSS	SBCB	VÚB AM	2015 VÚB Generali DSS
Net profit for the year *	(12)	3,924	3	6,958	3,224
Other comprehensive income	–	(44)	–	–	24
Total comprehensive income for the year	(12)	3,880	3	6,958	3,248
Assets **	365	18,160	304	19,105	17,608
Liabilities	(217)	(682)	(144)	(2,947)	(800)
Equity	148	17,478	160	16,158	16,808
Group's interest on equity at 1 January	53	8,404	52	8,619	9,060
Share of profit/(loss)	(4)	1,962	1	2,821	1,612
Share of other comprehensive income	–	(22)	–	–	12
Other consolidation adjustments	–	–	–	–	–
Dividends received during the year	–	(1,605)	–	(2,262)	(2,280)
Group's interest on equity at 31 December	49	8,739	53	9,178	8,404
Carrying amount at 31 December	49	8,739	53	9,178	8,404
* *includes: Interest income*	–	225	–	1	242
Interest expense	–	–	–	–	–
Depreciation and amortization	(8)	(79)	–	(38)	(55)
Income tax expense	(3)	(1,090)	–	(421)	(921)
** *includes: Cash and cash equivalents*	4	7	7	–	3

16. Intangible assets

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

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

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2015	206,779	54,744	11,595	273,118
Additions	12	98	19,040	19,150
Disposals	(537)	–	(8)	(545)
Transfers	12,838	360	(13,147)	51
FX differences	10	1	1	12
At 31 December 2015	219,102	55,203	17,481	291,786
Accumulated amortisation				
At 1 January 2015	(161,189)	(53,352)	–	(214,541)
Amortisation for the year	(13,204)	(460)	–	(13,664)
Disposals	537	–	–	537
FX differences	(10)	–	–	(10)
At 31 December 2015	(173,866)	(53,812)	–	(227,678)
Carrying amount				
At 1 January 2015	45,590	1,392	11,595	58,577
At 31 December 2015	45,236	1,391	17,481	64,108

At 31 December 2016, the gross book value of fully amortised intangible assets that are still used by the Group amounted to € 138,112 thousand (31 December 2015: € 117,157 thousand).

At 31 December 2016, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € 2,191 thousand (31 December 2015: € 388 thousand).

17. Goodwill

€ '000	2016	2015
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a.s.	18,871	18,871
	29,305	29,305

Goodwill related to VÚB Leasing includes both goodwill related to the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million from 2007) and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million from 2010). Goodwill related to Consumer Finance Holding, a.s. ('CFH') arose in 2005 on the acquisition of CFH, the VUB Group's sales finance subsidiary.

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

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

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

	2016	2015
Discount rate	9.95%	9.95%
Projected growth rate	4.91%	4.91%

The calculation of value in use for both VÚB Leasing and CFH considers the following key assumptions:

- interest margins,
- discount rates,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local Gross Domestic Product (GDP),
- local inflation rates.

Interest margins

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

Discount rates

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

18. Property and equipment

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

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost						
At 1 January 2015		200,655	71,283	46,467	4,077	322,482
Additions		–	–	49	9,360	9,409
Disposals		(290)	(7,825)	(2,091)	–	(10,206)
Transfers		1,640	3,573	5,118	(10,331)	–
FX differences		2	2	3	–	7
At 31 December 2015		202,007	67,033	49,546	3,106	321,692
Accumulated depreciation						
At 1 January 2015		(102,051)	(62,693)	(35,572)	–	(200,316)
Depreciation for the year		(5,956)	(4,969)	(3,442)	–	(14,367)
Disposals		244	7,788	1,476	–	9,508
FX differences		(2)	(3)	(2)	–	(7)
At 31 December 2015		(107,765)	(59,877)	(37,540)	–	(205,182)
Impairment losses	13					
At 1 January 2015		(10,543)	–	(211)	–	(10,754)
Net release		–	–	169	–	169
At 31 December 2015		(10,543)	–	(42)	–	(10,585)
Carrying amount						
At 1 January 2015		88,061	8,590	10,684	4,077	111,412
At 31 December 2015		83,699	7,156	11,964	3,106	105,925

In 2016 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, using the discounted cash flows method. As a result of the impairment test the Group recognized the impairment of € 10,502 thousand (31 December 2015: € 10,543 thousand).

At 31 December 2016 and 31 December 2015 the fair value measurement in respect of the estimation of the fair value less costs to sell was categorized as a Level 3 of the fair value hierarchy based on the inputs in the valuation technique used. The key assumptions taken into account were the discount rate (determined based upon the merits of the buildings, tenants and location, number of inhabitants, competition, demand for similar products and ownership), estimated rental income, costs and the void periods. The discount rates used were in the range between 7.9% – 15.5% both in 2016 and 2015.

At 31 December 2016, the gross book value of fully depreciated tangible assets that are still used by the Group amounted to € 94,888 thousand (31 December 2015: € 90,293 thousand).

At 31 December 2016, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € 0 thousand (31 December 2015: € 172 thousand).

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

19. Current and deferred income taxes

€ '000	2016	2015
Deferred income tax assets	64,002	58,804

€ '000	2016	2015
Current income tax liabilities	–	9,517

€ '000	2016	2015
Current income tax assets	1,464	–

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2015: 22%) as follows:

€ '000	2016	Profit/ (loss) (note 35)	Equity	2015
Due from banks	4	(1)	–	5
Derivative financial instruments designated as cash flow hedges	223	–	(129)	352
Available – for – sale financial assets	(1,079)	(126)	6,591	(7,544)
Loans and advances to customers	61,434	299	–	61,135
Property and equipment	(4,904)	544	–	(5,448)
Provisions	78	49	–	29
Other liabilities	8,239	(633)	–	8,872
Other	7	(1,396)	–	1,403
Deferred income tax assets	64,002	(1,264)	6,462	58,804

20. Other assets

€ '000	Note	2016	2015
Operating receivables and advances		15,223	14,699
Inventories (incl. repossessed leased assets)		2,075	8,323
Prepayments and accrued income		8,630	11,145
Other tax receivables		1,609	2,030
Settlement of operations with financial instruments		7	20
Receivables from trading with securities		–	2
Receivables from termination of leasing		–	22
Other		220	224
		27,764	36,465
Impairment losses	13	(2,483)	(4,818)
		25,281	31,647

21. Due to central and other banks

€ '000	2016	2015
Due to central banks		
Current accounts	993	794
Loans received from central banks	149,791	–
	150,784	794
Due to other banks		
Current accounts	22,699	36,044
Term deposits	109,909	236,441
Loans received	551,017	499,475
Cash collateral received	20,835	1,600
	704,460	773,560
	855,244	774,354

The breakdown of 'Loans received' according to the counterparty is presented below

€ '000	2016	2015
Intesa Sanpaolo S.p.A.	235,784	206,181
European Investment Bank	207,685	144,708
Tatra banka, a.s.	18,000	33,000
Société Européenne de Banque	30,019	30,019
Council of Europe Development Bank	14,846	19,044
European Bank for Reconstruction and Development	24,596	23,478
Komerční banka, a.s.	15,019	20,028
BKS Bank AG	–	8,000
ING	5,057	15,010
Other	11	7
	551,017	499,475

Intesa Sanpaolo S.p.A.

At 31 December 2016, there were sixteen loan arrangements concluded with Intesa Sanpaolo S.p.A. maturing between 2017 and 2019 and with interest rates between – 0.31% and 3.45%. At 31 December 2015 the interest rates were in the range between 0.16% and 2.78%. The frequency of the repayment of the principal and interests varies for each loan contract.

European Investment Bank

Loans from European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2016, the balance comprised of fourteen loans in the nominal amount of € 50,000 thousand, € 23,333 thousand, € 23,067 thousand, € 17,500 thousand, € 16,250 thousand, € 14,989 thousand, € 14,536 thousand, € 14,063 thousand, € 9,992 thousand, € 7,858 thousand, € 4,996 thousand, € 4,759 thousand, € 4,444 thousand and € 1,875 thousand, (31 December 2015: ten loans in the nominal amount € 26,667 thousand, € 21,875 thousand, € 9,286 thousand, € 3,125 thousand, € 18,750 thousand, € 15,000 thousand, € 4,996 thousand, € 24,983 thousand, € 4,996 thousand and € 14,988 thousand) with interest rates between – 0.004% and 1.727% (31 December 2015: 0.147% and 3.45%) and with maturity between 2018 and 2028. The principal of loans is payable on annual or semi – annual basis or at the maturity and the interest is payable semi – annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

Tatra banka, a.s.

Loans received from Tatra banka, a.s. comprised of two loans in the nominal amount of € 15,000 thousand and € 3,000 thousand with maturity between 2017 and 2018 (31 December 2015: three loans in the nominal amount of € 15,000 thousand, € 15,000 thousand and € 3,000 thousand with maturity between 2016 and 2018). The principal is payable at the maturity of the loans and the interest is payable on monthly basis. The agreed interest rates were between 1.52% and 1.65%.

Société Européenne de Banque

Loans from Société Européenne de Banque comprised of two loans in the nominal amount of € 20,000 thousand and € 10,000 thousand, both maturing in 2019. The agreed interest rates were 1.52% and 2.10%, respectively, interest is payable quarterly and the principal is payable at the maturity of the loan contracts.

Council of Europe Development Bank

At 31 December 2016, loans from Council of Europe Development Bank comprised of five loans in the nominal amount of € 4,500 thousand, € 4,000 thousand, € 4,000 thousand, € 1,748 thousand and € 596 thousand, (31 December 2015: five loans in the nominal amount of € 4,667 thousand, € 1,192 thousand, € 2,185 thousand, € 6,000 thousand and € 5,000 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 0.31% at 31 December 2016 (31 December 2015: 0.03% – 0.33%). The interest is payable quarterly and the principal is payable on annual basis. The maturity of the individual loans is between 2017 and 2022.

European Bank for Reconstruction and Development

Loans received from European Bank for Reconstruction and Development represent funds granted to support the energy savings in large corporations.

At 31 December 2016, there were four loan arrangements concluded with European Bank for Reconstruction and Development (31 December 2015: four loan arrangements). The maturities of the loans are in 2020, 2021 and 2023. At 31 December 2016 the interest rates were in the range between 0.55% and 1.69% (31 December 2015: 0.36% – 1.96%). The frequency of the repayment of both the interest and the principal is semi – annual.

Komerční banka, a.s.

At 31 December 2016, the balance with Komerční banka, a.s. comprised of two loans in the nominal amount of € 10,000 thousand and € 5,000 maturing in 2017 both. The loans have a fixed interest rate of 0.45%. At 31 December 2015 the balance comprised of two loans both in nominal amount € 10,000 thousand matured on 12 February 2016 and 2 June 2016.

BKS Bank AG

The loan received from BKS Bank AG in the nominal amount of € 8,000 thousand matured on 30 June 2016. The interest rate was set as 3M Euribor + 2.75% with monthly interest payments and bullet repayment of the principal.

ING Bank N.V.

At 31 December 2016, the balance with ING Bank, N.V. comprised of one loan with nominal value of € 5,000 thousand, maturing on 23 January 2017 with interest rate 1.2%.

22. Due to customers

€ '000	2016	2015
Current accounts	5,948,945	5,158,280
Term deposits	2,641,739	2,420,384
Savings accounts	226,951	211,416
Government and municipal deposits	573,527	648,802
Loans received	60,050	–
Promissory notes	9,976	9,984
Other deposits	103,372	103,818
	9,564,560	8,552,684

23. Subordinated debt and debt securities in issue

Subordinated debt

At 31 December 2016 and 31 December 2015, the subordinated debt recognized by the VUB Group was as follows:

€ '000	2016	2015
Subordinated debt	200,165	–

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

Debt securities in issue

€ '000	2016	2015
Bonds	47	58
Mortgage bonds	597,377	978,849
Mortgage bonds subject to cash flow hedges	281,120	125,951
Mortgage bonds subject to fair value hedges	808,674	482,734
	1,687,171	1,587,534
Revaluation of fair value hedged mortgage bonds	28,022	12,259
Amortisation of revaluation related to terminated fair value hedges	68	490
	1,715,308	1,600,341

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

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2016	Nominal value in CCY per piece	Issue date	Maturity date	Dec 2016 € '000	Dec 2015 € '000
Mortgage bonds VÚB, a.s. XX.	4.3	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a.s. XXX.	5.0	EUR	1,000	33,194	5.9.2007	5.9.2032	33,438	33,420
Mortgage bonds VÚB, a.s. XXXI.	4.9	EUR	600	33,194	29.11.2007	29.11.2037	19,710	19,696
Mortgage bonds VÚB, a.s. 32.	1.86	CZK	800	1,000,000	17.12.2007	17.12.2017	29,976	30,353
Mortgage bonds VÚB, a.s. 35.	4.4	EUR	–	33,194	19.3.2008	19.3.2016	–	21,618
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	19,091	19,042
Mortgage bonds VÚB, a.s. 43.	5.1	EUR	500	33,194	26.9.2008	26.9.2025	15,970	15,873
Mortgage bonds VÚB, a.s. 46.	4.6	EUR	–	1,000,000	19.5.2009	19.5.2016	–	50,393
Mortgage bonds VÚB, a.s. 53.	0.42	EUR	100	1,000,000	8.4.2010	8.4.2017	100,096	100,155
Mortgage bonds VÚB, a.s. 57.	1.11	EUR	100	1,000,000	30.9.2010	30.9.2018	100,280	100,338
Mortgage bonds VÚB, a.s. 58.	1.58	EUR	80	1,000,000	10.12.2010	10.12.2019	80,074	80,082
Mortgage bonds VÚB, a.s. 62.	1.8	EUR	100	1,000,000	28.7.2011	28.7.2018	100,766	100,866
Mortgage bonds VÚB, a.s. 63.	3.8	EUR	–	1,000	16.9.2011	16.3.2016	–	35,383
Mortgage bonds VÚB, a.s. 64.	3.3	CZK	–	100,000	26.9.2011	26.9.2016	–	26,111
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a.s. 69.	4.5	EUR	–	20,000	6.2.2012	6.2.2016	–	20,163
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	7.3.2012	7.3.2017	41,221	41,203
Mortgage bonds VÚB, a.s. 71.	3.9	EUR	750	20,000	2.5.2012	2.5.2017	15,127	15,201
Mortgage bonds VÚB, a.s. 72.	4.7	EUR	250	100,000	21.6.2012	21.6.2027	25,446	25,430
Mortgage bonds VÚB, a.s. 73.	4.2	EUR	500	100,000	11.7.2012	11.7.2022	50,752	50,709
Mortgage bonds VÚB, a.s. 74.	3.35	EUR	700	100,000	16.1.2013	15.12.2023	71,921	71,874
Mortgage bonds VÚB, a.s. 75.	2.0	EUR	300	100,000	5.4.2013	5.4.2019	30,466	30,476
Mortgage bonds VÚB, a.s. 76.	2.4	EUR	309	10,000	22.4.2013	22.4.2018	3,142	3,142

(Table continues on the next page)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2016	Nominal value in CCY per piece	Issue date	Maturity date	Dec 2016 € '000	Dec 2015 € '000
Mortgage bonds VÚB, a.s. 77.	1.8	CZK	5,000	100,000	20.6.2013	20.6.2018	18,655	18,636
Mortgage bonds VÚB, a.s. 78.	2.16	EUR	905	10,000	3.3.2014	3.3.2020	9,234	9,241
Mortgage bonds VÚB, a.s. 79.	2	EUR	10,000	1,000	24.3.2014	24.9.2020	10,154	10,154
Mortgage bonds VÚB, a.s. 80.	1.85	EUR	31	1,000,000	27.3.2014	27.3.2021	31,786	31,868
Mortgage bonds VÚB, a.s. 81.	2.55	EUR	38	1,000,000	27.3.2014	27.3.2024	39,687	39,818
Mortgage bonds VÚB, a.s. 82.	1.65	EUR	1,701	1,000	16.6.2014	16.12.2020	1,716	1,716
Mortgage bonds VÚB, a.s. 83.	0.9	EUR	500	100,000	28.7.2014	28.7.2019	50,023	49,958
Mortgage bonds VÚB, a.s. 84.	0.6	EUR	500	100,000	29.9.2014	30.9.2019	49,949	49,903
Mortgage bonds VÚB, a.s. 85.	2.25	EUR	500	100,000	14.11.2014	14.11.2029	49,533	49,479
Mortgage bonds VÚB, a.s. 86.	0.3	EUR	1,000	100,000	27.4.2015	27.4.2020	98,620	98,145
Mortgage bonds VÚB, a.s. 87.	1.25	EUR	1,000	100,000	9.6.2015	9.6.2025	97,545	97,174
Mortgage bonds VÚB, a.s. 88.	0.5	EUR	965	100,000	11.9.2015	11.9.2020	96,822	47,303
Mortgage bonds VÚB, a.s. 89.	1.2	EUR	1,000	100,000	29.9.2015	29.9.2025	99,213	99,087
Mortgage bonds VÚB, a.s. 90.	1.6	EUR	1,000	100,000	29.10.2015	29.10.2030	97,831	61,277
Mortgage bonds VÚB, a.s. 91.	0.6	EUR	1,000	100,000	21.3.2016	21.3.2023	99,878	–
Mortgage bonds VÚB, a.s. 92.	1.7	USD	700	100,000	27.6.2016	27.6.2019	66,802	–
							1,687,171	1,587,534

24. Provisions

€ '000	2016	2015
Litigation	25,514	25,116
Restructuring provision	452	180
Other provisions	35	17
	26,001	25,313

The movements in provisions were as follows:

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

€ '000	Note	1 Jan 2015	Creation	Reversal	Use	31 Dec 2015
Litigation	27, 33	27,118	1,609	(2,501)	(1,110)	25,116
Restructuring provision	32	588	350	–	(758)	180
Other provisions	33	3	14	–	–	17
		27,709	1,973	(2,501)	(1,868)	25,313

25. Other liabilities

€ '000	2016	2015
Various creditors	37,492	35,650
Financial guarantees and commitments	20,552	21,476
Settlement with employees	24,524	22,119
Accruals and deferred income	5,615	7,465
Factoring	7,786	6,985
Severance and Jubilee benefits	3,872	3,397
Settlement with shareholders	1,480	1,297
VAT payable and other tax payables	1,993	2,761
Investment certificates	471	535
Share remuneration scheme	474	349
Settlement with securities	6	2
Other	1,001	554
	105,266	102,590

The movements in Financial guarantees and commitments, Severance and Jubilee benefits and Retention program were as follows:

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

€ '000	Note	1 Jan 2015	Creation	FX diff	31 Dec 2015
Financial guarantees and commitments	34	16,552	4,827	97	21,476
Severance and Jubilee benefits	32	3,250	147	–	3,397
		19,802	4,974	97	24,873

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

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

€ '000	1 Jan 2015	Creation (note 32)	Use	31 Dec 2015
Social fund	629	1,695	(1,537)	787

26. Equity

€ '000	2016	2015
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	103,329	125,946
Retained earnings (excluding net profit for the year)	800,619	763,739
	1,348,486	1,334,223

€ '000	2016	2015
Net profit for the year attributable to shareholders	156,770	163,883

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:

	2016	2015
Intesa Sanpaolo Holding International S.A.	97.03%	97.03%
Domestic shareholders	2.17%	2.28%
Foreign shareholders	0.80%	0.69%
	100.00%	100.00%

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

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

The VUB Group's regulatory capital position at 31 December 2016 and 31 December 2015 was determined based on the rules for capital adequacy calculation set by the CRR regulation:

€ '000	2016	2015
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings without net profit for the year	800,619	764,046
Other reserves	100,054	99,596
Revaluation of available – for – sale financial assets	2,165	30,156
Fair value gains and losses arising from the Group's own credit risk related to derivative liabilities	(531)	(801)
Less goodwill and intangible assets	(98,193)	(93,413)
Less IRB shortfall of credit risk adjustments to expected losses	(11)	(13,249)
	1,248,641	1,230,873
Tier 2 capital		
IRB excess of provisions over expected losses eligible	7,855	12,870
Subordinated loan	200,000	–
Total regulatory capital	1,456,496	1,243,743

€ '000	2016	2015
Tier 1 capital	1,248,641	1,230,873
Tier 2 capital	207,855	12,870
Total regulatory capital	1,456,496	1,243,743
Total Risk Weighted Assets	8,476,135	7,630,056
Tier 1 capital ratio	14.73%	16.13%
Total capital ratio	17.18%	16.30%

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

The VUB Group must maintain a capital adequacy ratio of at least 8% according to the Act on Banks. The capital adequacy ratio is the ratio between the Group's capital and the risk – weighted assets. Risk weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The VUB Group complied with the Act on Banks' requirement as at 31 December 2016 and 31 December 2015.

27. Financial commitments and contingencies

€ '000	2016	2015
Issued guarantees	764,156	834,723
Commitments and undrawn credit facilities	2,894,083	2,516,650
	3,658,239	3,351,373

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

The VUB Group enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non – cancellable operating leasing contracts at 31 December 2016 and 31 December 2015 was as follows:

€ '000	2016	2015
Up to 1 year	339	206
1 to 5 years	72	16
	411	222

(d) Operating lease – the Group as a lessor

The VUB Group has entered into a number of non – cancellable operating lease contracts with its customers. Future minimum rentals receivable under such contracts as at 31 December 2016 and 31 December 2015 are as follows:

€ '000	2016	2015
Up to 1 year	3,873	3,160
1 to 5 years	6,024	3,292
	9,897	6,452

(e) 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 2016. Pursuant to this review, management has recorded total provisions of € 25,514 thousand (31 December 2015: € 25,116 thousand) in respect of such legal proceedings (see also note 24). 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 € 6,634 thousand, as at 31 December 2016 (31 December 2015: € 7,246 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.

28. Net interest income

€ '000	2016	2015
Interest and similar income		
Due from banks	885	2,280
Loans and advances to customers	414,163	425,244
Bonds, treasury bills and other securities:		
Financial assets at fair value through profit or loss	779	4,206
Available – for – sale financial assets	10,674	30,780
Held – to – maturity investments	22,860	22,869
	449,361	485,379
Interest and similar expense		
Due to banks	(4,981)	(5,734)
Due to customers	(18,969)	(37,393)
Debt securities in issue	(26,012)	(30,293)
	(49,962)	(73,420)
	399,399	411,959

Interest income on impaired loans and advances to customers for 2016 amounted to € 30,962 thousand (2015: € 28,054 thousand).

29. Net fee and commission income

€ '000	2016	2015
Fee and commission income		
Received from banks	6,109	8,696
Received from customers:		
Current accounts	55,024	55,091
Loans and guarantees	30,269	34,332
Transactions and payments	20,822	21,887
Insurance mediation	13,579	13,252
Securities	9,877	10,578
Overdrafts	4,874	4,069
Securities – Custody fee	1,861	1,817
Term deposits	285	475
Other	3,611	8,887
	146,311	159,084
Fee and commission expense		
Paid to banks	(14,063)	(16,237)
Paid to mediators:		
Credit cards	(8,599)	(8,653)
Securities	(636)	(709)
Services	(14,476)	(15,183)
Other	(590)	(815)
	(38,364)	(41,597)
	107,947	117,487

30. Net trading result

€ '000	2016	2015
Foreign currency derivatives and transactions	13,220	5,579
Customer FX margins	5,587	5,630
Cross currency swaps *	(9,411)	971
Equity derivatives	16	(22)
Other derivatives	15	59
Interest rate derivatives *	16,825	(1,233)
Dividends from equity shares held in FVTPL portfolio	163	7
Securities:		
Financial assets at fair value through profit or loss		
Held for trading	1,038	(2,510)
Designated at fair value through profit or loss on initial recognition	(3)	175
Available – for – sale financial assets *	27,096	(3,019)
Debt securities in issue *	(15,763)	6,333
	38,783	11,970

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

31. Other operating income

€ '000	2016	2015
Income from leasing	4,780	4,011
Rent	722	775
Net profit from sale of fixed assets	566	83
Services	366	348
Financial revenues	353	75
Sales of consumer goods	25	41
Other	2,813	6,089
	9,625	11,422

32. Salaries and employee benefits

€ '000	Note	2016	2015
Remuneration		(85,870)	(82,145)
Social security costs		(31,639)	(30,868)
Social fund	25	(1,449)	(1,695)
Severance and Jubilee benefits	25	(480)	(147)
Restructuring provision	24	(272)	408
		(119,710)	(114,447)

At 31 December 2016, the total number of employees of the VUB Group was 4,098 (31 December 2015: 3,987). The average number of employees of the Group during the year ended 31 December 2016 was 4,012 (31 December 2015: 4,013).

The VUB Group does not have any pension arrangements apart from the pension system established by law, which requires mandatory contributions of a certain percentage of gross salaries to the State owned social insurance and privately owned pension funds. These contributions are recognised in the period when salaries are earned by employees. No further liabilities are arising to the VUB Group from the payment of pensions to employees in the future.

33. Other operating expenses and Special levy of selected financial institutions

€ '000	Note	2016	2015
IT systems maintenance		(21,426)	(20,272)
Property related expenses		(19,026)	(19,767)
Post and telecom		(12,111)	(13,007)
Advertising and marketing		(10,670)	(10,627)
Resolution fund***		(5,438)	(7,583)
Stationery		(4,849)	(4,913)
Equipment related expenses		(3,524)	(4,850)
Security		(2,884)	(3,230)
Insurance		(2,074)	(2,033)
Third parties' services		(2,030)	(1,056)
Professional services		(1,716)	(1,353)
Litigations paid		(1,567)	(1,490)
Contribution to the Deposit Protection Fund *		(1,486)	(1,385)
Training		(1,313)	(830)
Travelling		(1,052)	(1,008)
Audit **		(849)	(823)
Transport		(785)	(666)
VAT and other taxes		(542)	(513)
Provisions for litigation	24	(398)	1,906
Other damages		(36)	(473)
Other provisions	24	(18)	(14)
Other operating expenses		(9,965)	(7,878)
		(103,759)	(101,865)

* The annual contribution for 2016 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2016, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2015 was set at 0.0075% p.q. of the amount of protected deposits.

** As at 31 December 2016 the audit expense for the statutory audit and the group reporting represents amount of € 605 thousand (31 December 2015: € 630 thousand), and the audit, not conducted by the statutory auditor (primarily security audit) were € 81 thousand as at 31 December 2016 (31 December 2015: € 89 thousand).

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

At 31 December 2016 and 31 December 2015, the special levy recognized by the Bank was as follows:

€ '000	2016	2015
Special levy of selected financial institutions	(22,143)	(20,076)

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

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

34. Impairment losses

€ '000	Note	2016	2015
Creation of impairment losses	13	(251,596)	(205,948)
Reversal of impairment losses	13	173,143	121,315
Net creation of impairment losses		(78,453)	(84,633)
Creation of liabilities – financial guarantees and commitments		(32,961)	(13,890)
Reversal of liabilities – financial guarantees and commitments		33,863	9,063
Net reversal /(creation) of liabilities – financial guarantees and commitments	25	902	(4,827)
Nominal value of assets written – off/sold		(86,635)	(70,933)
Release of impairment losses to assets written – off/sold	13	55,123	58,175
		(31,512)	(12,758)
Proceeds from assets written – off		6,982	10,161
Proceeds from assets sold		26,317	12,779
		33,299	22,940
		(75,764)	(79,278)

35. Income tax expense

€ '000	Note	2016	2015
Current income tax		(53,708)	(57,368)
Deferred income tax	19	(1,264)	7,676
		(54,972)	(49,692)

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

€ '000	2016	2015
Due from banks	(1)	4
Available – for – sale financial assets	(126)	–
Loans and advances to customers	299	1,889
Held – to – maturity investments	–	–
Intangible assets identified on acquisition	–	–
Property and equipment	544	20
Provisions	49	(100)
Other liabilities	(633)	4,821
Other	(1,396)	1,042
	(1,264)	7,676

The effective tax rate differs from the statutory tax rate in 2016 and in 2015. The reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

		2016		2015	
€ '000	Note	Tax base	Tax at applicable tax rate (22%)	Tax base	Tax at applicable tax rate (22%)
Profit before tax		211,742	(46,583)	213,575	(46,987)
Tax effect of expenses that are not deductible in determining taxable profit					
Creation of provisions and other reserves		101,659	(22,365)	69,822	(15,361)
Creation of impairment losses		476,942	(104,927)	187,297	(41,205)
Write – off and sale of assets		8,898	(1,958)	6,509	(1,432)
Other		22,868	(5,031)	15,758	(3,467)
		610,367	(134,281)	279,386	(61,465)
Tax effect of revenues that are deductible in determining taxable profit					
Release of provisions and other reserves		(102,005)	22,441	(50,838)	11,184
Release of impairment losses		(464,437)	102,176	(178,162)	39,196
Other		(880)	194	(1,730)	380
		(567,322)	124,811	(230,730)	50,760
Adjustments for current tax of prior periods		(10,639)	2,341	(1,439)	317
Withholding tax paid abroad – settlement of advance payments		(18)	4	(32)	7
Current income tax		244,130	(53,708)	260,760	(57,368)
Deferred income tax at 21%, 22%	19		(1,264)		7,676
Income tax expense			(54,972)		(49,692)
Effective tax rate			25.96%		23.27%

36. Other comprehensive income

€ '000	2016	2015
Exchange differences on translating foreign operation	(19)	16
Available – for – sale financial assets:		
Revaluation (losses)/gains arising during the year	(21,068)	(4,716)
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	(8,660)	(751)
	(29,728)	(5,467)
Cash flow hedges:		
Revaluation (losses)/gains arising during the year	539	(465)
	539	(465)
Total other comprehensive income	(29,208)	(5,916)
Income tax relating to components of other comprehensive income *	6,462	1,301
Other comprehensive income for the year	(22,746)	(4,615)

* Income tax relates only to the components of other comprehensive income that might be reclassified subsequently to the profit or loss.

37. Income tax effects relating to other comprehensive income

			2016			2015
€ '000	Before tax amount	Tax benefit/ (expense)	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Exchange differences on translating foreign operations	(19)	–	(19)	16	–	16
Available – for – sale financial assets	(29,728)	6,591	(23,137)	(5,467)	1,201	(4,266)
Net movement on cash flow hedges	539	(129)	410	(465)	100	(365)
	(29,208)	6,462	(22,746)	(5,916)	1,301	(4,615)

38. Related parties

Related parties are those counterparties that represent:

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

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

In 2016, the remuneration and other benefits provided to members of the Supervisory Board were € 116 thousand (2015: € 156 thousand) and to members of the Management Board € 3,612 thousand (2015: € 3,279 thousand).

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

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

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

* Key management personnel

At 31 December 2015, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets						
Due from banks	–	–	–	104,416	11,175	115,591
Derivative financial instruments	–	–	–	–	1,474	1,474
Loans and advances to customers	405	–	–	–	–	405
Financial assets at fair value through profit or loss	–	–	–	3,481	–	3,481
Other assets	–	6	1,828	1	1	1,836
	405	6	1,828	107,898	12,650	122,787
Liabilities						
Due to central and other banks	–	–	–	416,943	39,726	456,669
Derivative financial instruments	–	–	–	438	3,380	3,818
Due to customers	2,782	–	2,565	–	117	5,464
Debt securities in issue						
Mortgage bonds	–	–	–	–	431,835	431,835
Other liabilities	349	–	6	–	747	1,102
	3,131	–	2,571	417,381	475,805	898,888
Issued guarantees	–	–	–	2,945	28,767	31,712
Received guarantees	–	–	–	138,745	62,208	200,953
Derivative transactions (notional amount – receivable)	–	–	–	102,870	269,268	372,138
Derivative transactions (notional amount – payable)	–	–	–	103,486	250,811	354,297

For the period ended 31 December 2015, the outstanding balances with related parties comprised:

	KMP	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
€ ’000						
Income and expense items						
Interest and similar income	9	–	44	1,608	27	1,688
Interest and similar expense	(18)	(5)	(1)	(2,638)	(9,177)	(11,839)
Fee and commission income	1	–	10,512	65	30	10,608
Fee and commission expense	–	–	(22)	(335)	(7,309)	(7,666)
Net trading result	–	–	–	1,307	(4,059)	(2,752)
Other operating income	–	113	378	564	24	1,079
Other operating expenses	–	–	–	(59)	(1,947)	(2,006)
	(8)	108	10,911	512	(22,411)	(10,888)

39. Events after the end of the reporting period

From 31 December 2016, up to the date when these financial statements were approved by the Management Board, there were no further events identified that would require adjustments to or disclosure in these financial statements.

Separate financial statements

Separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditor's Report for the year ended 31 December 2016

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and the 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 statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to 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 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section. We are independent of the Bank in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audits 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.

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2016: € 10,188,485 thousand; impairment loss recognised in 2016: € 49,488 thousand; total impairment loss as at 31 December 2016: € 283,134 thousand.

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

Key audit matter	*Our response*
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. We focused on this area as the determination of impairment allowances requires the Management Board to make complex and subjective judgements over both timing of impairment recognition and the amounts of any such impairment. Loans and advances include corporate as well as retail exposures. For corporate loans and advances, the impairment assessment is made on an individual basis, based on the knowledge of each individual borrower and often on estimation of the value of the related collateral. For retail loans and advances impairment is determined by modelling techniques for portfolios of loans and advances. The Bank routinely makes adjustments to the key model parameters whose assessment also requires increased attention in our audit.	Our audit procedures included, among others: • Assessing and testing of controls over the approval and monitoring of loans and advances, including, but not limited to, those relating to the identification of loss events, appropriateness of classification to delinquency buckets and calculation of the related impairment. For individually calculated impairment: • Selecting a sample of loans and advances, with focus on those with greatest potential impact on the separate financial statements due to their magnitude and/or risk characteristics, such as watchlisted and forborne exposures; • For the sample selected, critically assessing, by reference to the underlying loan files and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2016; and • Where impairment triggers were identified, challenging the Bank's cash flow projections and key assumptions used by reference to our knowledge of the industry and the counterparty. We also assessed reasonableness of the collateral valuation.

For collective impairment:

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

- Critically assessing the rationale for the changes made to the model parameters in 2016, by reference to our understanding of the business, current economic trends and market practices.

Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage, by benchmarking them against the publicly available industry data.

Valuation of financial instruments held at fair value

Refer to the Note 2 (Summary of significant accounting policies) and Notes 9, 10 and 11 (Financial assets at fair value through profit or loss, Derivative financial instruments and Available-for-sale financial assets) of the separate financial statements.

Key audit matter	*Our response*
Financial instruments held at fair value, mainly debt securities (bonds) and derivatives, constitute a significant part of the Bank's balance sheet total as presented in its separate financial statements. Most derivatives in the Bank's separate financial statements, primarily foreign currency and interest rate swaps, forwards and options, are either designated as hedging instruments or, absent such formal designation, are held for risk management purposes .	Our audit procedures included, among others: • Assessing the design and operating effectiveness of key controls over the identification, measurement and oversight of valuation risk of financial instruments; • Independently assessing the financial instruments' fair value hierarchy levels, considering rates of the underlying market activity, and comparing them to the hierarchy levels assigned by the Bank;

The derivatives are mainly not exchange-traded, but are instead transacted over-the-counter. For the majority of the bonds held, the Bank's fair values are based on quoted prices of identical instruments, while valuation techniques using market observable inputs were applied to derivatives and the remaining bonds. Due to the magnitude of the amounts involved, as well as the complexity and judgment required in measuring some of these instruments, their valuation was a key area of focus during our audit. Also, there is a risk that the underlying markets for the instruments are not sufficiently active or the transaction prices do not represent the fair value of the financial instruments at the measurement date.	• Testing market-based valuations of financial instruments by comparing these amounts to independently sourced publicly available quoted prices; • For more judgemental valuations, based on inputs other than quoted prices, evaluating the assumptions, methodologies and models used by the Bank, and also, on a sample basis, performing an independent valuation, using our internal valuation specialists; and • Evaluating the overall reasonableness of the Bank's valuations by examining gains and losses on disposals and other events and transactions which could provide evidence about the appropriateness of the valuations.

IT systems and controls over financial reporting

Key audit matter	*Our response*
The Bank has a complex information technology ("IT") environment and operates various IT systems and applications. The financial accounting and reporting systems are heavily dependent on these complex IT solutions and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	Our procedures included, among others: • Using our internal IT specialists, updating our understanding of the Bank's IT environment and the framework of governance over the IT organisation, including the 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 of 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 the separate financial statements that give a true and fair view in accordance with IFRS EU, 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 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 Annual Report

The Management Board is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). 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.

The Annual Report was not available to us as of the date of this auditors' report.

When we obtain the Annual Report, we will consider whether it includes the disclosures required by the Act on Accounting and, based on the work undertaken in the course of the audit of the separate financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2016 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, we will report whether we have identified any material misstatement in the Annual Report in light of the knowledge and understanding of the accounting entity and its environment that we have acquired during the course of the audit of the separate financial statements.

15 February 2017
Bratislava, Slovak Republic

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

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

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

Separate statement of financial position at 31 December 2016 (In thousands of euro)

	Note	2016	2015
Assets			
Cash and balances with central banks	7	1,029,081	469,321
Due from banks	8	112,295	178,491
Financial assets at fair value through profit or loss	9	474	97,753
Derivative financial instruments	10	47,249	46,652
Available – for – sale financial assets	11	1,289,979	1,867,941
Loans and advances to customers	12	10,188,485	8,553,701
Held – to – maturity investments	14	530,019	531,742
Subsidiaries, associates and joint ventures	15	92,745	95,566
Intangible assets	16	63,062	59,250
Property and equipment	17	88,402	93,328
Deferred income tax assets	18	47,544	41,327
Other assets	19	20,014	20,347
		13,509,349	12,055,419
Liabilities			
Due to central and other banks	20	474,571	412,146
Derivative financial instruments	10	65,354	62,559
Due to customers	21	9,494,921	8,543,134
Subordinated debt	22	200,165	–
Debt securities in issue	22	1,715,308	1,600,341
Current income tax liabilities	18	3,176	8,314
Provisions	23	25,952	25,266
Other liabilities	24	85,728	80,210
		12,065,175	10,731,970
Equity			
Equity (excluding net profit for the year)	25	1,179,003	1,193,092
Net profit for the year		265,171	130,357
		1,444,174	1,323,449
		13,509,349	12,055,419
Financial commitments and contingencies	26	3,785,114	3,408,617

The accompanying notes on pages 144 to 230 form an integral part of these financial statements.

These financial statements were prepared and approved by the Management Board on 15 February 2017.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
Member of the Management Board

Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2016 (In thousands of euro)

	Note	2016	2015
Interest and similar income		379,612	413,506
Interest and similar expense		(46,295)	(69,021)
Net interest income	27	333,317	344,485
Fee and commission income		144,204	149,045
Fee and commission expense		(58,049)	(64,675)
Net fee and commission income	28	86,155	84,370
Net trading result	29	38,795	11,975
Other operating income	30	3,141	4,337
Dividend income	30	133,961	5,913
Operating income		595,369	451,080
Salaries and employee benefits	31	(105,938)	(101,977)
Other operating expenses	32	(85,990)	(83,430)
Special levy of selected financial institutions	32	(22,143)	(20,076)
Amortisation	16	(13,225)	(12,792)
Depreciation	17	(9,599)	(10,945)
Operating expenses		(236,895)	(229,220)
Operating profit before impairment		358,474	221,860
Impairment losses	33	(46,946)	(51,427)
Profit before tax		311,528	170,433
Income tax expense	34	(46,357)	(40,076)
NET PROFIT FOR THE YEAR		265,171	130,357
Other comprehensive income for the year, after tax:			
Items that may be reclassified to profit or loss in the future:			
Exchange difference on translating foreign operation		2	16
Available – for – sale financial assets		(23,137)	(4,254)
Cash flow hedges		410	(365)
Other comprehensive income for the year, net of tax	35, 36	(22,725)	(4,603)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		242,446	125,754
Basic and diluted earnings per € 33.2 share in €	25	20.43	10.04

The accompanying notes on pages 144 to 230 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2016

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Translation of foreign operation	Available – for – sale financial assets	Cash flow hedges	Total
At 1 January 2015	430,819	13,636	87,493	724,503	(9)	31,446	(885)	1,287,003
Total comprehensive income for the year, net of tax	–	–	–	130,357	16	(4,254)	(365)	125,754
Other	–	–	–	(15)	15	–	–	–
Transaction with owners, recorded directly in equity								
Dividends to shareholders	–	–	–	(89,538)	–	–	–	(89,538)
Reversal of dividends distributed but not collected	–	–	–	147	–	–	–	147
Sale of treasury shares	–	83	–	–	–	–	–	83
Total transactions with owners	–	83	–	(89,391)	–	–	–	(89,308)
At 31 December 2015	430,819	13,719	87,493	765,454	22	27,192	(1,250)	1,323,449
At 1 January 2016	430,819	13,719	87,493	765,454	22	27,192	(1,250)	1,323,449
Total comprehensive income for the year, net of tax	–	–	–	265,171	2	(23,137)	410	242,446
Other	–	–	–	22	(22)	–	–	–
Gain on disposal of an investment in associate under common control (Note 15)	–	–	–	8,464	–	–	–	8,464
Transaction with owners, recorded directly in equity								
Dividends to shareholders	–	–	–	(130,334)	–	–	–	(130,334)
Reversal of dividends distributed but not collected	–	–	–	149	–	–	–	149
Total transactions with owners	–	–	–	(130,185)	–	–	–	(130,185)
At 31 December 2016	430,819	13,719	87,493	908,926	2	4,055	(840)	1,444,174

The accompanying notes on pages 144 to 230 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2016 (In thousands of euro)

	Note	2016	2015
Cash flows from operating activities			
Profit before tax		311,528	170,433
Adjustments for:			
Amortisation		13,225	12,792
Depreciation		9,599	10,945
Securities at fair value through profit or loss, debt securities in issue and FX differences		17,043	(2,855)
Interest income		(379,612)	(413,506)
Interest expense		46,295	69,021
Dividend income		(133,961)	(5,913)
Sale of property and equipment		(403)	(3)
Impairment losses and similar charges		75,748	67,455
Interest received		402,841	424,860
Interest paid		(52,900)	(84,613)
Dividends received		133,961	5,913
Tax paid		(57,712)	(46,644)
Due from banks		80,421	428,839
Financial assets at fair value through profit or loss		97,923	(97,451)
Derivative financial instruments (assets)		(187)	3,083
Available – for – sale financial assets		532,286	(355,051)
Loans and advances to customers		(1,706,748)	(869,604)
Other assets		(455)	(6,691)
Due to central and other banks		62,665	32,176
Derivative financial instruments (liabilities)		2,795	500
Due to customers		1,155,536	683,840
Other liabilities		5,929	(169)
Net cash from operating activities		615,817	27,357
Cash flows from investing activities			
Repayments of held – to – maturity investments		–	1
Purchase of intangible assets and property and equipment		(22,138)	(21,244)
Disposal of property and equipment		872	5
Cash flows resulting from disposal of the associate		10,851	–
Net cash used in investing activities		(10,415)	(21,238)
Cash flows from financing activities			
Proceeds from issue of debt securities		249,848	410,300
Repayments of debt securities		(150,618)	(264,569)
Sale of treasury shares		–	83
Dividends paid		(130,334)	(89,538)
Net cash (used in)/from financing activities		(31,104)	56,276
Net change in cash and cash equivalents		574,298	62,395
Cash and cash equivalents at the beginning of the year	6	491,355	428,960
Cash and cash equivalents at the end of the year	6	1,065,653	491,355

The accompanying notes on pages 144 to 230 form an integral part of these financial statements.

1. General information

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

At 31 December 2016, the Bank had a network of 239 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (December 2015: 234). The Bank also has one branch in the Czech Republic.

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

At 31 December 2016, the members of the Management Board are: Alexander Resch (Chairman), Antonio Bergalio, Jozef Kausich, Elena Kohútiková, Peter Magala, Peter Novák and Martin Techman.

At 31 December 2016, the members of the Supervisory Board are: Ezio Salvai (Chairman), Ignacio Jaquotot (Vice Chairman), Ján Gallo, Paolo Sarcinelli, Christian Schaack, Andrej Straka and Luca Finazzi (since 23 May 2016).

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The separate financial statements of the Bank for the year ended 31 December 2015 were authorised for issue by the Management Board on 15 February 2016.

The consolidated financial statements of the VUB Group for the year ended 31 December 2016 were issued on 15 February 2017 and are available at the registered office of the Bank.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available – for – sale financial assets, financial assets at fair value through profit or loss and all derivative financial instruments to fair value and in the case of the financial assets or financial liabilities designated as hedged items in qualifying fair value hedge relationships modified by the changes in fair value attributable to the risk being hedged.

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

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

Negative balances are presented in brackets.

2.2 Changes in accounting policies and presentation

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

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

Standards issued but not yet effective or not yet adopted by the EU up to the date of issuance of the Bank's financial statements are listed below. This listing of standards and interpretations issued are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective or after their adoption by the EU.

IFRS 9 Financial Instruments

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and the bank follows the Group's approach to continue to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

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

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

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

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

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

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items. Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, mainly due to new expected credit loss model under IFRS 9.

Based on its preliminary assessment, the Bank expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9.

At this stage it is still unclear what portion of the Bank's debt securities will be measured at FVTPL, at FVOCI or amortized cost as this determination will depend on the outcome of the business model test. It is expected that a insignificant portion of debt securities will be reclassified under IFRS 9 either into or out of FVOCI.

It is also possible that a number of equity instruments currently classified as available for sale will be measured at FVTPL under IFRS 9, but this determination will depend on an election to be made by the Bank at the date of initial application that is 1 January 2018. The Bank has not yet decided how it will classify these instruments.

It is expected that deposits from customers will be continued to be measured at amortised cost under IFRS 9.

It is expected that the new expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application.

The Bank has already done some estimates but the total quantitative impact is not considered as necessary to provide with as this depends on variables at the transition date like the composition of credit portfolios, macro – economic forecasts, impact of changes in information systems and other variables. In this context we believe that spreading such "estimates or impacts" at the current conditions are not indicative and not reflect the situation which can influence future bank´s results so they will not be useful for any reader of these financial statements.

IFRS 15 Revenue from contracts with customers

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

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

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

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Bank's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Bank's financial statements. The timing and measurement of the Bank's revenues are not expected to change under IFRS 15 because of the nature of the Bank's operations and the types of revenues it earns.

Amendments to IFRS 2: Classification and Measurement of Share – based Payment Transactions

The amendments clarify share – based payment accounting on the following areas:

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

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

Amendments to IAS 7

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non – cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Bank.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Bank because the Bank already measures future taxable profit in a manner consistent with the Amendments.

Amendments to IAS 40 Transfers of Investment Property

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Bank does not expect that the amendments will have a material impact on the financial statements because the Entity transfers a property asset to, or from, investment property only when there is an actual change in use and the Bank does not have investment property.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non – monetary asset or non – monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non – monetary asset or non – monetary liability arising from the payment or receipt of advance consideration.

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

Annual Improvements to IFRSs

The improvements introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. These amendments are applicable to annual periods beginning on or after either 1 January 2017 or 1 January 2018, to be applied retrospectively. The Bank does not expect that the improvements will have a material impact on the financial statements.

2.3 Segment reporting

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

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

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

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

2.4 Foreign currency transactions

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

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

2.5 Foreign operations

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

2.6 Cash and cash equivalents

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

2.7 Cash and balances with central banks

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

2.8 Treasury bills and other eligible bills

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

2.9 Due from banks

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

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

2.10 Securities

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

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

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

(a) Securities at fair value through profit or loss

This portfolio comprises following subcategories:

(i) Securities held for trading

These securities are financial assets acquired by the Bank for the purpose of generating profits from short – term fluctuations in prices.

(ii) Securities designated at fair value through profit or loss on initial recognition

Securities classified in this category are those that have been designated by the management on initial recognition. This designation may be used only when at least one of the following conditions is met:

– the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis;
– the assets and financial liabilities are a part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
– the financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

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

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

(b) Available – for – sale securities

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

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

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

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

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

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

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

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

(c) Held – to – maturity investments

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

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

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

2.11 Repurchase and reverse repurchase agreements

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

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

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

2.12 Derivative financial instruments

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

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

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

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.

Day 1 profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1 profit or loss') in 'Net trading result' if the 'Day 1 profit or loss' is not significant. In cases where 'Day 1 profit or loss' is significant, the difference is amortised over the period of the respective deals. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognised.

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 the 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 rating 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'):

(i) 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,
(ii) 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.

Embedded derivatives

The Bank assesses whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives under IAS 39. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non – derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand – alone derivative.

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

Hedging derivatives

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

2.13 Offsetting financial instruments

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

2.14 Non – current assets held for sale

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

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

2.15 Loans and advances to customers and impairment losses

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

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

Impairment and uncollectability is measured and recognised individually for loans that are individually significant. Impairment and uncollectability for a group of similar loans that are not individually identified as impaired or loans that are not individually significant are measured and recognised on a portfolio basis.

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

2.16 Subsidiaries, associates and joint ventures

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

Dividend discount model

The Management of the companies which are subject to the impairment test provide projection of dividends that are expected to be paid out by their companies in a period of 5 years. The model calculates the present value of these cash flows discounting them at the interest rate resulting from the CAPM (Capital Asset Pricing Model). Cash flows after the period of 5 years are determined by a present value of the perpetuity with the particular estimated growth rate, determined at Intesa Sanpaolo Group level specifically for the Slovak market.

Transactions under common control

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

2.17 Intangible assets

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

	Years
Software and Other intangible assets	7

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

2.18 Property and equipment

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

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

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

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

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

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

2.19 Provisions

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

2.20 Provisions for employee benefits

The Bank's obligation in respect of retirement and jubilee employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is determined by reference to current rates of return on Slovak government bonds with the 15 years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the projected unit credit method. All employees of the Bank are covered by the retirement and jubilee employee benefits program.

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

	Jubilee benefits	Retirement benefits
Discount rate	0.00%	1.33%
Growth of wages in 2017	n/a	1.00%
Future growth of wages after 2017	n/a	1.00%
Fluctuation of employees (based on age)	5 – 43%	5 – 43%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

2.21 Deposits, debt securities issued and subordinated liabilities

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

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

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

2.22 Financial guarantees

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

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

2.23 Legal reserve fund

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.

2.24 Equity reserves

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

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

'Available – for – sale financial assets' reserve which comprises changes in the fair value of available – for – sale investments.

'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.

2.25 Interest income

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

2.26 Fee and commission income

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

2.27 Net trading result

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

2.28 Dividend income

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

2.29 Current and deferred income tax

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

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

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

2.30 Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as such are not the assets of the Bank.

2.31 Significant accounting judgements and estimates

Judgements

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

Held – to – maturity investments

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

Financial assets held for trading

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

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

The Bank uses the category 'at fair value through profit or loss on initial recognition' to recognize equity shares acquired as a part of the incentive plan based on which the amount due to employees benefiting from the plan recognized under share remuneration scheme in 'Other liabilities' (see also note 24) is proportional to the fair value of these shares.

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

Estimates

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

Estimates are used for, but not limited to: fair values of financial instruments, impairment losses on loans and advances to customers, impairment losses for off – balance sheet risks, depreciable lives and residual values of tangible and intangible assets, impairment losses on tangible and intangible assets, liabilities from employee benefits and provisions for legal claims.

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

Impairment losses are sensitive to input parameters such as the rating of the client, the probability of default and loss given default of the client. Change of any of these parameters results in a different amount of impairment losses.

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

3. Financial risk management

Introduction and overview

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

(a) Credit risk,
(b) Market risk,
(c) Liquidity risk,
(d) Operational risk.

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

Risk management framework

The Management Board is the statutory body governing the executive management of the Bank, and has absolute authority over all matters concerning risk. The Management Board has primary responsibility for the creation and dissolution of risk related governance bodies. The primary governance bodies overseeing risk issues are:

– Asset/Liability Committee ('ALCO'),
– Credit Risk Committee ('CRC'),
– Operational Risk Committee ('ORC').

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

(a) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks as well as investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). For risk management purposes, the credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure. Credit Risk Charter establishes the guidelines for measurement, control and management of credit risk by defining the legal framework, main responsibilities, policies and methodologies that support the credit risk management process of VUB Bank.

More specifically, the Credit Risk Charter defines both the general and specific (retail, corporate) credit risk requirements for applied methodologies and procedures, and includes, as separate sections, the policies governing the key aspects of the Bank's credit risk management process:

- Authorized Approval Authority,
- Collateral Management Policy,
- Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

Management of credit risk

The Risk Management Division is established within the Bank as a Control Unit and managed by the Chief Risk Officer, who is a member of the Bank's Management Board. The Risk Management Division is organisationally structured to provide support to the Business Units, as well as to provide reporting of credit, market and operational risks to the Supervisory Board and Management Board. The Risk Management Division is responsible for overseeing the Bank's credit risk including:

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

Impairment losses

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

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

Impairment losses are calculated individually for individually significant clients for which evidence of impairment exists and collectively for individually significant clients without evidence of impairment and for individually insignificant client groups of homogeneous assets. For the purpose of provisioning for loans collectively assessed for impairment the Bank follows the Intesa Sanpaolo Group methodology.

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

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

			2016			2015
€ '000	**Amortised cost**	**mpairment losses**	**Carrying amount**	**Amortised cost**	**Carrying amount**	**Carrying amount**
Portfolio assessed						
Banks	112,313	(18)	112,295	178,516	(25)	178,491
Customers						
Sovereigns	131,760	(100)	131,660	163,767	(121)	163,646
Corporate	3,966,244	(36,141)	3,930,103	3,317,725	(36,687)	3,281,038
Retail	6,214,207	(165,902)	6,048,305	5,147,954	(153,992)	4,993,962
	10,312,211	(202,143)	10,110,068	8,629,446	(190,800)	8,438,646
Securities						
FVTPL	474	–	474	97,753	–	97,753
AFS	1,289,979	–	1,289,979	1,867,941	–	1,867,941
HTM	530,019	–	530,019	531,742	–	531,742
	1,820,472	–	1,820,472	2,497,436	–	2,497,436
Individually assessed						
Customers						
Corporate	151,651	(76,314)	75,337	188,409	(79,381)	109,028
Retail	7,757	(4,677)	3,080	10,800	(4,773)	6,027
	159,408	(80,991)	78,417	199,209	(84,154)	115,055
Securities						
AFS	–	–	–	574	(574)	–
	–	–	–	574	(574)	–

The Bank uses the definitions of non – performing loans derived from the Harmonisation project. The Harmonisation project is driven by Intesa Sanpaolo in order to unify the definitions and categories of non – performing loans across the foreign subsidiaries of the Intesa Sanpaolo Group. In March 2015 the next phase of the project was realized based on which three classification categories of non – performing loans were introduced (past due, unlikely to pay, doubtful) instead of previously used four categories (past due, restructured, substandard, doubtful). The definition of non – performing loans is based on delinquency (days past due – DPD) and judgemental criteria for categories doubtful and unlikely to pay. In case of past due category, DPD and materiality threshold of client are taken into account.

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

Classification category	Description
Doubtful	Exposures to borrowers being in a state of insolvency (although not yet legally) or in a de facto equivalent status, regardless of any loss forecasts made by the Bank.
Unlikely to pay	Exposures to borrowers assessed as improbable to thoroughly meet their credit obligations without recourse to actions such as the enforcement of guarantees/collateral.
Past due	Exposures other than those classified as doubtful or unlikely to pay that, as at 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 and past due.

Capital requirement calculation

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

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

				2016			2015
€ '000	**Category**	**Amortised cost**	**Impairment losses**	**Carrying amount**	**Amortised cost**	**Impairment losses**	**Carrying amount**
Banks							
	Performing	112,313	(18)	112,295	178,516	(25)	178,491
		112,313	(18)	112,295	178,516	(25)	178,491
Sovereigns							
	Performing	131,759	(100)	131,659	163,763	(121)	163,642
	Doubtful	1	–	1	4	–	4
		131,760	(100)	131,660	163,767	(121)	163,646
Corporate							
	Performing	3,958,212	(31,487)	3,926,725	3,302,648	(30,304)	3,272,344
	Past due	3	–	3	6	(1)	5
	Unlikely to pay	85,980	(21,243)	64,737	126,730	(28,495)	98,235
	Doubtful	73,700	(59,725)	13,975	76,750	(57,268)	19,482
		4,117,895	(112,455)	4,005,440	3,506,134	(116,068)	3,390,066
Retail							
	Performing	5,974,922	(42,267)	5,932,655	4,924,357	(40,895)	4,883,462
	Past due	7,639	(2,859)	4,780	6,646	(2,352)	4,294
	Unlikely to pay	43,257	(20,778)	22,479	11,190	(3,306)	7,884
	Doubtful	196,146	(104,675)	91,471	216,561	(112,212)	104,349
		6,221,964	(170,579)	6,051,385	5,158,754	(158,765)	4,999,989
Securities							
	Performing	1,820,472	–	1,820,472	2,497,436	–	2,497,436
	Doubtful	–	–	–	574	(574)	–
		1,820,472	–	1,820,472	2,498,010	(574)	2,497,436

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

€ '000	2016	2015
Financial assets		
Derivative financial instruments	94,970	78,355
Financial commitments and contingencies		
Issued guarantees	764,156	834,723
Commitments and undrawn credit facilities	3,020,958	2,573,894
	3,785,114	3,408,617

The payment discipline of each client is monitored regularly. If a client is past due with some payments, appropriate action is taken. The following table shows the Bank's credit portfolio in terms of delinquency of payments.

			2016			2015
€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks						
No delinquency	112,313	(18)	112,295	178,516	(25)	178,491
	112,313	(18)	112,295	178,516	(25)	178,491
Sovereigns						
No delinquency	131,712	(100)	131,612	163,656	(121)	163,535
1 – 30 days	47	–	47	107	–	107
Over 181 days	1	–	1	4	–	4
	131,760	(100)	131,660	163,767	(121)	163,646
Corporate						
No delinquency	4,026,775	(50,791)	3,975,984	3,397,184	(57,458)	3,339,726
1 – 30 days	18,799	(3,789)	15,010	11,708	(1,213)	10,495
31 – 60 days	2,028	(437)	1,591	1,160	(348)	812
61 – 90 days	1	–	1	322	(150)	172
91 – 180 days	608	(418)	190	12,518	(6,597)	5,921
Over 181 days	69,684	(57,020)	12,664	83,242	(50,302)	32,940
	4,117,895	(112,455)	4,005,440	3,506,134	(116,068)	3,390,066

€ '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
			2016			2015
Retail						
No delinquency	5,778,467	(31,365)	5,747,102	4,791,203	(31,981)	4,759,222
1 – 30 days	194,975	(13,231)	181,744	134,242	(10,912)	123,330
31 – 60 days	35,237	(4,304)	30,933	37,386	(4,801)	32,585
61 – 90 days	22,659	(3,710)	18,949	21,084	(3,181)	17,903
91 – 180 days	39,020	(17,532)	21,488	24,969	(12,911)	12,058
Over 181 days	151,606	(100,437)	51,169	149,870	(94,979)	54,891
	6,221,964	(170,579)	6,051,385	5,158,754	(158,765)	4,999,989
Securities						
No delinquency	1,820,472	–	1,820,472	2,498,010	(574)	2,497,436
	1,820,472	–	1,820,472	2,498,010	(574)	2,497,436

Loans with renegotiated terms and the 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 has 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 forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, an exposure is identified as forborne if both of these two conditions are satisfied:

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

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

31 December 2016 € '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
			Performing forborne			Non – performing forborne
Corporate	22,064	(731)	21,333	126,607	(54,832)	71,775
Retail	49,181	(1,980)	47,201	17,613	(7,681)	9,932
	71,245	(2,711)	68,534	144,220	(62,513)	81,707

31 December 2015 € '000	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
			Performing forborne			Non – performing forborne
Corporate	38,737	(1,201)	37,536	136,044	(57,413)	78,631
Retail	68,154	(2,079)	66,075	15,283	(6,170)	9,113
	106,891	(3,280)	103,611	151,327	(63,583)	87,744

Write – off Policy

The Bank writes off a loan or security balance when it determines that the loans or securities are uncollectible. As the standard, 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 are being collected by external collection agencies until they qualify for write – off.

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

Collateral Policy

The Bank's collateral policy is an integral and indispensable part of the credit risk management and credit risk mitigation for VUB Bank. Collateral is used primarily to provide the Bank with the means for repayment of an exposure in the event of the default of the borrower. The policy represents the part of the Credit Risk Charter. The principal objective of the policy document 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 the certain types of collaterals; and
- Conditions for the process of revaluation.

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

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

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

The VUB 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 generally 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. In general, 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.

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

€ '000	Clients	2016 Banks	Clients	2015 Banks
Debt securities	35,793	–	43,193	–
Other	640,163	28,948	537,545	13,116
Property	5,452,726	–	4,488,786	–
	6,128,682	28,948	5,069,524	13,116

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'):

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

31 December 2015 € '000	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Related amounts not offset in SOFP: Financial instrum. and non-cash collateral	Related amounts not offset in SOFP: Cash collateral (received)/ provided	Net amount
Financial assets						
Derivative financial instruments	38,558	–	38,558	–	(1,600)	36,958
	38,558	–	38,558	–	(1,600)	36,958
Financial liabilities						
Derivative financial instruments	(60,035)	–	(60,035)	–	37,372	(22,663)
	(60,035)	–	(60,035)	–	37,372	(22,663)

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	2016 Total carrying amount presented in SOFP	2016 In scope of offsetting disclosure	2016 Not in scope of offsetting disclosure	2015 Total carrying amount presented in SOFP	2015 In scope of offsetting disclosure	2015 Not in scope of offsetting disclosure
Financial assets							
Due from banks	8	112,295	–	112,295	178,491	–	178,491
Derivative financial instruments	10	47,249	38,419	8,830	46,652	38,558	8,094
Financial liabilities							
Derivative financial instruments	10	(65,354)	(56,007)	(9,347)	(62,559)	(60,035)	(2,524)

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	2016 Amortised cost	2016 Impairment losses	2016 Carrying amount	2015 Amortised cost	2015 Impairment losses	2015 Carrying amount
Europe						
Banks	109,757	(13)	109,744	172,429	(15)	172,414
Sovereigns	131,760	(100)	131,660	163,767	(121)	163,646
Corporate	4,022,806	(111,972)	3,910,834	3,505,629	(116,043)	3,389,586
Retail	6,219,125	(170,447)	6,048,678	5,156,579	(158,718)	4,997,861
Securities	1,795,305	–	1,795,305	2,498,010	(574)	2,497,436
	12,278,753	(282,532)	11,996,221	11,496,414	(275,471)	11,220,943
America						
Banks	2,197	(5)	2,192	5,813	(10)	5,803
Corporate	94,600	(418)	94,182	–	–	–
Retail	339	(3)	336	229	(4)	225
Securities	25,167	–	25,167	–	–	–
	122,303	(426)	121,877	6,042	(14)	6,028
Asia						
Banks	186	–	186	249	–	249
Corporate	489	(65)	424	505	(25)	480
Retail	1,927	(102)	1,825	1,298	(28)	1,270
	2,602	(167)	2,435	2,052	(53)	1,999
Rest of the World						
Banks	173	–	173	25	–	25
Retail	573	(27)	546	648	(15)	633
	746	(27)	719	673	(15)	658

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

€ '000	Amortised cost	Impairment losses	2016 Carrying amount	Amortised cost	Impairment losses	2015 Carrying amount
Europe						
Slovakia	1,019,478	–	1,019,478	1,554,708	(574)	1,554,134
Italy	753,595	–	753,595	805,454	–	805,454
Poland	–	–	–	97,046	–	97,046
Other	17,300	–	17,300	40,802	–	40,802
	1,790,373	–	1,790,373	2,498,010	(574)	2,497,436
America						
USA	4,932	–	4,932	–	–	–
Canada	25,167	–	25,167	–	–	–
	30,099	–	30,099	–	–	–

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

31 December 2016 € '000	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	–	–	126,084	20,927	–
Automotive	–	–	26,061	10	–
Commodity Traders	–	–	86,476	448	–
Construction	–	–	57,847	18,228	–
Consumers	–	–	–	5,824,059	–
Financial institutions	112,295	–	647,394	22	243,691
Government	–	124,960	38	–	1,576,781
Industry	–	–	734,919	22,815	–
Real estate	–	–	639,409	3,587	–
Retail and Wholesale Trade	–	–	378,550	57,969	–
Services	–	366	442,633	88,143	–
Transportation	–	444	103,900	10,252	–
Utilities	–	5,813	710,590	3,151	–
Others	–	77	51,539	1,774	–
	112,295	131,660	4,005,440	6,051,385	1,820,472

31 December 2015 € '000	Banks	Sovereigns	Corporate	Retail	Securities
Agriculture	–	–	85,306	13,635	–
Automotive	–	–	26,984	11	–
Commodity Traders	–	–	96,236	510	–
Construction	–	–	45,895	17,527	–
Consumers	–	–	–	4,796,003	–
Financial institutions	178,491	–	431,995	13	236,826
Government	–	155,507	1,032	–	2,260,610
Industry	–	–	571,447	22,139	–
Real estate	–	–	566,592	1,091	–
Retail and Wholesale Trade	–	–	393,299	52,394	–
Services	–	512	265,812	82,900	–
Transportation	–	488	102,073	9,382	–
Utilities	–	7,139	798,243	3,028	–
Others	–	–	5,151	1,356	–
	178,491	163,646	3,390,065	4,999,989	2,497,436

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances. Past due but not impaired financial assets are more than one day overdue.

31 December 2016 € '000	Neither past due nor impaired			Impaired (non – performing)			Past due but not impaired		
	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount	Amortised cost	Impairment losses	Carrying amount
Banks	112,313	(18)	112,295	–	–	–	–	–	–
Sovereigns									
Municipalities	131,712	(100)	131,612	1	–	1	47	–	47
Corporate									
Large Corporates	1,477,274	(4,757)	1,472,517	23,884	(19,176)	4,708	1	–	1
Specialized Lending	789,331	(11,713)	777,618	79,948	(22,551)	57,397	1,251	(35)	1,216
SME	1,148,552	(13,019)	1,135,533	55,840	(39,240)	16,600	10,939	(523)	10,416
Other Fin. Institutions	511,344	(1,051)	510,293	4	(1)	3	–	–	–
Public Sector Entities	1,187	(3)	1,184	7	–	7	6	–	6
Factoring	17,910	(331)	17,579	–	–	–	417	(55)	362
	3,945,598	(30,874)	3,914,724	159,683	(80,968)	78,715	12,614	(613)	12,001
Retail									
Small Business	177,360	(2,648)	174,712	14,164	(12,176)	1,988	26,877	(502)	26,375
Consumer Loans	1,003,336	(12,105)	991,231	107,886	(61,386)	46,500	98,786	(8,107)	90,679
Mortgages	4,307,191	(8,058)	4,299,133	74,266	(18,312)	55,954	65,264	(4,313)	60,951
Credit Cards	156,799	(2,964)	153,835	37,074	(26,384)	10,690	14,088	(1,802)	12,286
Overdrafts	78,874	(632)	78,242	13,650	(10,054)	3,596	16,196	(816)	15,380
Flat Owners Associations	24,536	(318)	24,218	–	–	–	–	–	–
Other	5,580	(2)	5,578	2	–	2	35	–	35
	5,753,676	(26,727)	5,726,949	247,042	(128,312)	118,730	221,246	(15,540)	205,706
Securities									
FVTPL	474	–	474	–	–	–	–	–	–
AFS	1,289,979	–	1,289,979	–	–	–	–	–	–
HTM	530,019	–	530,019	–	–	–	–	–	–
	1,820,472	–	1,820,472	–	–	–	–	–	–

31 December 2015 € '000	Neither past due nor impaired Amortised cost	 Impairment losses	 Carrying amount	Impaired (non – performing) Amortised cost	 Impairment losses	 Carrying amount	Past due but not impaired Amortised cost	 Impairment losses	 Carrying amount
Banks	174,518	(17)	174,501	–	–	–	3,998	(8)	3,990
Sovereigns									
Municipalities	163,656	(121)	163,535	4	–	4	107	–	107
Corporate									
Large Corporates	1,181,422	(5,616)	1,175,806	25,452	(17,331)	8,121	–	–	–
Specialized Lending	680,581	(13,187)	667,394	113,136	(26,663)	86,473	285	(21)	264
SME	885,044	(10,103)	874,941	64,882	(41,768)	23,114	8,570	(418)	8,152
Other Fin. Institutions	432,564	(505)	432,059	7	(2)	5	–	–	–
Public Sector Entities	2,104	(6)	2,098	9	–	9	2	–	2
Factoring	111,942	(447)	111,495	–	–	–	134	(1)	133
	3,293,657	(29,864)	3,263,793	203,486	(85,764)	117,722	8,991	(440)	8,551
Retail									
Small Business	176,771	(2,954)	173,817	14,175	(11,285)	2,890	3,265	(202)	3,063
Consumer Loans	908,218	(12,216)	896,002	86,645	(49,011)	37,634	64,602	(6,803)	57,799
Mortgages	3,412,865	(7,076)	3,405,789	81,719	(20,877)	60,842	62,406	(3,686)	58,720
Credit Cards	163,361	(3,635)	159,726	38,096	(26,721)	11,375	14,847	(2,394)	12,453
Overdrafts	73,004	(700)	72,304	13,762	(9,976)	3,786	17,326	(921)	16,405
Flat Owners Associations	23,629	(308)	23,321	–	–	–	–	–	–
Other	4,063	–	4,063	–	–	–	–	–	–
	4,761,911	(26,889)	4,735,022	234,397	(117,870)	116,527	162,446	(14,006)	148,440
Securities									
FVTPL	97,753	–	97,753	–	–	–	–	–	–
AFS	1,867,941	–	1,867,941	574	(574)	–	–	–	–
HTM	531,742	–	531,742	–	–	–	–	–	–
	2,497,436	–	2,497,436	574	(574)	–	–	–	–

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

€ '000	Amortised cost	Impairment losses	Carrying amount 2016	Amortised cost	Impairment losses	Carrying amount 2015
Sovereigns						
1 – 30 days	47	–	47	107	–	107
	47	–	47	107	–	107
Corporate						
1 – 30 days	11,330	(502)	10,828	8,975	(438)	8,537
31 – 60 days	1,283	(111)	1,172	13	(2)	11
61 – 90 days	1	–	1	2	–	2
	12,614	(613)	12,001	8,990	(440)	8,550
Retail						
1 – 30 days	172,000	(8,321)	163,679	117,648	(7,328)	110,320
31 – 60 days	26,235	(2,712)	23,523	25,234	(2,527)	22,707
61 – 90 days	13,431	(1,668)	11,763	13,516	(1,604)	11,912
91 – 180 days	9,550	(2,829)	6,721	5,915	(2,491)	3,424
Over 181 days	30	(10)	20	133	(56)	77
	221,246	(15,540)	205,706	162,446	(14,006)	148,440

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

Large Corporates, SME	Retail Small Business and Flat Owners Associations	Risk Profile	Description
I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
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.
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.
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.
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.
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	Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: – the obligor is past due more than 90 days on any material credit obligation to the Bank, the parent undertaking or any of its subsidiaries; – the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

Specialized Lending comprises of rating segments Special Purpose Vehicles ('SPV') and Real Estate Development ('RED'); Project Finance portfolio ('PF'), which previously represented a separate rating segment of Specialized Lending, was merged into SPV in June 2015. For Specialized Lending the Slotting approach is used by the Bank. Clients are assigned into five slotting categories based on the qualitative valuation and information about the default. Risk weights and expected loss used for the capital requirement calculation is also defined for each category. Categories are predefined by the Regulation (EU) no. 575/2013 of the European Parliament and of the Council ('CRR regulation') and internally, the categories used are as follows:

Specialized Lending – SPV and RED

- trong
- 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
L1 – 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 negative credit behavior.
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, – the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

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

31 December 2016 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	112,313	(18)	112,295
Sovereigns				
Municipalities	Unrated	131,760	(100)	131,660
		131,760	(100)	131,660
Corporate				
Large Corporates, SME	I1 – I6	1,036,079	(986)	1,035,093
	M1 – M4	1,285,699	(6,913)	1,278,786
	R1 – R5	326,001	(11,665)	314,336
	D (default)	68,710	(57,151)	11,559
Specialized Lending – SPV, RED	Strong	221,336	(1,344)	219,992
	Good	335,073	(2,674)	332,399
	Satisfactory	213,930	(6,631)	207,299
	Weak	72,193	(11,139)	61,054
	D (default)	27,998	(12,511)	15,487
Other Financial Institutions, Public Sector Entities	I1 – I6	355,729	(112)	355,617
	M1 – M4	155,619	(365)	155,254
	D (default)	1	–	1
	Unrated	1,200	(578)	622
Factoring	Unrated	18,327	(386)	17,941
		4,117,895	(112,455)	4,005,440

31 December 2016 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Retail				
Small Business, Flat Owners Associations	I3 – I6	32,063	(55)	32,008
	M1 – M4	141,447	(1,431)	140,016
	R1 – R5	55,450	(1,992)	53,458
	D (default)	13,964	(12,163)	1,801
	Unrated	13	(3)	10
Mortgages	L1 – L4	3,328,301	(661)	3,327,640
	N1	360,192	(475)	359,717
	N2 – W1	505,713	(1,729)	503,984
	W2	67,210	(1,068)	66,142
	W3	137,483	(8,361)	129,122
	D (default)	47,822	(18,389)	29,433
Unsecured Retail	U01a – U02	415,594	(392)	415,202
	U3	81,989	(196)	81,793
	U04 – U07	336,039	(2,311)	333,728
	U08 – U09	88,026	(2,103)	85,923
	U10 – U11	59,498	(3,391)	56,107
	U12	60,493	(9,976)	50,517
	D (default)	141,791	(98,349)	43,442
	Unrated	343,259	(7,532)	335,727
Other	Unrated	5,617	(2)	5,615
		6,221,964	(170,579)	6,051,385
Securities	Unrated	1,820,472	–	1,820,472

31 December 2015 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Banks	Unrated	178,516	(25)	178,491
Sovereigns				
Municipalities	Unrated	163,767	(121)	163,646
		163,767	(121)	163,646
Corporate				
Large Corporates, SME	I1 – I6	882,262	(857)	881,405
	M1 – M4	882,940	(5,867)	877,073
	R1 – R5	324,430	(11,844)	312,586
	D (default)	75,737	(56,667)	19,070
Specialized Lending – SPV, RED	Strong	146,000	(279)	145,721
	Good	208,379	(1,394)	206,985
	Satisfactory	292,048	(9,085)	282,963
	Weak	90,280	(14,893)	75,387
	D (default)	57,296	(14,220)	43,076
Other Financial Institutions, Public Sector Entities	I1 – I6	264,612	(91)	264,521
	M1 – M4	167,956	(313)	167,643
	D (default)	4	(2)	2
	Unrated	2,115	(108)	2,007
Factoring	Unrated	112,075	(448)	111,627
		3,506,134	(116,068)	3,390,066

31 December 2015 € '000	Internal rating	Amortised cost	Impairment losses	Carrying amount
Retail				
Small Business, Flat Owners Associations	I3 – I6	29,248	(53)	29,195
	M1 – M4	120,213	(1,176)	119,037
	R1 – R5	55,617	(2,497)	53,120
	D (default)	12,758	(11,024)	1,734
	Unrated	4	(1)	3
Mortgages	L1 – L4	2,713,755	(537)	2,713,218
	N1	262,586	(333)	262,253
	N2 – W1	334,389	(1,107)	333,282
	W2	53,828	(841)	52,987
	W3	138,471	(8,465)	130,006
	D (default)	53,960	(20,356)	33,604
Unsecured Retail	U01a – U02	366,290	(335)	365,955
	U3	76,120	(181)	75,939
	U04 – U07	293,414	(2,024)	291,390
	U08 – U09	73,343	(1,750)	71,593
	U10 – U11	53,583	(3,068)	50,515
	U12	54,166	(8,890)	45,276
	D (default)	126,158	(87,498)	38,660
	Unrated	336,788	(8,629)	328,159
Other	Unrated	4,063	–	4,063
		5,158,754	(158,765)	4,999,989
Securities	Unrated	2,498,010	(574)	2,497,436

(b) Market risk

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

Management of market risk

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

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

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). Derivation of VaR is a stress VaR (sVaR), which represents maximal VaR of selected one year period generating the highest value of VaR during the last 5 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 simulation. Taking into account market data from the previous year and in case of sVaR one year scenario from 5 years history and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements. 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 Risk Management division and the head of the Finance and Capital Markets department. Regular summaries are submitted to Intesa Sanpaolo and ALCO.

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

				2016				2015
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	11	24	150	2	5	28	118	2
Interest rate risk	132	376	792	40	141	100	248	10
Overall	137	378	781	32	141	103	264	16
sVaR	159	539	959	93	129	159	849	53

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

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

Exposure to interest rate risk

The main risk to which non – trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. Financial instruments are mapped to re – pricing gaps either by the maturity, i.e. fixed rate instruments, or by the 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 Intesa Sanpaolo Group methodology, the shift sensitivity analysis is defined as a parallel and uniform shift of + 100 basis points of the rate curve. Bank also measures sensitivity under – 100, +/ – 200 basis points of the rate curve and under other six stress scenarios prescribed by European banking authority (EBA) Guidelines. For the shift sensitivity calculation Behavioural models for sight loans (overdrafts), sight deposits and prepayment rates for mortgages and consumer loans are taken into account. All these standard scenarios are applied on monthly basis.

The sensitivity of the interest margin is also measured on the basis of a parallel and instantaneous shock in the interest rate curve of +/ – 100 basis points, in a period of 12 months. Furthermore, additional sensitivity scenarios are applied: +/ – 50, +/ – 200 basis points and 6 stress scenarios according to EBA Guidelines. However, the Interest margin sensitivity (IMS) methodology, specifically sight models repricing structure is still under the discussion with Intesa Sanpaolo (ISP).

Overall banking book interest rate risk positions are managed by Balance Sheet Management Department, which uses various balance and off balance sheet instruments to manage the overall positions arising from the Bank's banking book activities.

Interest rate risk comprises of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and 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 the interest rate risk.

Models applied for the interest rate risk calculation

Each financial and non – financial instrument is mapped to the gap based on 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 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.

Fixed assets, such as tangible and intangible assets and fixed liabilities like equity and also cash are treated as overnight items.

At 31 December 2016, interest margin sensitivity on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € – 17,653 thousand (31 December 2015: € – 24,573 thousand).

At 31 December 2016, interest rate risk generated by the banking book, measured through shift sensitivity analysis to 100 basis points, registered € – 30,073 thousand (31 December 2015: € – 30,867 thousand).

€ '000	2016	2015
EUR	(33,044)	(31,967)
Other	2,971	1,100
	(30,073)	(30,867)

At 31 December 2016, the sensitivity of the AFS reserve in equity related to the non – hedged part of the portfolio to 100 basis points rise in interest rates was € – 1,444 thousand (31 December 2015: € – 2,468 thousand). At 31 December 2016, the sensitivity of CF hedges reserve in equity to 100 basis points rise in interest rates was € 4,203 thousand (31 December 2015: € 3,145 thousand).

The re – pricing structure of financial assets and liabilities based on contractual undiscounted cash – flows for the non – trading portfolios was as follows:

31 December 2016 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specif.	Total
Assets							
Cash and balances with central banks	1,029,082	–	–	–	–		1,029,082
Due from banks	91,977	18,566	17,811	–	47	–	128,401
Financial assets at fair values through profit or loss	–	–	–	–	–	474	474
Available – for – sale assets	84,332	42,148	503,644	388,289	271,566	–	1,289,979
Loans and advances to customers	1,181,230	1,717,196	1,519,573	4,663,625	785,581	321,281	10,188,486
Held – to – maturity investments	–	–	163,680	266,401	99,938	–	530,019
	2,386,621	1,777,910	2,204,708	5,318,315	1,157,132	321,755	13,166,441
Liabilities							
Due to central and other banks	(44,670)	(174,690)	(117,234)	(154,081)	–	–	(490,675)
Due to customers	(7,597,522)	(402,880)	(1,271,441)	(223,076)	–	–	(9,494,919)
Subordinated debt	–	(200,165)	–	–	–	–	(200,165)
Debt securities in issue	(209,828)	(144,706)	(130,440)	(503,513)	(726,822)	–	(1,715,309)
	(7,852,020)	(922,441)	(1,519,115)	(880,670)	(726,822)	–	(11,901,068)
Net position of financial instruments	(5,465,399)	855,469	685,593	4,437,645	430,310	321,755	1,265,373

31 December 2015 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specif.	Total
Assets							
Cash and balances with central banks	469,321	–	–	–	–	–	469,321
Due from banks	57,761	195	120,007	–	492	–	178,455
Financial assets at fair values through profit or loss	8	110	97,286	–	–	349	97,753
Available – for – sale assets	56,643	521,220	412,555	683,482	179,351	14,690	1,867,941
Loans and advances to customers	1,608,821	1,312,725	1,638,414	3,603,448	390,294	–	8,553,702
Held – to – maturity investments	–	–	16,339	415,435	99,968	–	531,742
	2,192,554	1,834,250	2,284,601	4,702,365	670,105	15,039	11,698,914
Liabilities							
Due to central and other banks	(211,684)	(95,571)	(89,181)	(6,389)	(9,286)	–	(412,111)
Due to customers	(4,874,966)	(793,609)	(1,202,724)	(1,376,623)	(295,212)	–	(8,543,134)
Debt securities in issue	(223,069)	(161,014)	(192,290)	(395,873)	(628,096)	–	(1,600,342)
	(5,309,719)	(1,050,194)	(1,484,195)	(1,778,885)	(932,594)	–	(10,555,587)
Net position of financial instruments	(3,117,165)	784,056	800,406	2,923,480	(262,489)	15,039	1,143,327

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

	2016 %	2015 %
Assets		
Cash and balances with central banks	0.05	0.00
Due from banks	0.39	0.39
Financial assets at fair value through profit or loss	0.59	4.37
Available – for – sale financial assets	0.74	1.78
Loans and advances to customers	3.62	4.26
Held – to – maturity investments	4.35	4.33
Liabilities		
Due to central and other banks	0.53	0.43
Due to customers	0.21	0.45
Debt securities in issue	1.48	1.98

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

31 December 2016 € '000	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	167,665	1,238	857,853	2,325	1,029,081
Due from banks	73,442	19,400	2,141	17,312	112,295
Financial assets at fair value through profit or loss	474	–	–	–	474
Derivative financial instruments	42,772	2,766	1,334	377	47,249
Available – for – sale financial assets	1,274,703	15,276	–	–	1,289,979
Loans and advances to customers	9,561,128	359,704	266,107	1,546	10,188,485
Held – to – maturity investments	530,019	–	–	–	530,019
	11,650,203	398,384	1,127,435	21,560	13,197,582
Liabilities					
Due to central and other banks	(462,519)	(9,825)	(1,351)	(876)	(474,571)
Derivative financial instruments	(57,215)	(6,862)	(94)	(1,183)	(65,354)
Due to customers	(9,103,639)	(214,314)	(96,401)	(80,567)	(9,494,921)
Subordinated debt	(200,165)	–	–	–	(200,165)
Debt securities in issue	(1,599,874)	(66,803)	(48,631)	–	(1,715,308)
	(11,423,412)	(297,804)	(146,477)	(82,626)	(11,950,319)
Net position	226,791	100,580	980,958	(61,066)	1,247,263

31 December 2015 € '000	EUR	USD	CZK	Other	Total
Assets					
Cash and balances with central banks	94,272	1,069	371,964	2,016	469,321
Due from banks	158,156	9,355	44	10,936	178,491
Financial assets at fair value through profit or loss	707	–	–	97,046	97,753
Derivative financial instruments	25,209	20,208	1,235	–	46,652
Available – for – sale financial assets	1,857,689	10,252	–	–	1,867,941
Loans and advances to customers	8,050,857	189,789	307,581	5,474	8,553,701
Held – to – maturity investments	531,742	–	–	–	531,742
	10,718,632	230,673	680,824	115,472	11,745,601
Liabilities					
Due to central and other banks	(350,018)	(2,044)	(59,340)	(744)	(412,146)
Derivative financial instruments	(59,598)	(2,097)	(864)	–	(62,559)
Due to customers	(8,070,669)	(260,294)	(115,134)	(97,037)	(8,543,134)
Debt securities in issue	(1,525,241)	–	(75,100)	–	(1,600,341)
	(10,005,526)	(264,435)	(250,438)	(97,781)	(10,618,180)
Net position	713,106	(33,762)	430,386	17,691	1,127,421

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit. With regard to the highly liquid assets in particular, there may be strains in the market that make them difficult (or even impossible) to sell or be used as collateral in exchange for funds. From this perspective, the Bank's liquidity risk is closely tied to the market liquidity conditions (market liquidity risk).

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 Group to develop prudential approaches to liquidity management, making it possible to maintain the overall risk profile at extremely low levels.

The basic principles underpinning the Liquidity Policy of the Bank are:

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

The Bank directly manages its own liquidity and coordinates its management at the Bank level, ensures the adoption of adequate control techniques and procedures, and provides complete and accurate information to ALCO and the Statutory Bodies.

The departments of the Bank that are responsible for ensuring the correct application of the Guidelines are the Treasury Department responsible for short term liquidity management, the Balance Sheet Management Department responsible for medium and long term 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'.

The Short term Liquidity Policy includes the set of parameters, limits and observation thresholds that enable 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.

The Structural Liquidity Policy of the Bank incorporates the set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long – term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long – term operations from giving rise to excessive imbalances to be financed in the short term.

Together with the Short term and Structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

The Contingency Liquidity Plan sets the objectives of safeguarding the Bank's capital and, at the same time, guarantees the continuity of operations under conditions of extreme liquidity emergency. It also ensures the identification of the pre – warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and intervention measures for the resolution of emergencies. The pre – warning indices, aimed at identifying signs of a potential liquidity strain, both systemic and specific, are continuously recorded and reported to the departments responsible for the management and monitoring of liquidity.

The liquidity position of the Bank and the subsidiaries is regularly presented by Enterprise Risk Management Department and discussed during the ALCO meetings.

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

31 December 2016 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	1,029,082	–	–	–	–	–	1,029,082
Due from banks	97,150	121	3,140	–	31,204	–	131,615
Financial assets at fair value through profit or loss	–	–	–	–	–	474	474
Available – for – sale financial assets	31,870	3,667	252,871	745,834	286,748	–	1,320,990
Loans and advances to customers	612,017	472,508	1,217,863	4,351,737	5,804,213	198,071	12,656,409
Held – to – maturity investments	–	–	152,777	302,874	134,565	–	590,216
	1,770,119	476,296	1,626,651	5,400,445	6,256,730	198,545	15,728,786
Liabilities							
Due to central and other banks	(49,907)	(109,595)	(12,929)	(214,446)	(113,858)	–	(500,735)
Due to customers	(7,584,561)	(414,993)	(1,224,157)	(271,256)	(5,167)	–	(9,500,134)
Subordinated debt	–	(1,466)	(4,029)	(22,000)	(242,895)	–	(270,390)
Debt securities in issue	(3,467)	(46,180)	(164,875)	(870,766)	(843,955)	–	(1,929,243)
	(7,637,935)	(572,234)	(1,405,990)	(1,378,468)	(1,205,875)	–	(12,200,502)
Net position of financial instruments	(5,867,816)	(95,938)	220,661	4,021,977	5,050,855	198,545	3,528,284
Cash inflows from derivatives	995,200	159,826	226,607	119,435	41,630	–	1,542,698
Cash outflows from derivatives	(993,311)	(158,921)	(230,557)	(124,017)	(41,728)	–	(1,548,534)
Net position from derivatives	1,889	905	(3,950)	(4,582)	(98)	–	(5,836)
Commitments and undrawn credit facilities	3,020,958	–	–	–	–	–	3,020,958
Issued guarantees	764,156	–	–	–	–	–	764,156
Net position from financial commitments and contingencies	3,785,114	–	–	–	–	–	3,785,114

31 December 2015 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with central banks	469,321	–	–	–	–	–	469,321
Due from banks	66,147	372	104,484	9,118	492	–	180,613
Financial assets at fair value through profit or loss	9	106	98,511	–	–	349	98,975
Available – for – sale financial assets	1,723	522,035	68,101	1,146,355	139,647	14,690	1,892,551
Loans and advances to customers	419,266	440,168	1,225,816	3,747,089	5,156,307	–	10,988,646
Held – to – maturity investments	–	–	24,549	475,768	126,481	–	626,798
	956,466	962,681	1,521,461	5,378,330	5,422,927	15,039	14,256,904
Liabilities							
Due to central and other banks	(199,478)	(52,477)	(44,657)	(71,094)	(47,726)	–	(415,432)
Due to customers	(6,876,142)	(489,404)	(815,722)	(370,094)	(5,630)	–	(8,556,992)
Debt securities in issue	(3,545)	(83,222)	(98,369)	(895,884)	(749,447)	–	(1,830,467)
	(7,079,165)	(625,103)	(958,748)	(1,337,072)	(802,803)	–	(10,802,891)
Net position of financial instruments	(6,122,699)	337,578	562,713	4,041,258	4,620,124	15,039	3,454,013
Cash inflows from derivatives	1,096,610	71,112	81,087	39,647	26,400	–	1,314,856
Cash outflows from derivatives	(1,082,908)	(71,002)	(80,042)	(40,238)	(26,195)	–	(1,300,385)
Net position from derivatives	13,702	110	1,045	(591)	205	–	14,471
Commitments and undrawn credit facilities	(2,323,282)	–	–	–	–	–	(2,323,282)
Issued guarantees	(567,899)	–	–	–	–	–	(567,899)
Net position from financial commitments and contingencies	(2,891,181)	–	–	–	–	–	(2,891,181)

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

31 December 2016 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	1,029,081	–	1,029,081
Due from banks	94,505	17,790	112,295
Financial assets at fair value through profit or loss	–	474	474
Derivative financial instruments	4,225	43,024	47,249
Available – for – sale financial assets	264,958	1,025,021	1,289,979
Loans and advances to customers	2,067,645	8,120,840	10,188,485
Held – to – maturity investments	151,930	378,089	530,019
Subsidiaries, associates and joint ventures	–	92,745	92,745
Intangible assets	–	63,062	63,062
Property and equipment	–	88,402	88,402
Deferred income tax assets	–	47,544	47,544
Other assets	20,014	–	20,014
	3,632,358	9,876,991	13,509,349
Liabilities			
Due to central and other banks	(166,890)	(307,681)	(474,571)
Derivative financial instruments	(39,013)	(26,341)	(65,354)
Due to customers	(9,220,847)	(274,074)	(9,494,921)
Subordinated debt	(165)	(200,000)	(200,165)
Debt securities in issue	(198,648)	(1,516,660)	(1,715,308)
Current income tax liabilities	(3,176)	–	(3,176)
Provisions	–	(25,952)	(25,952)
Other liabilities	(81,894)	(3,834)	(85,728)
	(9,710,633)	(2,354,542)	(12,065,175)
	(6,078,275)	7,522,449	1,444,174

31 December 2015 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and balances with central banks	469,321	–	469,321
Due from banks	169,993	8,498	178,491
Financial assets at fair value through profit or loss	97,404	349	97,753
Derivative financial instruments	20,704	25,948	46,652
Available – for – sale financial assets	562,922	1,305,019	1,867,941
Loans and advances to customers	1,850,486	6,703,215	8,553,701
Held – to – maturity investments	–	531,742	531,742
Subsidiaries, associates and joint ventures	–	95,566	95,566
Intangible assets	–	59,250	59,250
Property and equipment	–	93,328	93,328
Deferred income tax assets	–	41,327	41,327
Other assets	20,347	–	20,347
	3,191,177	8,864,242	12,055,419
Liabilities			
Due to central and other banks	(296,194)	(115,952)	(412,146)
Derivative financial instruments	(5,639)	(56,920)	(62,559)
Due to customers	(8,167,876)	(375,258)	(8,543,134)
Debt securities in issue	(166,569)	(1,433,772)	(1,600,341)
Current income tax liabilities	(8,314)	–	(8,314)
Provisions	–	(25,266)	(25,266)
Other liabilities	(76,866)	(3,344)	(80,210)
	(8,721,458)	(2,010,512)	(10,731,970)
	(5,530,281)	6,853,730	1,323,449

(d) Operational risk

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

The Operational Risk Committee (composing of the heads of the areas of the governance centre and of the business areas more involved in operational risk management), has the task of periodically reviewing the Bank's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

Organisational structure of the associated risk management function

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

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

Upon the request of the parent company, the Bank as part of the VUB Group request has received in February 2010, from the relevant Supervisory authorities, 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 request has received approval for usage and thus adopted the AMA for subsidiaries Consumer Finance Holding and VUB Leasing. The part of this decision has been an approval of the insurance effect inclusion, as well as approval of a new allocation mechanism, which led to fulfilment of a regulatory condition for the approval of diversification usage.

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

For the use of the AMA, the Bank has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self – assessment carried out by the Bank and VUB Group Companies that fall within the scope of AMA and TSA. This process is verified by the Internal Audit Department and submitted to the relevant Bank's Committee for the annual certification of compliance with the requirements established by the regulation.

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

Policies for hedging and mitigating risk

The Bank, in coordination with its parent company, has set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does include the benefit from this transfer of operational risk through insurance policies, which contributes to reducing the risk capital calculated through the internal models.

4. Estimated fair value of financial assets and liabilities

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

The Bank uses the following fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the Bank as at the measurement date;
Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and
Level 3: inputs unobservable for the asset or liability.

The highest priority is attributed to effective market quotes (Level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market – observable parameters other than financial instruments quotes (Level 2) and the lowest priority to unobservable inputs (Level 3). Following this hierarchy, where available, fair value estimates made by the Bank are based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the 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 the debt instruments involves the method of discounting forecast cash flows. The calculation takes into account the time value of money (risk – free rate of interest) and the credit risk expressed in the form of the credit spreads which are applied to the bonds' yield and represent the risk premium the investor claims against the risk free investment. In the case of derivative financial instruments the Bank uses the 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 levels hierarchy. For determining the timing of the transfers between the levels, the Bank uses the end of the reporting period as a day when the transfer is deemed to have occurred.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with central banks

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

(b) Due from banks

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

(c) Loans and advances to customers

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

(d) Held – to – maturity investments

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

(e) Due to banks and customers

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

(f) Debt securities in issue

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

31 December 2016 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and balances with central banks	7	1,029,081	–	1,029,081	–	1,029,081	–	1,029,081
Due from banks	8	112,295	–	112,295	–	112,295	–	112,295
Financial assets at fair value through profit or loss	9	–	474	474	474	–	–	474
Derivative financial instruments	10	–	47,249	47,249	–	47,249	–	47,249
Available – for – sale financial assets	11	–	1,289,979	1,289,979	805,871	479,176	4,932	1,289,979
Loans and advances to customers	12	10,188,485	–	10,188,485	–	–	11,335,169	11,335,169
Held – to – maturity investments	14	530,019	–	530,019	–	598,206	–	598,206
		11,859,880	1,337,702	13,197,582	806,345	2,266,007	11,340,101	14,412,453
Financial liabilities								
Due to central and other banks	20	(474,571)	–	(474,571)	–	(474,571)	–	(474,571)
Derivative financial instruments	10	–	(65,354)	(65,354)	–	(65,354)	–	(65,354)
Due to customers	21	(9,494,921)	–	(9,494,921)	–	(9,559,752)	–	(9,559,752)
Subordinated debt	22	(200,165)	–	(200,165)	–	(200,165)		(200,165)
Debt securities in issue	22	(1,715,308)	–	(1,715,308)	–	(1,781,512)	–	(1,781,512)
		(11,884,965)	(65,354)	(11,950,319)	–	(12,081,354)	–	(12,081,354)

31 December 2015 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and balances with central banks	7	469,321	–	469,321	–	469,321	–	469,321
Due from banks	8	178,491	–	178,491	–	178,491	–	178,491
Financial assets at fair value through profit or loss	9	–	97,753	97,753	97,395	358	–	97,753
Derivative financial instruments	10	–	46,652	46,652	–	46,652	–	46,652
Available – for – sale financial assets	11	–	1,867,941	1,867,941	841,418	1,011,833	14,690	1,867,941
Loans and advances to customers	12	8,553,701	–	8,553,701	–	–	9,823,748	9,823,748
Held – to – maturity investments	14	531,742	–	531,742	–	614,208	–	614,208
		9,733,255	2,012,346	11,745,601	938,813	2,320,863	9,838,438	13,098,114
Financial liabilities								
Due to central and other banks	20	(412,146)	–	(412,146)	–	(412,146)	–	(412,146)
Derivative financial instruments	10	–	(62,559)	(62,559)	–	(62,559)	–	(62,559)
Due to customers	21	(8,543,134)	–	(8,543,134)	–	(8,552,257)	–	(8,552,257)
Debt securities in issue	22	(1,600,341)	–	(1,600,341)	–	(1,661,051)	–	(1,661,051)
		(10,555,621)	(62,559)	(10,618,180)	–	(10,688,013)	–	(10,688,013)

There were no transfers of financial instruments among the levels during 2016 and 2015.

5. Segment reporting

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

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

The Bank comprises the following main operating segments:

- Retail Banking,
- Corporate Banking,
- Central Treasury.

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

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

Central Treasury undertakes the Bank's funding, issues of debt securities as well as trading book operations. The Bank also has a central Governance Centre that manages the Bank's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio.

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

31 December 2016 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest and similar income	254,602	79,761	35,159	10,090	379,612
Interest and similar expense	(15,290)	(5,946)	(24,907)	(152)	(46,295)
Inter – segment revenue	(24,406)	(6,654)	35,553	(4,493)	–
Net interest income	214,906	67,161	45,805	5,445	333,317
Net fee and commission income	61,167	24,502	2,888	(2,402)	86,155
Net trading result	3,371	5,453	29,861	110	38,795
Other operating income	6,712	982	(6)	(4,547)	3,141
Dividend income	–	–	–	133,961	133,961
Total segment operating income	286,156	98,098	78,548	132,567	595,369
Depreciation and amortisation	(15,761)	(909)	(11)	(6,143)	(22,824)
Operating expenses					(214,071)
Operating profit before impairment					358,474
Impairment losses	(35,822)	(9,966)	(375)	(783)	(46,946)
Income tax expense					(46,357)
Net profit for the year					265,171
Segment assets	6,013,354	3,998,629	3,029,473	467,893	13,509,349
Segment liabilities and equity	5,529,599	4,086,436	2,180,774	1,712,540	13,509,349

31 December 2015 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue					
Interest and similar income	266,082	78,233	60,727	8,464	413,506
Interest and similar expense	(34,503)	(5,672)	(28,845)	(1)	(69,021)
Inter – segment revenue	(34,097)	(11,968)	48,035	(1,970)	–
Net interest income	197,482	60,593	79,917	6,493	344,485
Net fee and commission income	60,075	25,380	3,375	(4,460)	84,370
Net trading result	3,534	4,702	3,798	(59)	11,975
Other operating income	8,621	1,228	(16)	(5,496)	4,337
Dividend income	–	–	–	5,913	5,913
Total segment operating income	269,712	91,903	87,074	2,391	451,080
Depreciation and amortisation	(16,810)	(864)	(11)	(6,052)	(23,737)
Operating expenses					(205,483)
Operating profit before impairment					221,860
Impairment losses	(21,732)	(29,753)	(459)	517	(51,427)
Income tax expense					(40,076)
Net profit for the year					130,357
Segment assets	4,966,200	3,319,197	3,282,541	487,481	12,055,419
Segment liabilities and equity	5,192,092	2,496,930	2,975,311	1,391,086	12,055,419

6. Cash and cash equivalents

€ '000	Note	2016	2015
Cash and balances with central banks	7	1,029,081	469,321
Current accounts in other banks	8	34,537	22,034
Term deposits with other banks	8	2,035	–
		1,065,653	491,355

7. Cash and balances with central banks

€ '000	2016	2015
Balances with central banks:		
Compulsory minimum reserves	810,409	251,557
Current accounts	961	1
Term deposits	119,912	119,926
	931,282	371,484
Cash in hand	97,799	97,837
	1,029,081	469,321

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and the Czech National Bank. 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 2 years. The rate for the calculation of the compulsory minimum reserve is 1% for the reserves held at the NBS and 2% for the reserves held at the Czech National Bank. The required balance is calculated as the total of individual items multiplied by the valid rate.

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

8. Due from banks

€ '000	Note	2016	2015
Current accounts	6	34,537	22,034
Term deposits			
with contractual maturity less than 90 days	6	2,035	–
with contractual maturity over 90 days		63	100,192
Loans and advances			
with contractual maturity over 90 days		8,551	18,618
Cash collateral		67,127	37,672
Impairment losses	13	(18)	(25)
		112,295	178,491

At 31 December 2016 the balance of 'Term deposits' includes one deposit with Intesa Sanpaolo S.p.A. in the nominal amount of € 2,035 thousand (31 December 2015: one deposit with Intesa Sanpaolo S.p.A. in the nominal amount of € 100,000 thousand).

9. Financial assets at fair value through profit or loss

€ '000	2016	2015
Financial assets held for trading		
State bonds with contractual maturity over 90 days	–	97,046
Bank bonds with contractual maturity over 90 days	–	358
	–	97,404
Financial assets designated at fair value through profit or loss on initial recognition		
Equity shares	474	349
	474	97,753

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

At 31 December 2016 and 31 December 2015, no financial assets at fair value through profit or loss were pledged by the Bank to secure transactions with counterparties.

10. Derivative financial instruments

€ '000	2016 Assets	2015 Assets	2016 Liabilities	2015 Liabilities
Trading derivatives	12,923	28,623	11,732	13,570
Cash flow hedges of interest rate risk	–	–	5,428	1,573
Cash flow hedges of foreign exchange risk	–	–	–	29
Fair value hedges of interest rate and inflation risk	34,326	18,029	48,194	47,387
	47,249	46,652	65,354	62,559

Trading derivatives also include hedging instruments that are non – qualifying according to IAS 39, which are held for risk management purposes rather than for trading. These instruments currently consist of one cross – currency interest rate swap. At 31 December 2016, the negative fair value of this derivative was € 845 thousand (31 December 2015: € 856 thousand).

€ '000	2016 Assets	2015 Assets	2016 Liabilities	2015 Liabilities
Trading derivatives – Fair values				
Interest rate instruments				
Swaps	7,452	5,823	5,675	4,677
Options	325	895	357	881
	7,777	6,718	6,032	5,558
Foreign currency instruments				
Forwards and swaps	3,725	19,988	3,352	5,147
Cross currency swaps	–	–	845	856
Options	272	409	391	534
	3,997	20,397	4,588	6,537
Equity and commodity instruments				
Equity options	922	1,160	904	1,157
Commodity swaps	227	348	208	318
	1,149	1,508	1,112	1,475
	12,923	28,623	11,732	13,570

€ '000	2016 Assets	2015 Assets	2016 Liabilities	2015 Liabilities
Trading derivatives – Notional values				
Interest rate instruments				
Swaps	625,151	301,381	625,151	301,381
Options	115,342	151,985	115,342	151,985
	740,493	453,366	740,493	453,366
Foreign currency instruments				
Forwards and swaps	1,331,195	1,274,808	1,326,896	1,259,829
Cross currency swaps	29,606	29,604	30,449	30,449
Options	45,482	61,614	45,091	61,249
	1,406,283	1,366,026	1,402,436	1,351,527
Equity and commodity instruments				
Equity options	7,087	17,658	7,091	17,662
Commodity swaps	5,149	5,898	5,060	5,836
	12,236	23,556	12,151	23,498
	2,159,012	1,842,948	2,155,080	1,828,391

Cash flow hedges of interest rate risk

At 31 December 2016 the Bank uses four interest rate swaps to hedge the interest rate risk arising from the issuance of three variable rate mortgage bonds. The cash flows on the floating legs of these interest rate swaps substantially match the cash flow profiles of the variable rate mortgage bonds.

The Bank uses one cross currency swap to hedge the interest rate risk of corporate loan denominated in USD. The cash flows on the floating leg of this interest rate swap substantially match the cash flow profiles of the variable rate of loan.

Below is a schedule indicating as at 31 December 2016 and 31 December 2015, the periods when the hedged cash flows are expected to occur. The cash flows of mortgage bonds represent the future undiscounted value of coupons.

€ '000	Up to 1 year	1 to 5 years	Over 5 years
2016			
Mortgage bonds – interest rate risk	(5,343)	(7,057)	–
2015			
Mortgage bonds – interest rate risk	(3,323)	(6,895)	–

Fair value hedges of interest rate and inflation risk

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

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

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

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

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

In 2016, the Bank recognised a net gain of € 18,648 thousand (2015: net loss of € 2,582 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 18,419 thousand (2015: net gain of € 2,564 thousand). Both items are disclosed within 'Net trading result'.

During 2016, interest and similar income from hedged AFS securities in the amount of € 19,046 thousand (2015: € 19,736 thousand) was compensated by interest expense from interest rate swap, cross currency swap and asset swap hedging instruments in the amount of € 7,966 thousand (2015: € 5,839 thousand).

At 31 December 2016, interest expense from the hedged mortgage bonds in the amount of € 15,577 thousand (31 December 2015: € 11,583 thousand) was compensated by interest income from the interest rate swap hedging instruments in the amount of € 7,133 thousand (31 December 2015: € 4,224 thousand).

11. Available – for – sale financial assets

€ '000	Note	Share 2016	Share 2015	2016	2015
				1,046,763	1,631,822
State bonds of EU countries					
Bank bonds				236,197	218,246
Equity shares at fair value				6,959	17,822
Equity shares at cost					
RVS, a.s.		0.00%	8.01%	–	574
S.W.I.F.T.		0.01%	0.01%	60	51
Impairment losses to equity shares	13			–	(574)
				1,289,979	1,867,941

At 31 December 2016, bonds in the total nominal amount of € 207,371 thousand from available – for – sale portfolio were pledged by the Bank to secure collateralized transactions (31 December 2015: € 780,261 thousand). These bonds were pledged in favour of the NBS within the pool of assets used as collateral for received funds needed for the liquidity management purposes. The whole pool of assets can be used for any ECB operation in the future.

On 21 December 2015, Visa Europe and Visa Inc. officially announced a plan to become one entity, through the sale of 100% of share capital of Visa Europe to Visa Inc. The Bank as a stakeholder has the right to take part in the distribution of the value generated by the deal. The proportional fair value adjustment for the Bank was calculated as cash part of the proportional up – front consideration paid by Visa Inc. in the amount of € 14,690 thousand.

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

12. Loans and advances to customers

31 December 2016 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	131,760	(100)	131,660
Corporate			
Large Corporates	1,501,159	(23,933)	1,477,226
Specialized Lending	870,530	(34,299)	836,231
Small and Medium Enterprises ('SME')	1,215,331	(52,782)	1,162,549
Other Financial Institutions	511,348	(1,052)	510,296
Public Sector Entities	1,200	(3)	1,197
Factoring	18,327	(386)	17,941
	4,117,895	(112,455)	4,005,440
Retail			
Small Business	218,401	(15,326)	203,075
Consumer Loans	1,210,008	(81,598)	1,128,410
Mortgages	4,446,721	(30,683)	4,416,038
Credit Cards	207,961	(31,150)	176,811
Overdrafts	108,720	(11,502)	97,218
Flat Owners Associations	24,536	(318)	24,218
Other	5,617	(2)	5,615
	6,221,964	(170,579)	6,051,385
	10,471,619	(283,134)	10,188,485

31 December 2015 € '000	Amortised cost	Impairment losses (note 13)	Carrying amount
Sovereigns			
Municipalities	163,767	(121)	163,646
Corporate			
Large Corporates	1,206,875	(22,947)	1,183,928
Specialized Lending	794,002	(39,871)	754,131
Small and Medium Enterprises ('SME')	958,496	(52,289)	906,207
Other Financial Institutions	432,571	(507)	432,064
Public Sector Entities	2,115	(6)	2,109
Factoring	112,075	(448)	111,627
	3,506,134	(116,068)	3,390,066
Retail			
Small Business	194,211	(14,441)	179,770
Consumer Loans	1,059,465	(68,030)	991,435
Mortgages	3,556,990	(31,639)	3,525,351
Credit Cards	216,304	(32,750)	183,554
Overdrafts	104,092	(11,597)	92,495
Flat Owners Associations	23,629	(308)	23,321
Other	4,063	–	4,063
	5,158,754	(158,765)	4,999,989
	8,828,655	(274,954)	8,553,701

At 31 December 2016, the 20 largest corporate customers represented a total balance of € 1,634,636 thousand (2015: € 1,111,188 thousand) or 15.61% (2015: 12.59%) of the gross loan portfolio.

13. Impairment losses on assets

€ '000	Note	1 Jan 2016	Creation (note 33)	Reversal (note 33)	Assets written – off/sold (note 33)	FX diff	Other *	31 Dec 2016
Due from banks	8	25	2	(30)	–	21	–	18
Available – for – sale financial assets	11	574	–	–	–	–	(574)	–
Loans and advances to customers	12	274,954	179,853	(131,084)	(33,207)	420	(7,802)	283,134
Subsidiaries, associates and JVs	15	37,914	–	–	–	–	–	37,914
Property and equipment	17	10,500	–	(41)	–	–	–	10,459
Other assets	19	1,148	2,096	(1,308)	–	1	–	1,937
		325,115	181,951	(132,463)	(33,207)	442	(8,376)	333,462

* 'Other' represents:
– the interest portion (unwinding of interest).
– sale of RVS, a.s.

€ '000	Note	1 Jan 2015	Creation (note 33)	Reversal (note 33)	Assets written – off/sold (note 33)	FX diff.	Other *	31 Dec 2015
Due from banks	8	6	20	(1)	–	–	–	25
Available – for – sale financial assets	11	574	–	–	–	–	–	574
Loans and advances to customers	12	265,027	126,997	(69,512)	(40,602)	315	(7,271)	274,954
Subsidiaries, associates and JVs	15	37,914	–	–	–	–	–	37,914
Property and equipment	17	10,500	–	–	–	–	–	10,500
Other assets	19	1,614	746	(1,212)	–	–	–	1,148
		315,635	127,763	(70,725)	(40,602)	315	(7,271)	325,115

* 'Other' represents the interest portion (unwinding of interest).

14. Held – to – maturity investments

€ '000	2016	2015
State bonds	530,019	531,742
	530,019	531,742

At 31 December 2016, bonds in the total nominal amount of € 509,428 thousand from the held – to – maturity portfolio were pledged by the Bank to secure collateralized transactions (31 December 2015: € 0 thousand).

15. Subsidiaries, associates and joint ventures

All entities are incorporated in the Slovak Republic.

€ '000	Share %	Cost	Impairment losses (note 13)	Carrying amount
At 31 December 2016				
VÚB Factoring, a.s.	100.00	16,535	(10,533)	6,002
Consumer Finance Holding, a.s.	100.00	53,114	–	53,114
VÚB Leasing, a. s.	100.00	44,410	(27,381)	17,029
VÚB Generali DSS, 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
At 31 December 2015				
VÚB Factoring, a.s.	100.00	16,535	(10,533)	6,002
Consumer Finance Holding, a.s.	100.00	53,114	–	53,114
VÚB Leasing, a. s.	100.00	44,410	(27,381)	17,029
VÚB Generali DSS, a.s.	50.00	16,597	–	16,597
VÚB Asset Management, správ. spol., a.s.	40.55	2,821	–	2,821
Slovak Banking Credit Bureau, s.r.o.	33.33	3	–	3
		133,480	(37,914)	95,566

In December 2016, the Bank sold its stake in VÚB Asset Management, správ. spol., a.s. to the major shareholder Eurizon SA for cash of € 13,673 thousand. The intragroup reorganization goal was to achieve the separation and independence of asset management companies from distributors, in line both with the model adopted by Intesa Sanpaolo Group and with the indications of the supervisory authorities and the simplification of decision – making and governance processes. The disposal of the investment in VÚB Asset Management, správ. spol., a.s. resulted in a net gain of € 8,464 thousand, which have been accounted for directly to equity, on the basis of a transaction under common control.

16. Intangible assets

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2016	203,920	10,039	16,042	230,001
Additions	107	–	17,037	17,144
Disposals	(7,107)	–	(107)	(7,214)
Transfers	12,849	236	(13,085)	–
FX differences	(1)	1	–	–
At 31 December 2016	209,768	10,276	19,887	239,931
Accumulated amortisation				
At 1 January 2016	(162,103)	(8,648)	–	(170,751)
Amortisation for the year	(12,683)	(542)	–	(13,225)
Disposals	7,107	–	–	7,107
FX differences	–	–	–	–
At 31 December 2016	(167,679)	(9,190)	–	(176,869)
Carrying amount				
At 1 January 2016	41,817	1,391	16,042	59,250
At 31 December 2016	42,089	1,086	19,887	63,062

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

€ '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January 2015	192,676	9,580	10,725	212,981
Additions	–	98	16,910	17,008
Transfers	11,234	360	(11,594)	–
FX differences	10	1	1	12
	203,920	10,039	16,042	230,001
At 31 December 2015				
Accumulated amortisation				
At 1 January 2015	(149,761)	(8,188)	–	(157,949)
Amortisation for the year	(12,332)	(460)	–	(12,792)
FX differences	(10)	–	–	(10)
At 31 December 2015	(162,103)	(8,648)	–	(170,751)
Carrying amount				
At 1 January 2015	42,915	1,392	10,725	55,032
At 31 December 2015	41,817	1,391	16,042	59,250

At 31 December 2016, the gross book value of fully amortised intangible assets that are still used by the Bank amounted to € 134,722 thousand (31 December 2015: € 112,515 thousand).

At 31 December 2016, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € 2,191 thousand (31 December 2015: € 388 thousand).

17. Property and equipment

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost						
At 1 January 2016		200,355	64,345	29,917	2,762	297,379
Additions		7	–	–	5,096	5,103
Disposals		(2,646)	(1,595)	(776)	–	(5,017)
Transfers		2,377	1,918	255	(4,550)	–
At 31 December 2016		200,093	64,668	29,396	3,308	297,465
Accumulated depreciation						
At 1 January 2016		(107,070)	(57,526)	(28,955)	–	(193,551)
Depreciation for the year		(5,810)	(3,441)	(348)	–	(9,599)
Disposals		2,181	1,591	774	–	4,546
FX differences		–	–	–	–	–
At 31 December 2016		(110,699)	(59,376)	(28,529)	–	(198,604)
Impairment losses	13					
At 1 January 2016		(10,500)	–	–	–	(10,500)
Release		41	–	–	–	41
At 31 December 2016		(10,459)	–	–	–	(10,459)
Carrying amount						
At 1 January 2016		82,785	6,819	962	2,762	93,328
At 31 December 2016		78,935	5,292	867	3,308	88,402

€ '000	Note	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost						
At 1 January 2015		199,222	68,434	30,097	3,397	301,150
Additions		–	–	49	4,238	4,287
Disposals		(261)	(7,544)	(260)	–	(8,065)
Transfers		1,392	3,453	28	(4,873)	–
FX differences		2	2	3	–	7
At 31 December 2015		200,355	64,345	29,917	2,762	297,379
Accumulated depreciation						
At 1 January 2015		(101,495)	(60,339)	(28,775)	–	(190,609)
Depreciation for the year		(5,788)	(4,721)	(436)	–	(10,945)
Disposals		215	7,537	258	–	8,010
FX differences		(2)	(3)	(2)	–	(7)
At 31 December 2015		(107,070)	(57,526)	(28,955)	–	(193,551)
Impairment losses	13					
At 1 January 2015		(10,500)	–	–	–	(10,500)
At 31 December 2015		(10,500)	–	–	–	(10,500)
Carrying amount						
At 1 January 2015		87,227	8,095	1,322	3,397	100,041
At 31 December 2015		82,785	6,819	962	2,762	93,328

In 2016 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, using the discounted cash flows method. As a result of the impairment test the Bank recognized the impairment loss in the total amount of € 10,459 thousand as at 31 December 2016 (31 December 2015: € 10,500 thousand).

At 31 December 2016 and 31 December 2015 the fair value measurement in respect of the estimation of the fair value less costs to sell was categorized as a Level 3 of the fair value hierarchy based on the inputs in the valuation technique used. The key assumptions taken into account were the discount rate (determined based upon the merits of the buildings, tenants and location, number of inhabitants, competition, demand for similar products and ownership), estimated rental income, costs and the void periods. The discount rates used were in the range between 7.9% – 15.5% both in 2016 and 2015.

At 31 December 2016, the gross book value of fully depreciated tangible assets that are still used by the Bank amounted to € 92,506 thousand (31 December 2015: € 88,401 thousand).

At 31 December 2016, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € 0 thousand (31 December 2015: € 172 thousand).

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

18. Current and deferred income taxes

€ '000	2016	2015
Deferred income tax assets	47,544	41,327

€ '000	2016	2015
Current income tax liabilities	3,176	8,314

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2015: 22%) as follows:

€ '000	2016	Profit/ (loss) (note 34)	Equity	2015
Due from banks	4	(1)	–	5
Derivative financial instruments designated as cash flow hedges	223	–	(129)	352
Available – for – sale financial assets	(1,079)	(126)	6,591	(7,544)
Loans and advances to customers	45,687	250	–	45,437
Property and equipment	(4,143)	270	–	(4,413)
Provisions	95	55	–	40
Other liabilities	6,775	(354)	–	7,129
Other	(18)	(339)	–	321
Deferred income tax assets	47,544	(245)	6,462	41,327

19. Other assets

€ '000	Note	2016	2015
Operating receivables and advances		12,862	10,012
Prepayments and accrued income		6,980	9,135
Other tax receivables		1,271	1,495
Inventories		831	832
Settlement of operations with financial instruments		7	20
Receivables from trading with securities		–	1
		21,951	21,495
Impairment losses	13	(1,937)	(1,148)
		20,014	20,347

20. Due to central and other banks

€ '000	2016	2015
Due to central banks		
Current accounts	993	794
Loans received from central banks	149,791	–
	150,784	794
Due to other banks		
Current accounts	22,699	36,044
Term deposits	109,909	236,441
Loans received	170,344	137,267
Cash collateral received	20,835	1,600
	323,787	411,352
	474,571	412,146

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

€ '000	2016	2015
European Investment Bank	130,902	94,745
Council of Europe Development Bank	14,846	19,044
European Bank for Reconstruction and Development	24,596	23,478
	170,344	137,267

European Investment Bank

Loans from European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2016, the balance comprised of seven loans in the nominal amount of € 50,000 thousand, € 23,333 thousand, € 17,500 thousand, € 16,250 thousand, € 14,063 thousand, € 7,857 thousand and € 1,875 thousand, (31 December 2015: six loans in the nominal amount of € 26,667 thousand, € 21,875 thousand, € 9,286 thousand, € 3,125 thousand, € 18,750 thousand and € 15,000 thousand) with interest rates between – 0.004% and 1.73% (31 December 2015: 0.14% – 1.73%) and with maturity between 2018 and 2028. The principal of loans is payable on annual or semi – annual basis and the interest is payable semi – annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

Council of Europe Development Bank

At 31 December 2016, loans from Council of Europe Development Bank comprised of five loans in the nominal amount of € 4,500 thousand, € 4,000 thousand, € 4,000 thousand, € 1,748 thousand and € 596 thousand, (31 December 2015: five loans in the nominal amount of € 4,667 thousand, € 1,192 thousand, € 2,185 thousand, € 6,000 thousand and € 5,000 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 0.31% at 31 December 2016 (31 December 2015: 0.03% – 0.33%). The interest is payable quarterly and the principal is payable on annual basis. The maturity of the individual loans is between 2017 and 2022.

European Bank for Reconstruction and Development

Loans received from European Bank for Reconstruction and Development represent funds granted to support the energy savings in large corporations.

At 31 December 2016, there were four loan arrangements concluded with European Bank for Reconstruction and Development (31 December 2015: four loan arrangements). The maturity of the loans are in 2020, 2021, 2023.

At 31 December 2016 the interest rates were in the range between 0.55% and 1.69% (31 December 2015: 0.36% – 1.96%). The frequency of the repayment of both the interest and the principal is semi – annual.

21. Due to customers

€ '000	2016	2015
Current accounts	5,949,332	5,158,714
Term deposits	2,641,739	2,420,384
Savings accounts	226,951	211,416
Government and municipal deposits	573,527	648,802
Other deposits	103,372	103,818
	9,494,921	8,543,134

22. Subordinated debt and debt securities in issue

Subordinated debt

At 31 December 2016 and 31 December 2015, the subordinated debt recognized by the Bank was as follows:

€ '000	2016	2015
Subordinated debt	200,165	–

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

Debt securities

€ '000	2016	2015
Bonds	47	58
Mortgage bonds	597,377	978,849
Mortgage bonds subject to cash flow hedges	281,120	125,951
Mortgage bonds subject to fair value hedges	808,674	482,734
	1,687,171	1,587,534
Revaluation of fair value hedged mortgage bonds	28,022	12,259
Amortisation of revaluation related to terminated fair value hedges	68	490
	1,715,308	1,600,341

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

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2016	Nominal value in CCY per piece	Issue date	Maturity date	2016 € '000	2015 € '000
Mortgage bonds VÚB, a.s. XX.	4.3	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a.s. XXX.	5.0	EUR	1,000	33,194	5.9.2007	5.9.2032	33,438	33,420
Mortgage bonds VÚB, a.s. XXXI.	4.9	EUR	600	33,194	29.11.2007	29.11.2037	19,710	19,696
Mortgage bonds VÚB, a.s. 32.	1.86	CZK	800	1,000,000	17.12.2007	17.12.2017	29,976	30,353
Mortgage bonds VÚB, a.s. 35.	4.4	EUR	–	33,194	19.3.2008	19.3.2016	–	21,618
Mortgage bonds VÚB, a.s. 36.	4.75	EUR	560	33,194	31.3.2008	31.3.2020	19,091	19,042
Mortgage bonds VÚB, a.s. 43.	5.1	EUR	500	33,194	26.9.2008	26.9.2025	15,970	15,873
Mortgage bonds VÚB, a.s. 46.	4.6	EUR	–	1,000,000	19.5.2009	19.5.2016	–	50,393
Mortgage bonds VÚB, a.s. 53.	0.42	EUR	100	1,000,000	8.4.2010	8.4.2017	100,096	100,155
Mortgage bonds VÚB, a.s. 57.	1.11	EUR	100	1,000,000	30.9.2010	30.9.2018	100,280	100,338
Mortgage bonds VÚB, a.s. 58.	1.58	EUR	80	1,000,000	10.12.2010	10.12.2019	80,074	80,082
Mortgage bonds VÚB, a.s. 62.	1.8	EUR	100	1,000,000	28.7.2011	28.7.2018	100,766	100,866
Mortgage bonds VÚB, a.s. 63.	3.8	EUR	–	1,000	16.9.2011	16.3.2016	–	35,383
Mortgage bonds VÚB, a.s. 64.	3.3	CZK	–	100,000	26.9.2011	26.9.2016	–	26,111
Mortgage bonds VÚB, a.s. 67.	5.35	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a.s. 69.	4.5	EUR	–	20,000	6.2.2012	6.2.2016	–	20,163
Mortgage bonds VÚB, a.s. 70.	3.75	EUR	400	100,000	7.3.2012	7.3.2017	41,221	41,203
Mortgage bonds VÚB, a.s. 71.	3.9	EUR	750	20,000	2.5.2012	2.5.2017	15,127	15,201
Mortgage bonds VÚB, a.s. 72.	4.7	EUR	250	100,000	21.6.2012	21.6.2027	25,446	25,430
Mortgage bonds VÚB, a.s. 73.	4.2	EUR	500	100,000	11.7.2012	11.7.2022	50,752	50,709
Mortgage bonds VÚB, a.s. 74.	3.35	EUR	700	100,000	16.1.2013	15.12.2023	71,921	71,874
Mortgage bonds VÚB, a.s. 75.	2.0	EUR	300	100,000	5.4.2013	5.4.2019	30,466	30,476
Mortgage bonds VÚB, a.s. 76.	2.4	EUR	309	10,000	22.4.2013	22.4.2018	3,142	3,142

(Table continues on the next page)

Name	Interest rate (%)	CCY	Number of mortgage bonds issued at 31 Dec 2016	Nominal value in CCY per piece	Issue date	Maturity date	2016 € '000	2015 € '000
Mortgage bonds VÚB, a.s. 77.	1.8	CZK	5,000	100,000	20.6.2013	20.6.2018	18,655	18,636
Mortgage bonds VÚB, a.s. 78.	2.16	EUR	905	10,000	3.3.2014	3.3.2020	9,234	9,241
Mortgage bonds VÚB, a.s. 79.	2	EUR	10,000	1,000	24.3.2014	24.9.2020	10,154	10,154
Mortgage bonds VÚB, a.s. 80.	1.85	EUR	31	1,000,000	27.3.2014	27.3.2021	31,786	31,868
Mortgage bonds VÚB, a.s. 81.	2.55	EUR	38	1,000,000	27.3.2014	27.3.2024	39,687	39,818
Mortgage bonds VÚB, a.s. 82.	1.65	EUR	1,701	1,000	16.6.2014	16.12.2020	1,716	1,716
Mortgage bonds VÚB, a.s. 83.	0.9	EUR	500	100,000	28.7.2014	28.7.2019	50,023	49,958
Mortgage bonds VÚB, a.s. 84.	0.6	EUR	500	100,000	29.9.2014	30.9.2019	49,949	49,903
Mortgage bonds VÚB, a.s. 85.	2.25	EUR	500	100,000	14.11.2014	14.11.2029	49,533	49,479
Mortgage bonds VÚB, a.s. 86.	0.3	EUR	1,000	100,000	27.4.2015	27.4.2020	98,620	98,145
Mortgage bonds VÚB, a.s. 87.	1.25	EUR	1,000	100,000	9.6.2015	9.6.2025	97,545	97,174
Mortgage bonds VÚB, a.s. 88.	0.5	EUR	965	100,000	11.9.2015	11.9.2020	96,822	47,303
Mortgage bonds VÚB, a.s. 89.	1.2	EUR	1,000	100,000	29.9.2015	29.9.2025	99,213	99,087
Mortgage bonds VÚB, a.s. 90.	1.6	EUR	1,000	100,000	29.10.2015	29.10.2030	97,831	61,277
Mortgage bonds VÚB, a.s. 91.	0.6	EUR	1,000	100,000	21.3.2016	21.3.2023	99,878	–
Mortgage bonds VÚB, a.s. 92.	1.7	USD	700	100,000	27.6.2016	27.6.2019	66,802	–
							1,687,171	1,587,534

23. Provisions

€ '000	2016	2015
Litigation	25,465	25,069
Restructuring provision	452	180
Other provisions	35	17
	25,952	25,266

The movements in provisions were as follows:

€ '000	Note	1 Jan 2016	Creation	Reversal	Use	31 Dec 2016
Litigation	26, 32	25,069	1,241	(8)	(837)	25,465
Restructuring provision	31	180	450	–	(178)	452
Other provisions	32	17	18	–	–	35
		25,266	1,709	(8)	(1,015)	25,952

€ '000	Note	1 Jan 2015	Creation	Reversal	Use	31 Dec 2015
Litigation	26, 32	27,017	1,561	(2,495)	(1,014)	25,069
Restructuring provision	31	588	350	–	(758)	180
Other provisions	32	3	14	–	–	17
		27,608	1,925	(2,495)	(1,772)	25,266

24. Other liabilities

€ '000	2016	2015
Various creditors	31,699	25,914
Financial guarantees and commitments	20,552	21,476
Settlement with employees	23,007	21,081
Accruals and deferred income	2,362	3,523
Severance and Jubilee benefits	3,834	3,343
Settlement with shareholders	1,480	1,297
VAT payable and other tax payables	1,843	2,691
Investment certificates	471	535
Share remuneration scheme	474	349
Settlement with securities	6	1
	85,728	80,210

At 31 December 2016 and 31 December 2015 there were no overdue balances within 'Other liabilities'.

The movements in Financial guarantees and commitments, Severance and Jubilee benefits and Retention program were as follows:

€ '000	Note	1 Jan 2016	Creation/ (Reversal)	FX diff	31 Dec 2016
Financial guarantees and commitments	33	21,476	(902)	(22)	20,552
Severance and Jubilee benefits	31	3,343	491	–	3,834
		24,819	(411)	(22)	24,386

€ '000	Note	1 Jan 2015	Creation	FX diff	31 Dec 2015
Financial guarantees and commitments	33	16,552	4,828	96	21,476
Severance and Jubilee benefits	31	3,196	147	–	3,343
		19,748	4,975	96	24,819

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

€ '000	1 Jan 2016	Creation (note 31)	Use	31 Dec 2016
Social fund	735	1,345	(1,410)	670

€ '000	1 Jan 2015	Creation (note 31)	Use	31 Dec 2015
Social fund	621	1,588	(1,474)	735

25. Equity

€ '000	2016	2015
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	90,710	113,457
Retained earnings (excluding net profit for the year)	643,755	635,097
	1,179,003	1,193,092

	2016	2015
Net profit for the year attributable to shareholders in € '000	265,171	130,357
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 €	20.43	10.04

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:

	2016	2015
Intesa Sanpaolo Holding International S.A.	97.03%	97.03%
Domestic shareholders	2.17%	2.28%
Foreign shareholders	0.80%	0.69%
	100.00%	100.00%

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

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

The Bank's regulatory capital position at 31 December 2016 and 31 December 2015 was determined based on the rules for capital adequacy calculation set by the CRR regulation:

€ '000	2016	2015
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings without net profit for the year	643,755	635,097
Other reserves	87,493	87,493
Revaluation of available – for – sale financial assets	2,120	30,094
Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities	(531)	(801)
Less goodwill and intangible assets	(63,064)	(59,250)
Less IRB shortfall of credit risk adjustments to expected losses	(11)	(13,249)
	1,114,300	1,123,922
Tier 2 capital		
IRB excess of provisions over expected losses eligible	7,855	12,870
Subordinated loan	200,000	–
Total regulatory capital	1,322,155	1,136,792

€ '000	2016	2015
Tier 1 capital	1,114,300	1,123,922
Tier 2 capital	207,855	12,870
Total regulatory capital	1,322,155	1,136,792
Total Risk Weighted Assets	8,141,145	7,276,481
Tier 1 capital ratio	13.69%	15.45%
Total capital ratio	16.24%	15.62%

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

The Bank must maintain a capital adequacy ratio of at least 8% according to the Act on Banks. The capital adequacy ratio is the ratio between the Bank's capital and the risk weighted assets. Risk weighted assets include risk weighted assets from positions recorded in the trading book and risk weighted assets from positions recorded in the banking book. The Bank complied with the Act on Banks' requirement as at 31 December 2016 and 31 December 2015.

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

26. Financial commitments and contingencies

€ '000	2016	2015
Issued guarantees	764,156	834,723
Commitments and undrawn credit facilities	3,020,958	2,573,894
	3,785,114	3,408,617

(a) Issued guarantees

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

(b) Commitments and undrawn credit facilities

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

(c) Lease obligations

The Bank enters into operating lease agreements for branch facilities and cars. The total value of future payments arising from non – cancellable operating leasing contracts at 31 December 2016 and 31 December 2015 was as follows:

€ '000	2016	2015
Up to 1 year	696	1,125
1 to 5 years	450	902
	1,146	2,027

(d) Legal proceedings

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2016. Pursuant to this review, management has recorded total provisions of € 25,465 thousand (31 December 2015: € 25,069 thousand) in respect of such legal proceedings (see also note 23). The Bank will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 6,634 thousand, as at 31 December 2016 (31 December 2015: € 7,246 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

27. Net interest income

€ '000	2016	2015
Interest and similar income		
Due from banks	839	2,277
Loans and advances to customers	344,460	353,374
Bonds, treasury bills and other securities:		
Financial assets at fair value through profit or loss	779	4,206
Available – for – sale financial assets	10,674	30,780
Held – to – maturity investments	22,860	22,869
	379,612	413,506
Interest and similar expense		
Due to banks	(1,328)	(1,335)
Due to customers	(18,955)	(37,393)
Debt securities in issue	(26,012)	(30,293)
	(46,295)	(69,021)
	333,317	344,485

Interest income on impaired loans and advances to customers for 2016 amounted to € 26,873 thousand (2015: € 23,676 thousand).

28. Net fee and commission income

€ '000	2016	2015
Fee and commission income		
Received from banks	6,109	8,696
Received from customers:		
Current accounts	55,024	55,091
Loans and guarantees	29,008	30,896
Transactions and payments	20,950	21,982
Insurance mediation	12,586	11,766
Securities	9,877	10,578
Overdrafts	4,874	4,069
Securities – Custody fee	1,861	1,817
Term deposits	285	475
Other	3,630	3,675
	144,204	149,045
Fee and commission expense		
Paid to banks	(14,036)	(16,222)
Paid to mediators:		
Credit cards	(38,707)	(42,249)
Securities	(636)	(709)
Services	(4,219)	(5,254)
Other	(451)	(241)
	(58,049)	(64,675)
	86,155	84,370

29. Net trading result

€ '000	2016	2015
Foreign currency derivatives and transactions	13,228	5,585
Customer FX margins	5,587	5,630
Cross currency swaps *	(9,411)	971
Equity derivatives	16	(22)
Other derivatives	15	59
Interest rate derivatives *	16,825	(1,233)
Dividends from equity shares held in FVTPL portfolio	163	7
Securities:		
Financial assets at fair value through profit or loss		
Held for trading	1,042	(2,511)
Designated at fair value through profit or loss on initial recognition	(3)	175
Available – for – sale financial assets *	27,096	(3,019)
Debt securities in issue *	(15,763)	6,333
	38,795	11,975

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

30. Other operating income and Dividend income

Other operating income

€ '000	2016	2015
Services	1,285	1,231
Rent	871	896
Net profit from sale of fixed assets	403	3
Financial revenues	353	75
Other	229	2,132
	3,141	4,337

Dividend income

At 31 December 2016 and 31 December 2015, the dividend income recognized by the Bank was as follows:

€ '000	2016	2015
Dividend income	133,961	5,913

Dividend income in amount of € 128,000 thousand (out of € 133,961 thousand) represents dividend from Consumer Finance Holding, a.s. received on 21 December 2016. The dividend was paid from retained earnings.

31. Salaries and employee benefits

€ '000	Note	2016	2015
Remuneration		(75,926)	(73,139)
Social security costs		(27,904)	(27,511)
Social fund	24	(1,345)	(1,588)
Severance and Jubilee benefits	24	(491)	(147)
Restructuring provision	23	(272)	408
		(105,938)	(101,977)

At 31 December 2016, the total number of employees of the Bank was 3,454 (31 December 2015: 3,469). The average number of employees of the Bank during the period ended 31 December 2016 was 3,432 (31 December 2015: 3,500).

The Bank does not have any pension arrangements apart from the pension system established by law, which requires mandatory contributions of a certain percentage of gross salaries to the State owned social insurance and privately owned pension funds. These contributions are recognised in the period when salaries are earned by employees. No further liabilities are arising to the Bank from the payment of pensions to employees in the future.

32. Other operating expenses and Special levy of selected financial institutions

€ '000	Note	2016	2015
IT systems maintenance		(18,888)	(17,858)
Property related expenses		(16,365)	(17,424)
Post and telecom		(10,136)	(10,492)
Advertising and marketing		(7,024)	(6,244)
Resolution fund***		(5,438)	(7,583)
Equipment related expenses		(4,479)	(5,846)
Stationery		(4,352)	(4,186)
Security		(2,845)	(3,193)
Third parties' services		(2,030)	(1,056)
Contribution to the Deposit Protection Fund *		(1,486)	(1,385)
Insurance		(1,137)	(1,125)
Training		(1,135)	(685)
Professional services		(1,144)	(821)
Litigations paid		(1,083)	(1,347)
Travelling		(748)	(679)
Audit **		(657)	(640)
Transport		(597)	(425)
Provisions for litigation	23	(396)	1,948
VAT and other taxes		(251)	(244)
Other damages		–	(386)
Other provisions	23	(18)	(14)
Other operating expenses		(5,781)	(3,745)
		(85,990)	(83,430)

* The annual contribution for 2016 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2016, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2015 was set at 0.0075% p.q. of the amount of protected deposits

** As at 31 December 2016 the audit expense consists of fees for the statutory audit and the group reporting represents the amount of € 451 thousand (31 December 2015: € 417 thousand), and other audit not conducted by statutory auditor (primarily security audit) in the amount of € 81 thousand (31 December 2015: € 89 thousand).

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

At 31 December 2016 and 31 December 2015, the special levy recognized by the Bank was as follows:

€ '000	2016	2015
Special levy of selected financial institutions	(22,143)	(20,076)

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

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

33. Impairment losses

€ '000	Note	2016	2015
Creation of impairment losses	13	(181,951)	(127,763)
Reversal of impairment losses	13	132,463	70,725
Net creation of impairment losses		(49,488)	(57,038)
Creation of liabilities – financial guarantees and commitments		(32,961)	(13,891)
Reversal of liabilities – financial guarantees and commitments		33,863	9,063
Net reversal /(creation) of liabilities – financial guarantees and commitments	24	902	(4,828)
Nominal value of assets written – off/sold		(59,192)	(49,186)
Release of impairment losses to assets written – off/sold	13	33,207	40,602
		(25,985)	(8,584)
Proceeds from assets written – off		5,234	6,314
Proceeds from assets sold		22,391	12,709
		27,625	19,023
		(46,946)	(51,427)

34. Income tax expense

€ '000	Note	2016	2015
Current income tax		(46,112)	(45,412)
Deferred income tax	18	(245)	5,336
		(46,357)	(40,076)

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

€ '000	2016	2015
Due from banks	(1)	4
Available – for – sale financial assets	(126)	–
Loans and advances to customers	250	1,560
Property and equipment	270	(105)
Provisions	55	(89)
Other liabilities	(354)	3,602
Other	(339)	364
	(245)	5,336

The effective tax rate differs from the statutory tax rate in 2016 and in 2015. The reconciliation of the Bank's profit before tax with the actual corporate income tax is as follows:

€ '000	Note	2016 Tax base	2016 Tax at applicable tax rate (22%)	2015 Tax base	2015 Tax at applicable tax rate (22%)
Profit before tax		311,528	(68,536)	170,433	(37,495)
Tax effect of expenses that are not deductible in determining taxable profit					
Creation of provisions and other reserves		76,233	(16,771)	43,895	(9,657)
Creation of impairment losses		399,508	(87,892)	105,967	(23,313)
Write – off and sale of assets		8,257	(1,817)	5,868	(1,291)
Other		22,398	(4,928)	14,790	(3,254)
		506,396	(111,408)	170,520	(37,515)
Tax effect of revenues that are deductible in determining taxable profit					
Release of provisions and other reserves		(74,976)	16,495	(30,072)	6,616
Release of impairment losses		(388,937)	85,566	(97,683)	21,490
Dividends		(134,055)	29,492	(5,919)	1,302
Other		(646)	142	(1,717)	378
		(598,614)	131,695	(135,391)	29,786
Adjustments for current tax of prior periods		(9,695)	2,133	889	(195)
Withholding tax paid abroad – settlement of advance payments		(18)	4	(32)	7
Current income tax		209,597	(46,112)	206,419	(45,412)
Deferred income tax at 21%, 22%	18		(245)		5,336
Income tax expense			(46,357)		(40,076)
Effective tax rate			14.88%		23.51%

35. Other comprehensive income

€ '000	2016	2015
Exchange differences on translating foreign operation	2	16
Available – for – sale financial assets:		
Revaluation losses arising during the year	(21,068)	(4,704)
Reclassification adjustment for profit on sale of AFS bonds included in the profit or loss	(8,660)	(751)
	(29,728)	(5,455)
Cash flow hedges:		
Revaluation gains/(losses) arising during the year	539	(465)
	539	(465)
Total other comprehensive income	(29,187)	(5,904)
Income tax relating to components of other comprehensive income *	6,462	1,301
Other comprehensive income for the year	(22,725)	(4,603)

* Income tax relates only to the components of other comprehensive income that might be reclassified subsequently to the profit or loss.

36. Income tax effects relating to other comprehensive income

			2016			2015
€ '000	Before tax amount	Tax benefit	Net of tax amount	Before tax amount	Tax benefit	Net of tax amount
Exchange differences on translating foreign operations	2	–	2	16	–	16
Available – for – sale financial assets	(29,728)	6,591	(23,137)	(5,455)	1,201	(4,254)
Net movement on cash flow hedges	539	(129)	410	(465)	100	(365)
	(29,187)	6,462	(22,725)	(5,904)	1,301	(4,603)

37. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates – enterprises in which the parent company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

In 2016, the remuneration and other benefits provided to members of the Supervisory Board were € 116 thousand (2015: € 114 thousand) and to members of the Management Board € 2,403 thousand (2015: € 2,165 thousand).

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

€ '000	KMP *	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets							
Due from banks	–	–	–	–	5,859	25,797	31,656
Derivative financial instruments	–	–	–	–	400	35,787	36,187
Loans and advances to customers	165	255,276	–	–	–	–	255,441
Financial assets at fair value through profit or loss	–	–	–	–	2,501	–	2,501
Other assets	–	300	7	–	–	1,426	1,733
	165	255,576	7	–	8,760	63,010	327,518
Liabilities							
Due to central and other banks	–	–	–	–	117,116	29,269	146,385
Derivative financial instruments	–	–	–	–	834	5,150	5,984
Due to customers	2,899	386	–	105	–	200,857	204,247
Debt securities in issue							
Mortgage bonds	–	–	–	–	–	381,216	381,216
Other liabilities	474	4,732	–	–	–	522	5,728
	3,373	5,118	–	105	117,950	617,014	743,560
Commitments and undrawn credit facilities	–	127,034	–	–	–	–	127,034
Issued guarantees	–	–	–	–	2,945	27,682	30,627
Received guarantees	–	–	–	–	84,723	43,415	128,138
Derivative transactions (notional amount – receivable)	–	–	–	–	514,156	1,904,111	2,418,267
Derivative transactions (notional amount – payable)	–	–	–	–	512,993	614,008	1,127,001

€ '000	KMP *	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Income and expense items							
Interest and similar income	4	1,977	–	–	258	2	2,241
Interest and similar expense	(7)	–	–	–	(83)	(5,940)	(6,030)
Fee and commission income	2	136	–	–	50	9,942	10,130
Fee and commission expense	–	(30,107)	–	–	(458)	(415)	(30,980)
Net trading result	–	–	–	–	117	32,217	32,334
Dividend income	–	128,000	1,605	–	–	4,356	133,961
Other operating income	–	1,306	103	–	660	520	2,589
Other operating expenses	–	(1,176)	–	–	(430)	(2,438)	(4,044)
	(1)	100,136	1,708	–	114	38,244	140,201

* Key management personnel

At 31 December 2015, the outstanding balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Assets							
Due from banks	–	–	–	–	104,416	11,175	115,591
Derivative financial instruments	–	–	–	–	–	1,474	1,474
Loans and advances to customers	405	192,228	–	–	–	–	192,633
Financial assets at fair value through profit or loss	–	–	–	–	3,481	–	3,481
Other assets	–	268	6	1,819	–	–	2,093
	405	192,496	6	1,819	107,897	12,649	315,272
Liabilities							
Due to central and other banks	–	–	–	–	210,762	9,708	220,470
Derivative financial instruments	–	–	–	–	438	3,380	3,818
Due to customers	2,782	360	–	2,565	–	117	5,824
Debt securities in issue							
Mortgage bonds	–	–	–	–	–	431,835	431,835
Other liabilities	349	3,480	–	6	–	726	4,561
	3,131	3,840	–	2,571	211,200	445,766	666,508
Commitments and undrawn credit facilities	–	57,613	–	–	–	–	57,613
Issued guarantees	–	–	–	–	2,945	28,767	31,712
Received guarantees	–	–	–	–	138,745	62,208	200,953
Derivative transactions (notional amount – receivable)	–	–	–	–	102,870	269,268	372,138
Derivative transactions (notional amount – payable)	–	–	–	–	103,486	250,811	354,297

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	Intesa Sanpaolo group companies	Total
Income and expense items							
Interest and similar income	9	2,445	–	–	1,605	27	4,086
Interest and similar expense	(18)	108	(5)	(1)	(76)	(8,597)	(8,589)
Fee and commission income	1	164	–	10,512	65	28	10,770
Fee and commission expense	–	(33,596)	–	(22)	(335)	(7,309)	(41,262)
Net trading result	–	–	–	–	1,307	(4,059)	(2,752)
Dividend income	–	1,371	2,280	2,262	–	–	5,913
Other operating income	–	1,220	113	373	564	23	2,293
Other operating expenses	–	(1,210)	–	–	–	(1,896)	(3,106)
	(8)	(29,498)	2,388	13,124	3,130	(21,783)	(32,647)

38. Profit distribution

On 24 March 2016, the Bank's shareholders approved the following profit distribution for 2015.

€ '000	
Dividends to shareholders (€ 10.04 per € 33.2 share)	130,334
Retained earnings	23
	130,357

The Management Board will propose the following 2016 profit distribution:

€ '000	
Dividends to shareholders (€ 5.55 per € 33.2 share)	72,020
Retained earnings	193,151
	265,171

39. Events after the end of the reporting period

From 31 December 2016, up to the date when these financial statements were approved by the Management Board, there were no further events identified that would require adjustments to or disclosure in these financial statements.

Information on Securities issued by the Bank

Information on mortgage bonds issued by the Bank

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., XX.	SK4120004946 series 01	9.3.2006	9.3.2021	EUR	331,939.19	50	4.30%	annually	no
Mortgage bonds VÚB, a.s., XXX.	SK4120005547 series 01	5.9.2007	5.9.2032	EUR	33,193.92	1,000	5.00%	annually	no
Mortgage bonds VÚB, a.s., 31	SK4120005679 series 01	29.11.2007	29.11.2037	EUR	33,193.92	600	4.90%	annually	no
Mortgage bonds VÚB, a.s., 32	SK4120005711 series 01	17.12.2007	17.12.2017	CZK	1,000,000.00	800	6M PRIBOR + 1.50%	semi – annually	no
Mortgage bonds VÚB, a.s., 36	SK4120005893 series 01	31.3.2008	31.3.2020	EUR	33,193.92	560	4.75%	annually	no
Mortgage bonds VÚB, a.s., 43	SK4120006271 series 01	26.9.2008	26.9.2025	EUR	33,193.92	500	5.10%	annually	no
Mortgage bonds VÚB, a.s., 53	SK4120007154 series 01	8.4.2010	8.4.2017	EUR	1,000,000.00	100	3M EURIBOR + 0.72%	quarterly	no
Mortgage bonds VÚB, a.s., 57	SK4120007436 series 01	30.9.2010	30.9.2018	EUR	1,000,000.00	100	6M EURIBOR +1.31%	semi – annually	no
Mortgage bonds VÚB, a.s., 58	SK4120007642 series 01	10.12.2010	10.12.2019	EUR	1,000,000.00	80	6M EURIBOR +1.80%	semi – annually	no
Mortgage bonds VÚB, a.s., 62	SK4120008004 series 01	28.7.2011	28.7.2018	EUR	1,000,000.00	100	6M EURIBOR + 1.99%	semi – annually	no
Mortgage bonds VÚB, a.s., 67	SK4120008228 series 01	29.11.2011	29.11.2030	EUR	50,000.00	300	5.35%	annually	no
Mortgage bonds VÚB, a.s., 70	SK4120008418 series 01	7.3.2012	7.3.2017	EUR	100,000.00	400	3.75%	annually	no
Mortgage bonds VÚB, a.s., 71	SK4120008541 series 01	2.5.2012	2.5.2017	EUR	20,000.00	750	3.90%	semi – annually	no
Mortgage bonds VÚB, a.s., 72	SK4120008608 series 01	21.6.2012	21.6.2027	EUR	100,000.00	250	4.70%	annually	no
Mortgage bonds VÚB, a.s., 73	SK4120008624 series 01	11.7.2012	11.7.2022	EUR	100,000.00	500	4.20%	annually	no
Mortgage bonds VÚB, a.s., 74	SK4120008939 series 01	16.1.2013	15.12.2023	EUR	100,000.00	700	3.35%	annually	no
Mortgage bonds VÚB, a.s., 75	SK4120009093 series 01	5.4.2013	5.4.2019	EUR	100,000.00	300	2.00%	annually	no
Mortgage bonds VÚB, a.s., 76	SK4120009101 series 01	22.4.2013	22.4.2018	EUR	10,000.00	309	2.40%	annually	no
Mortgage bonds VÚB, a.s., 77	SK4120009259 series 01	20.6.2013	20.6.2018	CZK	100,000.00	5,000	1.80%	annually	no
Mortgage bonds VÚB, a.s., 78	SK4120009820 series 01	3.3.2014	3.3.2020	EUR	10,000.00	905	2.16%	annually	no
Mortgage bonds VÚB, a.s., 79	SK4120009846 series 01	24.3.2014	24.9.2020	EUR	1,000.00	10,000	2.00%	annually	no

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., 80	SK4120009879 series 01	27.3.2014	27.3.2021	EUR	1,000,000.00	31	1.85%	annually	no
Mortgage bonds VÚB, a.s., 81	SK4120009887 series 01	27.3.2014	27.3.2024	EUR	1,000,000.00	38	2.55%	annually	no
Mortgage bonds VÚB, a.s., 82	SK4120010042 series 01	16.6.2014	16.12.2020	EUR	1,000.00	1,701	1.65%	annually	no
Mortgage bonds VÚB, a.s., 83	SK4120010141 series 01	28.7.2014	28.7.2019	EUR	100,000.00	500	0.90%	annually	no
Mortgage bonds VÚB, a.s., 84	SK4120010182 series 01	29.9.2014	30.9.2019	EUR	100,000.00	500	0.60%	annually	no
Mortgage bonds VÚB, a.s., 85	SK4120010364 series 01	14.11.2014	14.11.2029	EUR	100,000.00	500	2.25%	annually	no
Mortgage bonds VÚB, a.s., 86	SK4120010646 series 01	27.4.2015	27.4.2020	EUR	100,000.00	1,000	0.30%	annually	no
Mortgage bonds VÚB, a.s., 87	SK4120010794 series 01	9.6.2015	9.6.2025	EUR	100,000.00	1,000	1.25%	annually	no
Mortgage bonds VÚB, a.s., 88	SK4120011040 series 01	11.9.2015	11.9.2020	EUR	100,000.00	965	0.50%	annually	no
Mortgage bonds VÚB, a.s., 89	SK4120011065 series 01	29.9.2015	29.9.2025	EUR	100,000.00	1,000	1.20%	annually	no
Mortgage bonds VÚB, a.s., 90	SK4120011149 series 01	29.10.2015	29.10.2030	EUR	100,000.00	1,000	1.60%	annually	no
Mortgage bonds VÚB, a.s., 91	SK4120011529 series 01	21.3.2016	21.3.2023	EUR	100,000.00	1,000	0.60%	annually	no
Mortgage bonds VÚB, a.s., 92	SK4120011792 series 01	27.6.2016	27.6.2019	USD	100,000.00	700	1.70%	annually	no

All mortgage bonds issued by VÚB, a.s., are bearer bonds in book entry form. No person took any guarantee for the repayment of the nominal value and/or coupon payment.

As of 31 December 2016 VÚB, a.s., did not issue and did not decide to issue bonds with pre – emption rights or convertible rights associated therewith.

The bonds are transferable to another holder without any restrictions. The rights associated with the bonds are based on the terms and conditions of the bonds pursuant to Act No. 530/1990 Coll. on Bonds as amended, Act No 566/2001 Coll. on Securities as amended and in accordance with applicable legislation.

Information on 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., 2017	SK5110000273 series 01	18.12.2014	18.12.2017	EUR	1.00	101,200	0.00%	–	no
Investment certificates VÚB, a.s., 2018	SK5110000406 series 01	29.6.2015	29.6.2018	EUR	1.00	224,800	0.00%	–	no
Investment certificates VÚB, a.s., 2017 02	SK5110000562 series 01	13.6.2016	13.6.2017	EUR	1.00	28,950	0.00%	–	no
Investment certificates VÚB, a.s., 2019	SK5110000570 series 01	13.6.2016	13.6.2019	EUR	1.00	115,800	0.00%	–	no

During the accounting year 2016, the company issued the Investment certificates VÚB, a.s., 2017 02 and Investment certificates VÚB, a.s., 2019. The reason for issuing these certificates was to fulfil the obligations arising from the Act on Banks no. 483/2001 as amended in conjunction with Regulation EU No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and the internal procedure of VÚB, a.s. – Remuneration Policy. Based on these documents, part of the variable component of total compensation of selected personnel acc. to § 23a par. 1 of the Act on Banks is provided in the form of securities or other financial instruments.

Investment certificates issued by VUB, a.s., are registered securities in book – entry form. No person has taken any guarantee for the repayment of the nominal value and/or coupon payment.

No pre – emption or convertible rights are associated with investment certificates.

Investment certificates are not transferable to another holder. The rights associated with the investment certificates are based on the applicable legislation of the Slovak Republic, in particular on Act No 566/2001 Coll. on Securities as amended and in the relevant prospectus of the investment certificates.

List of VUB Retail Branches

Name	Postcode	Address	Tel. No.	Fax No.
Regional Retail Business Network Bratislava				
Bratislava – Gorkého	813 20	Gorkého 7	02/4855 3010	02/54131208
Bratislava – Poštová	811 01	Poštová 1	02/4855 3080	02/54417939
Bratislava – Aupark	851 01	Einsteinova 18	02/4855 3216	02/63451260
Bratislava – Páričkova	821 08	Páričkova 2	02/5055 2408	02/55566636
Bratislava – Dúbravka	841 01	Sch. Trnavského 6/A	02/4855 3110	02/64286205
Bratislava – Eurovea	811 09	Pribinova 8	02/4855 3252	02/55561876
Bratislava – Šintavská	851 05	Šintavská 24	02/4855 3170	02/63837097
Bratislava – Dunajská	811 08	Dunajská 24	02/4855 3126	02/52967136
Bratislava – Ružinov	827 61	Kaštielska 2	02/4856 3454	02/43339369
Bratislava – Dolné Hony	821 06	Kazanská 41	02/4855 3274	02/45258300
Bratislava – Polus	831 04	Vajnorská 100	02/4855 3280	02/44441185
Bratislava – OC Centrál	821 08	Metodova 6	02/4855 3325	02/55425941
Bratislava – Avion	821 04	Ivánska cesta 16	02/4855 3353	02/43420315
Bratislava – Devínska N. Ves	841 07	Eisnerova 48	02/4855 3156	02/64776550
Bratislava – Špitálska	811 01	Špitálska 10	02/4855 3389	02/52965422
Bratislava – Rovniankova	851 02	Rovniankova 3/A	02/4855 3186	02/63821608
Bratislava – Vlastenecké nám.	851 01	Vlastenecké námestie 6	02/4855 3200	02/62248138
Bratislava – Furdekova	851 04	Furdekova 16	02/4855 3244	02/62414278
Bratislava – Lamač	841 03	Heyrovského 1	02/4855 3150	02/64780726
Bratislava – Dlhé Diely	841 05	Ľ. Fullu 5	02/4855 3188	02/65316602
Bratislava – Karlova Ves	841 04	Borská 5	02/4855 3215	02/65425825
Bratislava – OC BORY MALL	841 03	Lamač 6780	02/4855 3434	
Bratislava – Kramáre	831 01	Stromová 54	02/4855 3230	02/54788084
Bratislava – Dulovo nám.	821 08	Dulovo nám. 1	02/4855 3053	02/55969455
Bratislava – Rača	831 06	Detvianska 22	02/4855 3318	02/44871025
Bratislava – Herlianska	821 03	Komárnická 11	02/4855 3310	02/4342 5604
Bratislava – Račianska	831 03	Račianska 54	02/4855 3071	02/44453888
Bratislava – Magnifica	811 09	Pribinova 8	02/4855 3476	
Mortgage Centres				
Bratislava – Poštová	811 01	Poštová 1	02/4855 3005	02/54417956
Bratislava – Aupark	851 01	Einsteinova 18	02/5955 8426	02/55567829
Bratislava – Páričkova	821 08	Páričkova 2	02/5055 2264	02/55567829
Regional Retail Business Network West				
Trnava – Dolné bašty	917 68	Dolné bašty 2	033/485 4409	033/5333056
Piešťany	921 01	Námestie slobody 11	033/485 4535	033/7721080
Nové Zámky	940 33	Hlavné námestie 5	035/485 4700	035/6400841
Komárno	945 23	Tržničné námestie 1	035/485 4745	035/7730652
Pezinok	902 01	Štefánikova 14	033/485 4593	033/6413077
Malacky	901 01	Záhorácka 15	034/485 6082	034/7723848
Senec	903 01	Námestie 1. mája 25	02/4855 3292	02/45924248
Hlohovec	920 01	Podzámska 37	033/485 4521	033/7425571
Trnava – Hlavná	917 68	Hlavná 31	033/485 4490	033/5511725
Senica	905 33	Nám. oslobodenia 8	034/485 6000	034/6517900

Dunajská Streda	929 35	Alžbetínske nám. 328	031/485 4000	031/5516205
Galanta	924 41	Mierové námestie 2	031/485 4027	031/7806029
Šaľa	927 00	Hlavná 5	031/485 4062	031/7704576
Topoľčany – Moyzesova	955 19	Moyzesova 585/2	038/485 6214	038/5228061
Bánovce nad Bebravou	957 01	Námestie Ľ. Štúra 5/5	038/485 6269	038/7602993
Partizánske	958 01	L. Svobodu 4	038/485 6288	038/7497247
Nové Mesto nad Váhom	915 01	Hviezdoslavova 19	032/485 4291	032/7715070
Modra	900 01	Štúrova 68	033/485 4411	033/6475535
Stupava	900 31	Mlynská 1	02/4855 3256	02/65936735
Ivanka pri Dunaji	900 28	Štefánikova 25/A	02/4855 3405	02/45945042
Leopoldov	920 41	Hollého 649/1	033/485 4560	033/7342290
Smolenice	919 04	SNP 81	033/485 4562	033/5586610
Trnava – Arkadia	917 01	Veterná 40/A	033/485 4556	033/5936643
Holíč	908 51	Bratislavská 1518/7	034/485 6067	034/6684473
Myjava	907 01	Nám. M.R.Štefánika 525/21	034/485 6057	034/6212595
Kúty	908 01	Nám. Radlinského 981	034/485 6076	031/6597790
Skalica	909 01	Potočná 20	034/485 6048	034/6646778
Šaštín – Stráže	908 41	Námestie slobody 648	034/485 6079	034/6580591
Šamorín	931 01	Hlavná 64	031/485 4097	031/5624305
Veľký Meder	932 01	Komárňanská 135/22	031/485 4116	031/5552284
Gabčíkovo	930 05	Mlynársky rad 185/1	031/485 4106	031/5594995
Zlaté Klasy	930 39	Hlavná 836/17	031/485 4117	031/5692073
Sereď	926 00	Cukrovarská 3013/1	031/485 4082	031/7894650
Sládkovičovo	925 21	Fučíkova 131	031/485 4108	031/7841835
Vrbové	922 03	Nám. Slobody 285/9	033/485 4276	033/7792696
Topoľčany – Pribinova	955 01	Pribinova 2	038/485 6243	038/5326900
Stará Turá	916 01	SNP 275/67	032/485 4301	032/7763445
Tvrdošovce	941 10	Bratislavská cesta 3	035/485 4796	035/6492201
Hurbanovo	947 01	Komárňanská 98	035/485 4783	035/7602216
Kolárovo	946 03	Palkovicha 34	035/485 4785	035/7772550
Dolné Vestenice	972 23	M. R. Štefánika 300	046/485 7162	046/5498308
Trnava – Magnifica	917 68	Dolné bašty 2	033/485 4490	
Mortgage Centres				
Trnava – Dolné bašty	917 68	Dolné bašty 2	033/485 4440	033/5333055

Regional Retail Business Network Centre

Prievidza	971 01	Námestie slobody 10	046/485 7100	046/5426878
Banská Bystrica	975 55	Námestie slobody 1	048/450 5550	048/4505641
Nitra – Štefánikova 44	949 31	Štefánikova 44	037/485 4807	037/6528754
Levice	934 01	Štúrova 21	036/485 6118	036/6312600
Zlaté Moravce	953 00	Župná 10	037/485 4889	037/6321266
Nitra – OC Mlyny	949 01	Štefánikova 61	037/485 4877	037/4854930
BB – SC Európa	974 01	Na troskách 26	048/485 5383	048/4145101
Žiar nad Hronom	965 01	Námestie Matice slov. 21	045/485 6870	045/6707840
Zvolen	960 94	Námestie SNP 2093/13	045/485 6800	048/4123908
Lučenec	984 35	T. G. Masaryka 24	047/485 7205	047/4331501
Veľký Krtíš	990 20	Novohradská 7	047/485 7264	047/4805687

Rimavská Sobota	979 13	Francisciho 1	047/485 7228	047/5631213
Handlová	972 51	SNP 1	046/485 7146	046/5476418
Nitrianske Pravno	972 13	Námestie SNP 389	046/485 7152	046/5446437
Nováky	972 71	Andreja Hlinku 457	046/485 7156	046/5461145
Prievidza – Bojnická cesta	971 01	Bojnická cesta 15	046/485 7130	046/5482436
Vráble	952 01	Levická 1288/16	037/485 4907	037/7833023
Nitra – Štefánikova 7	949 31	Štefánikova 7	037/485 4901	037/7412057
Centro Nitra	949 01	Akademická 1/A	037/485 4918	037/6512013
Štúrovo	943 01	Hlavná 59	036/485 6147	036/7511308
Šurany	942 01	SNP 25	035/485 4768	035/6500044
Želiezovce	937 01	Komenského 8	036/485 6164	036/7711088
Šahy	936 01	Hlavné námestie 27	036/485 6152	036/7411723
Turčianske Teplice	039 01	Hájska 3	043/485 6725	043/4924015
Brezno	977 01	Boženy Němcovej 1/A	048/485 5378	048/6115595
Banská Bystrica – Dolná	975 55	Dolná 17	048/485 5409	048/4123908
Kremnica	967 01	Medzibránie 11	045/485 6950	045/6743861
Banská Štiavnica	969 01	Radničné námestie 15	045/485 6903	045/6921047
Nová Baňa	968 01	Námestie slobody 11	045/485 6935	045/6855115
Žarnovica	966 81	Námestie SNP 26	045/485 6953	045/6812380
Krupina	963 01	Svätotrojičné námestie 8	045/485 6929	045/5511431
Hriňová	962 05	Hriňová 1612	045/485 6897	045/5497221
Detva	962 11	M. R. Štefánika 65	045/485 6913	045/5455461
Zvolen – SC Európa	960 01	Námestie SNP 9690/63	045/485 6828	
Fiľakovo	986 01	Biskupická 1	047/485 7271	047/4382227
Poltár	987 01	Sklárska 289	047/485 7288	047/4223370
Hnúšťa	981 01	Francisciho 372	047/485 7284	047/5422241
Tornaľa	982 01	Mierová 37	047/485 7294	047/5522676
Revúca	050 01	Námestie slobody 3	058/485 8976	058/4421515
Vinica	991 28	Cesta slobody 466/41	047/485 7303	047/4891502
Nitra – Magnifica	949 31	Štefánikova 44	037/485 4808	
Mortgage Centres				
Nitra	949 31	Štefánikova 44	037/485 4838	037/6528754
Banská Bystrica	975 55	Námestie slobody 1	048/450 5590	048/4505670

Regional Retail Business Network North

Považská Bystrica	017 21	Nám. A. Hlinku 23/28	042/485 6500	042/4309841
Žilina	010 43	Na bráne 1	041/485 6306	041/7247136
Čadca	022 24	Fraňa Kráľa 1504	041/485 6375	041/4331095
Martin	036 53	M. R. Štefánika 2	043/485 6627	043/4247297
Trenčín	911 62	Mierové námestie 37	032/485 4235	032/7431450
Dubnica nad Váhom	018 41	Nám. Matice slov. 1712/7	042/485 6543	042/4425027
Púchov	020 01	Námestie slobody 1657	042/485 6578	042/4642368
Žilina – Dubeň	010 08	Vysokoškolákov 52	041/485 6417	041/5000316
Žilina – Aupark	010 01	Veľká okružná 59A	041/485 6332	041/50921181
Dolný Kubín	026 01	Radlinského 1712/34	043/485 6682	043/5864006
Poprad	058 17	Mnoheľova 2832/9	052/485 7842	052/7721182
Liptovský Mikuláš	031 31	Štúrova 19	044/485 7009	044/5514925

Ružomberok	034 01	Podhora 48	044/485 7037	044/4323146
Trenčín – OC Laugarício	911 01	Belá 7271	032/485 4320	032/6421717
Trenčín – Legionárska	911 01	Legionárska 7158/5	032/485 4205	032/6401649
Ilava	019 01	Mierové námestie 77	042/485 6595	042/4465902
Nová Dubnica	018 51	Mierove námestie 29/34	042/485 6581	042/4434032
Lednické Rovne	020 61	Námestie slobody 32	042/485 6598	042/4693217
Bytča	014 01	Sidónie Sakalovej 138/1	041/485 6409	041/5533579
Rajec	015 01	Hollého 25	041/485 6437	041/5422877
Žilina – Nám. A. Hlinku	010 43	Nám. A. Hlinku 1	041/485 6413	041/5626194
Kysucké Nové Mesto	024 01	Námestie Slobody 184	041/485 6433	041/4213687
Turzovka	023 54	R. Jašíka 20	041/485 6448	041/4352579
Námestovo	029 01	Hviezdoslavovo nám. 200/5	043/485 6706	043/5523175
Tvrdošín	027 44	Trojičné nám. 191	043/485 6745	043/5322658
Trstená	028 01	Nám. M. R. Štefánika 15	043/485 6712	043/5392559
Nižná	027 43	Nová Doba 481	043/485 6756	043/5382162
Vrútky	038 61	1. čsl. brigády 12	043/485 6732	043/4284133
Martin – OC Tulip	036 01	Pltníky 2	043/485 6669	043/4134713
Svit	059 21	Štúrova 87	052/485 7914	052/7755154
Kežmarok	060 01	Hviezdoslavova 5	052/485 7899	052/4524806
Spišská Belá	059 01	SNP 2522	052/485 7934	052/4581022
Poprad – OC Forum	058 01	Nám. sv. Egídia 3290/124	052/485 7830	052/7723192
OC MAX Poprad	058 01	Dlhé hony 4588/1	052/485 7942	052/4523258
Liptovský Hrádok	033 01	J. Martinku 740/56	044/485 7054	044/5221397
Trenčín – Zámostie	911 05	Zlatovská 2610	032/485 4311	032/6523321
Zákamenné	029 56	Zákamenné 23	043/485 6761	043/5592295
Liptovský Mikuláš – OC Jasná	031 31	Garbiarska 695	044/485 7060	044/5528361
Trenčín – Magnifica	911 01	Legionárska 7158/5	032/485 4212	
Žilina – Magnifica	010 43	Na bráne 1	041/485 6306	
Mortgage Centres				
Trenčín	911 01	Legionárska 7158/5	032/485 4218	032/7434947
Žilina	010 43	Na bráne 1	041/485 6326	041/5678051
Poprad	058 17	Mnoheľova 2832/9	052/485 7817	052/7721140

Regional Retail Business Network East

Prešov	081 86	Masarykova 13	051/485 7518	051/7356362
Michalovce	071 80	Námestie slobody 3	056/485 8420	056/6441077
Rožňava	048 73	Šafárikova 21	058/485 8955	058/7326421
Spišská Nová Ves	052 14	Letná 33	055/485 7611	053/4410422
Stará Ľubovňa	064 01	Obchodná 2	052/485 7873	052/4323491
Vranov nad Topľou	093 01	Námestie slobody 6	057/485 8539	057/4406439
Bardejov	085 61	Kellerova 1	054/485 8302	054/4746389
Humenné	066 80	Námestie slobody 26/10	057/485 8514	057/7705141
Košice – Štúrova	042 31	Štúrova 27/A	055/485 8006	055/6229334
Košice – Hlavná 1	042 31	Hlavná 1	055/485 8002	055/6226250
Košice – Letná	040 01	Letná 40	055/485 8159	055/6259979
Trebišov	075 17	M.R. Štefánika 3197/32	056/485 8450	056/6725901
Levoča	054 01	Nám. Majstra Pavla 38	053/485 7624	053/4514316

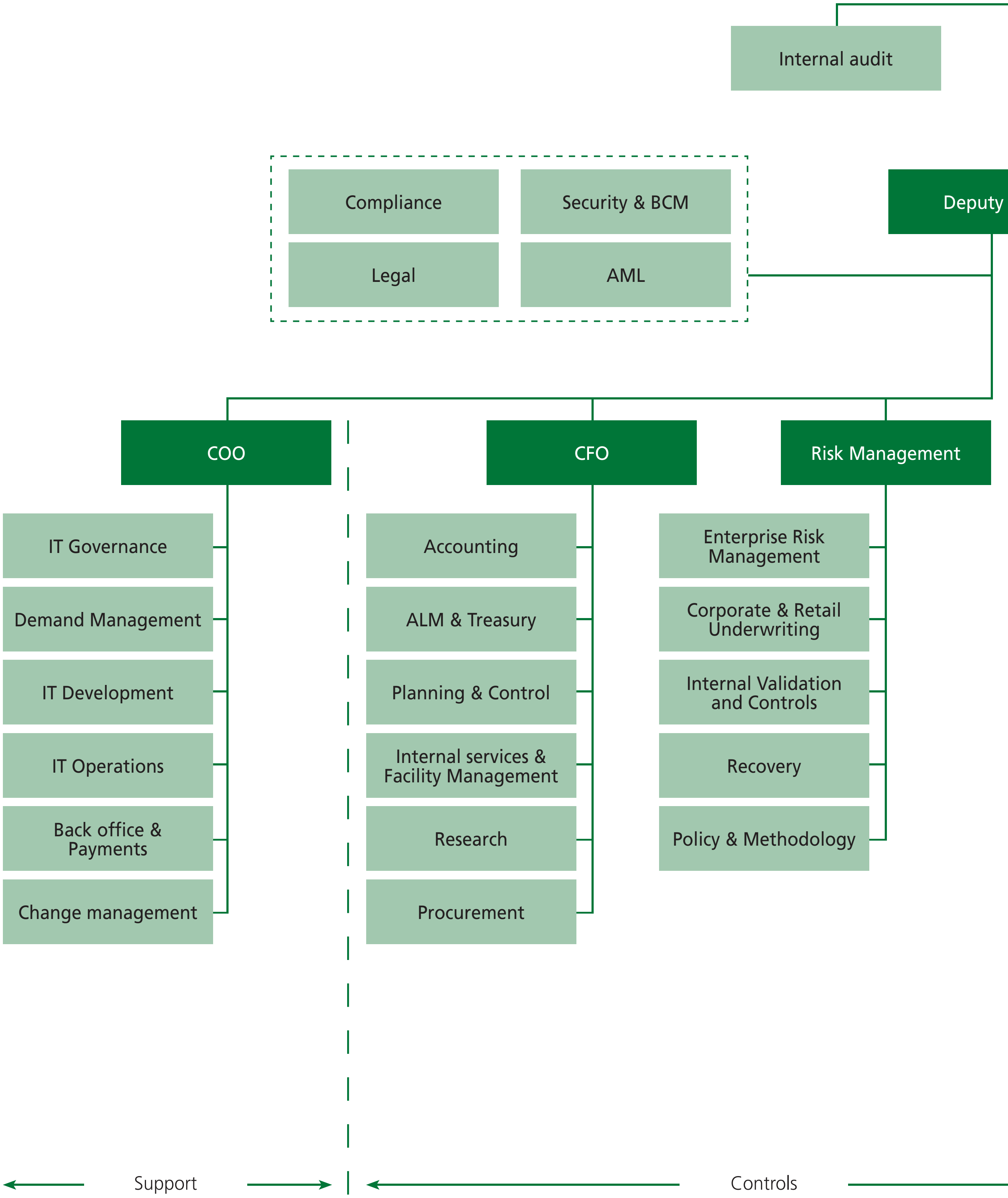
Krompachy	053 42	Lorencova 20	053/485 7638	053/4472251
Spišské Podhradie	053 04	Mariánske nám. 22	053/485 7641	053/4541257
Gelnica	056 01	Banícke nám. 52	053/485 7634	053/4821104
Sabinov	083 01	Námestie slobody 90	051/485 7597	051/4523492
Lipany	082 71	Nám. sv. Martina 8	051/485 7586	051/4572777
Prešov – Hlavná	080 01	Hlavná 61	051/485 7570	051/7723617
OC MAX Prešov	080 01	Vihorlatská 2A	051/485 7578	051/7757079
Svidník	089 27	Centrálna 584/5	054/485 8331	054/7521691
Stropkov	091 01	Mlynská 692/1	054/485 8347	054/7423714
Hanušovce nad Topľou	094 31	Komenského 52	057/485 8580	057/4452805
Giraltovce	087 01	Dukelská 58	054/485 8355	054/7322625
Snina	069 01	Strojárska 2524	057/485 8562	057/7622328
Medzilaborce	068 10	Mierová 289/1	057/485 8586	057/7321546
Košice – Trieda L. Svobodu	040 22	Trieda L. Svobodu 12	055/485 8199	055/6718160
Košice – Bukovecká	040 12	Bukovecká 18	055/485 8174	055/6746253
Košice – Sídlisko KVP	040 23	Trieda KVP 1	055/485 8192	055/6429673
Košice – OC Optima	040 11	Moldavská cesta 32	055/485 8184	055/6461043
Košice – Hlavná 41	040 01	Hlavná 41	055/480 8210	055/6223987
Košice – OC Galéria	040 11	Toryská 5	055/485 8214	055/6421011
Košice – Bačíkova	042 81	Bačíkova 2	055/485 8111	055/6786083
Moldava nad Bodvou	045 01	Hviezdoslavova 13	055/485 8160	055/4602992
Košice – Ťahanovce	040 13	Americká trieda 15	055/485 8188	055/6366063
Michalovce – mesto	071 01	Nám. Osloboditeľov 2	056/485 8467	056/6424281
Strážske	072 22	Nám.A.Dubčeka 300	056/485 8401	056/6491633
Sobrance	073 01	Štefánikova 9	056/485 8494	056/6523300
Kráľovský Chlmec	077 01	Hlavná 710	056/485 8475	056/6321045
Veľké Kapušany	079 01	Sídl.P.O.Hviezdoslava 79	056/485 8480	056/6383043
Sečovce	078 01	Nám.Sv.Cyrila a Metoda 41/23	056/485 8487	056/6782277
Podolinec	065 03	Ul. Sv. Anny 1	052/485 7931	052/4391295
Humenné – Chemes	066 01	Chemlonská 1	057/485 8592	057/7763595
Prešov – Magnifica	081 86	Masarykova 13	051/485 7512	
Košice – Magnifica	042 31	Štúrova 27/A	055/485 8013	
Mortgage Centres				
Prešov	081 86	Masarykova 13	051/485 7558	051/7734609
Košice	042 31	Štúrova 27/A	055/485 8031	055/6229334

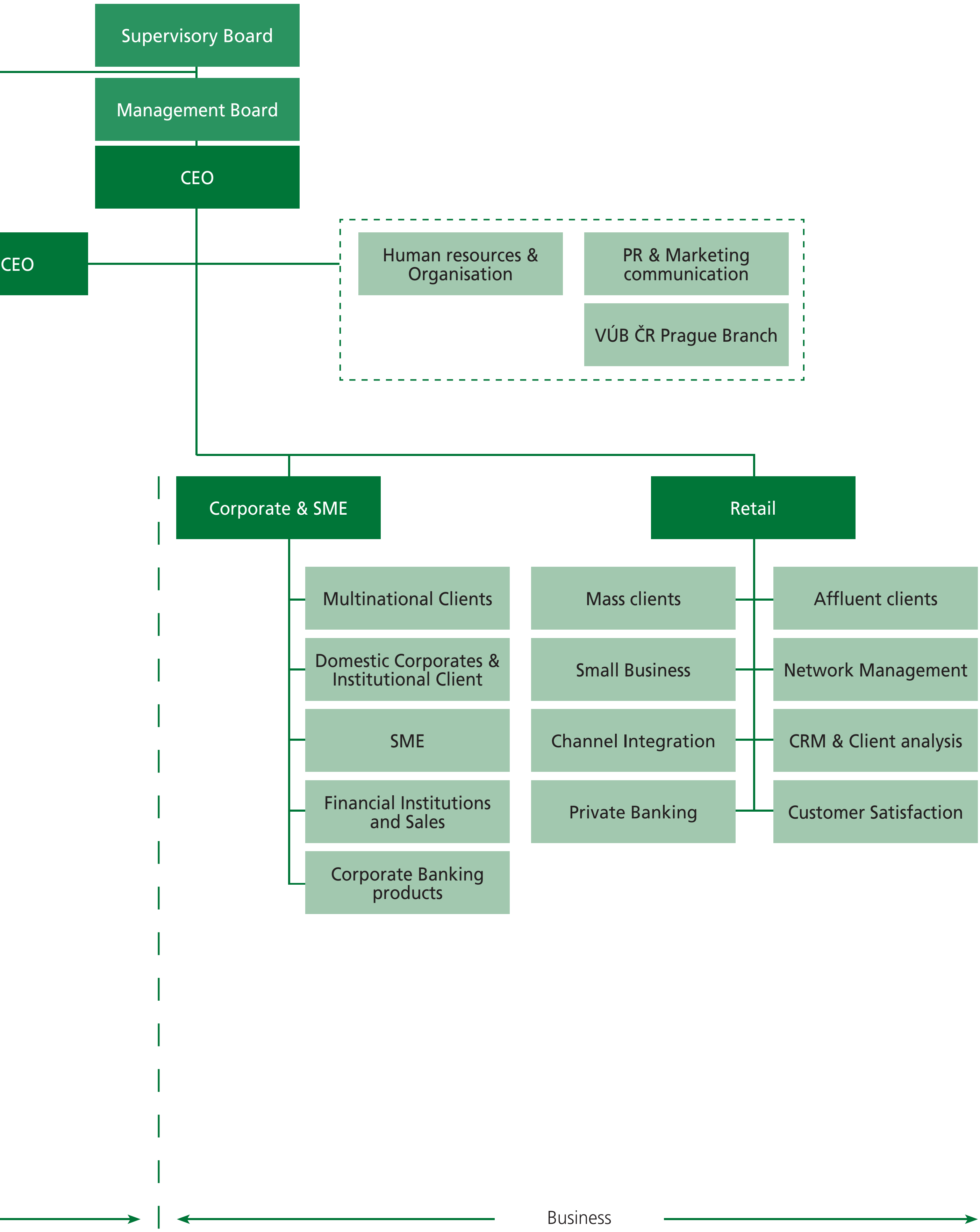
List of VUB Corporate branches

Corporate Business Centre Bratislava		
BRATISLAVA	Mlynské nivy 1	02 / 5055 2765
Corporate Business Centre Bratislava 2		
BRATISLAVA	Mlynské nivy 1	02 / 5055 2600
Corporate Business Centre Trnava		
TRNAVA	Dolné bašty 2	033 / 485 4447
SENICA	Nám. oslobodenia 8	034 / 485 6037
Corporate Business Centre Nitra		
NITRA	Štefánikova 44	037 / 485 4844
TOPOĽČANY	Moyzesova 585/2	038 / 485 6237
LEVICE	Štúrova 21	036 / 485 6135
Corporate Business Centre Nové Zámky		
NOVÉ ZÁMKY	Hlavné námestie 5	035 / 485 4738
KOMÁRNO	Tržničné nám. 1	035 / 485 4764
GALANTA	Mierové námestie 2	031 / 485 4054
DUNAJSKÁ STREDA	Alžbetínske nám. 328	031 / 485 4024
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 6399
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 5487
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 7032
SPIŠSKÁ NOVÁ VES	Letná 33	053 / 485 7621
Corporate Business Centre Prešov		
PREŠOV	Masarykova 13	051 / 485 7564
BARDEJOV	Kellerova 1	054 / 485 8328
VRANOV NAD TOPĽOU	Námestie slobody 6	057 / 485 8560
HUMENNÉ	Námestie slobody 26/10	057 / 485 8530
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 2016




Supervisory Board
Management Board
CEO
CEO
Human resources & Organisation
PR & Marketing communication
VÚB ČR Prague Branch
Corporate & SME
Retail
Multinational Clients
Domestic Corporates & Institutional Client
SME
Financial Institutions and Sales
Corporate Banking products
Mass clients
Small Business
Channel Integration
Private Banking
Affluent clients
Network Management
CRM & Client analysis
Customer Satisfaction
Business

Martin Kiman
(1985, Košice)
Cold, cold, heat, heat
2016, oil-on-canvas 155 × 180 cm

It is the third time that Martin Kiman qualified for the finals of the 11th year of *Maľba* Competition. This project supporting the young Slovak arts is organised by the VUB Bank along with the VUB Foundation. *Maľba* became a prestigious and sole artistic competition in Slovakia. It is an every autumn event of the season. Apart from exhibition it is also an opportunity to introduce young talented artists to the public and to contribute to promotion of fine arts. Since its beginning in 2006, *Maľba* presented in the accompanying exhibitions more than two hundred talented finalists and honoured artists. The award-winning art works, selected by international experts, prominent art gallery owners, active artists, art historians, and art theoreticians, represent the contemporary trends in Slovak painting.