Basel 3 Pillar 3
NBS decree 16/2014
and Part Eight of Regulation (EU) No. 575/2013
Disclosure as at 31 December 2021

VÚB BANKA

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1. Introduction

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

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

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

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

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

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

2.1 Information about VUB Group

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

The consolidated financial statements comprise the Bank and its subsidiaries (together referred to as 'the VUB Group' or 'the Group') and the Group's interest in associates and joint ventures (please refer to section 3 for detailed description of companies included in the consolidation).

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

Management Board
Governance Centre CEO
- ➢ PR and Marketing Communication
- ➢ HR & Organization
- ➢ VUB CR Prague Branch
- ➢ Corporate and SME
  - Corporate Banking products
  - Small and Medium Enterprises
  - Multinational Clients
  - Domestic Corporates & Institutional Client
  - GTB Sales Support
- ➢ Retail
  - Multichannel and CRM
  - Small Business
  - Mass clients
  - Affluent clients and Private banking
  - Network Management
  - Quatro

Governance Centre CEO Deputy
- ➢ AML
- ➢ Compliance
- ➢ Legal
- ➢ Chief financial officer
  - Accounting
  - Procurement
  - Planning and Controlling
  - Treasury and ALM
- ➢ Chief operating officer
  - Logistics
  - Back office & Payments
  - ICT
  - Data & Warehousing Applications
  - Infrastructure & Telecommunications
  - Multi channels & CRM applications
- ➢ Risk Management
  - Credit
  - Credit Management
  - Policy and Methodology
  - Risk Management

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

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Headcount

Total number of employees:	3,321
thereof Managers:	423
Members of the Management Board:	7

Date of registration in the Companies Register[2]
1.1.1990 - Registration in the Public Companies Register
1.4.1992 - Registration in the Companies Register

Bank license issued
1.1.1990 – for VUB, Inc.

Commencement date of the execution of licensed banking activities
1.1.1990

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

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List of business activities according to the bank license[3]

In compliance with § 2 of the Banking Act No 483/2001, the bank, except of
acceptance of deposits and provision of loans, may carry on the following banking activities;

1. provision of payment services and settlement;
2. investments in securities on Bank´s behalf, provision of the investment services, activities and supporting business
3. trading on the bank's own account:
   a) with money market financial instruments in EUR and foreign currency, with gold, including exchange operations;
   b) with capital market financial instruments in EUR and foreign currency;
   c) in precious metal coins, commemorative bank notes and coins, bank note sheets and circulating coin sets;
4. management of client's receivable on the client's account, including related advisory services;
5. financial leasing;
6. provision of guarantees, opening and validation of Letters of Credit;
7. providing advisory services in commercial matters;
8. issuance of securities, participation in issuance of securities, and provision of related services;
9. financial mediation services;
10. things deposit;
11. lease of safe deposit boxes;
12. provision of banking information;
13. special mortgage business under Section § 67 art. 1 of the Banking Act;
14. depositary duty pursuant to specific regulations;
15. managing banknotes and coins;
16. issuing and administration of electronic money.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xiii) services associated with financial instruments´ underwriting;

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

Banking Supervision Decree No-169/2001 dated 9.2.2001
– generation and distribution of heat, and distribution of electricity to the extent of the VÚB application

Banking Supervision Decree No-192/2000 dated 11.2.2000

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

Banking Supervision Decree No-2057/2002 dated 3.1.2003

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

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

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

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

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

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

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

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

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

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

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

List of business activities conduct of which has been restricted, suspended or cancelled by the relevant authority[5]
Non-performed activities have not been kept in Bank in the 4th quarter 2021.

Quotation of the statement section of the lawful decision imposing a corrective measure during the calendar quarter[6]
Non-performed activities have not been kept in Bank in the 4th quarter 2021.

Quotation of the statement section of the lawful decision imposing a penalty during the calendar quarter[7]
Non-performed activities have not been kept in Bank in the 4th quarter 2021.

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

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

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Aggregate amount of exposures for VUB Group as at 31 December 2021 [9]

	Gross carrying amount in ths. EUR			
	Assets without significant increase in credit risk since initial recognition (Stage 1)	**Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)**	**Credit-impaired assets (Stage 3)**	**Defaulted exposures**
Central banks	2,419,835	-	-	-
Financial assets at AC:				
Due from other banks	1,818,800	701	-	-
Due from customers:				
Public Administration	198,572	7,426	-	-
Corporate	5,667,010	316,789	82,746	82,746
Retail	9,868,834	585,087	279,989	279,989
	17,553,216	910,003	362,735	362,735
Financial assets at FVOCI - debt securities	1,664,143	-	-	-
Financial commitments and contingencies	5,219,620	186,417	23,521	23,521

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

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

a) natural person: none

b) natural person – entrepreneur: none

c) legal person:

1. name (trade name)	Intesa Sanpaolo Holding International S. A.
2. legal form and registered office	a joint – stock company, Luxembourg
3. identification and matriculation number	0001000779; B 44318
4. principal business activity	acquisition of capital participations
5. share in the bank's registered capital	100%
6. share in the bank's voting rights	100%

d) municipality or higher territorial unit: none

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

f) state authority: none

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

a) number of bank shareholders: none

b) total share in the bank's registered capital: none

c) share in the voting rights in the bank: none

[10] NBS decree 16/2014 §1, section 5a-b)
[11] NBS decree 16/2014 §1, section 6a-c)

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Information about Covered Bonds and Mortgage Bonds[12]

Part A

Total overview of issued bonds and their coverage

		CD and re-registered MB							**MB**				
No.r.	**Characteristics**	**Amount**	**Accrued Interest / relative value**	**Amount per Currency**					**Amount**	**Accrued Interest**	**Amount per Currency**		
				EUR	**USD**	**GBP**	**CZK**	**Other**			**USD**	**CZK**	**Other**
a	**b**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**11**	**12**	**13**
1	Nominal amount of issued bonds (in ths. EUR)	3,767,707	13,628	3,767,707	0	0	0	0	0	0	0	0	0
2	*out of which: on own account*	0	0	0	0	0	0	0					
3	Number of issues	22		22	0	0	0	0	0		0	0	0
4	Weighted average maturity of outstanding amount of CB and MB (in years)	3.92		3.92	0	0	0	0	0		0	0	0
5	Weighted average interest rate of CB and MB	0.73%		0.73%	0.00%	0.00%	0.00%	0.00%	0		0	0	0
6	Anticipated liabilities (in ths. EUR)	27		27	0	0	0	0					
7	Cover pool (in ths. EUR)	4,181,686	5,037	4,181,686	0	0	0	0	0	0	0	0	0
8	Current coverage ratio		110.72						0				
9	Legal coverage	189,068	5.00%										
10	Higher coverage	0	0										
11	Current rating of issued CB and MB	Aa1							0				

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

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Part B

Nr.r.	Asset structure of the cover pool	Total Amount (in ths. EUR)	Share of the Cover Pool	Amount per Currency					Total Amount	Share of the Cover Pool	Amount per Currency		
				EUR	USD	GBP	CZK	Other			USD	CZK	Other
a	b	1	2	3	4	5	6	7	8	9	11	12	13
12	Base assets / Base coverage	4,179,478	99.95%	4,179,478	0	0	0	0	0	0	0	0	0
13	Substitute assets / Substitute coverage	0	0.00	0	0	0	0	0	0	0	0	0	0
14	Hedging derivatives	0	0.00	0	0	0	0	0					
15	Liquid assets	2,208	0.05%	2,208	0	0	0	0					

Part C
Residual maturity structure of issued bonds and covering assets

Nr.r.	Time horizon	CB and re-registered MB			MB		
		Total Amount (in ths. EUR)	Base Asset Amount (in ths. EUR)	Substitute Asset Amount (in ths. EUR)	Total Amount	Base Coverage (asset value)	Substitute Coverage (asset value)
a	b	1	2	3	4	5	6
26	from 0 - to 1 year including	300,000	2,379	0	0	0	0
27	from 1 - to 2 years including	420,000	8,053	0	0	0	0
28	from 2 - to 5 years including	2,004,597	61,138	0	0	0	0
29	from 5 - to 10 years including	990,000	240,619	0	0	0	0
30	from 10 - to 15 years including	33,194	417,679	0	0	0	0
31	from 15 - to 20 years including	19,916	729,988	0	0	0	0
32	from 20 - to 25 years including	0	1,072,216	0	0	0	0
33	from 25 - to 30 years including	0	1,647,406	0	0	0	0
34	**Weighted average maturity in years**	3.92	21.60	0	0	0	0

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Part D
Regional breakdown of assets by place of immovable collateral

Nr.r.	Place of immovable collateral	CB and re-registered MB			MB		
		Immovable Collateral Value (in ths. EUR)	Base Assets Value (in ths. EUR)	Weighted Average Interest Rate	Collateral Value	Base Assets Value	Weighted Average Interest Rate
a	b	1	2	3	4	5	6
16	Bratislava - city	1,999,056	1,045,678		0	0	
17	Banská Bystrica Region	538,819	269,986		0	0	
18	Bratislava Region (without Bratislava-city)	965,467	499,138		0	0	
19	Košice Region	715,191	370,048		0	0	
20	Nitra Region	815,420	428,893		0	0	
21	Prešov Region	610,311	301,714		0	0	
22	Trenčín Region	726,856	362,927		0	0	
23	Trnava Region	975,003	494,665		0	0	
24	Žilina Region	832,270	406,429		0	0	
25	**SR - total**			1.11			0

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Own funds, risk-weighted assets, capital ratios and leverage ratio disclosure[13]

Nr.r.	Data	31 Dec 2021	30 Sept 2021	30 June 2021	31 March 2021	31 Dec 2020
a	b	1	2	3	4	5
	Available capital (in EUR)					
1	Common Equity Tier 1 (CET1) capital	1,589,888,437	1,588,228,388	1,585,205,153	1,588,309,070	1,513,064,297
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements were not applied	1,567,450,187	1,565,790,138	1,562,766,903	1,565,870,820	1,481,650,747
2a	Common Equity Tier 1 (CET1) capital as if temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in line with article 468 of Regulation were not applied	1,589,888,437	1,588,228,388	1,585,205,153	1,588,309,070	1,513,064,297
3	Tier 1 capital	1,589,888,437	1,588,228,388	1,585,205,153	1,588,309,070	1,513,064,297
4	Tier 1 capital as if IFRS 9 transitional arrangements were not applied	1,567,450,187	1,565,790,138	1,562,766,903	1,565,870,820	1,481,650,747
4a	Tier 1 capital as if temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in line with article 468 of Regulation were not applied	1,589,888,437	1,588,228,388	1,585,205,153	1,588,309,070	1,513,064,297
5	Total capital	1,799,249,733	1,790,717,051	1,782,456,340	1,785,186,011	1,705,867,383
6	Total capital as if IFRS 9 transitional arrangements were not applied	1,781,952,136	1,773,419,454	1,765,158,743	1,767,888,414	1,681,650,747
6a	Total capital as if temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in line with article 468 of Regulation were not applied	1,799,249,733	1,790,717,051	1,782,456,340	1,785,186,011	1,705,867,383
	Risk-weighted assets (in EUR)					
7	Total risk-weighted assets	9,220,026,909	9,210,752,112	9,135,461,226	8,840,728,273	9,080,315,586
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9,203,878,778	9,194,438,198	9,119,343,270	8,824,408,130	9,057,611,932

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

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Own funds, risk-weighted assets, capital ratios and leverage ratio disclosure (continued)

Nr.r.	Data	31 Dec 2021	30 Sept 2021	30 June 2021	31 March 2021	31 Dec 2020
a	b	1	2	3	4	5
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	17.24%	17.24%	17.35%	17.97%	16.66%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	17.03%	17.03%	17.14%	17.74%	16.36%
10a	Common Equity Tier 1 (as a percentage of risk exposure amount) as if temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in line with article 468 of Regulation were not applied	17.24%	17.24%	17.35%	17.97%	16.66%
11	Tier 1 (as a percentage of risk exposure amount)	17.24%	17.24%	17.35%	17.97%	16.66%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	17.03%	17.03%	17.14%	17.74%	16.36%
12a	Tier 1 (as a percentage of risk exposure amount) as if temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in line with article 468 of Regulation were not applied	17.24%	17.24%	17.35%	17.97%	16.66%
13	Total capital (as a percentage of risk exposure amount)	19.51%	19.44%	19.51%	20.19%	18.79%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	19.36%	19.29%	19.36%	20.03%	18.57%
14a	Total capital (as a percentage of risk exposure amount) as if temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in line with article 468 of Regulation were not applied	19.51%	19.44%	19.51%	20.19%	18.79%

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Own funds, risk-weighted assets, capital ratios and leverage ratio disclosure (continued)

Nr.r.	Data	31 Dec 2021	30 Sept 2021	30 June 2021	31 March 2021	31 Dec 2020
a	b	1	2	3	4	5
	Leverage ratio					
15	Leverage ratio total exposure measure (in EUR)	25,118,993,949	24,199,702,965	22,275,147,209	21,507,067,339	21,103,551,868
16	Leverage ratio	6.33%	6.56%	7.12%	7.39%	7.17%
17	Leverage ratio as if IFRS 9 transitional arrangements were not applied	6.22%	6.45%	6.99%	7.28%	7.02%
17a	Leverage ratio as if temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in line with article 468 of Regulation were not applied	6.33%	6.56%	7.12%	7.39%	7.17%

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

Trade name	% share	Registered office	Company ID No.
Intesa Sanpaolo Holding International S.A.	100.00	28 Boulevard de Kockelscheuer, L-1821, Luxembourg, Luxembourg	B 44318

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

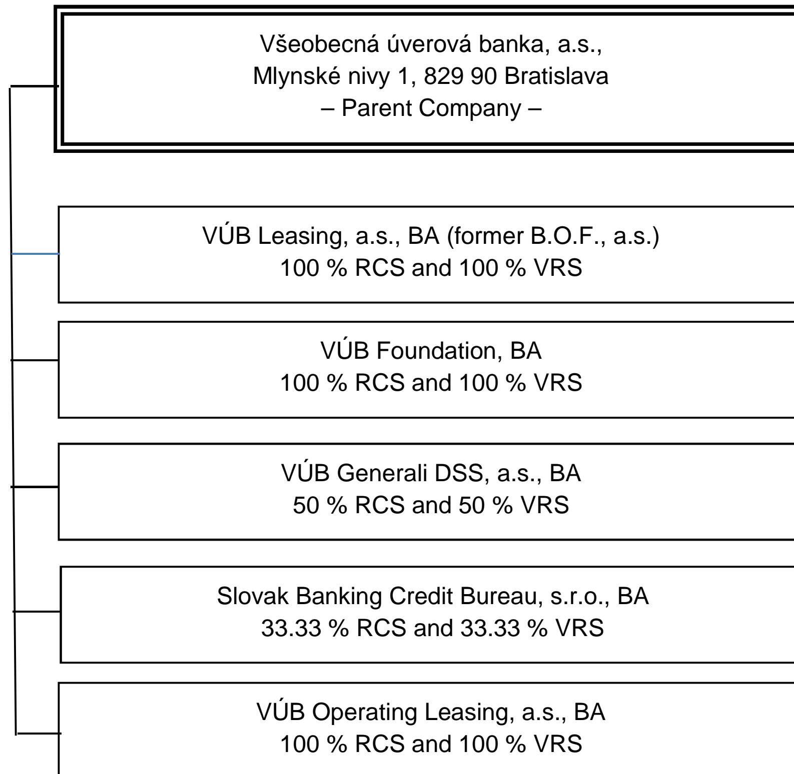
Trade name	% share	Registered office	Company ID No.
Intesa Sanpaolo Bank Luxembourg	100.00	19-21 Boulevard du Prince Henri, L-1724 Luxembourg, (Luxembourg)	B 13859
Banca Intesa ad Beograd	100.00	Milentija Popovica 7b, 11070 Beograd, Serbia and Montenegro	7759231
Privredna Banka Zagreb d.d.	97.47	Rackoga 6, HR-10000 Zagreb, Croatia	MBS 080002817
Banca Intesa (Russia)	53.02	Bld, 2, Petroverigski per, Moscow, 101000 Russian Federation	7708022300
Intesa Sanpaolo Servitia S.A.	100.00	28 Boulevard de Kockelscheuer, L-1821, Luxembourg, Luxembourg	B 14241
Exelia S.r.l	100.00	Regione Brasov STR. Ionescu Crum N°1, Corp C2, Tower 2, Et.1.,Brasov,Romania	J08/821/2009
Intesa Sanpaolo Harbourmaster III S.A.	100.00	28 Boulevard de Kockelscheuer, L-1821, Luxembourg, Luxembourg	B210947
IMI Finance Luxembourg S.A	100.00	28 Boulevard de Kockelscheuer, L-1821, Luxembourg, Luxembourg	B66762
Intesa Sanpaolo House Luxembourg S.A.	100.00	28 Boulevard de Kockelscheuer, L-1821, Luxembourg, Luxembourg	B250096
Intesa Sanpaolo International Value Services Ltd	100.00	Radnicka cesta 44, HR-1000 Zagreb, Croatia	MBS 081287872

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

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

[14] NBS decree 16/2014 §1, section 7

Chart of consolidated VUB Group



RCS = Registered Capital Stake
VRS = Voting Right Share

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

Business Name	Registered Office	Registered Capital Stake of VUB	Voting Rights Share of VUB	Core Business
VÚB Leasing, a.s. IČO: 31 318 045	Mlynské nivy 1, Bratislava	100%	100%	Financial and operating leasing
Nadácia VÚB IČO: 30 856 043	Mlynské nivy 1, Bratislava	100%	100%	Public Beneficial Activity
VÚB Generali DSS, a.s. IČO: 35 903 058	Mlynské nivy 1, Bratislava	50%	50%	Pension fund management
Slovak Banking Credit Bureau, s.r.o. IČO: 35 869 810	Malý trh 2/A, Bratislava	33.33%	33.33%	Automated data processing
VÚB Operating Leasing, a.s. IČO: 54 108 128	Mlynské nivy 1, Bratislava	100%	100%	Operating leasing

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

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

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

Annex I

Table EU OVC - ICAAP information

Internal Capital Adequacy Assessment Process +ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors

Article 438(a) CRR
a)
Approach to assessing the adequacy of the internal capital

The assessment of the profile is conducted within the ICAAP, which represents the capital adequacy self-assessment process according to internal rules, the results of which are then also discussed and analysed by the Supervisor. According to the "ECB Guide to the internal capital adequacy assessment process (ICAAP)",VÚB determines its capital adequacy following two complementary perspectives:
1. the normative internal perspective (Pillar I), based on regulatory/supervisory/accounting view, that is aimed at the fulfilment of all capital-related legal requirements, supervisory demands and internal objectives on an ongoing basis;
2. the economic internal perspective (Pillar II) that takes into account also all risks and losses that may affect economic viability, even those not included in the normative perspective (e.g. strategic risk, banking book risks, etc.).
Compliance with the projections is monitored on a monthly basis and quarterly basis by taking appropriate actions if deemed necessary. Capital adequacy is managed via various executive levers, such as the dividend distribution policy, the definition of strategic finance interventions (capital increases, issuance of convertible and/or subordinated bonds, disposal of non-core assets, etc.) and the management of investments, particularly of loans.

Article 438(c) CRR
b)
Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process

Taking into account considerations in the Bank´s ICAAP Book, the Management Board believes that the current capital position of the Group is more than adequate. Also from a forward-looking stand point, the current set of rules and procedures appears to be adequate to govern a prompt and effective reaction, should the risks and challenges actually materialize in a severe, adverse scenario. The assessment is based on the underlying methodological approach, duly considered and shared among Management Board members that reflects both normative and economic internal perspectives, in the baseline as well as under a severe though plausible adverse scenario.
The understanding and management of the capital position is deep rooted in the culture of the Group since its establishing, guaranteed by the structured approval process of the annual ICAAP and ILAAP Package and the ongoing monitoring activity closely connected to the budgeting and planning process.
Furthermore, it is worth mentioning that the Management Board members are also aware of the ICAAP areas of improvement, as highlighted in both the Internal Validation and in the Internal Auditing assessments and that they have taken note of all the initiatives devised to address such areas of improvement that they will monitor also with the support of the VÚB Risk Committee.

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Annex III

Table EU OVA - Institution risk management approach

Point (a), (b), (c), (d), (e), (f) of Article 435(1) CRR
a)
Disclosure of concise risk statement approved by the management body
b)
Information on the risk governance structure for each type of risk
c)
Declaration approved by the management body on the adequacy of the risk management arrangements
d)
Disclosure on the scope and nature of risk disclosure and/or measurement systems
e)
Disclose information on the main features of risk disclosure and measurement systems
f)
Strategies and processes to manage risks for each separate category of risk.
g)
Information on the strategies and processes to manage, hedge and mitigate risks, as well as on the monitoring of the effectiveness of hedges and mitigants

General risk management principles

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

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

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

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

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

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

- VÚB is a local retail bank, with limited risk appetite, where being part of ISP Group provides a strong competitive advantage;
- the objective of the Group is not to eliminate risks, but to understand and manage them in order to ensure an adequate return for the risks taken, while also ensuring business continuity and stability in the long run;
- VUB Group has a low risk profile where capital adequacy, earnings stability, liquidity and strong reputation are the cornerstones to maintain its current and future profitability;
- VUB Group aims at a level of capitalization in line with its main Slovak Peers;
- VUB Group intends to maintain a strong presidium on the major idiosyncratic risks (not necessarily related to macro-economic shocks) to which that the Group may be exposed;
- VÚB Group attaches great importance to the monitoring of non-financial risks, and in particular:
    - it adopts an operational risk assumption and management strategy geared towards prudent management and, also by establishing specific limits and early warnings, it focuses on achieving an optimal balance between growth and earnings objectives and the consequent risks;

- it is committed to investing in assets and infrastructure with the aim of minimising the potential impact of malfunctions of the IT system and cyber attacks;
- for compliance risk, it aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders;
- it works to ensure formal and substantive compliance with the provisions in terms of legal liability with the aim of minimising claims and proceedings that it is exposed to and that result in outlays;
- it actively manages its image in the eyes of all stakeholders and seeks to prevent and contain any negative effects on its image, including through robust, sustainable growth capable of creating value for all stakeholders.

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

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

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

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

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

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

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

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

In detail, the main specific risks monitored are:

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

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

The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk, the use of capital-at-

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risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Management Board along the Group's entire decision-making chain, down to the single operational units and to the single desks.

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

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

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

Risk culture

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

The risk management approach aims to achieve an integrated and consistent system of measures, considering both the macroeconomic scenario and the Group's risk profile, by fostering a risk-awareness through a transparent, thorough representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 and 3 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.

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

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

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

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

Risk governance organization

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

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

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

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

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

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

The Assets and Liabilities Committee, chaired by CEO, is a permanent decision-making and consultative committee, focused on financial risks governance, on the active value management issues, on the strategic and operative management of assets and liabilities and on financial products governance.

The Credit Risk Governance Committee, chaired by CEO, is a permanent decision-making and advisory committee whose mission is to ensure a qualified and coordinated management of credit risk within the exercise of credit prerogatives of the Bank and in compliance with the applicable laws, Group regulations and Parent Company strategic decisions. The Committee’s main responsibility is to define and update credit risk strategic guidelines and credit management policies based on the constant credit portfolio monitoring. In the field of Product Governance the Committee, analyzes and assesses the issues related to the launch and monitoring of the products that imply credit risk.

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

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

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

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

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

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

- Sub-department Internal Validation and Controls;
- Department Risk Management;
- Department Credit;
- Department Credit Management;
- Department Policy and Methodology;
- Sub-department Credit Portfolio Analysis and Administration
- Sub-department Proactive Credit

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

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

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

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

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

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

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

- ensure sufficient separation between the business, operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
- ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units and the control functions.

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

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

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

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

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

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

The Risk Management and Internal Validation Function

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

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

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

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

Within this Department, which reports directly to the Chief Risk Officer, the Internal Validation Sub-Department ensures that internal models, whether already operational or in development, are validated with regard to all risk profiles covered by Pillars 1 and 2 of the Basel Accord, in accordance with the independence requirements established by the applicable regulations.

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

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

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

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

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

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

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

Compliance

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

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

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

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

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

Internal Auditing

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

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

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

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

Direct surveillance was carried out in particular through:

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

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

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

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

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

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

Scope of risks

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

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

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

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

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

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

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

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

LIQUIDITY RISK

Liquidity risk management is discussed in chapter XIII – Table EU-LIQA.

OPERATIONAL RISK

Operational risk management strategies and processes

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

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

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

Organizational structure of the associated risk management function

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

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

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

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

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

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

For the use of the AMA, the Bank has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank and VÚB Group Companies that fall within the scope of AMA and TSA. This self-assessment is verified by the internal auditing department and submitted to the Management Board for the annual certification of compliance with the requirements established by the regulation.

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

Policies for hedging and mitigating risk

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

OTHER RISKS

Strategic risk

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

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

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

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

Reputational risk

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

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

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

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

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

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

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

Risk on owned real-estate assets

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

Risk management information flows

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

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

Communicating of Risk Management issues

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

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

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

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

Communication of Group policies and procedures

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

Stress testing

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

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

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

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

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

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

Table EU OVB - Disclosure on governance arrangements

Point (a) of Article 435(2) CRR
a)
The number of directorships held by members of the management body

Alexander Resch – Chairman of Management Board and Chief Executive Officer
Roberto Vercelli – Vice – Chairman of Management Board and Deputy Chief Executive Officer
Paolo Vivona – Member of Management Board and Chief Financial Officer
Peter Magala – Member of Management Board and Chief Risk Officer
Martin Techman – Member of Management Board and Retail Banking Director
Andrej Viceník – Member of Management Board and Corporate Banking Director
Marie Kovářová – Member of Management Board and Chief Operating Officer

Point (b) of Article 435(2) CRR
b)
Information regarding the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise

Act No 483/2001 Coll. on Banks

Methodological guideline of the Financial Market Supervision Department of the National Bank of Slovakia of 5 January 2018 no. 1/2018 to prove the competence and suitability of persons proposed for positions according to § 7 par. 2 letter e) and § 8 par. 2 letter c) of the Banking Act

ECB – Guide to fit and proper assessments

Joint ESMA and EBA guidelines on the assessment of the suitability of the members of the management body and key management personnel (EBA/GL/2017/12); and EBA Guidelines on Internal Management (EBA/GL/2017/11)

DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms

COUNCIL REGULATION (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions

Point (c) of Article 435(2) CRR
c)
Information on the diversity policy with regard of the members of the management body

VUB aims to ensure gender equity in its HR processes and people management activities, through a constant dialogue with each organisational unit, in compliance with and in full appreciation of the four key principles, the Inclusion Policy is based on (respect for all people in their identities and diversity expression, nurturing of everyone's skills and competences, meritocracy and equal opportunities).

The following commitments in the area of gender equity of the management body have been taken:
The pool of candidates for Senior Leadership roles (1° line managers and Head of Department) must inclu de at least one candidate of the less represented gender for each position

The described commitment will be fulfilled through an internal recruitment process for finding suitable candidates, of different gender, to cover these Roles. In the event of there being no suitable internal candidates, including within other departments or companies of the Group, meeting the requirement for at least one candidate for the less represented gender, the option of recruiting external candidates will be assessed.

VUB also pursues a gender-neutral remuneration policy, based on equal pay for male and female workers for equal work or work of equal value.

Point (d) of Article 435(2) CRR
d)
Information whether or not the institution has set up a separate risk committee and the frequency of the meetings

Risk Committee, 5 sessions in 2021

Point (e) Article 435(2) CRR
e)
Description on the information flow on risk to the management body

Financial Risk Report	Complex report describing risk in areas: market risk, liquidity risk and IRRBB. Contains three corresponding parts where these risks are measured through selected indicators and controlled through limit fulfilment defined internally, by the regulator or by the parent company.
Internal Capital Adequacy Assessment Process report	Report shows the capital adequacy of the bank and the VUB Group (Regulatory and Internal), the Economic Value Added (EVA) indicator, the development of Risk Apettite Framework (RAF) indicators, capital plan results and stress testing
Quarterly Operational Risk Report	Complex analysis of operational losses for the supervisory board.
Annual Outsourcing Assessment	Annual quality evaluation report of outsourcing in VÚB.
CRR for Supervisory Board	Complex report related to credit risk. Describes the development, quality and provisions of credit portfolio of the bank and it's subsidiaries. Includes slides from general section of Credit Risk Report. May include additional comments.
Evaluation on Credit Controls	Document contains annual evaluation of executed credit controls (single name CreCo) and plan of controls for forthcoming year.
Annual Risk Management Report	Document that reflects the main principles and methodologies, which VUB used in Risk Management in given year, together with main issues raised, figures and rations achieved and activities performed. It does also provide the outlook for the forthcoming year.
SREP	Sumary information on SREP assessment of the bank containing action plan to resolve deficiencies.
RAF Reporting	Recovery Plan Reporting -Executive Summary, Overview, bank risk profile definition proposal, related RAF limits to be submitted to HO competent function (report with the RAF limits proposed by RM Area); Bnk Risk Profile and related RAF limits in definitive version.
Internal Model Backtesting	Internal Validation, report on Internal Model Backtesting Activity
ICAAP ILAAP reporting	Update of Risk appetite framework for current year. SREP package for ECB, consisting mainly of the following documents: Liquidity adequacy statement, ILAAP Book, ICAAP Book, Capital Adequacy Statement, ICAAP Guideline
Credit Delegated Prerogatives	Report on Credit Delegated Prerogatives

Annex V

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

Article 436(b) CRR
a)
Differences between columns (a) and (b) in template EU LI1

There are no differences between accounting and regulatory consolidation.

Article 436(d) CRR
b)
Qualitative information on the main sources of differences between the accounting and regulatory scope of consolidation shown in template EU LI2

There are no differences between accounting and regulatory consolidation.

Table EU LIB - Other qualitative information on the scope of application

Article 436(f) CRR
a)
Impediment to the prompt transfer of own funds or to the repayment of liabilities within the group

There were no current or expected material practical or legal impediments to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries as at 31 December 2021.

Article 436(g) CRR
b)
Subsidiaries not included in the consolidation with own funds less than required

Aggregate amount of the capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to any mandatory capital requirements as at 31 December 2021.

Article 436(h) CRR
c)
Use of derogation referred to in Article 7 CRR or individual consolidation method laid down in Article 9 CRR

The circumstances under which use is made of the derogation referred to in Article 7 or the individual consolidation method laid down in Article 9 are not applicable as at 31 December 2021.

Article 436(g) CRR
d)
Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation

There were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to any mandatory capital requirements as at 31 December 2021.

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Annex XI

Table EU LRA: Disclosure of LR qualitative information

a)
Description of the processes used to manage the risk of excessive leverage

VÚB a.s. monitors Leverage ratio in compliance with an internal limit and a regulatory requirement on monthly basis, and manages the risk of excessive leverage with management processes of regulatory capital and balance sheet.

b)
Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

The Leverage exposure measure has decreased in the second half of the 2021 mainly due to increase in total exposure.

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Annex XIII

Table EU LIQA - Liquidity risk management

in accordance with Article 451a(4) CRR

a)
Strategies and processes in the management of the liquidity risk, including policies on diversification in the sources and tenor of planned funding,
b)
Structure and organisation of the liquidity risk management function (authority, statute, other arrangements).
c)
A description of the degree of centralisation of liquidity management and interaction between the group's units
d)
Scope and nature of liquidity risk reporting and measurement systems.
g)
An explanation of how stress testing is used.

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

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

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the Official Journal of the European Union of Commission Delegated Regulation (EU) 61/2015 with regard to liquidity coverage requirements (liquidity coverage ratio - LCR), supplementing and partially amending previous regulations. Since June 2021 new amendment of Regulation 575/2013 got into force formalizing requirements for structural liquidity indicator – Net Stable Funding Ratio (NSFR).

All the assumptions, methodologies and responsibilities are described in internal documents „Liquidity Policy“ and „Liquidity Risk Management VÚB Group Implementing Procedure“, which are approved by the Management Board and are consistent with ISP Group Guidelines in liquidity risk area.

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

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

- presence of liquidity management guidelines approved by the top management and clearly communicated throughout the institution;
- existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- regular use, even for operational purposes, of new regulatory metrics, with continuous compliance of the new requirements;
- a prudential approach in cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity (or with a maturity date that is not significant);
- constant availability of adequate liquidity reserves in relation to the chosen liquidity risk tolerance threshold, which shall not be less than the new minimum regulatory levels;
- impact assessment of different scenarios, including stress testing scenarios, on the cash inflows and outflows over time and on the quantitative and qualitative adequacy of the liquidity reserves;
- integration into the wider risk management and measurement system, adopting an incisive and coherent controls system consistent with the evolution of the reference framework;
- adoption of a Fund Transfer Price System which accurately incorporates liquidity costs/benefits, based on VUB's funding conditions;
- liquidity management in a crisis situation that takes into account the Guidelines on the management processes of the crisis within the Recovery Plan.

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

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

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

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

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

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

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months' time horizon, in order to face periods of tension, including extended ones, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. To that end, and in keeping with the liquidity risk appetite, the limit for holding period of one month (Liquidity Coverage Ratio - LCR) is monitored. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario.

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

The aim of the Intesa Sanpaolo and VÚB Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of CRR: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. NSFR's regulatory requirement, came into force in June 2021 within amendment of CRR.

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

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

By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The

early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.

The Group's sound liquidity position - supported by suitable high quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for all of 2021: both indicators (LCR and NSFR) were met, already reaching a level above the limits under normal conditions. Also the stress tests, when considering the consistent liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the VÚB Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

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

e)
Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

For structural mismatches in FX or IR, hedging derivatives fully inline hedge accounting principle will be applied. These include IRS, OIS, Cross currency swaps, FX swaps, FX outrights. For macro hedges, the bank is capable to hedge mortgages, consumer loans and retail current accounts. Derivatives hedging IR risks and not inline hedge accounting will be applied only in case the tenor is below 6M and the trade matures within the actual year. These trades will be used primarily to keep the bank within its IMS limits.

For practical reasons, no hedging derivatives are directly booked within the books of VUB Prague. Any relevant risk is transferred to VUB Bratislava through deposit instruments and then hedged in Bratislava (even the underlying instrument might be still the one from Prague). The way how to hedge the result of VUB Prague during the year is currently analyzed and this may help to reduce the volatility of the VUB Prague result.

For Leasing, the aim is to hedge IR risks through adequate fix/float funding from VUB Bratislava. Tenor of the funding was increased up to 10Y, thus giving flexibility to VUB Leasing to provide without major problems also fixed rate loans for such tenors.

f)
An outline of the bank`s contingency funding plans.

Contingency Funding Plan is an integral part of Liquidity policy approved by Management Board.

Since the “Contingency Liquidity Plan” is part of the more general Crisis Management Plan (i.e. it is the first step in the escalation process envisaged in the management of liquidity emergencies), the instruments envisaged by the CFP represent a selection of such recovery actions that are expected to be carried out in the short term and anticipated compared to more radical interventions.

Intervention strategies and measures to resolve liquidity emergencies:
Strategies for managing the State of Maximum Warning shall be defined on a case-by-case basis, according to the type, duration and intensity of the stress, as well as based on the context in which the stress occurs.

With relation to this Head of Treasury & ALM together with CFO and CRO prepare the proposal on the ALCO meeting, which includes next steps to be done.

Interconnections with Recovery Plan

Most of liquidity stemming from the Contingency Funding Plan (CFP) is based on estimates, over the appropriate time frame (12 months), already included in the 2020 Recovery of the Bank, namely:

- balance-sheet assets reduction (“Deleveraging”);
- identification of eligible loans (“True Sale”);
- generation of eligible securities through structured finance transactions on banking book assets (e.g. Covered Bonds).

In addition, in case of need, the Parent Company support is to be considered as a highly feasible and material recovery action. Aside for the business as usual situation, there are no specific constraints limiting the ISP Parent Company from providing support to its Subsidiaries in the event of a localized crisis. The support will be provided in case the local actions are not sufficient to restore RAF levels. Furthermore, due to urgency required by the crisis, the actions are performed as soon as technically possible – plausibly estimated within 1-2 months.

VÚB BANKA

Table EU LIQB on qualitative information on LCR, which complements template EU LIQ1

in accordance with Article 451a(2) CRR

a)

Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time

The main drivers of LCR results are high-quality liquid assets, outflows and inflows.

b)

Explanations on the changes in the LCR over time

Over time, the liquidity buffer increased mainly due to a purchase of central government assets. The total net cash outflows also increased, mainly due to an increase of non-operational deposits.

c)

Explanations on the actual concentration of funding sources

The main funding sources are retail deposits. Significant funding sources are current accounts of non-financial corporates and deposits by sovereigns and financial customers.

d)

High-level description of the composition of the institution`s liquidity buffer.

Liquidity buffer of the VÚB bank is composed of withdrawable central bank reserves, central government assets and covered bonds.

e)

Derivative exposures and potential collateral calls

The VÚB bank has a low derivative exposure with minimal impact on liquidity.

f)

Currency mismatch in the LCR

The VÚB bank has no material currency mismatch in the LCR. The currency denomination of the bank liquid assets is consistent with the distribution by currency of the bank net liquidity outflows. The LCR is calculated and reported in EUR. None of the foreign currency is significant in accordance with Article 415(2) of Regulation (EU) No 575/2013**.**

g)

Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

The VÚB bank does not consider other items relevant for its liquidity profile.

Annex XV

Table EU CRA: General qualitative information about credit risk

Institutions shall describe their risk management objectives and policies for credit risk by providing the following information:

a)
In the concise risk statement in accordance with point (f) of Article 435(1) CRR, how the business model translates into the components of the institution's credit risk profile.

General risk management principles

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In detail, the main specific risks monitored are:

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

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

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

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

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

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

Risk culture

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

The risk management approach aims to achieve an integrated and consistent system of measures, considering both the macroeconomic scenario and the Group's risk profile, by fostering a risk-awareness through a transparent, thorough representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 and 3 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.

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

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

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

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

b)

When discussing their strategies and processes to manage credit risk and the policies for hedging and mitigating that risk in accordance with points (a) and (d) of Article 435(1) CRR, the criteria and approach used for defining the credit risk management policy and for setting credit risk limits.

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

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

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

c)

When informing on the structure and organisation of the risk management function in accordance with point (b) of Article 435(1) CRR, the structure and organisation of the credit risk management and control function.

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

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

- Supervisory Board (with corresponding Risk Committee)
- Management Board

- Credit Risk Governance Committee

- Internal Controls Coordination Committee

and on operational level Credit Committee, Problem Asset Committee.

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

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

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

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

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

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

- Policy and Methodology – responsible for the rating system design, including the development and maintenance of the rating models and designing the detail risk policies (including risk mitigation policy) and procedures in compliance with approved principles and strategies. It is responsible for calculation of provisions as well,

- Corporate and Retail underwriting – responsible for the loan granting, competencies and responsibilities are defined in the Competence code,

- Internal Validation and Controls– responsible for second level controls in general, monitoring of credit portfolio, including monitoring of early warning signals, ratings and overrides. Also responsible for risk management validation akctivities,

- Enterprise Risk Management – responsible for calculation of risk weighted assets and stress testing program,

- Recovery – responsible for non-performing loans management, execution of collection strategies in early and late stage of collection process and dealing with watchlist clients.

d)
When informing on the authority, status and other arrangements for the risk management function in accordance with point (b) of Article 435(1) CRR, the relationships between credit risk management, risk control, compliance and internal audit functions.

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

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

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

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

The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management guidelines and policies in accordance with the company's strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing

methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies. The CRO implements level II monitoring and controls of credit and other risks, and ensures the validation of internal risk measurement systems.

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

The Assets and Liabilities Committee, chaired by CEO, is a permanent decision-making and consultative committee, focused on financial risks governance, on the active value management issues, on the strategic and operative management of assets and liabilities and on financial products governance.

The Credit Risk Governance Committee, chaired by CEO, is a permanent decision-making and advisory committee whose mission is to ensure a qualified and coordinated management of credit risk within the exercise of credit prerogatives of the Bank and in compliance with the applicable laws, Group regulations and Parent Company strategic decisions. The Committee's main responsibility is to define and update credit risk strategic guidelines and credit management policies based on the constant credit portfolio monitoring. In the field of Product Governance the Committee, analyzes and assesses the issues related to the launch and monitoring of the products that imply credit risk.

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

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

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

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

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

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

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

The internal control system

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

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

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

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

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

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

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

- ensure sufficient separation between the business, operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
- ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units and the control functions.

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

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

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

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

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

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

The Risk Management and Internal Validation Function

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

Through the Internal Validation and Controls Department, the Chief Risk Officer carries out second level monitoring and controls on credit and other risks. The activities conducted on credit consider the quality, composition and evolution

of the various loan portfolios, also through risk based controls on proper classification and provisioning single positions ("single name" controls). It also carries out monitoring and controls on rating assignment and update processes.

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

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

Within this Department, which reports directly to the Chief Risk Officer, the Internal Validation Sub-Department ensures that internal models, whether already operational or in development, are validated with regard to all risk profiles covered by Pillars 1 and 2 of the Basel Accord, in accordance with the independence requirements established by the applicable regulations.

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

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

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

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

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

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

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

Compliance

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

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

During the second half of the year 2009, the Compliance Department has started to implement a project designed to set out the Group Compliance Model, based on ISP Guidelines. These Guidelines identify the responsibilities and macro processes for compliance, aimed at minimizing the risk of non-compliance through a joint effort of all the company functions. The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of compliance risk. The Compliance Department, through the coordination of other corporate functions, is also responsible for the identification and assessment of the risks of non-compliance, the proposal of the functional and organizational measures for their mitigation, the pre-assessment of the

compliance of innovative projects, operations and new products and services, the provision of advice and assistance to the governing bodies and the business units in all areas with a significant risk of non-compliance, the monitoring, together with the Internal Auditing Department, of ongoing compliance, and the diffusion of a corporate culture founded on principles of honesty, fairness and respect of the spirit and letter and the spirit of the rules.

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

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

Internal Auditing

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

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

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

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

Direct surveillance was carried out in particular through:

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

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

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

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

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

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

Table EU CRB: Additional disclosure related to the credit quality of assets

Qualitative disclosures

a)
The scope and definitions of 'past-due' and 'impaired' exposures used for accounting purposes and the differences, if any, between the definitions of past due and default for accounting and regulatory purposes as specified by the EBA Guidelines on the application of the definition of default in accordance with Article 178 CRR.

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

Days past due (DPD) methodology

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

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

Where the obligor changes due to an event such as a merger or acquisition of the obligor or any other similar transaction, the counting of days past due starts from the moment a different person or entity becomes obliged to pay the obligation. The counting of days past due is, instead, unaffected by a change in the obligor's name.

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

The calculation of days past due starts at the moment when the obligor-level overdue exposure breaches both absolute and relative thresholds[15].

The absolute threshold is exceeded when:

overdue exposure > absolute threshold

The relative threshold is exceeded when:

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

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

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

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

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

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

- The obligor is past due more than 90 days on any material credit obligation to the credit institution, the parent undertaking or any of its subsidiaries. Calculation of DPD is the same as for 'past due' exposures.
- The bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security (if held).

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

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

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

c)
Description of methods used for determining general and specific credit risk adjustments.

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

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

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

Definition of default

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

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

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

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

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

Significant increase in credit risk

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

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

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

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

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

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

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

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

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

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

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

<u>Expected loss calculation:</u>

Stage 1:

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

where:

- PD_{12m} = 1 year prediction PD estimated at time 0 (time 0 is the reporting date);
- LGD_{12m} = percentage of loss in case of default, estimated at time 0;

- EAD_{12m} = exposure at default, estimated at the beginning of the observation period.

Stage 2:

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

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

where:

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

Stage 3:

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

$$EL_{Stage3} = IAS39_{Provision} * \left(1 + Add\ on_{Performing}\right)$$

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

d)
The institution's own definition of a restructured exposure used for the implementation of point (d) of Article 178(3) CRR specified by the EBA Guidelines on default in accordance with Article 178 CRR when different from the definition of forborne exposure defined in Annex V to Commission Implementing Regulation (EU) 680/2014.

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

Annex XVII

Table EU CRC – Qualitative disclosure requirements related to CRM techniques

Article 453 (a) CRR
a)
A description of the core features of the policies and processes for on- and off-balance sheet netting and an indication of the extent to which institutions make use of balance sheet netting;

Netting techniques are not used.

Article 453 (b) CRR
b)
The core features of policies and processes for eligible collateral evaluation and management;

The bank's collateral policy is an integral and indispensable part of the credit risk management and credit risk mitigation for VUB Group. Collateral is used primarily to provide the bank with the means for repayment of an exposure in the event of default by the borrower.

Collateral management policy includes the following:
– The establishment and maintenance of collateral policy comprising types of collateral taken by the Bank, the legal documentation used by the Bank to secure its right to this collateral in the event of a default and the valuation of this collateral at origination. These aspects of collateral management are addressed in this policy document;
– The relevant and proper perfection and registration of collateral to secure the bank's right to collateral in the event of default by the borrower;
– The regular monitoring and re-valuation of collateral held by the bank during the life of the exposure;
– The analysis, monitoring and review of realization rates achieved by Recovery Department activities in order to assess the effectiveness of the collateral policy as a risk mitigant, i.e. that the impact of the policy reduces the net credit loss suffered by the bank as a result of its lending activities across all segments and products;
The principal objective of collateral management policy is to clearly set up rules for a common and standard set of collateral types used by the bank in its lending activities. The rules, as the minimum, describe and state:
– Conditions for legal enforceability;
– Conditions for the process of valuation and the maximum values accepted by the bank at origination for the certain types of collaterals; and
– Conditions for the process of revaluation.

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

Article 453 (c) CRR
c)
A description of the main types of collateral taken by the institution to mitigate credit risk;

Generally bank accepts the following types of collateral
- cash collateral (receivables from deposit accounts)
- pledge on securities (bonds, treasury bills, depository receipts, depository certificates, etc.)
- pledge on shares listed on regulated markets
- pledge on the managed portfolios (private banking)
- pledge on investment fund quotas
- pledge on bonds and warrants
- guarantees (states, banks, other financial institutions)
- guarantees (non-financial institutions)

- pledge on real estate property
- pledge on movable assets
- pledge on receivables
- pledge on inventories
- life insurance policies vinculation
- others (letter of comfort, execution title)

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

Article 453 (d) CRR
d)
For guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purposes of reducing capital requirements, excluding those used as part of synthetic securitisation structures;

The Bank did not enter into any credit derivative transaction.

Article 453 (e) CRR
e)
Information about market or credit risk concentrations within the credit mitigation taken;

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

Annex XIX

Table EU CRD – Qualitative disclosure requirements related to standardised approach

Article 444 (a) CRR
a)
Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) nominated by the institution, and the reasons for any changes over the disclosure period;

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

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

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

Article 444 (c) CRR
c)
A description of the process used to transfer the issuer and issue credit ratings onto comparable assets items not included in the trading book;

The Bank does not use transfer of credit ratings.

Article 444 (d) CRR
d)
The association of the external rating of each nominated ECAI or ECA (as referred to in row (a)) with the risk weights that correspond with the credit quality steps as set out in Chapter 2 of Title II of Part Three CRR (except where the institution complies with the standard association published by the EBA).

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

Annex XXI

Table EU CRE – Qualitative disclosure requirements related to IRB approach

Article 452 (a) CRR
a)
The competent authority's permission of the approach or approved transition

Application: for the use of FIRB (Foundation Internal Rating Based) approach on Corporate exposures
Applied: December 2009
Approved: December 23rd, 2010 by Banca d'Italia; February 21st, 2011 by National Bank of Slovakia
Detail: Banca d'Italia authorized Intesa Sanpaolo Group to report the Corporate portfolio of VUB – thus including Corporate and SME clients and Specialized Lending (Real Estate and Project Finance) – using the FIRB approach for regulatory capital calculation purposes. NBS approved the utilization of following Corporate rating models on local basis:
- Group model for Corporate clients (above 50 million euro turnover), calibrated to Slovak environment,
- Group models for Specialized Lending: Real Estate Development and Project Finance,
- Local model internally developed for SME clients (turnover between 1 and 50 million euro).

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

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

Application: for the use of AIRB approach for regulatory purposes for exposure classes Small Business, Corporate and SME (LGD models)
Applied: December 2013
Approved: June 18th, 2014 by the joint decision of Banca d'Italia and National Bank of Slovakia
Effect from: June 30th, 2014
Ex Ante notification: Small Business PD a LGD
Date of notification: October 29th, 2021
Effect from: December 29th, 2021

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

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

Article 452 (c) CRR
b)
c) The control mechanisms for rating systems at the different stages of model development, controls and changes, which shall include information on:
- **i) the relationship between the risk management function and the internal audit function;**
- **ii) the rating system review;**
- **iii) procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models;**
- **iv) the procedure to ensure the accountability of the functions in charge of developing and reviewing the models.**

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

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

Article 452 (d) CRR
c)
The role of the functions involved in the development, approval and subsequent changes of the credit risk models;

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

Article 452 (e) CRR
d)
The scope and main content of the reporting related to credit risk models;

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

Article 452 (f) CRR
e)
A description of the internal ratings process by exposure class, including the number of key models used with respect to each portfolio and a brief discussion of the main differences between the models within the same portfolio, covering:

- **i) the definitions, methods and data for estimation and validation of PD, which shall include information on how PDs are estimated for low default portfolios, whether there are regulatory floors and the drivers for differences observed between PD and actual default rates at least for the last three periods;**
- **ii) where applicable, the definitions, methods and data for estimation and validation of LGD, such as methods to calculate downturn LGD, how LGDs are estimated for low default portfolio and the time lapse between the default event and the closure of the exposure;**
- **iii) where applicable, the definitions, methods and data for estimation and validation of credit conversion factors, including assumptions employed in the derivation of those variables.**

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

Retail, for each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond - 2 models: PD model for Retail Mortgages, LGD model for Retail mortgages.
Equities: Simple risk weight approach.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Annex XXV

Table EU CCRA – Qualitative disclosure related to CCR

Article 439 (a) CRR
a)
Description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including the methods to assign those limits to exposures to central counterparties

Definition, structure and monitoring of the operational limits
The structure of the limits reflects the acceptable level of riskiness, with reference to the individual business areas and it constitutes a mechanism which allows to control that the operational practices (at different levels of the organizational structure) are performed in compliance with the managerial and strategic requirements provided by the Top Management. Therefore, it helps ensuring consistency between the predefined income objectives and the risk appetite defined and approved by the Management Board.

Limits attribution and control at different hierarchical levels is made allocating delegated powers to the different responsible of the business areas, to optimize the trade-off between a controlled risk environment and the need to ensure operational flexibility.

The concrete functioning the limits structure and the delegated powers is based on the following basic concepts:

Hierarchy (market risk);
Delegated powers of credit approval (counterparty risk);
Interaction.

Delegated powers of the credit approval and management (Counterparty Risk)

In compliance with the credit strategies and the resolutions of the Management Board16, credit faculties define the criteria for the determination of the deliberative competence and the degree of autonomy allocated to the different decision-making Bodies, in relation with the risk profile of the counterparties and of the mitigation factors.

Interaction

More limits can be defined for the monitoring of each level and risk taking center, in order to ensure the highest degree of control and management of the desired risk profile.

Main features of the limit structure and the monitoring and control system can be summarized as follows:

- **flexibility** of the limit structure – the limit structure allows reallocation of certain counterparty limits, subject to management discretion; this type of flexibility will further improve the alignment of the limit structure with budgeted targets. Possiblities on reallocation are stated in Appendix 2 Part III.
- **transparency and integration** of the limits monitoring and control system into daily management process through the appropriate management information system as a basis for quality decision-making.

The application of the principles brought to the definition of the following limits structure:

- RAF limits;
  Market and Counterparty Risk limits.

These limits are defined according to the following structure:

- RAF LIMITS
  - Hard limits
  - Soft limits
  - Early warnings
- MARKET AND COUNTERPARTY RISK LIMITS
  - 1st level limits

[16] While ultimately the responsibility lies within the Management Board, the credit approval and management process (counterparty risk) is delegated to the relevant Committees (ALCO, CRGC, etc.) or units / functions of the bank, as per the relevant Committee statutes and internal procedures.

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        - VaR limits (Market Risk);
        - Exposure limits on the credit lines (Counterparty Risk).
    - 2nd level limits
        - Sensitivities;
        - Greek;
        - Stop loss;
        - Balance sheet limits.
    - Other relevant limits
        - Capital requirement limits (Market and Counterparty Risk);
        - Issuer risk Plafond limits (Market Risk)
        - Management limits for OTC derivatives (Counterparty Risk).

Article 439 (b) CRR
b)
Description of policies related to guarantees and other credit risk mitigants, such as the policies for securing collateral and establishing credit reserves

Counterparty Risk is the risk that the counterparty to a financial contract will default prior to the expiration of the contract and will not make all the payments required by the contract.

The following financial instruments should be taken into account:

- Over the Counter Financial derivatives (OTC);
- Securities Financial Transactions;
- Transactions having a long term maturity.

For the purpose of credit risk mitigation, netting and collateral agreements can be recognized if the agreements are legally enforceable within the supervisory regulations and internal policies.

Counterparty risk is a particular form of credit risk that may generate a loss if the transactions outstanding with a specific counterparty have a positive value at the time of default. Risk is monitored daily for both, Trading and Sales department.

Counterparty risk is primarily managed and mitigated trough treasury lines, which are approved by Underwriting department individually for each client/counterparty. Utilization of such lines is calculated trough so add-on grid, which is a risk component representing the uncertainty due to the future potential evolution of the exposure in question. Add-on grid for each product, currency and maturity is provided and regularly updated by ISP. Monitoring process is fully automated within treasury Front Office system.

ISDA / GRMA Master Aggrement and Credit Support Annex (CSA)

A Credit Support Annex, or CSA, is a legal document which regulates credit support (collateral) for derivative transactions. It is one of the four parts that make up an ISDA Master Agreement, defining the terms and rules under which collateral is posted or transferred between swap counterparties to mitigate the credit risk arising from “in the money” derivative positions.

Front Office units are the initiator and maintains the CSA with selected counterparties. Communication, regarding the contract, is carried out by Financial Institutions and Sales department, while the contractual terms are commented by all relevant parties (i.e. Legal, RM, Back Office, Underwriting departments). From Market Risk point of view following main points are evaluated

- instruments covered and valuation principles;
- thresholds and minimum transfer amount;
- transfer parameters (time, rounding, etc.).

For each ISDA / CSA and GRMA counterparty, Market Risk sub-department assigns the approved limit in treasury system.

Daily, counterparty portfolio revaluation is run and CSA / GRMA report created. Subsequently, MR sbdpt verifies the adequacy of exposure coverage by collateral. In case of collateral shortage, counterparty is requested through standard margin call to transfer the required amount (or vise versa).

Article 439 (c) CRR
c)
Description of policies with respect to Wrong-Way risk as defined in Article 291 of the CRR

Currently no policy is applied.

Article 431 (3) and (4) CRR
d)
Any other risk management objectives and relevant policies related to CCR

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

Counterparty risk is calculated for the following categories of transactions:

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

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

- transactions with medium to long-term settlement.

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

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

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

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

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

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

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

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

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

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

- the CVA (negative) takes into account scenarios whereby the Counterparty fails before the Bank and the Bank has a positive exposure to the Counterparty. In these scenarios the Bank suffers a loss equal to the cost of replacing the derivative;

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

Article 439 (d) CRR
e)
The amount of collateral the institution would have to provide if its credit rating was downgraded

The bank has signed standard ISDA (International Swaps and Derivatives Association) Master agreements including Credit support Annex with only a limited number of global bank counterparties, on the basis of which the bilateral exposures are collateralized between counterparties. There are no credit rating downgraded terms in any of these standard international agreements, therefore the bank does not need to provide any additional collateral in the event downgrading of credit rating.

Annex XXVII

Table EU-SECA - Qualitative disclosure requirements related to securitisation exposures

Article 449 CRR

Disclosures in the application of Article 449 points (a), (b), (c), (d), (e), (f), (g), (h), (i) are not applicable for the institution.

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Annex XXIX

Table EU MRA: Qualitative disclosure requirements related to market risk

Points (a) and (d) of Article 435 (1) CRR
a)
A description of the institution's strategies and processes to manage market risk, including:
– An explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the institution's market risks,
– A description of their policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedge

Market risks – trading book

Risk management strategies and processes

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

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

Policies for hedging and mitigating risk

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

Strategies and processes for the ongoing assessment of their effectiveness

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

Market risks – banking book

Risk management strategies and processes

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

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

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

Policies for hedging and mitigating risk

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

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

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

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

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

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

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

Point (b) of Article 435 (1) CRR
b)
A description of the structure and organisation of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the institution discussed in row (a) above, and that describes the relationships and the communication mechanisms between the different parties involved in market risk management.

Market risks – trading book

Structure and organisation of the associated risk management function

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

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

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

– monitoring of operating limits;

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

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

Market risks – banking book

Structure and organisation of the associated risk management function

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

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

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

– measuring the financial risks of the banking book;

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

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

Point (c) of Article 435 (1) CRR
c)
Scope and nature of risk reporting and measurement systems

Market risks – trading book

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

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

– interest rates;

– equity and market indexes;

– foreign exchange rates;

– implied volatilities;

– credit spreads at bonds;

– spreads in issued bonds.

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

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

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

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

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

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

Market risks – banking book

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

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

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

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

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

Table EU MRB: Qualitative disclosure requirements for institutions using the internal Market Risk Models

Article 455(c) CRR
EU a)
Description of the procedures and systems implemented for the assurance of tradability of the positions included in the trading book in order to comply with the requirements of Article 104.

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Description of the methodology used to ensure that the policies and procedures implemented for the overall management of the trading book are appropriate.

The Bank separates its exposures to market risk between trading ('trading book') and non-trading portfolios ('banking book'). For this purpose, the bank has a clearly defined hierarchically portfolio structure in the systems. Trading portfolios are held by the Trading sub-department and include positions arising from market-making and proprietary position taking. All foreign exchange risk within the Bank is transferred each day to the Trading sub-department and forms part of the trading portfolio for risk management purposes. The non-trading portfolios are managed by the sub-department Asset Liability Management ('ALM'), and include all positions which are not intended for trading.

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

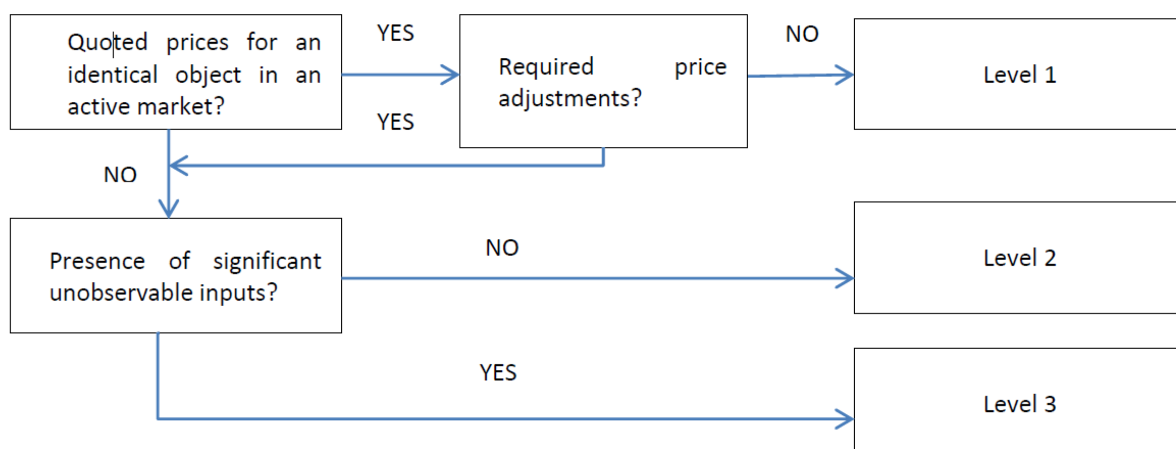
Overall authority for market risk is vested in ALCO. The Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for their implementation and day-to-day risk monitoring and reporting.

In the normal course of business, the Bank enters into high liquid and quoted 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

Article 455(c) CRR
EU b)
For exposures from the trading and the non-trading book that are measured at fair value in accordance with the applicable accounting framework and that have their exposure value adjusted in accordance with Part Two, Title I, Chapter 2, Article 34 and Part Three, Title I, Chapter 3, Article 105 of the CRR (as well as the Commission Delegated Regulation (EU) No 2016/101), institutions shall describe systems and controls to ensure that the valuation estimates are prudent and reliable. These disclosures shall be provided as part of the market risk disclosures for exposures from the trading book.

In accordance with the principle accounting IFRS13, the Bank adopts a classification of the fair value of financial instruments into three levels, which discriminate the evaluation process based on the characteristics and on the degree of significance of the inputs.

This hierarchy, as shown in the diagram below, attaches the highest priority to quoted prices (unadjusted) in active markets (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).



The placement within the fair value hierarchy is driven by the input, considered significant, the lower level of all the data that contribute to the enhancement of the fair value.

The procedure governing the classification of the inputs and consequently of the financial instrument provides for the application in a hierarchical order of the following criteria.

The application process of the fair value hierarchy is subject to risk management function monitoring, with at least quarterly frequency and, if necessary when facing significant changes in market conditions. When noticeable changes or variations occur to the observability and / or the significance of the inputs, a reclassification can be conducted and proper the process outlined.

Positions and revaluation
In the model are included all positions which fulfil condition trade date ≤ actual date < maturity date and are not flagged as liquidated. These conditions include all exposure with unrealized part of cash flow. Bank the bank has built robust systems, which kept, revaluted and booked all trading transactions and positions on daily basis.

Prudent valuation
The bank has implemented and adopted a prudential reporting system with applying the rules in the conservative valuation of assets and liabilities at fair value, with the aim of achieving an appropriate degree of certainty in the assessment (Art. 105 The Commission Regulation (EU) N. 575/2013).

A prudent valuation means a calculation of specific additional value adjustments (Additional Valuation Adjustment - AVA) for financial instruments measured at fair value, to ensure the achievement of an adequate level of assurance the evaluation of positions measured at fair value (value wise - Prudent Value).

The prudent evaluation process is divided into three main phases:

- definition of the perimeter, which provides the identification of items subject to prudent valuation in accordance with the regulations described in the Rules relating to prudent evaluation of financial instruments at fair value;
- calculation, providing the determination of AVA values by applying the methods described in the Rules related to prudent evaluation of financial instruments at fair value;
- reporting, which provides the preparation of management reporting and information sets required for the purposes of vigilance signs and management activities.

Point (i) of Article 455(a) CRR
(A). Institutions using VaR models and SVaR models must disclose the following information:

Point (i) of Article 455 (a) and Article 455 (b) CRR
a)
Description of activities and risks covered by VaR and SVaR models, specifying how they are distributed in portfolios/sub-portfolios for which the competent authority has granted permission.

The institution has a hierarchical portfolio structure. Individual types of risks are separated and concentrated in precisely dedicated portfolios and sub-portfolios. The transactions in the individual portfolios are regularly inspected. Consistent separation of the concentration of individual type of risks in the portfolios and sub-porfolio enables the correct application of risk factors for both the VaR and the sVaR models and the correct interpretation of the results from VaR and SVaR models.

Article 455(b) CRR
b)
Description of the scope of application of the VaR and SVaR models for which the competent authority has granted permission, including which entities in the group use these models and how the models represent all the models used at the group level, as well as the percentage of own funds requirements covered by the models or if the same models of VaR/SVaR are used for all entities with market risk exposure

The model covers the following risk factors:
- general interest rate risk;
- foreign exchange risk;
- implicit volatility risk on optional instruments

Point (i) of Article 455(a) CRR
Characteristics of the models used, including:
c)
General description of regulatory VaR and SVaR models;

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

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

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

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

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

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

Stressed value at risk (SVaR)
SVaR is addition to VaR measure whose main task is to bring into the capital charge calculation for the trading book the period of high volatility. SVaR uses similar calculation methodology to VaR; nevertheless, selected stressed period is used instead of period of last 250 trading days. Following the adoption of CRDIV and CRR regulation, the bank officially started calculating SVaR values from 1 May 2012.

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

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

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

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

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

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

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

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

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

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

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

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

and

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

where

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

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

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

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

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

where

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

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

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

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

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

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

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

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

Requirements

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

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

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

Short description of steps:

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

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

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

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

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

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

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

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

d)
Discussion of the main differences, if any, between the model used for management purposes and the model used for regulatory purposes (10 day 99%) for VaR and SVaR models;

For both managerial and regulatory purposes (10 day 99%) are used the same VaR and SVaR model.

e)
For VaR models:
i) Data updating frequency;

For VaR models is used data base on daily updating frequency.

ii) Length of the data period that is used to calibrate the model. Describe the weighting scheme that is used (if any);

Model is calibrated by head office in Intesa Sanpaolo, as model is same for whole Intesa Sanpaolo Group.

iii) How the institutions determines the 10-day holding period (for example, does it scale up a 1-day VaR by the square root of 10, or does it directly model the 10-day VaR);

Bank determines the 10-day holding period scale a 1-day VaR by the square root of 10.

iv) Aggregation approach, which is the method for aggregating the specific and general risk (i.e. do the institutions calculate the specific charge as a stand-alone charge by using a different method than the one used to calculate the general risk or do the institutions use a single model that diversifies general and specific risk?);

Institution calculate specific charge as a stand-alone charge using a different method than the one used to calculate the general risk.

v) Valuation approach (full revaluation or use of approximations);

Bank used full revaluation method.

vi) Whether, when simulating potential movements in risk factors, absolute or relative returns (or a mixed approach) are used (i.e. proportional change in prices or rates or absolute change in prices or rates).

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

f)
For SVaR models, specify:
i) How the 10-day holding period is determined. For example, does the institution scale up a 1-day VaR by the square root of 10, or does it directly model the 10-day VaR? If the approach is the same as for the VaR models, the institutions may confirm this and refer to disclosure (e) (iii) above;

Bank determines the 10-day holding period scale a 1-day sVaR by the square root of 10, so institution use same scaling approach for both 10-day VaR and sVaR.

ii) The stress period chosen by the institution and the rationale for this choice;

SVaR Period Selection

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

- Judgement-based approach
- Formulaic approach

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

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

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

Three identified periods were compared for their volatility, taking into consideration actual portfolio. Specifically, for each date within the scenario set, VaR measure was calculated using same underlying parameters as for regular VaR (99% confidence level, 250 historical scenarios, 1-day holding period). Data set with the highest volatility was then selected as a base period for SVaR calculation.

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

iii) Valuation approach (full revaluation or use of approximations).

Bank used full revaluation method.

Point (iii) of Article 455(a) CRR
g)
Description of stress testing applied to the modelling parameters (main scenarios developed to capture the characteristics of the portfolios to which the VaR and SVaR models apply at the group level).

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

EU and NBS require that the bank should implement a complex program of stress testing that includes stress scenarios and qualitative and quantitative tests. Quantitative stress tests identify possible impacts on the bank caused by

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movements of real prices, interest rates, volatility, correlation, and other market factors. Qualitative tests verify adequacy of bank's own funds for the protection against possible losses and identify possibilities to reduce risks.

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

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

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

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

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

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

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

Point (iv) of Article 455(a) CRR
h)
Description of the approach used for backtesting/validating the accuracy and internal consistency of data and parameters used for the internal models and modelling processes.

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

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

(B) Disclosures in the application of Article 455(a)(ii) for institutions using internal models to measure the own funds requirements for the incremental default and migration risk (IRC) and (C) Disclosures in the application of Article 455(a)(ii) for institutions using internal models to measure own funds requirements for correlation trading portfolio (comprehensive risk measure) are not applicable for the institution.

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Annex XXXI

Table EU ORA - Qualitative information on operational risk

Points (a), (b), (c) and (d) of Article 435(1) CRR
a)
Disclosure of the risk management objectives and policies

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

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

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

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

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

Article 446 CRR
b)
Disclosure of the approaches for the assessment of minimum own funds requirements

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

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

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

Article 446 CRR
c)
Description of the AMA methodology approach used (if applicable)

For the use of the AMA, the Bank has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank and VÚB Group Companies that fall within the scope of AMA. This self-assessment is verified by the internal auditing department and submitted to the Management Board for the annual certification of compliance with the requirements established by the regulation.

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

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Article 454 CRR
d)
Disclose the use of insurance for risk mitigation in the Advanced Measurement Approach (if applicable)

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

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Annex XXXIII

Table EU REMA - Remuneration policy

a) Information relating to the bodies that oversee remuneration.

Disclosures shall include:

- **Name, composition and mandate of the main body (management body or remuneration committee as applicable) overseeing the remuneration policy and the number of meetings held by that main body during the financial year,**

The main bodies of VÚB a.s. involved are:

<u>Remuneration Committee</u>

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

Fundamental roles of the Remuneration Committee:

a) independently assesses the remuneration principles and provides support to the Supervisory and Management Board concerning the adoption and regular review of the general principles of VÚB, a.s. Policies;
b) supports the Supervisory and Management Board in supervising the implementation of the remuneration rules, and reviews the processes and practices related to remuneration and compliance with VÚB, a.s. Policies and ISP Group Policies;
c) ensures the involvement of the competent Bank's Functions in the process of preparation and control of the Remuneration and Incentive Policies and practices;
d) reviews VÚB, a.s. Guidelines on remuneration, incentives and identification of staff that have a material impact on the risk profile of VUB Group;
e) reviews, before the approval of the Supervisory Board, the list of Legal Entity Risk Takers identified according to the criteria set out in Section B of VÚB, a.s. Remuneration Policies, including possible exclusions;
f) assesses the fixed remuneration pay levels for the Chairman & CEO, D.CEO, the other Management Board Members and the Heads of Internal Control Functions;
g) with regard to the Chairman & CEO, D.CEO, the other Members of the Management Board and the Heads of Control Functions, reviews the assignment of the KPIs and targets of the performance scorecards, the assessment of the level of achievement against performance targets and the amount of the bonus to be paid;
h) assesses – with the support of the Enterprise Risk Management Department - that the remuneration and incentive systems, with specific regard to the incentive system for the Chairman & C.E.O, D.C.E.O. and the other Management Board Members, are aligned with the Risk Appetite Framework and take into account the overall risks, capital and liquidity parameters.

During year 2021 the Remuneration Committee met five times.

Remuneration policy is reviewed every year by VUB HR & Organization Department in cooperation with Intesa Sanpaolo HR competent functions, assessed by VUB Remuneration Committee, and subsequently approved by VUB Management Board and Supervisory Board.

The Supervisory Board

The Supervisory Board is the main control body of VÚB, a.s.. It supervises the Management Board and the performance of the business activities of VÚB, a.s. The competence of the Board is defined by the applicable laws, including the regulations issued by the respective authorities having competence over the Company, by the Company's Articles of Association and, as the case may be, by the resolutions of the General Meeting. The number of Supervisory Board members is minimum 3 (three) and maximum 7 (seven), out of which 1 (one) is the Chairman and at least 1 (one) is a Deputy Chairman. Members of the Supervisory Board are elected and removed by a decision of the General Meeting. Considering that VÚB, a.s. has more than 50 (fifty) full-time employees at the time of election, 2/3 (two thirds) of the Supervisory Board members are elected and removed by the General Meeting and 1/3 (one third) by the employees of VÚB, a.s.

Fundamental roles of the Supervisory Board with reference to remuneration topics:

a. approves and reviews VÚB a.s. Remuneration and Incentive Policies, including any amendments or modifications, taking into account the long-term interests of Shareholders, the medium and long-term strategies and corporate objectives of VÚB, a.s. and its risk profile;
b. supervises, in cooperation with the Bank's Remuneration Committee, the implementation of the remuneration rules, and reviews the processes and practices related to remuneration and compliance with the VÚB a.s. Policies and ISP Group Policies, including any amendments or modifications thereto;
c. ensures that VUB a.s. Remuneration and Incentive Policies are suitably documented and accessible within the Bank structures and that the staff are aware of the consequences of any breach of Legislation or the Bank's Code of Ethics or Code of Conduct;
d. approves and reviews VÚB, a.s. Guidelines on remuneration, incentives and identification of staff that have a material impact on the risk profile of VUB Group; approves and reviews the list of Legal Entity Risk Takers identified according to the criteria reported in the Section B of VÚB, a.s. Remuneration Policies, including possible exclusions;
e. approves the fixed pay levels for the Chairman & C.E.O, D.C.E.O., the other Management Board Members and the Heads of Control Functions;
f. with regard to the Chairman & C.E.O, D.C.E.O., the other Management Board Members and to the Heads of Control Functions, approves and reviews - on proposal of the Remuneration Committee - the assignment of the KPIs and targets of the performance scorecards, the assessment of the level of achievement against performance targets and the amount of the bonus to be paid;
g. verifies – with the support of the Enterprise Risk Management Department - that the remuneration and incentive systems, with specific regard to the incentive system for the Chairman & C.E.O, D.C.E.O. and the other Management Board Members, are aligned with the Risk Appetite Framework and take into account the overall risks, capital and liquidity parameters;
h. approves before the bonus payout for the whole population, the fulfilment of the gateway conditions both at Legal Entity and Group level required to make bonus pool available and, with regard to the Management Board Members, the Heads of Control Functions, assesses the fulfilment of the individual conditions required to make individual bonus available;
i. is informed, at least on an annual basis, about the funding of the bonus pool at Bank level;
j. assesses, prior to the payment of each deferred instalment, whether any malus condition is applied with regard to past variable remuneration;
k. examines the reports prepared by the Internal Audit Department at the end of any audit about the compliance and the correct implementation of the remuneration procedures and, if any, the corrective measures to be adopted.

- **External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework**

No advice has been sought from external consultants in 2021.

- **A description of the scope of the institution's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to subsidiaries and branches located in third countries,**
- **A description of the staff or categories of staff whose professional activities have a material impact on institutions' risk profile.**

VÚB, a.s. Remuneration and Incentive Policies are based on personnel segmentation logics that allow the operational adaptation of the principles of merit and fairness in order to suitably differentiate the total remuneration and arrange mechanisms of payment that are specific for the various personnel cluster, with a particular focus also on those of a regulatory importance for which more stringent requirements are set.

The distinction of the population into macro segments also allows to take into account the remuneration and working conditions of employees both in the declination of policies in specific remuneration and incentive systems and in the adoption of remuneration decisions tailored to each macro segment.

When applying these logics, these macro segments are identified:
- Risk Takers;
- Middle Managers;
- Professionals;
- Network.

Among the segment of Risk Takers, it is distinguished those who operate in VÚB, a.s. and have a material impact on both VÚB, a.s. and ISP Group risk profile (so-called "Group Risk Takers") and those who have an impact only on VÚB, a.s. risk profile (so-called "Legal Entity Risk Takers"). In addition, the Members of the Supervisory Board and Management Board (including the CEO, Deputy CEO and the Heads of Divisions) are Top Risk Takers.

At December 31, 2021 the Legal Entity Risk Takers were 37 people out of which 16 were also identified as Group Risk Takers.

The above in full applies to all the branches, subsidiaries in third countries, regardless of business lines and regional divisions.

Focus on Staff whose professional activities have a material impact on institutions' risk profile

The European regulatory provisions on remuneration and incentive policies (Directive (EU) 2019/878, so-called CRD V or the Directive, adopted through the latest amendment of the Act on Banks) state that remuneration policies have to be specified and applied proportionally to roles, contribution and impact of the staff on the Intesa Sanpaolo Group, sub-consolidating Groups and the individual Legal Entity risk profile.

The criteria to identify staff that have a material impact on the Intesa Sanpaolo Group's risk profile (so-called "Group Risk Takers"), sub-consolidating Groups (so-called "sub-consolidating Groups Risk Takers"), and the individual Legal Entity controlled by Intesa Sanpaolo (so-called "Legal Entity Risk Takers") are defined in accordance with CRD V and with the Regulation (EU) 923/2021 (hereinafter the "Regulation" or also "RTS"), which concretely implements and integrates the provisions of CRD V, also in light of the experience acquired in the application of the criteria for identifying Risk Takers provided for by the previous Regulation (EU) 604/2014.

In particular, the Regulation integrates the provisions of Article 92, paragraph 3 of the Directive developing criteria aimed at establishing:

- managerial responsibilities and control functions;
- the material business unit and the significant impact on the risk profile of the material business unit;
- other categories of personnel not expressly indicated in the text of the Directive whose professional activity has an impact on the risk profile of the entity comparable with that of the categories of Risk Takers identified by the Directive.

Therefore, the criteria for identifying the Risk Takers, starting from 14 June 2021 - the date on which the Regulation aforementioned (EU) 923/2021 came into force - are stated both in the Directive and in the Regulation and, in continuity with the provisions from the previous Regulation 604/2014, they are divided into:

- qualitative criteria, related to roles, decision-making power and managerial responsibility of staff, considering also the internal organisation of the VÚB, a.s., VÚB Group, the nature, scope, complexity of the activities carried out and its belonging to Intesa Sanpaolo Group;
- quantitative criteria, related to gross remuneration thresholds, both in absolute and relative terms, also taking into account the average remuneration paid to members of the Supervisory Board, Management Board and senior management. Some members of the personnel, subject to authorization by the Supervisory Authority, identified only on the basis of quantitative criteria, can be excluded from the category of Risk Takers, according to objective conditions and in line with specific restrictions set by the Regulation.

Furthermore, in line with ISP Group Remuneration Policies and the EBA Guidelines on sound remuneration policies, it shall be provided for and applied additional criteria to identify additional subjects who assume significant risks.

This document describes:

- the rationales that are applied to identify Risk Takers pursuant to qualitative and quantitative criteria set by CRD V, the above-mentioned Regulation and the additional criteria established in light of the VÚB organisational structure and business;
- the way in which the rules to identify Risk takers must be applied VÚB Group level (i.e. sub-consolidated level) and at the level of VÚB a.s.

The criteria for identifying the Risk Takers provided for by CRD V (adopted through the latest amendment of the Act on Banks) and the Regulation are applied at the consolidated, sub-consolidated and / or individual level[17].
As for the application at consolidated level, Intesa Sanpaolo, in its capacity as Parent Company, (hereinafter the "Parent Company"), identifies staff that have a material impact on the ISP Group risk profile considering all the Group Legal Entities (including Sub-holdings), whether they are subject or not to prudential supervision rules on an individual basis. The Legal Entities actively participate in the identification process of ISP Group Risk Takers conducted by the Parent Company, provide the latter with the necessary information and follow the instructions received.

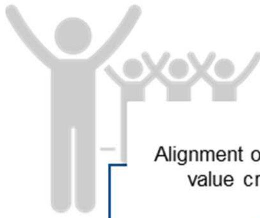
With reference to the Risk Takers identification at a sub-consolidated and individual level, it is carried out by the Sub-holding VÚB a.s. that, at Sub-consolidated level, considers the whole VÚB Group, whilst at individual level, it takes into account only VÚB a.s. stand-alone. Anyway, the process is carried out on the basis of the criteria defined in VUB Remuneration and Incentives Policy document, and it is, in any case, supervised by the Parent Company. In fact, this latter takes care of the overall consistency of the identification process, having regard to the entire Intesa Sanpaolo Group and providing, for this purpose, any additions where it is deemed appropriate.

b) Information relating to the design and structure of the remuneration system for identified staff. Disclosures shall include:

- **An overview of the key features and objectives of remuneration policy, and information about the decision-making process used for determining the remuneration policy and the role of the relevant stakeholders,**

In line with the principles adopted by ISP Group, VÚB, a.s. Remuneration and Incentive Policies aim to align the management's and personnel's behaviour with all Stakeholders' interests, guiding their action towards the achievement of sustainable medium/long-term objectives within the framework of a prudent assumption of current and prospective risks, as well as contribute to making the Bank an "Employer of choice" for its ability to attract, motivate and retain top resources.

[17] An exception to this general rule is the quantitative criterion according to which those who fall within the 0.3% of the personnel with the highest remuneration are eligible as Risk Takers, which is applied only at an individual level.



In particular, VÚB, a.s. Remuneration and Incentive Policies are based on the following principles:

STAKEHOLDERS' INTEREST

Alignment of management and personnel conduct with the interests of all **Stakeholders**, with a focus on value creation for **Shareholders**, as well as on the social impact generated on the **Communities**

CORRELATION BETWEEN REMUNERATION AND RISK TAKING

- direction of management and personnel conduct towards the achievement of objectives within a **framework of rules** aimed at controlling corporate risks
- remuneration systems aligned with prudent **financial and non-financial risk** management policies (including legal and reputational risks), in line with what is defined in both VUB Group and ISP Group Risk Appetite Framework
- definition of a sufficiently high fixed component to allow the variable portion to reduce significantly, even down to zero, upon occurrence of specific conditions

ALIGNMENT WITH MEDIUM AND LONG-TERM OBJECTIVES in accordance with both the Bank and ISP Group Risk Tolerance

- definition of a set of Incentive Systems in order to drive performance over a **multi-year accrual** period and to share the medium-long term results consequent to the implementation of ISP Group Business Plan

MERIT

- **remuneration flexibility**: bonuses are linked to the results achieved and the risks undertaken
- **competitiveness**: focus on key staff members with high managerial skills, to whom competitive salary brackets, compared with the reference market, are reserved
- best performers' **recognition** through above-average bonuses

EQUITY

- **correlation** between fixed remuneration and the level of responsibility, measured through the Global Banding System or the seniority/professional role
- **differentiation** of salary brackets and the ratio of the variable component to the total remuneration according to the relevant professional category and/or geographical market (if relevant), with the Banding bracket or the seniority/professional role being equal

GENDER NEUTRALITY

- **recognition of an equal level of remuneration**, for the same activities carried out, regardless of gender
- attention to the **gender pay-gap** and its **evolution over time**

SUSTAINABILITY: expenses reduction deriving from application of the policies to values compatible with the available economic and financial means

- selective reviews of fixed remuneration based on strict **market benchmarks**
- mechanisms to **adjust allocations** to the total incentive provisions according to the profitability and the results achieved by both the Bank and ISP Group
- **appropriate caps** on both total incentives and the amount of individual bonuses

REGULATORY COMPLIANCE

- compliance with **legislative and regulatory provisions, with codes of conduct and other self-regulation provisions** with focus on the Group Risk Takers, on Legal Entity Risk Takers and on the Corporate Control Functions
- **fairness in customer relations**

<u>The decision-making processes of defining the Remuneration and Incentive Policies</u>

The drafting of the Remuneration and Incentive Policies is carried out annually by HR & Organization Department of the Bank with the support of the competent HR functions of the Parent Company.

Moreover, at Bank level, for the drafting of the Policies, the HR & Organization Department involves the following Departments in that process:

- the Planning and Control Department, in order to ensure consistency with:
  - the strategic short-and medium-long term objectives of the Bank and of the Group;
  - the level of capitalisation and liquidity of the Bank and of the Group;
- the Risk Management Department, in order to ensure consistency with the Bank's RAF and all related Risks topics;
- the Compliance Department, in order to ensure compliance with the Legislation, the Bank's Code of Ethics and Code of Conduct.

Once the Policies have been draw-up with the involvement of the above-mentioned functions, it is shared with competent HR functions of the Parent Company for validation.
Once a first examination has been carried out, the HR & Organization Department submits the Policies to the Risk Management Department and the Compliance Department of the Bank, prior to the start of the planned decision-making process by the Management Board and by the Supervisory Board. The mentioned Departments shall coordinate themselves with the respective Functions of the Parent Company and provide formal written opinions on the relevant aspects.

Once received the written opinion from the Risk Management Department and the Compliance Department, the Remuneration and Incentive Polices are subject to the competent HR functions of the Parent Company for the final confirmation.

The HR & Organization Department presents the proposed Remuneration and Incentive Policies to the Remuneration Committee that:

- examines the proposal;
- acquires the written opinions of the Enterprise Risk Management Department and the Compliance Department, as well as any observations of the Risks Management Committee.

The HR & Organization Department thus submits to the Management Board and to Supervisory Board the Remuneration and Incentive Policies, together with the above mentioned written opinions.
The Management Board and the Supervisory Board receive also the Remuneration Committee Report.
The Management Board approves the VÚB, a.s Remuneration and Incentive Policies and then, the document is approved by the Supervisory Board.

- **Information on the criteria used for performance measurement and ex ante and ex post risk adjustment,**

The incentive systems adopted by VÚB, a.s., in line with the ISP Group Remuneration and Incentive Policies is directed at reaching the medium and long-term objectives included in the Group Business Plan, taking into account both VÚB Group and ISP Group Risk Appetite and Risk Tolerance and aiming to encourage objectives of value creation for the current year, in a framework of sustainability, given that the bonuses paid are related to the financial resources available.

Reported below is a summary of the operating mechanisms and the main characteristics of the incentive systems. Further details are provided in the following paragraphs.

STEP	OBJECTIVE	MECHANISM	
BONUS POOL	Solidity and sustainability in a prudential approach	Gate and Funding	• **The bonus pool is activated** only if main capital and liquidity requirements are satisfied, namely the minimum regulatory conditions of solidity at both Group and Bank level, together with the economic and financial sustainability condition • **The funding of the bonus pool** at Bank level depends on available resources at both ISP Group and Division level resulting from economic and financial results achieved and adjusted for the non-financial risks incurred
BONUS ALLOCATION	Alignment of behaviors and managerial conduct with medium and long-term objectives of the Group Business Plan within a framework of risk prevention	Incentive Systems	**INCENTIVE SYSTEMS FOR SPECIFIC CLUSTERS** Incentive System for: • Risk Takers and other Middle Managers • Professionals • Network
BONUS PAY- OUT	Adjustment based on conduct/ monitoring the impact of managerial conduct over time	Individual access conditions	Failure to satisfy individual access conditions precludes any bonus payout and the settlement of deferred portions to be paid during the year
		Malus conditions	Failure to satisfy malus conditions leads to the reduction, even down to zero, of the deferral portions of bonus to be paid during the year
		Claw-back	Return of bonuses already paid as a result of disciplinary measures due to personnel fraudulent behavior or serious misconduct

- **Whether the management body or the remuneration committee where established reviewed the institution’s remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration,**

The VUB Remuneration Committee reviewed the VUB Remuneration and Incentives Policy document 2 times in 2021, on its session on 22.6.2021 and on 13.12.2021.

The main changes made in the VUB Remuneration and Incentives Policy document approved in June 2021:

1. Changes related to changes in legislation:
   The provisions of Directive (EU) 2019/878 (CRD V) amending Directive 2013/36/EU have been transposed in the local legislation within the Act No. 340/2020 Coll. amending the Act No. 483/2001 Coll. On Securities and Investment Services. The main aspects of the CRD V transposition in to the local Regulation are:
   - Deferral periods are extended from 3-5 years to 4-5 years; the requirements for Top Risk Takers at 5 years, with other material risk takers (MRTs) increasing to 4 years.
   - The new “de minimis” concession that allows firms not to apply deferral in individual variable pay of less than 50.000 EUR and less than a third of total remuneration for Risk Takers.
   - The categories of MRTs are expanded.
   - Gender neutrality principle to be applied.

2. Other main changes were related to updating the ISP Group Global Banding System:
   a. *Senior Director* - the roles that define business/function policies and plans, and drive their implementation, through the managerial responsibility of human and economic resources;
   b. *Head of* - the roles that define or contribute to defining programs and plans for their own organizational structure, also in coordination with other corporate structures, and ensure their implementation by taking managerial responsibility for human resources and, possibly, financial responsibility.

3. Group transversal KPI “ESG”: was introduced.

4. Updating of Qualitative and Quantitative criteria for the identification of Legal Entity Risk Takers, in line with the novella Act on Bank and EU Regulation.

VÚB BANKA

Impact of the changes was mainly on RT List (number of Risk-takers) and on deferral of the variable pay of some Risk takers.

The main changes made in the VUB Remuneration and Incentives Policy document in December 2021:

As a consequence of the publication and entry into force – starting from 14th June 2021 – of the European Regulation 923/2021 containing the criteria underlying the identification of those who have a material impact on the risk profile of the institution (so-called "key personnel" o "Risk Takers"), it was necessary for Intesa Sanpaolo Group to update its Remuneration Discipline (hereinafter the "Discipline"), with particular reference to the section B. Following such update, also the 2021 VUB Remuneration and Incentive Policies (hereinafter the "Policies") have been amended.

Specifically, it should be noted that from June 14, 2021 the criteria for identifying Risk Takers are defined both in the Directive 2013/36/EU (the so-called "CRD" - as amended by Directive 2019/878 /EU) as well as in the European Regulation 923/2021 (hereinafter the "Regulation"). Actually, the Regulation concretely implements and integrates the provisions of CRD, also in light of the application of the Risk Takers' identification criteria provided for by the European Regulation 604/2014 previously in force.

The Regulation substantially confirms the previous system which provides for a combination of quantitative and qualitative criteria, as well as the need to define additional criteria (if necessary) to identify additional subjects who assume significant risks for the Bank, expanding the scope of application of these criteria also at the sub-consolidated level. Therefore, the identification of the Risk Takers must be carried out at Intesa Sanpaolo Group, Sub-consolidating Group (i.e. VUB Group) and Legal Entity (i.e. VUB) level.
The updated areas mainly refer to the revision of the qualitative criteria and quantitative criteria of Risk takers identification.

- **Information of how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee,**

The Performance scorecards of Control functions don´t include financial objectives in their KPIs.

Scope	Business and Governance Functions				Corporate Control Functions	
	Chairman & CEO	Deputy CEO	Other Group Risk Takers and Legal Entity Risk Takers	Middle Managers	Group Risk Takers and Legal Entity Risk Takers	Middle Managers
ISP Group	Net Income				⊗	
The Division	1 KPI up to 20% chosen from the KPIs assigned to the Head of Division		✓		✓	
CE Hub (optional)	⊗	Financial and non-financial KPIs (only for those who report hierarchically directly to the Chairman & CEO)		✓	Non-financial KPIs (only for those who report hierarchically directly either to the Chairman & CEO or the Board)	✓
VUB	Financial and non-financial KPIs				Non-financial KPIs	
VUB	Environmental, Social and Governance (ESG)					
VUB	⊗	⊗	⊗	⊗	Risk Culture	⊗

✓ =
- 1 KPI up to 20% chosen from the KPIs assigned to any intermediate organizational level among the Division /Function and one's own area of responsibility
- Only in particular cases, it's possible to provide an additional KPI chosen from the KPIs assigned to any intermediate organizational level among the Division/Function and one's own area of responsibility as long as the maximum total weight of the two KPIs is in any case equal to 20%

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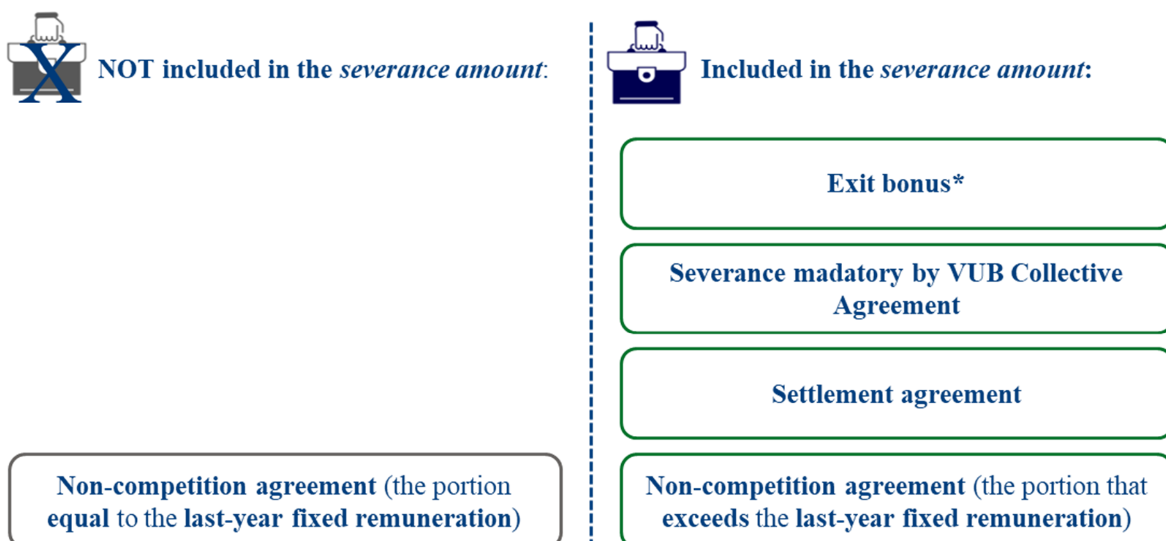
- **Policies and criteria applied for the award of guaranteed variable remuneration and severance payments.**

In compliance with the ISP Group Policies, the guaranteed variable remuneration (bonus) is not foreseen in the VUB Remuneration Policy.

In order to favor the hiring of new personnel, in accordance with the relevant provisions, it may be awarded an Entry bonus that is a one-off bonus that may be paid upon hiring, without prejudice to the accurate assessment and analysis of market practices. This type of bonus is not subject to any requirement applicable to variable remuneration, including variable remuneration cap and pay-out schemes, if recognized in a single instalment (c.d. welcome bonus). It should be noted that the mentioned bonus can be assigned only once to the same single staff member.

Severance

Based on international and national best practices, the VÚB, a.s., in compliance with ISP Remuneration and Incentive Policies has set a maximum limit equal to 24 months of the fixed remuneration for compensation paid by way of severance.



* Severance payments exceeding the severance mandatory by VUB Collective Agreement or the Settlement Agreement defined according to the below mentioned formula or the non-competition agreement

Accumulation of severance with variable remuneration

In Compliance with ISP Remuneration and Incentive Policies, the compensation paid by way of severance is included in the calculation of the ratio between the variable remuneration due and the fixed remuneration of the last year of employment at the company.

In particular, the compensation paid by way of severance is added to the bonus due for the last year of employment at the company, excluding the amounts agreed and recognised:

- as severance mandatory by Labour Code and VUB Collective Agreement;
- based on a non-competition agreement, for the portion which, for each year of duration of the agreement, does not exceed the last year of fixed remuneration;
- within an agreement reached in order to settle a current or potential dispute (independently from the context in which the agreement is drawn up), if the severance payments are calculated through a predefined formula.
    - For all the employees with the exception of the Executive Directors Members of the Management Board, the applicable formula is defined according to the VUB formula stated below.
    - For the Executive Directors Members of Management Board this amount is calculated according to the formula defined by Intesa Sanpaolo, approved previously by the ISP Shareholders' Meeting, and indexed to the number of years of employment in the Group This amount can't be anyway lower than the amount resulting from the formula defined by VUB formula stated below.

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VUB formula

Company tenure (years)	**Severance**
Up to 1	1 month of average monthly salary
1 and up to 4	2 months of average monthly salary
More than 5 up to 10	5 months of average monthly salary
More than 10 and up to 19	6 months of average monthly salary
More than 20 and up to 29	7 months of average monthly salary
More than 30	8 months of average monthly salary
From 20 to 30 and 12 months and less to retirement	9 months of average monthly salary
Over 20 and 13 to 36 months to retirement	8,5 months of average monthly salary
Over 30 and 12 months and less to retirement	10 months of average monthly salary

Executive Directors Members of the Management Board

Company tenure (years)	**Severance**
Up to 2	2 months of fixed remuneration
More than 2 and up to 21	2 months of fixed remuneration + half month for each year of employment (starting from the third year)
More than 21	12 months of fixed remuneration

In the Intesa Sanpaolo Group, the principles for the definition of severance - inspired to both the correlation between severance pay and ongoing performance criteria and the control of potential litigations – are:

- protecting the level of sound capital base required by the Regulations;
- "no reward for failure";
- unobjectability of individual behaviour (consistency with compliance breach absence criteria).

Please also note that the same activation, individual access, malus and clawback conditions set for variable remuneration for each population cluster are applied to severance.

The amount payable as Severance to the Chairman & C.E.O., D.C.E.O., Management Board Members and Heads of Control Functions is subject to assessment and approval by the Supervisory Board of VÚB, a.s. on the proposal of the Remuneration Committee, which establishes, within the maximum limit set as per the Bank Remuneration and Incentive Policies, the amount deemed adequate.

In defining such amount, the Supervisory Board with the support of the VÚB, a.s. HR & Organization Department that collaborates with the HR Department of ISBD, takes into account the overall assessment of the work in different roles held over time and pays particular attention, to the capital and liquidity of ISP Group and profitability levels of both ISP and VÚB, a.s. and to any individual sanctions imposed by the Supervisory Authorities.

With regard to the other Group and Legal Entity Risk Takers, the amount payable as Severance Payment, is determined by the HR & Organization Department of VÚB, a.s., with the support of the competent HR function of the Parent Company taking into consideration the overall evaluation of the individual's performance in the different roles held over time and having particular regard to the capital, liquidity and profitability levels of VÚB, a.s. and the Group, and the presence or absence of individual sanctions imposed by the Supervisory Authority.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures shall include an overview of the key risks, their measurement and how these measures affect remuneration.

Activation conditions for Incentive system (Gate)

The Incentive Systems for VÚB Group personnel are subject to the minimum activation conditions requested by the Regulator and non-achievement of even only one of those conditions shall result in non-activation of the Incentive Systems.

These conditions are based, on a priority basis, on the principles envisaged by the prudential regulations concerning sound capital base and liquidity, represented by the consistency with the limits set as part of both ISP Group RAF and VÚB Group RAF as well as the principles of financial sustainability of the variable component that consist in checking the availability of sufficient economic-financial resources to meeting the expenditure requirement.

These conditions are as follows:

- At ISP Group level:
  1. Common Equity Tier 1 Ratio (CET1) at least equal to the limit set by the RAF (capital adequacy condition);
  2. Net Stable Funding Ratio (NSFR) at least equal to the limit set by the RAF (liquidity condition);
  3. No loss and positive Gross Income[18] (except for the Network Incentive System).

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

It is specified that failure to respect these limits set at VÚB Group level constitutes non-activation condition for all the Incentive Systems of VÚB Group, also when those at ISP Group level are positive.

For more details regarding the risks that are taken into consideration in KPIs please see point b)

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

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

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

The only Incentive System that is not financed by ISP Group bonus pool is the one addressed to the Network because of its peculiarity. In fact, the bonus pool to fund this System is defined with a bottom-up approach and is independent from the ISB Division's bonus pool.

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

In addition, the portion of the bonus pool so allocated to ISB Division is subject to a correction mechanism that may imply a potential reduction of the accrued bonus pool in case of failure to respect the hard and/or soft limits set in Division RAF for the non-financial risks (i.e. Operational Losses and Integrated risk assessment).
Specifically, the impact in terms of bonus pool deduction in case of breaches of the above-mentioned limits is 10% for hard limits and 5% for the soft one.

[18] In particular, the Gross Income (condition of sustainability) is measured net of:

- profits from the buyback of the ISP's own liabilities;
- fair value of the ISP's own liabilities;
- income components arising from accounting policies following changes to the internal model on core deposits.

For what regard the clusters of employees eligible, those depend on both ISP Group and the Division Gross Income and, in some specific cases, also on VÚB, a.s. Gross Income (or the Gross Income of each VUB Subsidiary) in respect of the level provided in VUB a.s. budget (or the budget of each VUB Subsidiary).

KPIs ADJUSTMENT TO RISK

Identification of KPIs, on which incentives granting is based, is carried out by the competent functions, considering the most significant economic and financial indicators for achievement of the budget objectives, periodically monitored through internal reporting tools and available at the consolidated level, as well as at division and/or business unit level.

The process used to identify the above-mentioned KPIs involves Chief Risk Officer and Chief Compliance Officer Governance Areas, in order to ensure respectively the consistency of the KPIs with the limits set in the Group RAF as well as their compliance with the regulatory provisions in force from time to time.
This allows the selection of a complex mix of qualitative and quantitative parameters – anyway transparent, objective and measurable – allowing a 360-degree evaluation of company's performance in terms of profitability and risks prudently taken.

INDIVIDUAL ACCESS CONDITIONS

The payment of the individual bonus is, in any case, subject to the verification of the absence of the so-called individual compliance breaches i.e.:

- disciplinary measures involving suspension from service and pay for a period equal to or greater than one day, including as a result of serious findings received from the Bank's control functions, including the provisions of the Slovak Banking Act (Art. 27, sec. 16) regarding the dismissal of a Management Board member, a member of the bank's Supervisory Board, or the head of the foreign bank branch;
- in case of breaches specifically sanctioned by the Supervisory Authorities regarding the requirements of professionalism, integrity and independence and also with reference to transactions with related parties and of the obligations regarding remuneration and incentives referred to in CRD V, if involving a penalty of an amount equal to or greater than 30,000 euro;
- behaviours non-compliant with the legal and regulatory provisions, the Articles of Association or any codes of ethics and conduct established ex ante by the Bank and the Group and from which a "significant loss" derived for the Bank or for customers.

In particular, failure to comply with the individual access conditions implies both the non-payment of the bonus accrued in the reference period[19] in which the compliance breach is committed and the deletion of the deferred portions of the accrual conditions referred to the same reference period.

Q-FACTOR

Finally, regardless of the cluster of population, the accrued bonus is subject to an additional corrective Mechanism that measures the residual structure risk level (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved which is reduced by:

- 20% in case of a "very high" Q-Factor;
- 10% in case of a "high" Q-Factor.

The Q-Factor is based on factors relating to the control system and also considers other elements that are useful for the evaluation (Operational Losses, Findings of the Supervisory Authorities, Trends and weights of the critical issues in the Tableau de Bord of the Audit Function). The evaluation is based on a quantitative scale to which the residual risk judgement corresponds: Very High, High, Medium, Low.

MALUS AND CLAWBACK CONDITIONS
As described below under section f.2.

[19] With specific regard to the performance evaluation system for Employees working in Network and similar roles:
- the bonus related to the first section is not paid for the infra-year timeframe of reference (e.g. quarter, semester,…)
- the bonus related to the second section is not paid for the entire year

during which action that led to disciplinary measure has been committed.

d) The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD.

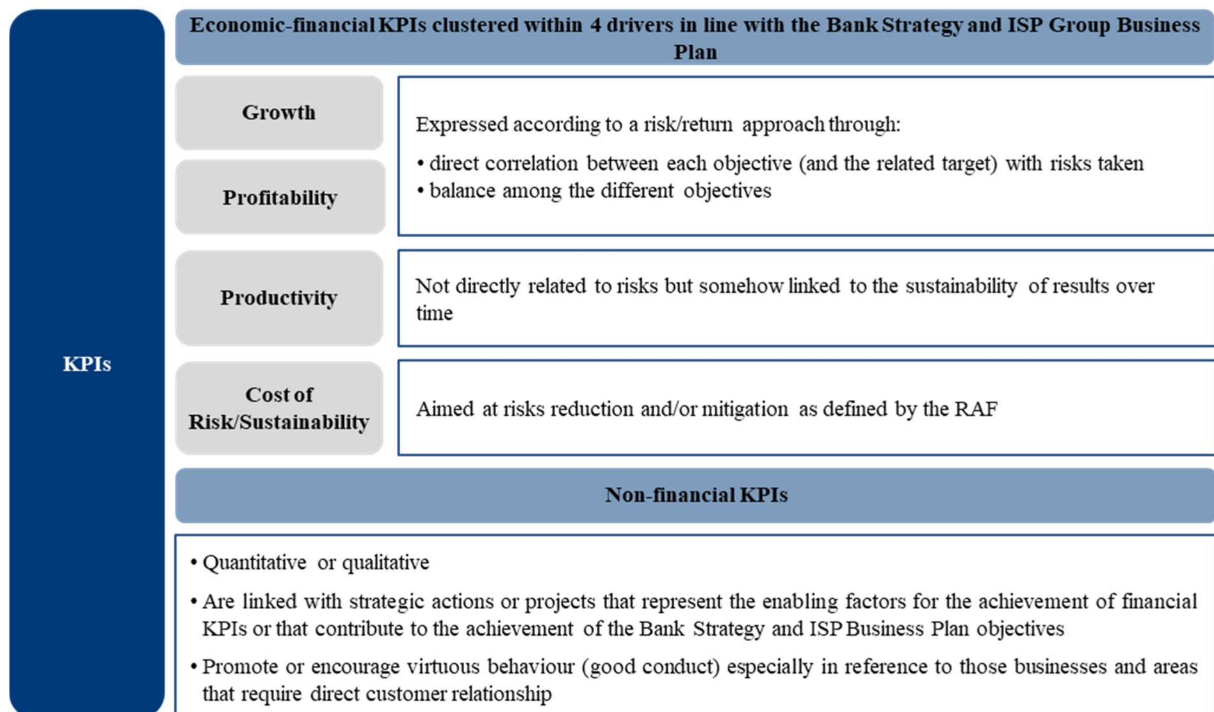
In order to achieve the above objectives, in VÚB, a.s., in line with ISP Group Policies, ex ante limitations in terms of balanced maximums for variable remuneration have been established through the definition of specific caps on the increase of bonuses in relation to any over-performance.
This cap to the variable remuneration is determined in general in 100% of the fixed remuneration with the exception of the roles belonging to the Company Control Functions (all of them, independently from the position covered whether managerial or non-managerial) for which a cap of 33% of the fixed remuneration is established (see section related to the Control Functions above).

e) Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration.
Disclosures shall include:
An overview of main performance criteria and metrics for institution, business lines and individuals,

The Incentive System for the Risk Takers and Middle Managers aims to guide the behavior and managerial actions towards reaching the objectives set for the Bank's strategy and in the Business plan and to reward the best annual performance assessed with a view to optimize the risk/return ratio.

The Performance Incentive System is formalized through Performance Scorecards.

Performance Scorecards include both KPIs of an economic-financial nature and non-financial KPIs.



The KPIs identification process and the relative target setting and performance evaluation is considering most significant economic and financial indicators for the achievement of the budget objectives, periodically monitored through internal reporting tools and available at Bank level and/or Division and/or consolidated level.

The Performance Scorecards guarantee the balance between the area of responsibility and the managerial solidarity/teamwork and they include KPIs whose scope is:

- ISP Group for:
  - all Group and Legal Entity Risk Takers and Middle Managers in Business and Governance Functions who are evaluated on a financial KPI that is assigned as Group transversal KPI. For 2021, in line with the previous year, the Net Income is assigned as a Group transversal KPI;
- International Subsidiary Banks Division for:
  - the Chairman and CEO and the Deputy CEO who are evaluated on one KPI chosen from the KPIs assigned to the Head of Division to which the Bank belongs to;
- Central Europe HUB (optional) for:
  - all those who report hierarchically directly either to the Chairman and CEO or the Supervisory Board who may be evaluated also on financial and non-financial KPIs (except for the Control Functions who may have only non-financial KPIs) whose scope is the CE HUB;
- VUB Group for:
  - all Group and Legal Entity Risk Takers as well as all Middle Managers (regardless of their Functions) who are evaluated also on a qualitative KPI relating to the actions envisaged by ISP Group Business Plan, whose evaluation is usually objectified by identifying project milestones and/or drivers[20]. For 2021, in line with ISP Group Remuneration and Incentive Policies, the "Environmental, Social and Governance (ESG)"[21] is identified among the strategic actions as a Group transversal KPI and its weight is 15%;
  - Group and Legal Entity Risk Takers belonging to Corporate Control Functions only, for 2021, in continuity since 2018, an additional Group transversal KPI has been chosen and it lies in the "Risk Culture - Promoting awareness at all levels of the organization with respect to the emerging risks, with a particular focus on those connected to technological innovation, through information, awareness and training actions".
- VÚB, a.s. and/or VUB Group for:
  - all the clusters of population since everybody is evaluated on at least either one financial and/or non-financial KPI whose scope is the Bank.

Finally, all Group and Legal Entity Risk Takers and Middle Managers in:

  - Business and Governance Functions (except for the Chairman & CEO and the Deputy CEO) are evaluated on one KPI weighted up to 20% chosen from the KPIs assigned to any intermediate organizational level among the Division and one's own area of responsibility;
  - Corporate Control Functions, considering that they functionally report to the relevant Control Function set at ISP level, are evaluated on one KPI chosen from the KPIs assigned to any intermediate organizational level among the Head of ISP Group Function and one's own area of responsibility.

Only in particular cases, it's possible to provide an additional KPI chosen from the KPIs assigned to any intermediate organizational level among the Head of the Function of the ISP Group and one's own area of responsibility as long as the maximum total weight of the two KPIs is in any case equal to 20%.

Here below it's a summary of the different scopes of the KPIs assigned to each cluster of population:

[20] In NewPat Excentive Methodology they can be included in the description of the KPI or in its "comment" section.
[21] For NewPAT Excentive methodology "Environmental, Social and Governance (ESG)" is indicated as Excentive Competency

Scope	Business and Governance Functions				Corporate Control Functions	
	Chairman & CEO	Deputy CEO	Other Group Risk Takers and Legal Entity Risk Takers	Middle Managers	Group Risk Takers and Legal Entity Risk Takers	Middle Managers
ISP Group	Net Income				⊗	
The Division	1 KPI up to 20% chosen from the KPIs assigned to the Head of Division	✓			✓	
CE Hub (optional)	⊗	Financial and non-financial KPIs (only for those who report hierarchically directly to the Chairman & CEO)		✓	Non-financial KPIs (only for those who report hierarchically directly either to the Chairman & CEO or the Board)	✓
VUB	Financial and non-financial KPIs				Non-financial KPIs	
	Environmental, Social and Governance (ESG)					
	⊗	⊗	⊗	⊗	Risk Culture	⊗

✓ =
- 1 KPI up to 20% chosen from the KPIs assigned to any intermediate organizational level among the Division /Function and one's own area of responsibility
- Only in particular cases, it's possible to provide an additional KPI chosen from the KPIs assigned to any intermediate organizational level among the Division/Function and one's own area of responsibility as long as the maximum total weight of the two KPIs is in any case equal to 20%

VUB, a.s., in line with Intesa Sanpaolo Group, starting from 2021, has decided to introduce a specific "ESG" KPI among the strategic action objectives that will be assigned to all Risk Takers and Middle Managers.
This KPI represents the evolution of the previous Group transversal KPI, i.e. Diversity & Inclusion, which was focused on a specific area related to the Social factor. The new KPI, instead, takes into account several ESG factors and areas in line with specific activities and projects carried out by ISP Group and by VÚB Group.

To each KPI is assigned a weight equal to at least 10% to ensure the relevance of the objective and up to 30%.

The sum of the weights assigned to the KPIs of each section is equivalent to the overall weight of the section; this weight varies according to the macro-area pertaining to the population.

As per the ex post risk adjustment (malus conditions and clawback) – please see more details in point f).

Here below it's a summary of the weight of the different kind of KPIs that are included in the Performance Scorecards:

Weight range on Performance Scorecard

	Business Functions		Governance Functions		Corporate Control Functions
	Group Risk Takers	Legal Entity Risk Takers and Middle Managers	Group Risk Takers	Legal Entity Risk Takers and Middle Managers	Group and Legal Entity Risk Takers and Middle Managers
Financial Objectives	60% - 80%	60% - 70%	40% - 70%	60% - 70%	⊗
Non-Financial Objectives	40% - 20%	40% - 30%	60% - 30%	40% - 30%	100%

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The total amount due is attributed annually based on the evaluation of the results of the individual Performance Scorecard. In particular, this calculation is ranking-based for the Group Risk Takers and is connected to the evaluation of the results for the Legal Entity Risk Takers and other Middle Managers.

The Incentive System for the Professionals aims to reward the best annual performance assessed with a view to optimise the risk/return ratio.
The individual awarding of the bonus is at the discretion of the Direct Head, taking into account the results of the performance evaluation, both in absolute and relative terms. In other words, the bonus proposal must be consistent with the level of performance achieved, also taking into account Peers.

The performance evaluation is carried out and documented through NewPat – Standard Methodology.
This methodology provides an evaluation based on KPIs and the assessment of role-specific Competences.
The KPIs (at least 2 and up to 5 KPIs per person) are of economic and financial nature and/or projects-related and their scope may be the employee's area of responsibilities or his/her Business Unit. To each KPI it is assigned a weight equal to at least 10% to ensure the relevance of the objective.

For what regards the Network and similar roles, the evaluation is carried out through GPS Network.
This system is based on a multi-level approach according to which the achievements are measured at VUB a.s, branch and individual levels.

The performance evaluation is based on a Performance Scorecard that provides for both financial and non-financial quantitative KPIs as well as qualitative indicators related to behaviors.
Specifically:

- The first section of the Performance Scorecard, whose weight is 80%, includes from 3 to 8 quantitative KPIs out of which at least one shall be financial and at least another one not financial (e.g. Net Promoting Score, number of complaints, quality of the managed portfolio etc). These KPIs are selected from a pre-set KPIs' list clustered by strategic driver (i.e. growth, efficiency, sustainability and profitability) and they are specific for each role. The minimum weight of each KPI is 10% and the maximum is 30%. The measurement and payout frequency are the same for all those KPIs and may depend on the roles and the bonus accrues only if the score of this section is equal to or higher than 80%;
- The second section of the Performance Scorecard, whose weight is 20%, includes only indicators focused on behaviors (qualitative indicators). Specifically:
    - one mandatory indicator composed by 3 behavioral drivers, pre-defined per role and weighted in total up to 20%;
    - an optional qualitative indicator added on Corporate Control Function request that is the Anti-Money Laundering KPI weighted 3%[22].

The measurement and payout frequency of the indicators of this section are performed yearly.

Finally, it should be noted that this system is subject to constant review in order to strengthen its the effectiveness and the compliance with regulations in force from time to time.

- **An overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance,**

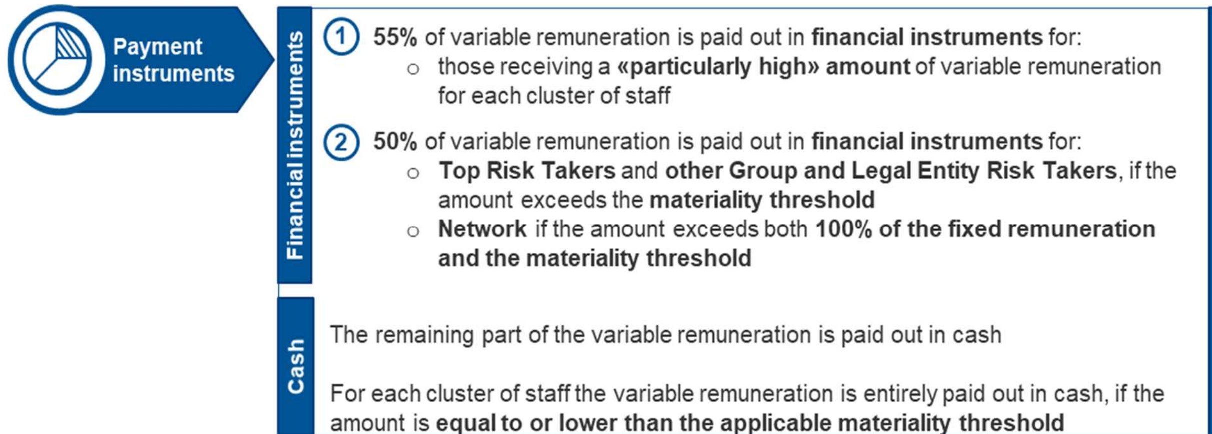
See point e.1. above regarding the link of institutional KPIs with the individual performance.

The total amount due is attributed annually based on the evaluation of the results of the individual performance scorecard and is defined with different calculation methods depending on the cluster.
In particular, this calculation is ranking-based for the Group Risk Takers (including for the Group Risk Takers Control Functions).

For what regards the evaluation of the results for the Legal Entity Risk Takers and other Middle Managers, the individual awarding of the bonus is at the discretion of the Direct Head, taking into account the results of the performance evaluation, both in absolute and relative terms. In other words, the bonus proposal must be consistent with the relative level of performance achieved (i.e. the Legal Entity Risk Takers or Middle Manager with the best performance score should receive a bonus as a percentage of the fixed remuneration that is higher than the other colleagues).

[22] If there is the need to foresee an AML KPI with a weight higher than 3%, it can be included as a non-financial KPI within the first section of the Performance Scorecard with a weight between 10% and 30%.

- **Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments,**



In compliance with the local regulation, the financial instruments used by the VUB to pay the variable remuneration are:

- units of Investment Certificates of VUB - in compliance with local regulations - for the Group and Legal Entity Risk Takers of VUB Banka having a local contract;
- Intesa Sanpaolo shares for the Group Risk Takers seconded from ISP.

- **Information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics.**

Regarding the Gateway and Bonus Funding conditions and their link to the performance achieved, please refer to section c. above.

With regard to the individual performance of the Risk Takers and Middle Managers, the bonus won't be paid if the total score of the performance evaluation is lower than 80% for those who belong to Business and Governance functions or lower than 90% for those who belong to Corporate Control functions while for the Head Office population (Professionals), the bonus won't be paid if the performance evaluation is "below expectations", meaning that the total score is lower than 1.5.

For the Network population, the bonus accrues only if the score of the first section of the Performance Scorecard, whose weight is 80% and includes from 3 to 8 quantitative KPIs (out of which at least one shall be financial and at least another one not financial e.g. Net Promoting Score, number of complaints, quality of the managed portfolio etc) is equal to or higher than 80%;

f) Description of the ways in which the institution seeks to adjust remuneration to take account of longterm performance.
Disclosures shall include:

- **An overview of the institution's policy on deferral, payout in instrument, retention periods and vesting of variable remuneration including where it is different among staff or categories of staff**

The remuneration payment methods are governed by specific instructions in the Supervisory Provisions concerning remuneration with particular reference to the deferral obligations, the type of payment instruments and the retention period envisaged for the possible portion paid as financial instruments.

Illustrated below are the methods for the payment of the variable remuneration adopted by the VUB, a.s..

Deferred amount

1. **60%** of variable remuneration is deferred for a period of **5 years** in case of:
   - **«particularly high» amount** of variable remuneration, for each cluster of staff
2. **40%** of variable remuneration is deferred for a period of **5 years** in case of remuneration awarded to:
   - **Top Risk Takers**, if the amount exceeds the **materiality threshold**
3. **40%** of variable remuneration is deferred for a period of **4 years** in case of remuneration awarded to:
   - **Group and Legal Entity Risk Takers** (except for Top Risk Takers), if the amount exceeds the **materiality threshold**
4. **40%** of variable remuneration is deferred for a period of **3 years** in case of remuneration awarded to:
   - **Network** if the amount exceeds both **100% of the fixed remuneration and the materiality threshold**
5. **40%** of variable remuneration is deferred for a period of **2 years** in case of remuneration awarded to:
   - **Middle Managers and Professionals**, if the amount exceeds the **materiality threshold**
   - **Network** if the amount exceeds **100% of the fixed remuneration and is equal to or lower than materiality threshold**

Up-front amount

The remaining part of the variable remuneration awarded by the aforementioned clusters of personnel is paid out up-front.

For each cluster of staff the variable remuneration is entirely paid out up-front, if the amount is **equal to or lower than both the applicable materiality threshold**

In compliance with the local regulation, the financial instruments used by the VUB to pay the variable remuneration are:

- units of Investment Certificates of VUB - in compliance with local regulations - for the Group and Legal Entity Risk Takers of VUB Banka having a local contract;
- Intesa Sanpaolo shares for the Group Risk Takers seconded from ISP.

1. The **up-front** and **deferred** components of variable remuneration assigned in financial instruments is subject to a retention period of at least **1 year**

During the retention period, with regard to the portion of variable remuneration given in ISP shares, dividends are paid

- **Information of the institution' criteria for ex post adjustments (malus during deferral and clawback after vesting, if permitted by national law),**

Malus conditions

In case of deferral, each portion is subject to an ex-post adjustment mechanism - the so-called malus conditions - according to which the relative amount recognised and the number of financial instruments assigned, if any, may be reduced, even to zero, in the year in which the deferred portion is paid, in relation to the level of achievement of the minimum conditions set by the Regulator regarding the sound capital base and liquidity, represented by the consistency with the respective limits set as part of both the ISP Group and VUB RAF, as well as the condition of financial sustainability.

Those conditions are:

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

3. No loss and positive Gross Income[23] (except for the Network Incentive System).

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

In case one of the conditions of sound capital base or of liquidity does not occur individually, the deferred portion is brought down to zero; if the condition of sustainability is not met, the deferred portion is reduced by 50%.

For the verification of the malus conditions it shall be considered the perimeter of the Legal Entity where the person was employed when awarded the bonus to which the deferred portions are referred to.

Clawback mechanisms

VÚB, a.s. reserves the right to activate clawback mechanisms, namely the return of bonuses already paid as required by regulations, as part of:

- disciplinary initiatives and provisions envisaged for fraudulent behaviour or gross negligence by the relevant Group Risk Takers or Legal Entity Risk Taker personnel, also taking into account the relative legal, contribution and fiscal profiles. For the remaining personnel apply the Slovak Labour Code that provides comparable mechanisms;
- behaviour non-compliant with the legal and regulatory provisions, Articles of Association or any codes of ethics and conduct established ex ante by VÚB, a.s and from which a "significant loss" derived for the Bank or the customer.

These mechanisms may be applied in the 5 years following the payment of the individual portion (up-front or deferred) of variable remuneration.

- **Where applicable, shareholding requirements that may be imposed on identified staff.**

not applicable

g) The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR.
Disclosures shall include:

- **Information on the specific performance indicators used to determine the variable components of remuneration and the criteria used to determine the balance between different types of instruments awarded, including shares, equivalent ownership interests, share-linked instruments, equivalent non cash-instruments, options and other instruments.**

Please make reference to point e.1. regarding the link between KPIs and the variable remuneration.
Please make reference to point f.1. regarding the deferral mechanism and instruments adopted in case the amount of variable remuneration exceeds the relevant materiality threshold.

h) Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management.

Not relevant for VUB

i) Information on whether the institution benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR.

- **For the purposes of this point, institutions that benefit from such a derogation shall indicate whether this is on the basis of point (a) and/or point (b) of Article 94(3) CRD. They shall also indicate for which of the remuneration principles they apply the derogation(s), the number of staff members that benefit from the derogation(s) and their total remuneration, split into fixed and variable remuneration.**

Based on point (b) of Article 94(3) CRD V, derogation is applicable also to VUB.
The variable remuneration for 2021 will be awarded to the identified staff members ("Risk Takers") in 2022, on the basis of fulfilled KPIs and performance in BY 2021 evaluation, which will take place in May 2022.

[23] In particular, the Gross Income (condition of sustainability) is measured net of:
- profits from the buyback of the Bank's own liabilities;
- fair value of the Bank's own liabilities;
- income components arising from accounting policies following changes to the internal model on core deposits.

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As the amounts of bonus to be granted for performance in 2021 are yet to be determined, it is not possible to report the total remuneration, neither the fixed and variable part of the identified staff members which will benefit from the above-mentioned derogation in 2021. VUB will publish this information as soon as available.

j) Large institutions shall disclose the quantitative information on the remuneration of their collective management body, differentiating between executive and non-executive members in accordance with Article 450(2) CRR.

Amount in terms of gross

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff	7	7	14	0	8	0	8	7	0	**37**
2	Of which: members of the MB	7	7	14	0	0	0	0	0	0	**0**
3	Of which: other senior management	0	0	0	0	2	0	0	0	0	**0**
4	Of which: other identified staff	0	0	0	0	6	0	8	7	0	**0**
5	Total remuneration of identified staff (in EUR)	55 000,04	2 979 015,69	3 034 015,73	0	1 134 152,11	0	1 072 899,46	642 094,26	0	**0**
6	Of which: variable remuneration	0,00	774 000,00	774 000,00	0	270 465,14	0	214 400,00	102 500,00	0	**0**
7	Of which: fixed remuneration	55 000,04	2 205 015,69	2 260 015,73	0	863 686,97	0	858 499,46	539 594,26	0	**0**

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Annex XXXV

Table EU AE4 - Accompanying narrative information

Disclosure of qualitative information, in accordance with Article 443 CRR.

a)
General narrative information on asset encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

For the purpose of securing financing, the bank may encumber assets, including operations with the central bank, as well as accepted collateral arising from all on-balance and off-balance sheet transactions, regardless of their maturity.

The bank encumberes the following types of assets and collateral received:

- debt securities established in the ECB pool
- term loans to non-financial corporations established in the ECB pool,
- other assets, which include cash and on demand loans with the central bank, lending for house purchase, cash collateral placed in the CCP clearing system as well as initial margins.

In the case of encumbered and unencumbered assets and collateral received, the bank also monitors their quality and whether the assets are eligible:

- assets of extremely high liquidity and credit quality (EHQLA); and
- assets of high liquidity and credit quality (HQLA).

The bank also in encumbered assets and encumbered collateral monitors eligibility for operations with the central bank (NBS).

The bank reports encumbered and unencumbered assets at carrying amount and fair value. Carrying amount shall mean the amount on the asset side of the balance sheet. Fair value of a financial instrument shall be 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

For disclosure purposes, the bank reports the value of individual exposures through median values. The data presented in the EU AE1, EU AE2, EU AE3 models present consolidated data and are the median of the quarterly values for 2021.

b)
Narrative information on the impact of the business model on assets encumbrance and the importance of encumbrance to the institution's business model, which provides users with the context of the disclosures required in Template EU AE1 and EU AE2.

Covered bonds are the main source of asset encumbrance. Their issuance follows from the valid legislation. The rights attached to the covered bonds are governed by generally binding legal regulations and relevant documentation (securities prospectus, issue or final terms). The bank publishes this information on its website. All covered bonds issued by the bank are book-entry, bearer and freely transferable and are denominated in EUR. They are traded on the Stock Exchange, a.s. in Bratislava or Luxembourg.

The amount of the covered bond collateral corresponds to the volume of provided mortgage loans to the residual value of the issued and placed covered bonds, including the relevant collateral. The volume of issued covered bonds placed within the ISP group represents 0% of the total volume of encumbered assets.

Other significant sources of asset encumbrance are debt securities, loan receivables, off-balance sheet debt securities received as collateral and cash collateral placed in a CCP (ISP) system, as well as initial margins.

The volume of encumbered receivables and cash collateral received for clearing operations within the ISP Group represents 0.45% of the total volume of encumbered assets and are denominated in EUR (80%) and CZK (20%).

A significant source of asset encumbrance is operations related to the drawing of TLTRO III loans from the NBS (targeted longer-term refinancing operations). The drawdown of TLTRO loans affects the bank's assets encumbrance, as these loans are secured in the form of liquid assets in the ECB pool.

In order to ensure a sufficient amount of liquid assets in the ECB pool to cover TLTRO loans, collateral has been added in the form of Italian government debt securities acquired by the bank through a reverse REPO operation with ISPs. Italian government debt securities are denominated in EUR and are IPS groups.

These sources of encumbrance are based in the ECB pool for refinancing operations.

The procedure for calculating the asset encumbrance in the ECB pool is as follows:

- Liquid loans are encumbered first,
- Subsequently, securities from financial institutions will be encumbered
- The remaining part of the encumbrance is covered by government debt securities

Debt securities are burdened by haircuts from the highest to the lowest. All encumbered assets that are in the ECB pool must meet the conditions set by the ECB.

All encumbered assets in the ECB pool during 2021 were denominated in EUR. As at 31 December 2021, the largest share of the volume of debt securities in the ECB pool consisted of Italian government debt securities 73% (including collateral received), Slovak government debt securities 12%, foreign government debt securities 3% and debt securities issued by Slovak financial institutions 2% and foreign financial institutions 10%.

Encumbered assets arising from covered bonds issued, refinancing operations with the ECB and debt securities held as collateral are based on the law, resp. framework agreement between VUB, ISP and NBS.

The Bank does not consider any assets other than LCR liquid assets, loan receivables and securities to be encumbered. Assets that are placed in instruments that are not used and that can be freely withdrawn are not considered encumbered.

The bank does not consider available for asset encumbrance purposes:

- Equity instruments,
- Debt securities that are not part of the ECB pool,
- Other assets, which include loans other than on demand at central banks and credit institutions, general government, non-financial corporations, other financial institutions and households. Other assets also include tangible and intangible assets, deferred tax assets, machinery and other fixed assets, derivative assets, reverse repurchases and share borrowings.

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

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

Liquidity coverage ratio (LCR) disclosure according to NBS decree 16/2014 as amended, §1 section 2g) are included in Attachment no.1.

Disclosure requirements of non-performing and forborne exposures according to NBS decree 16/2014 as amended, §1 section 2j) are included in Attachment no. 1. The Bank has a NPL ratio less than 5%, calculated as non-performing exposures and forborne exposures to the volume of total exposures.

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

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

31 March 2022

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