ANNUAL REPORT 2021

Consolidated

VÚB BANKA

FOR ALL THAT COUNTS

Bank of INTESA SANPAOLO

www.vub.sk

Contents

Address by the Chairman of the VUB Supervisory Board

Dear Shareholders, Clients and Business Partners, Employees

VUB had in 2021 a very good year. The Group has succeeded to significantly increase volumes of loans and deposits and deliver nice financial results, exceeding expectations. These achievements are remarkable, especially as consumer spending and corporate investment activity still remained constrained by the covid-19 pandemic and precluded a return of demand for many financial services to previous levels.

In this respect, the fact that, through the third quarter, VUB has outgrown its main competitors and solidified its position as the number one lender in Slovakia stands out. VUB's superior performance on the market has also been noted by outside observers, such as Global Finance magazine, which awarded VUB as the Best Bank in Slovakia in 2021. On behalf of Supervisory Board, I would like to thank the management and employees for these excellent achievements.

Besides fine quantitative results, I nonetheless view VUB's success also in a different context. Amidst the continuing threat to public health arising from the covid-19 pandemic, I namely very much appreciate VUB's approach to the protection of health of its clients, employees, and strong support for vaccination, which indeed is seen as the key of return to the normalcy of life and business as we knew before the pandemic. And I equally appreciate the responsible approach of VUB to implementing the principles of ESG and sustainability in its day-to-day operations as well as strategic positioning.

Besides fine quantitative results, I nonetheless view VUB's success also in a different context.

Amidst the continuing threat to public health arising from the covid-19 pandemic, I namely very much appreciate VUB's approach to the protection of health of its clients, employees, and strong support for vaccination, which indeed is seen as the key of return to the normalcy of life and business as we knew before the pandemic. And I equally appreciate the responsible approach of VUB to implementing the principles of ESG and sustainability in its day-to-day operations as well as strategic positioning.

We at Intesa Sanpaolo are namely very much aware of the impact we have on the social and environmental context in which we carry out our business. And we know that innovation, development of new products and services and corporate responsibility can contribute to reducing the impact on society of phenomena such as climate change and social inequality. With this awareness, Intesa Sanpaolo Group, as one of the few European financial groups, has joined all the main United Nations initiatives concerning the financial sector in the field of sustainability. Hence, I attest that Intesa Sanpaolo remains committed to help VUB in any respect to be a responsible financial intermediary that generates collective long-term value, for the Bank, its employees, customers, community and the environment.

Ignacio Jaquotot,
Chairman of the Supervisory Board

Address by the Chairman of the VUB Management Board

Dear Shareholders, Clients and Business Partners,

the year 2021 has been successful for VUB. I am particularly pleased to say that we delivered great commercial results and significantly increased volumes of loans and deposits, as well as volumes of assets under management in our pension funds and asset management units. I am also pleased with the operational efficiency and the quality of our loan portfolio. These developments enabled us to deliver the best possible financial performance, offsetting to an extent the negative impact of decreasing margins and low interest rate environment.

Before evaluating VUB's achievements in detail, I believe it is instructive to review first the developments in the external environment, which helped to lift our commercial results. The year 2021 namely has been the year of economic recovery, if not yet a complete one, from the impact of the global covid-19 pandemic. Alongside recovery of economic activity also the labor market has recouped most of the jobs lost during the pandemic. While there still are gaps in activity and employment vis-à-vis pre-pandemic levels, the trends were nonetheless broadly positive with the economy reopening from the Spring on. This helped to gradually solidify demand for financial services and allow banks to reassess their view of credit risk and release some provisions made during the worst phase of the pandemic uncertainty in 2020.

The other, less benign side of the external environment for the banking sector, has been the continuation of massive monetary easing and low interest rates. While this helped to fund the public sector, which dramatically increased transfers to households and companies during the pandemic, it also intensified pressure on margins and core profitability of the banking industry.

Interest income of the Slovak banking sector thus continued to decline by 0,7% between December 2021 and December 2020, even as loan volumes grew at the same time by 7,5% on gross and 7,9% on net basis, resp. The silver lining of the lavish monetary support has been the availability of affordable TLTRO funding from the ECB, to which banks in Slovakia, including VUB, resorted in 2021 to partially fund the loan growth and improve their financial results.

Starting the detailed review of VUB's performance on the commercial front, I would like to concentrate first on the mortgage market. Mortgages namely account for more than half of VUB's loan portfolio and hook to them also a significant share of retail deposits and transactional business. I am very pleased that in 2021 , we have continued to systematically grow both the client base of this key product and even more so the volume. The latter increased over a year ago by strong 10%. The market, to be sure, has increased even faster and our share of mortgage-type loans slipped a bit, from 24,1% in December 2020 to 23,4% in December 2021. This minor loss of the market share nonetheless must be viewed in the context of immense competitive pressures that continue to persist on the Slovak market. Indeed, interest rates on new production of mortgages in Slovakia are one of the lowest from among all Eurozone member states. And aggressive refinancing campaigns of competitors often target our proven clients, proposing to them rates that are hardly sustainable in the medium, let alone longer term view. As such, these extraordinarily low interest rates contribute to fuel the already hot housing market. They also worsen the prospects of young people to get onto the property ladder, curtailing thus the pool of potential new clients for mortgage loans in Slovakia in the future. I would nonetheless like to emphasize that we will continue to systematically care for this segment and remain the reference mortgage bank for anyone serious about acquiring their new home or renovating their standing one.

Meanwhile, opportunities for retail loan growth outside mortgages have remained very limited. Due to tightened regulation, consumer loan market has been stagnating or even decreasing even before the covid crisis. The gradual reopening of the trade and services sector during the Summer has helped consumer loans to recover a bit from the lockdown–trough in the Spring, but the market remained contracting also in 2021 by 6,2%, on top of the 8,1% decrease in 2020. And while we continued to stand by our clients and tried to sustain credit extended to them, being a market leader, we suffered the most from this shrinking market. Our share of consumer loans thus decreased to 21,8% in December 2021, from 22,6% in December a year ago. VUB's share of the overall retail loan market in November 2021 thus slid to 22,1% in December 2021, from 22,6% in December 2020, resp. In the corporate loan market, by contrast, we have seen our share to increase to 18,9% in December 2021 from 18,3% in December 2020, resp. We have successfully returned to growth in all segments of this market, private and public. Volume of loans to large companies grew by 5% and to small and medium-sized enterprises by nearly 11%, resp. Overall volume of our corporate loans increased by 8,6%, in sharp contrast to their decrease of 2,3% in 2020, resp. Thanks to this corporate turnaround, we have been able to sustain our share of all banking loans on the Slovak market at 21,1%, unchanged from the end of 2020.

Besides, our relationships with corporate clients extend beyond banking products and involve also leasing and factoring services. Both our units operating on these markets have had a successful year in 2021 and exceeded their commercial plans. VUB Factoring in particular had strengthened its position as the market leader, posting a 53% increase in purchased receivables in the first ten months of the year, compared to the market's cca 40% growth. From among the banks and factoring companies within the Association of Factoring Companies, VUB Factoring thus improved its market share to more than 35%. Our leasing subsidiary, VUB Leasing, had also exceeded its business plan in 2021 and grew volumes of leased assets significantly over a year ago. These achievements are all the more important given that at the same time, VUB Leasing was undergoing a major organizational change involving incorporation of the financial leasing part of the leasing business into the VUB bank, while transferring the operating leasing part into a newly created company VUB Operating leasing. These changes have been successfully completed by the end of 2021, providing new platforms for yet better services to our corporate clients from 2022 onward.

Turning to the deposits side of our commercial activities, I am pleased to say that we have followed up on the positive trend of previous year and continued to outgrow the market and improve our share of total bank deposits, from 19,2% in December 2020 to 19,5% in December 2021. We continued to focus primarily on growing household deposits and I am pleased to say that we succeeded, growing them by strong 9,9% over a year ago, compared to market's 6,8%, resp. As result, our share of total household bank deposits in Slovakia increased to 16,7% by December 2021, from 16.1% in December 2020. Clearly though, we must continue in this direction so that our share of the household deposit base is more aligned with our share of the household loan market, exceeding 22%. This is important to fund our growth aspirations in the mortgage market and comply with regulatory-prescribed funding profile in the future. In this respect, I would like to thank also our ALM unit that in March 2021 successfully placed a 5-year covered bond issue at very favorable conditions on international markets. Indeed, the final spread represents the tightest ever covered re-offer spread in the CEE region. This transaction thus underpinned the formidable name recognition of VUB and remarkably broad investor base.

I am also pleased with our achievements on the corporate deposit market. In particular, I am pleased that we were able to sustain most of the extraordinary funds collected from liquidity-rich big companies in 2020. Recall that we increased volumes of nonfinancial deposits then by more than 40% over a year ago and raised our share of this market by nearly 6 percentage points. Just holding onto this newly acquired deposit base in 2021 surely cost us some retreat from this position as the market advanced moderately further. Yet at 24,4%, our share of the nonfinancial deposit market in December 2021 remained far above the pre-pandemic 19,4% in December 2019.

The review of our standing in deposits clearly would not be complete without evaluating alternative products in which households store their savings and financial wealth. And 2021, to be sure, had been a benign year in this respect as households increased their savings dramatically in response to the change in spending behavior brought by the covid pandemic. Volumes of assets under management in mutual funds and pension markets, in which we are active, thus grew in double-digit figures. Let me start with mutual funds asset management, in which we operate with the strong support from Eurizon Capital, the leading European asset management company of Intesa Sanpaolo. In 2021, Eurizon Asset Management Slovakia itself managed to keep assets under management around the level € 1,6 bn and client base of about 140 ths clients. Significant success was again achieved in sales of Eurizon Capital LUX funds, which recorded positive net inflow exceeding € 300 million in 2021 and kept a position of the best performing foreign Asset management company in Slovakia in terms of net sales. Aggregate AUM market share of SK and LUX funds reached level about 19%. Importantly, in 2021, we opened a local ESG fund Zodpovedné Portfólio and also brought in two new ESG Eurizon Capital LUX funds, Equity Planet and Equity People, bringing the total number of ESG funds in our portfolio to 14, and underscoring our long-term interest and attention to environmental, social and governance principles, when managing clients' money.

In the pension market, in which we are active together with our joint venture partner Generali Slovensko, we have been successful in continued growth of the client base and funds. VUB Generali namely has accumulated total volume of funds under management of € 2,24 billion in 2021, which represents 20,3% growth compared to prior period. Its market share increased by 0,72 percentage point, to 18,76%. Importantly, the number of clients in our pension saving schemes increased by more than 16,5 thousand, one of the most from among all players on the market.

Turning now to the financial performance, clearly, compared to the pandemic year 2020, the net results of 2021 look stellar, with net profit bouncing 37,1% over a year ago, to € 113,4 million. Several one-off factors nonetheless contributed to this bounce and must be clearly identified to understand the underlying trends in core profitability of the Group and challenges we are facing in the ongoing low interest rate environment. Foremost, about two thirds of the year-on-year increase in net income, € 20,4 million, owed to the effect of the bank levy terminated in July 2020. Excluding this non-recurring factor, nearly all of the improvement in profitability was due to net income from fees and commissions, which grew € 12,7 million, or 9,5% over a year ago. This strong result is a reflection of the increase in transactional and lending business brought about by the economic recovery as well as increased volumes of assets under management. As such, amidst the low interest rate environment, it vindicates our long-term strategic decision to move more toward fee-related business, wealth management, payments, and intermediation of insurance. Indeed, due to the continued margin pressure, our net interest income (NII) fell also in 2021, by 2,5% over a year ago even as we grew consolidated loans volume by solid 9,3% over a year ago. The share of NII on VUB's consolidated total operating income thus fell from 74% in 2020 to new all-time low of 66% in 2021.

Besides compensating for the lost interest income by other revenue drivers, we also continued to defend the Group's profitability by measures in cost management. Thanks to further review of resource allocation and savings achieved by lower headcount, we have managed to keep operating costs under control, having increased them by mere 0,2% over a year ago. Our cost-to-income ratio on consolidated basis thus remained broadly stable over a year ago at 53%, excluding the impact of the bank levy. Helpful to the net financial result also had been a better than expected development of asset quality. Indeed, thank to vast majority of our clients resuming to service their debt dutifully after returning from loan moratoria extended during the pandemic, we could have afforded to create less loan loss provisions in 2021 than expected.

Looking ahead, the operating environment for banking industry in Slovakia will remain challenging, especially vis-à-vis interest rates, which remain low for longer and negatively affect the traditional income sources of universal banks such as VUB. Macroeconomic situation meanwhile will remain constrained by the pandemic, which persists in ever new mutations of the corona virus also at the opening of 2022. This precludes a full recovery of many services sectors but also complicates full utilization of production capacities of Slovakia-based companies linked to the global value chains, for example in the automotive sector. Continuation of the pandemic-induced social distancing nonetheless only underscores the importance of digitalization, both internally and toward the clients. We have made a lot of initiatives in this area already, finding and establishing new ways of working and serving clients. Clearly though, there is still plenty ahead of us in this direction and will require lot of investments.

Looking beyond the very near term and the pandemic, I see a big challenge but also opportunity in addressing the climate change. I am very proud of VUB to be a pioneer and the leading institution in the green agenda on the Slovak banking market. We have adopted a Green manifesto and implemented the principles of ESG and sustainability in our day-to-day decisions. At the level of the Slovak Banking Association, we have co-created a Memorandum on Sustainable Development. Nonetheless, this clearly is just the start and the hard work on the path to sustainability will only now begin in earnest.

Indeed, there are many challenges ahead of us in the upcoming year and beyond. I am nonetheless convinced that VUB team will continue to deliver. With this in mind, let me thank our employees for their commitment, hard work, and results of this past year. I also would like to thank VUB clients and business partners for the trust they hold in the Bank, and the shareholders for their support. I wish all of us the best in the year 2022.

Alexander Resch,
CEO and Chairman of the Management Board

VUB Management Board Report on the business activities of the Company

Development of the External Environment

External environment

The global economy has been recovering from the new SARS-CoV-2 coronavirus pandemic last year, but was also plagued by serious supply chain problems, a shortage of materials and components, and high inflation. The economic recovery stemmed from the partial immunity gained by overcoming the virus from parts of the population, but mostly from the rapid deployment of new vaccines. In most developed countries vaccination gradually largely replaced harmful lockdowns as the main way to cope with the recurring waves and mutations of the pandemic.

According to the OECD's December expectations, global GDP grew by a strong 5,6% last year, after falling by 3,6% in 2020. As a result, many economies have exceeded their pre-pandemic output levels by the end of the year, including China and the United States. However, neither the Eurozone nor Slovakia itself, nor many developing countries have yet overcome this economic milestone and poorer countries also due to lower vaccination rates, as vaccination has progressed first in the developed parts of the world. The good news has been the faster-than-expected recovery of labor markets and the narrowing of unemployment rates towards their pre-pandemic lows. Tight labor markets then helped to generate faster wage and household consumption growth, but in some countries also higher inflation.

A closer look at the Eurozone and Slovakia shows that the recovery of the economy on the old continent has been hampered by further waves of the pandemic, but also by the crisis in global supply chains, which has limited the deliveries of components and commodities entering mainly into industrial production. As a whole, the euro area economy grew by 5,2% year on year in the first three quarters, and only slightly lower dynamic can be expected for the whole of 2021. Slovakia's GDP was less successful due to its dependence on the automotive industry, which suffered from shortages of microchips used in car manufacturing. Thus, during the first three quarters, it grew by only 3,8%. The full-year figure is also likely to be even lower, as Slovakia suffered from a strong wave of new covid infections towards the end of the year.

Labor markets surprised positively with their rather fast recovery that almost approached the situation before the pandemic - even after the end of employment support measures. Swift employment growth has helped to reduce the unemployed rates and maintain decent wage growth. In Slovakia, however, this process was a little slower than in other countries. The unemployment rate measured by the sample survey (ILO methodology) decreased to 6,8% in the third quarter of 2021, and to 6,6% registered at the labor offices by November. This is 0,4 and 1,4 percentage points respectively lower than the recorded pandemic maxima, but still 1,2 and 1,8 points distant from pre-pandemic lows. Still, this development, together with the pandemic structural changes in the labor demand, was enough to support strong local wage growth, which last year, also thanks to the base effect of the previous year, probably reached more than six percent.

Thanks to the economic recovery, Slovak households also saw an improvement in their wallets, as their gross disposable income grew by 3,6% when measured in current prices in the three known quarters of 2021, despite the end of many fiscal support measures. However, their savings rate fell sharply to below 8% in the third quarter of last year after the highs of a severe second wave of the pandemic.

Financial sector

Economic recovery and high inflation of 2021 marked the beginning of a reversal in the monetary policy of many countries, that is, the start of its tightening. Although the American Federal Reserve and the European Central Banks (ECB) have not yet raised their key short-term interest rates, they have begun to reduce their quantitative easing, that is the regular purchases of assets that mainly affect long-term interest rates and bond yields. In addition, the ECB published its new monetary strategy, which raised the European inflation target from "less than but close to two percent" to a two-percent average over the multi-year (future) horizon.

Fortunately, the coronavirus crisis did not have as strong a negative impact on the commercial financial sector as was initially expected. The support of governments and central banks and the stricter regulation of previous years not only made it possible to avoid the failures of financial institutions similar to those of the 2008 Financial crisis, but did not significantly increase the shares of banks' non-performing loans during the pandemic either. In Slovakia, the share of NPLs even continued to fall to a historic low of 2,3% in December.

The growth of deposits and loans on the Slovak market continued rapidly last year, albeit with the opposite dynamics. The total volume of loans accelerated its year-on-year growth to 7.5%, from 5.1% at the end of the previous year. Loans to households rather than to firms continued to grow stronger, also due to fast increasing real estate prices and low mortgage rates (housing loans). Consumer loans eased their year-on-year decline in the second half of the year, but for the whole year they still recorded a significant drop exceeding -6%. In corporate lending, medium-term loans with a maturity of 1-5 years increased in particular; on the contrary, the need for short-term capital in the corporate sector probably decreased along with the economic recovery. Deposits in banks, on the other hand, after forced winter savings, slowed down their year-on-year growth, along with recovering household and corporate spending: from 6.3% in the previous year to 4.4% in December 2021. Deposits of nonfinancial companies even decreased in some months of the year.

The profitability of Slovak banks has improved decently due to the abolition of the bank levy since July 2021, but also due to the low creation of provisions and the growth of non-interest income. The total profit after tax reached almost 727 million euros, 56% more than in 2020. However, given the capital invested, profitability of local banks measured in ROE still remained below the euro area average.

Outlook for 2022

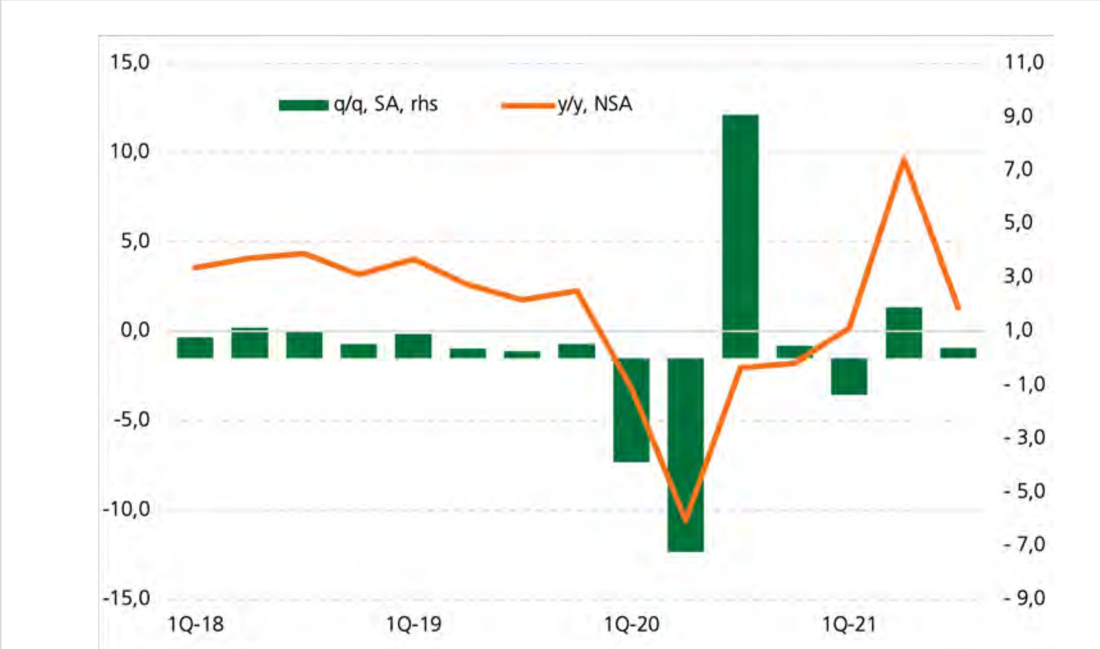
The world economy should continue in its recovery this year, but at a slower pace than in 2021. In addition, several service sectors, such as international tourism, air transport and culture, are still unlikely to reach pre-pandemic highs, as the coronavirus will not leave for good and its new mutations remain a threat to the economy. The supply chain crisis and high energy prices, which may persist for much of the year, also remain important risk factors. Central banks, however, should continue to tighten their monetary policy.

The Slovak economy could, in contrast to the global slowdown, attribute very decent GDP growth of between 4 and 5 percent this year, as its performance will be compared to the still troubled year 2021. Nonetheless, a separate boost to growth will be delivered by investments financed by the European Recovery Plan and also accelerated pace of drawing on traditional Eurofunds. This should also help a further decline in the unemployment rate and growth in household income. Such a structure of economic growth in 2022 could favor new lending to companies rather than households. The latter will nonetheless also be able to draw co-financing, for example, to increase energy efficiency of family homes.

In the US, short-term rates could rise from 0-0,25%, maybe three-quarters of a percentage point; in the Eurozone, we do not expect the ECB's key interest rates to be lifted this year. Long-term interest rates could continue to rise slowly during 2022, with the end of the Fed's quantitative easing in the first months of the year (and a possible shift to net asset sales) as well as its reduction by the European Central Bank. German ten-year government bond yields may finally rise to positive levels (perhaps + 0,1% at the end of the year) and Slovak ones may be around + 0,5-0,6% at the end of the year, with a slightly larger spread compared to bunds than last year. US ten-year yields, which operate in an economy with more entrenched inflationary pressures, could rise above 1,8% p.a.

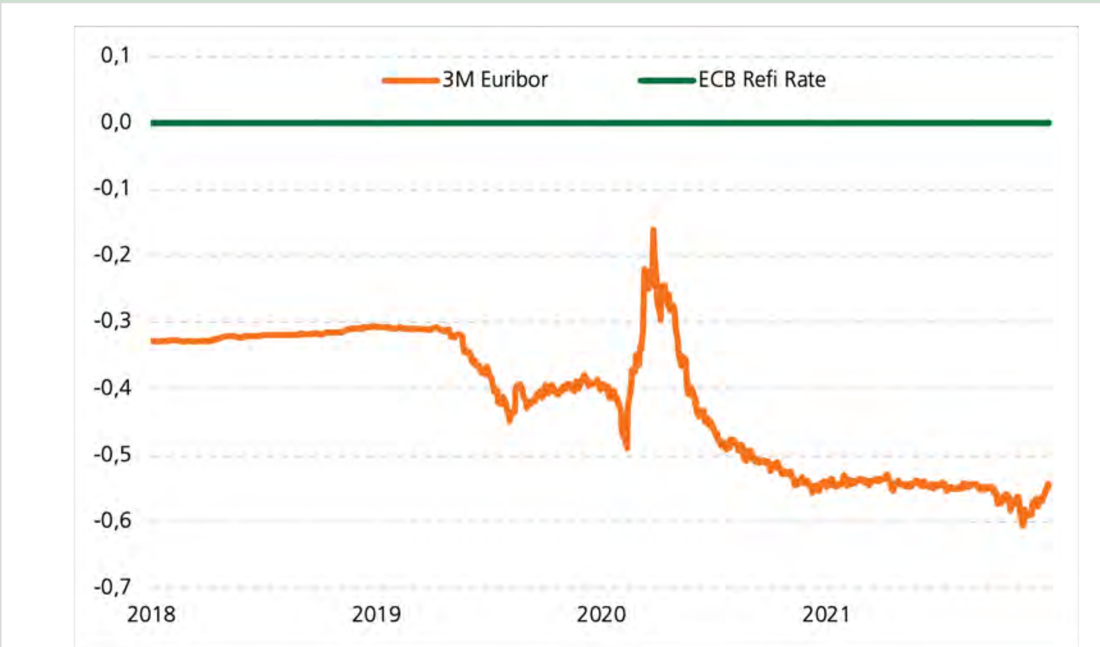
By the end of the year, it could also turn out that pandemic high inflation was indeed a temporary phenomenon rather than a new norm. This should stabilize longer bond maturities. However, even slightly higher interest rates can jeopardize the ability to repay debts, from a global perspective, for example of the developing and emerging countries with irresponsible monetary or budgetary policies. Other risks for the future development of business are new mutations in the coronavirus SARS-CoV-2, the effects of the decline in the Chinese construction sector or geopolitical instability, especially in Russia and China, which can have a strong impact on commodity markets and energy prices.

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



Source: Eurostat, VÚB

3M Euribor and ECB's Refi Rate

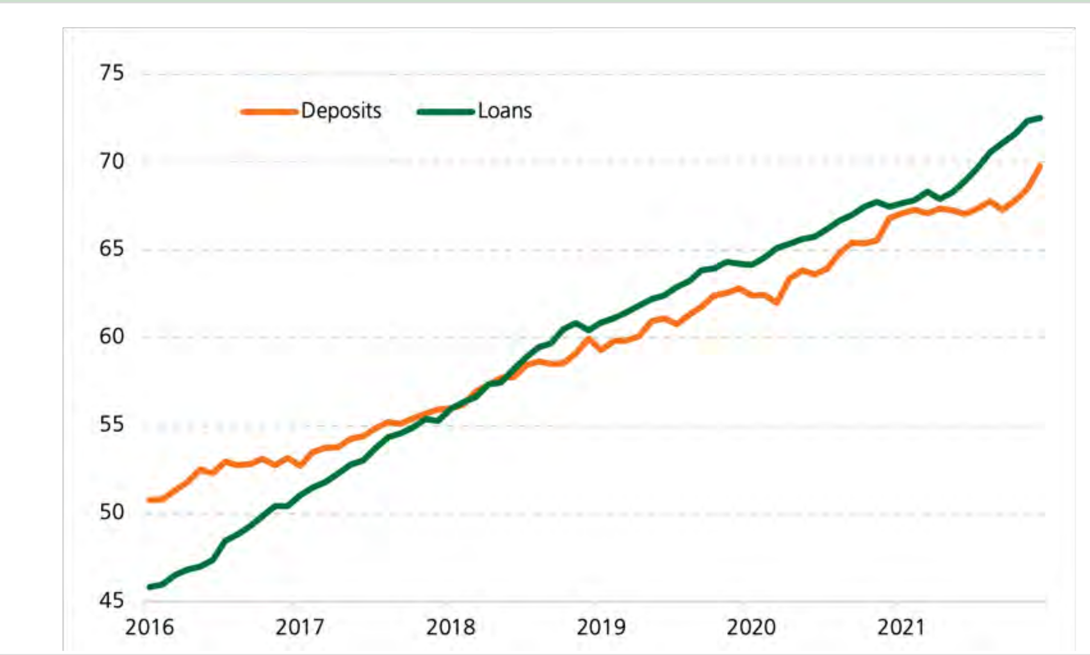


Source: Bloomberg, VÚB
Note: For non-trading intervals carry over last value

Employment: number of workers in thousands

Source: Macrobond, VÚB

Development of bank volumes (EUR bn)



Source: NBS, VÚB

Slovak government's 10Y bond yield, generic index

Source: Bloomberg, VÚB
Note: For non-trading intervals carry over last value. Missing values replaced by interpolation of different maturities

VUB's 2021 Commercial Performance

As described on previous pages, in 2021 we have observed economic recovery yet slightly hampered by further waves of the pandemic, but also by the crisis in global supply chains. In Slovakia, the effect of the latter was stronger due to our dependency on the automotive sector, which was hit by most constraints.

VÚB Thanks to our agile response to the banking and macroeconomic environment, we have achieved a very satisfactory performance in the commercial area. In retail lending, we managed to compensate the impact of continuous uncertainty caused by the pandemic, fierce competition and our market share remained at satisfactory level of 23,33%. In corporate lending, our market position went up from 18,3% in December 2020 to 18,9% in December 2021. On the deposit front, we retained great y/y increase on non-term deposits (12,8% in December). The banking environment of historically lowest interest rates and the uncertainty of clients influenced the decreased demand for term deposits in both VUB and whole market.

Deposits

The volume of bank deposits in VUB at the end of 2021 amounted to almost EUR 14.0 billion, 7.4% up against the previous year predominantly due to retail deposits. On retail market, current accounts rose again in this year, while term deposits kept its deteriorating trend. Customers' assets under management posted increase versus previous year (by 20% over the year incl. Eurizon), slightly below the market growth. Market share in mutual funds thus weakened by 34 bps in 2021. The market share of total deposits received from retail clients incl. mutual funds amounted to 19.0%, which means y/y increase (from 18.9% in December 2020). In corporate segment, VUB recorded increase over the year, however below the market growth, decreasing the market share by 0,3 %.

Electronic Banking

Through the pandemic, the area of electronic banking and digital channels proven to be among the top priorities for future development. VÚB did a great job in responding to the new needs connected to the pandemic.

In 2021, important milestone was breached in terms of online banking. VÚB reached one million active clients in our online banking platform (Nonstop banking services).

We have introduced variety of improvements in Mobile banking app such as possibility to authorize payments via automatic redirection from web to the app. We have also expanded the option direct call / schedule a meeting with personal advisor directly from the Mobile banking or Internet banking also for the upper mass and mass segments. In terms of shared payments, we have introduced Payme – option to generate payment link, which then customer can share via SMS, chat or e-mail.

Also the possibilities of virtual branch has extended substantially bringing improvements such as easy contacting of branch employees directly via mobile/internet banking and introducing several improvements making the user experience much easier for client (send missing documents via mobile and internet banking- several documents at once and also multipage document scan and edit).

With respect to 3D secure, automatic authorization of payments in VÚB Mobile banking, redirected by push notification and authorized by mobile PIN or biometric authorization.

Bank Cards

Global pandemic had and still has impact upon payment cards too. We can see it directly in year-to-year comparison with pre-pandemic year 2019 and in comparison with the previous year 2020 too. Number of cash withdrawals in 2021 dropped by 6,7% against 2020 and by 27,8% against 2019. Volumes slightly increased by 12,3% against 2020 but are still 8,8% lower than in 2019. Average withdrawal amount severely increased by 24 €. In card payments, we managed to grow despite pandemic with 12,7% increase in number of transactions and 17,6% increase in volumes. If we take special look on card payments via internet we can see even bigger year to year grow. Number of transactions increased by 22,7% and volumes by 33,9%.

During the year 2021, we were enhancing and fine-tuning 2-factor 3D-Secure authentication we implemented in the last quarter of 2020 so making card payments on internet easier and more secure than before.

In 2021, we also continued our support of charity Dobrý Anjel (Good Angel) with our co-branded card Maestro Good Angel. At the end of year, we had more than 65 000 of those cards issued. Total amount of support of charity Dobrý Anjel in 2021 generated by POS transaction done by Maestro Good Angel cards was 350 000 €.

ATMs and EFT POS

VUB ranks 2nd (20,8 %) in the Slovak market share also in 2021 with its 581 ATMs. The focus during the last year continued on renewal of ATMs; renewed were 69 ATMs. At the end of 2021 we had together 99 ATMs with cash-in module, that means increase by 9 ATMs during year. Even with hard situation related to pandemic, the cash volume withdrawn from ATMs increased y/y by 5,5% (nr. of transaction decrease by 5%). When we compare 2021 against 2019, number of cash withdrawals is lower by 24,8% and volumes are lower by 5%. Volume of cash inserted through ATMs increased by up to 28,4%.

During year 2021, we have installed more than 1 900 new POS terminals including virtual terminals used in e-commerce and unattended terminals used at different kinds of vending machines or at self-service fuel stations.

We have brought new services that ensure competitiveness with other banks in the market. In the e-commerce, the implementation process for clients was simplified and we introduced push payments functionality (pay by link). Additionally, we have focused on security and fraud prevention.

Contact center

In 2021, the Call Centre serviced approximately 521 thousand calls and 111 thousand processed e-mails. Our clients used also other communication channels with VUB Bank such as Facebook (1 806 posts), chats (10 thousand chats) and specialized web pages (VÚB Otvorene – 385 posts).

Our effort is permanently focused on improving and streamlining our services to cover the client´s needs. We simplified identification of clients in Call centre. Thanks to this improvement and introduction of authenticated calls from Mobile banking app in 2020, solution of client´s requirements became more efficient. The range of services provided remotely was also extended in order to cover existing requests of clients.

According to ongoing pandemic situation we brought new way of communication with clients - video calls. We continue in providing services also for clients in virtual portfolio, because we see the future in remote customer care. We still work on digitalization of our services to increase satisfaction of our clients. High quality of Contact center services is continuously confirmed by results of research of client´s satisfaction – CSI.

We don´t forget our employees - working from Home office became a new standard - what also secures that resolving clients´ requests is not threatened by unexpected quarantine or a lockdown. Thanks to this, we can be always fully available for our clients, who can be served in the comfort of their homes without any risk.

Loans

Individuals – Mortgage and Consumer Loans

In 2021, the substantial demand for mortgage loans continued in spite of the difficult pandemic environment. In VUB we recorded considerable increase in line with the market growth rate. Total mortgages of VUB (including 'American mortgages') grew by 9,8% over the year. With a market share 23,44% the Bank kept strong position on the mortgage loan market. Consumer loans decreased- significantly in both VÚB Group and the market. On group level, consumer loans decreased by 8,7% year over year.

Corporate Financing

In 2021, VUB bank outperformed the rest of the market in corporate loans segment. While corporate loans grew by 5,2% on the market, VUB decreased by 8,6% on the bank level and 13,1 % on Group level. This was however predominantly caused by our loans to financial institution and public sector. Yet loans to the core resident nonfinancial corporations increased by 5,6% on individual level and VUB's market share in these loans went up to 16,9%. Real estate finance increased by 3%, project finance loans increased by 12%, while trade finance loans fell by 19%. VUB leasing, VUB's subsidiary, recorded slight decrease 3,4% of its assets predominantly due to unproductivity of automotive industry.

Review of VUB's Economic and Financial Position

In 2021, we have observed economic recovery, however with further waves of the pandemic, and also by the crisis in global supply chains. Slovakia recorded GDP growth exceeding 3%.

On the consolidated basis, VUB posted operating revenues of € 436,6 million. Compared to previous year, bank results increased by approximately 7% mainly due to year-over-year increase of trading income and cancelation of bank levy. Operating costs have decreased thanks to structural savings in the administrative costs and reached € 231,2 million at the end of 2021.

VUB Group achieved operating profit of € 205,2 million and kept its profit before tax on satisfactory level € 143,9 million. Net profit of the group has increased by approximately 37% and reached € 113,3 million. The extraordinary year over year increase of profitability was caused, apart from significant changes in the regulatory costs, by the significant decrease of impairment and provisions. Cost-income ratio of VUB group amounted to 53,01%.

With regard to business development, VUB delivered very good development with respect to net loan portfolio, which grew by 9,3%, resulting into stable market share at 21,1%. Total assets of the whole VUB group increased by 20,9% as well. Significant part of the increase in both total assets and total liabilities was caused by the TLTRO financial instrument introduced by ECB. Our portfolio quality remained strong and NPL ratio remained at very prudent levels. Moreover, VUB remained outperforming the market in terms of loan quality. Indeed, NPLs from banking operations on the group-level in VUB at end-2019 amounted to a mere 2,13% of the total gross loan volume, compared to market's. 26% (market data is based on individual statements from NBS).

At the same time, the bank was able to increase its primary deposits with by 7,4%, keeping sound liquidity position which is represented by the prudent loan to deposit ratio (including Debt securities in issue) of 93,6%.

To bolster stability of business growth onwards, capital of the group increased to one of the highest capital adequacy on the Slovak market with the ratio amounting to 19,51% high above the minimum requirements set by the central bank. This gives us a solid base for continued business growth.

Information on the Expected Economic and Financial Situation for 2022

As already mentioned, post-pandemic recovery is expected to pick up further in 2022 on EU-funded investment growth and resumption of household consumption. Global supply chain crisis and energy costs fed into a large increase in inflation during 2022 (an average as much as 5,7%). Employment will take more time than GDP to return to pre-pandemic level. Still, in 2022 a meaningful decline in the jobless rate is foreseen.

Our long term priority, which is building a relationship with our clients, remains unchanged. In the mid-term, we shall continue to focus on 3 main pillars, which are (i) employee engagement, (ii) digitization and (iii) allocation of resources. However, in terms of these priorities, the top focus is not only on performance, but also on fulfilling them in line with ESG principles. On top of that, our HUB initiative connecting VÚB Bank with Hungarian CIB Bank is expected to bring even more synergy in terms of regional cooperation, such as in the area of our IT HUB ecosystem.

In terms of the first priority, we are bound to carry on developing a healthy and satisfactory working environment by further improving our smart work concept and keeping our pandemic hygiene standards. Moreover, in line with ESG, we will lay emphasis on diversity and inclusion. Last but not least, we will focus on improving both skills and experience of our employees in order to bring the best value and experience to our customer.

In line with the aim to keep everyday banking simple and efficient, we will continue to lay strong emphasis on digitalisation. In this regard are introducing further improvements such as: (i) digital onboarding using biometrics; (ii) digital implementation; (iii) further implantation of digital solutions into corporate segment (digital ID, self-servicing portal) and (iv) other improvements based on customers' user feedback. In order to improve also internal digital process, we will continue with robotization and further digitization of internal processes in line with our IMI initiative.

The third pillar, allocation and simplification will lay strong emphasis on sustainability and minimization of impact on environment. In this area we will focus on cash management, IT processes, efficient use of premises, robotization and of course, all of this in strong cooperation within our HUB.

Last but not least, VÚB as responsible part of community will continue in bringing added value in other then business activities in line with ESG initiatives. In particular, internally, we shall continue to challenge our employees to be even more responsible towards community and environment, but also externally we will continue with meaningful activities via both VUB Foundation and the "Green bank" projects, such as the environmental award ATLAS or financial and environmental education for youth.

Registered Share Capital and the Structure of VUB Shareholders

Registered Share Capital of VÚB, a.s.

The registered share capital of VÚB, a.s. amounts to € 430 819 063,81 and was created by the contribution of the founder designated in the deed of foundation as of the day of its establishment.

The registered share capital is divided into 4,078,108 book-entered registered shares, having the nominal value of € 33,20 each and 89 book-entered registered shares, having the nominal value of € 3 319 391,89 each.

Shareholders' rights

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

Structure of VUB Shareholders

Information regarding VUB shareholders is published quarterly within 30 days of the end of the relevant quarter. Below is the status as of 31 December 2021.

Structure by Owner Type	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – sole shareholder	430 819	100,00
Total Registered Share Capital of VÚB, a.s.	430,819	100,00

Structure by Nationality	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – sole shareholder	430 819	100,00
Total Registered Share Capital of VÚB, a.s.	430 819	100,00

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

There was one shareholder as at 31 December 2021.

A qualified participation in the company's registered capital is held by the sole shareholder Intesa Sanpaolo Holding International S.A. Luxemburg, with its Registered Office in Luxembourg L-1821, 28 Boulevard de Kockelscheuer that holds a 100.00% stake in the registered capital.

Further, the company during the accounting year 2021 held in its assets the shares of the parent company (Art. 22, sec. 3 of the Act no. 431/2002 Coll. on Accounting as amended), Intesa Sanpaolo S.p.A. (ISP), registered office Piazza San Carlo 156, Turin, Italy, ISIN IT0000072618, book-entered registered ordinary shares, with a nominal value of € 0,52 each, in a total number of 292 462 shares. This represents 0,035% of the nominal value of the Bank's registered capital. These shares have been acquired by the Bank in order to adopt and implement ISP Group Remuneration Policies in line with the Capital Directive 'CRD V' (i.e. Directive 2019/878/EÚ amending the Capital Requirements Directives). In 2021, the Bank transferred 243 513 shares in accordance with ISP Group Remuneration Policies.

Subsidiaries of VÚB, a.s.

VÚB Leasing, a.s.

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

VÚB Operating Leasing, a.s.

Registered office:	Mlynské nivy 1, 820 05 Bratislava
Shareholders:	VÚB, a.s.
VUB's stake in registered capital:	100%
Core business:	Operating leasing
General Manager:	František Streit

Statement on Compliance with the Corporate Governance Code for Slovakia

A. Company Organization

The structure of VÚB, a.s. bodies:

a) the General Meeting;

b) the Supervisory Board;

c) the Management Board.

General Meeting

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

The Ordinary General Meeting of the company was held on 19 April 2021. The shareholders at this meeting approved the 2020 Annual Report of VÚB, a.s., the 2020 Statutory Separate Financial Statements and the 2020 Consolidated Financial Statements, both statements were prepared in accordance with IFRS as amended by the EU, as submitted by the Management Board of the Bank. The General Meeting also decided on distributing the profit earned in 2020 in the amount of € 85 038 922,55 to the retained earnings in the amount of € 85 038 922,55.

The General Meeting approved the amendments to the Articles of Association of VÚB, a.s. as proposed and approved by the external auditor Ernst & Young Slovakia spol. s r.o. for 2022.

The General Meeting approved the updated VÚB, a.s. Remuneration and Incentive Policy 2020 and approved the transfer of shares of all remaining shareholders of VÚB, a.s. to Intesa Sanpaolo Holding International S.A. in connection with the exercise of the squeeze-out right, for consideration provided in cash in the amount of EUR 151,41 for each share.

On 14 December 2021 the sole shareholder approved dividend pay-out from retained earnings of previous years.

VUB Supervisory Board and Management Board in general

1. Supervisory Board members are elected by the General Meeting. The VUB, a.s. Management Board is elected by the Supervisory Board.
2. All relevant information is available to all members of the Management Board and Supervisory Board in time. In the course of the financial year 2021, the VUB, a.s. Management Board held 26 meetings and 14 via per rollam. The VUB, a.s. Supervisory Board held 11 meetings out of it 1 via per rollam during the 2021 financial year. Documents with detailed information are distributed sufficiently in advance – in the case of the Management Board no less than 3 working days, in the case of the Supervisory Board no less than 10 days prior to the meeting, ensuring the ability of members of the Supervisory and Management Boards to decide on individual matters competently.
3. None of the Supervisory Board members is a member of the VUB, a.s. Management Board nor holds any other top managerial position in the Bank. With the exception of members of the Supervisory Board elected by VUB employees, a Supervisory Board member may not be an employee of VUB.

Supervisory Board

Members of the Supervisory Board in 2021

Ignacio Jaquotot	Chairman of the Supervisory Board
Elena Kohútiková	Vice Chairwoman of the Supervisory Board
Marco Fabris	Member of the Supervisory Board
Luca Leoncini Bartoli	Member of the Supervisory Board
Christian Schaack	Member of the Supervisory Board
Peter Gutten	Member of the Supervisory Board, employee representative
Róbert Szabo	Member of the Supervisory Board, employee representative

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

a) reviews the annual report, the ordinary, extraordinary, individual and consolidated accounts and recommends the annual report, the ordinary, extraordinary, individual and consolidated accounts to the General Meeting for approval;
b) approves the proposed distribution of current and/or past profits;
c) approves rules for the creation and use of other funds created by VÚB, a.s.;
d) approves the draft plan for the settlement of unsettled loss and/or unsettled losses from past years;
e) approves proposed changes to the internal audit and internal control system;
f) approves the annual audit plan and the annual report on the results of the activities of the Internal Audit and Control Unit;
g) reviews and approves the following matters before their submission to the General Meeting by the Management Board:
   i. proposals for changes to the Articles of Association; and
   ii. proposals for an increase or decrease in the registered share capital of VÚB, a.s. and/or for the issue of preference or convertible bonds, according to the relevant provisions of the Commercial Code;
h) elects members of VÚB, a.s., Management Board and approves agreements on the performance of function with the members of the Management Board;
i) approves any proposal for an increase or decrease in the registered capital of VÚB, a.s.;
j) approves any substantial change in the nature of the business of VÚB, a.s. or the way in which the business of VÚB, a.s. is carried out, if it is not already approved in the printed forecasts for the business and financial conditions in any relevant year;
k) approves remuneration policies for rewarding the managers who are directly under the responsibility of the Management Board and the Supervisory Board;
l) decides on other issues falling within the authority of the Supervisory Board under the cogent provisions of legal regulations and the Articles of Association;
m) approves the Bank Remuneration Policies;
n) approves major business transactions pursuant to Article 220ga of the Commercial Code.

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

a) a Management Board proposal regarding the termination of trading in Company securities on the stock exchange, and a decision on whether the Company should cease to operate as a public joint-stock company;

b) information from the Management Board on the major objectives related to the Company business management for the upcoming period, and expected development in VUB assets, liabilities and revenues;

c) the report by the Management Board on the business activities and assets of the Company, with related projected developments.

Committees of the Supervisory Board:

Audit Committee

The Audit Committee was comprised of three members (including the Chairwoman) as of 31 December 2021. The Audit Committee held six meetings (from which two per rollam) during the 2021 financial year. The issues discussed at the meetings mainly related to: preparation of the financial statements and observation of the special regulations; efficiency of internal control and risk management system at the Bank; compliance with regulatory requirements; the audit of the separate financial statements and the audit of the consolidated financial statements. Further, the Audit Committee examines and monitors the independence of the auditor, especially services provided by the auditor according to a special regulation, recommends the appointment of an auditor for carrying out the audit of the Bank, and sets a date for an auditor to submit a statutory declaration about his independence. The Audit Committee regularly invited an external auditor to attend its meetings.

The Internal Audit and Control Department, the authorities and duties of which are defined by the Supervisory Board, excluding those defined by law, performs the control function in the Bank. The Head of the Internal Audit and Control Department may be appointed to/removed from the position upon a recommendation and prior consent issued by the Supervisory Board. Furthermore, the Supervisory Board also defines the remuneration and compensation scheme for this position. In 2021, the Chairwoman of the Audit Committee (being also Vice Chairwoman of the Supervisory Board) and the Head of the Internal Audit and Control Department participated in the meetings of the Supervisory Board. The Chairwoman of the Audit Committee regularly informed the Supervisory Board of the most important issues discussed at the Audit Committee Meetings.

Members of the Audit Committee in 2021:

Elena Kohútiková	Chairwoman of the Audit Committee
Christian Schaack	Member of the Audit Committee
Marco Fabris	Member of the Audit Committee

Remuneration Committee

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

Risk Committee

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

Management Board

Management Board Members in 2021

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

Alexander Resch – Chairman of the Management Board and CEO

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

Roberto Vercelli – Member of the Management Board and Deputy CEO

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

Paolo Vivona – Member of the Management Board and Chief Financial Officer

Paolo Vivona became a member of the Management Board of VÚB Bank and the Chief Financial Officer on 24 October 2020. He is responsible for the areas of procurement, accounting, controlling and financial planning of the bank. Before taking up the position of CFO at VÚB, a.s. he worked in the Planning and Controlling Department of Intesa Sanpaolo's International Subsidiary Banks Division (ISBD), where he coordinated activities in the developing CE HUB concept between VUB Bank and the Hungarian CIB Group. He has worked for Intesa Sanpaolo for more than 30 years, of which he has spent about 20 years in various positions within the foreign branches of the Intesa Sanpaolo Group, in China, Japan, Albania, Egypt and Hungary. He started his career as an Area Retail Manager at Sanpaolo IMI Bank, Milan and Turin. He gradually took over several management positions in retail banking, finance, risk and credit management. As a member of the Board of Directors and CFO, he also worked at the Hungarian CIB Bank Z.r.t. Paolo Vivona studied political science with a specialization in finance at the Università Cattolica del Sacro Cuore in Milan.

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

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

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

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

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

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

Marie Kovářová – Member of the Management Board and Chief Operating Officer

On 3 April 2020 Marie Kovářová became Member of the Management Board of VUB, a.s., responsible for the area of Operation and IT. Marie Kovářová graduated from the Charles University in Prague, Faculty of Mathematics and Physics. The study has been completed by the doctorate. Marie Kovářová worked for six years for the McKinsey, mainly in Germany. Since 2004 she has worked in the management of Česká pojišťovna and Generali insurance company managing the Operations, IT, Procurement and HR. She was sent to Romania for 4 years, where she managed the merger of three insurance companies as CEO. Marie Kovářová gained the experience in finance by working for Home Credit Group, for which she worked in China as COO.

Competencies of the Management Board

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

a) exercising the executive management of VÚB, a.s. and employer rights;

b) implementing decisions taken by the General Meeting and the Supervisory Board;

c) ensuring the accuracy of the mandatory bookkeeping and other records, trade books and other documentation of VÚB, a. s.;

d) after prior approval by and upon a proposal by the Supervisory Board, submitting the following matters to the General Meeting for approval:

- amendments to the Articles of Association of the bank;
- proposals for increasing / decreasing registered capital and bond issues;
- proposals for issuing shares or redemption of shares;
- ordinary, extraordinary, individual or consolidated financial statements;
- proposals for distribution of current or retained profits and/or proposals for settlement of outstanding losses from the current and/or previous years; and
- the annual report;
- a proposal for approval or withdrawal of the auditor of VÚB, a.s. for the relevant accounting period;

e) approval and regular investigation of Bank Remuneration Policies.

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

Committees of the Management Board

The Credit Committee

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

The Credit Risk Governance Committee

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

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

Bank's internal regulations, laws, rules, and regulations set by the competent Authorities.

The Operational Risk Committee

The primary aim of the Operational Risk Committee is to provide support to the Bank's Board of Directors in controlling the overall profile of operational risk. Operational risk is defined as the risk of loss due to the inadequacy or failure of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, which represents the risk of loss due to a breach of laws or regulations, contractual/non-contractual obligations, or other disputes; operational risk does not include strategic and reputation risk.

Change Management Committee

The committee forms a platform that links business and IT strategy (and its priorities) to the operational management of business priorities in the context of IT resources and capacity planning. In urgent cases, the committee acts as the escalation and decision-making body with respect to problems and conflicts in business priorities, and it resolves conflicts concerning the allocation of resources based on business requirements.

Internal Control Coordination Committee

The aim of the Internal Control Coordination Committee is to strengthen coordination and the tools for cooperation among the various Bank´s control functions and to enable the integration of the risk management process.

The Problem Asset Committee

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

The Crisis Committee

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

B. Relations between the Company and its Shareholders

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

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

C. The Company's Approach to Shareholders

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

D. Disclosure of Information and Transparency

1. The Bank applies strict rules in the area of insider dealing, and continually maintains and updates a list of insiders.
2. Information about corporate governance is published on the VUB web site www.vub.sk in the section "About the bank". Information for shareholders is available on the VUB web site www.vub.sk in the "Information for VÚB shareholders" section.
3. Members of the Management Board and Supervisory Board do not have any personal interest in the business activities of the Bank. The Bank strictly observes the provisions of the Banking Act No. 483/2001 Coll. (hereinafter the 'Banking Act') as amended, applicable to the provision of deals to the Bank's related parties. Under the Banking Act, the closing of such a deal requires the unanimous consent of all the Management Board members based on a written analysis of the deal concerned; a person with a personal interest in the given deal is excluded from a decision-making role. The Bank does not carry out with its related parties such deals, which owing to their nature, purpose or risk, would not be performed with other clients.
4. The Bank abides by both the Corporate Governance Code for Slovakia and the rules of the Bratislava Stock Exchange governing disclosure of all substantial information. The fact that the company observes the mentioned regulations ensures that all the shareholders and potential shareholders have access to information on the financial standing, performance, ownership and management of the company, enabling them to take competent investment decisions. The Corporate Governance Code for Slovakia is available on The Slovak Association Corporate Governance web site:

   http://www.bsse.sk/Portals/2/Issuers%20Guide/2018/kodex_ENG_akt.pdf.

   The Bratislava Stock Exchange Rules are available on the Bratislava Stock Exchange web site www. bsse.sk in the section "BSSE Regulations".
5. The Company actively supports a constructive dialogue with institutional investors and promptly informs all shareholders at General Meetings and notices via its webpage www.vub.sk in Slovak and English. Thus, it enables both foreign and local investors to participate actively in the meetings.
6. The Bank applies changes arising from Act No. 566/2001 Coll. on Securities and Investment Services, as amended (hereinafter the 'Securities Act'), at a European level, and the MiFID directive (Markets in Financial Instruments Directive), and undertakes activities directed at investor protection and strengthening client trust in the provision of investment services. The main objective of the MiFID directive is to enhance financial consumer protection in the field of investment services. The essence of the MiFID directive lies in the new categorization of clients according to their knowledge and experience in the field of investment in order to provide clients with an adequate level of protection, and in the bank's obligation to act in the best interests of the client in carrying out their orders in relation to their financial instruments (best execution), in higher requirements as regards market transparency, and organization of the Bank as a securities trader, to be ensured by internal control systems and the prevention of conflict of interests. Information related to investment services is published on the VUB web site www.vub.sk in the section "Mission and values/Investor protection%".
7. The Bank continues to provide payment services according to the Act on Payment services No. 492/2009 Coll, as well as EU Directive 2015/2366 of the European Parliament and of the Council of 25 November 2015, on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC. The aim of this law is to provide high-level clear information about payment services for consumers to allow them to make well-informed choices and be able to shop around within the EU. In the interests of transparency, the harmonized requirements are laid down in order to ensure the necessary and sufficient information to payment service users with regard to the payment service contract and payment transactions.

Non-financial statement

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

Basic indicators

Selected Indicators (in € thousand)

	Separate financial statements prepared in accordance with IFRS as adopted by the EU			Consolidated financial statements prepared in accordance with IFRS as adopted by the EU		
	2021	2020	2019	2021	2020	2019
Loans and advances to customers	16 256 447	14 724 137	14 078 141	16 659 876	15 239 856	14 377 014
Due to customers (including lease liabilities)	13 973 238	13 000 818	11 927 060	13 971 898	13 005 382	11 951 017
Equity	1 709 722	1 693 246	1 596 939	1 734 924	1 706 939	1 612 997
Balance sheet total	22 861 219	18 741 414	17 361 197	23 242 855	19 228 219	17 640 496
Profit before provisions, impairment and tax	194 586	166 371	181 767	205 163	175 221	188 809
Profit before tax	130 155	110 121	146 905	143 881	109 141	154 170
Income tax expense	(29 169)	(25 082)	(32 818)	(30 542)	(26 447)	(34 099)
Net profit for the year	100 986	85 039	114 087	113 339	82 694	120 071
Commercial indicators	2021	2020	2019			
ATMs	581	598	601			
EFT POS Terminals	12 008	11 287	10 596			
Payment cards	992 605	1 004 785	1 035 378			
of which credit cards	101 528	108 072	253 647			
Mortgage loans (gross, € thousand, VUB Bank)	8 613 915	7 847 341	6 897 623			
Consumer loans (gross, € thousand, VUB Bank)	1 275 947	1 391 046	1 560 744			
Number of employees (VUB Group)	3 412	3 655	3 742			
Number of branches in Slovakia (VUB Bank)	179	197	203			
Key ratios of VUB Group				2021	2020	2019
Return on assets				0,49%	0,43%	0,68%
Cost-Income Ratio (without bank levy)				53,01%	52,83%	51,35%
Tier 1 capital ratio				17,24%	16,66%	14,89%
Total capital ratio				19,51%	18,79%	17,18%
Rating (status as at 31 December 2021)						
Moody's						
Long-term deposits	A2					
Short-term deposits	P-1					
Baseline credit assessment	baa2					
Stable outlook						

Consolidated financial statements

Consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2021

Contents

EY
Building a better working world

Ernst & Young Slovakia, spol. s r.o.
Žižkova 9
811 02 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
ey.com

Independent Auditor's Report

To the Shareholder, Supervisory Board, Management Board and to the Audit Committee of Všeobecná úverová banka, a.s.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Všeobecná úverová banka, a.s. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group give a true and fair view of the financial position of the Group as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Statutory Audit No 423/2015 Coll. and on amendments to the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Statutory Audit") related to ethics, including Auditor's Code of Ethics, that are relevant to our audit of the consolidated financial statements, and we have fulfilled other requirements of these provisions related to ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Building a better working world

Impairment allowances for due from customers

Due from customers valued at amortized cost less impairment as at 31 December 2021 amount to EUR 16,659,876 thousand and represent a significant portion of the Group's total assets. As disclosed in Note 11.2 (Due from customers) to the consolidated financial statements, it included the gross book value of due from customers valued at amortized cost of EUR 17,006,453 thousand and impairment allowance of EUR 346,577 thousand.

Determining the amount and the moment of recognizing impairment allowances for expected credit losses requires significant judgments and complex estimates of the management disclosed in Note 4.1.2 (Impairment losses) to the consolidated financial statements. For performing exposures and non-performing exposures below EUR 500 thousand individually, it comprises assumptions built into statistical credit loss models, such as assessment of significant increase in credit risk, definition of default, incorporation of forward-looking information, calculation of the loss given default parameter and the recovery rates. For exposures above EUR 500 thousand individually, the Group performs an individual assessment based on the detailed review and analysis of the borrower's situation and for non-performing exposures, the judgments include identification of loss events other than overdue payments and estimation of timing and amount of expected cash flows from repayments and realization of collaterals.

The Covid-19 global pandemic introduced additional estimation uncertainties as well as their increased complexity. Specific disclosures regarding the Covid-19 global pandemic and its impact are described in Note 4.1.13 (The impact of the Covid-19 pandemic) to the consolidated financial statements.

Due to the significance of due from customers in relation to the total assets and significance of the management's judgments and estimates and their complexity regarding the expected credit losses described above, we evaluated impairment allowances for due from customers as a key audit matter.

As part of our audit procedures, we documented our understanding of the Group's credit risk management policies. We obtained an understanding, evaluated the design and tested the operating effectiveness of the internal controls over the approval, recording and monitoring of the loans, identification of loss events and impairment triggers and the process of calculating impairment allowances for due from customers.

We involved credit risk specialists to assist us with assessment of the impairment allowances methodology, methods and results of the Group's tests of credit risk parameters (so called "back-testing") and models, their assumptions and implementation in the system in accordance with the IFRS 9 requirements.

We evaluated whether the Group appropriately considered the impact of Covid-19 pandemic in its impairment allowances measurement assumptions.

We reconciled a register of due from customers with accounting records to assess completeness of the recognition of due from customers, which create the basis for the calculation of impairment allowances for expected credit losses. On a selected sample, we also reviewed the mathematical correctness of the impairment allowances calculation.

On a selected sample, we analyzed loan exposures assessed individually by the Group. For selected performing exposures, we analyzed the economic and financial situation of borrowers and fulfillment of the terms of loan agreements to evaluate appropriateness of the classification into risk categories, so-called 'staging'. In case of non-performing exposures, we assessed the reasonableness of the expected cash flows from repayments and recoverable amounts of collateral based on available financial and market data.

We performed analytical procedures on disaggregated data on the quarterly development of the impairment allowance per portfolios, products and stages related to the development of the structure and characteristics of the credit portfolio including the impairment allowances, reflecting the quality of the loan portfolio in the light of the impairment allowances for expected credit losses for loans to customers aimed at identifying portfolios of loans to customers with understated impairment provisions.

We involved specialists in the field of IT systems to assist us with the testing of effectiveness of the control mechanisms of IT systems, in which the Group calculates the credit risk parameters and the impairment allowances for expected credit losses.

We also assessed the disclosures in Note 4.1.2 (Impairment losses), Note 4.1.13 (The impact of the Covid-19 pandemic) and Note 11.2 (Due from customers) regarding expected credit losses for due from customers included in the consolidated financial statements in terms of their completeness and compliance with IFRS EU requirements.

Other matter

The Group's consolidated financial statements for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 3 March 2021.

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

Management is responsible for the preparation of the consolidated financial statements that give true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements including the presented information as well as whether the consolidated financial statements captures the underlying transactions and events in a manner that leads to their fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Consolidated Annual Report

Management is responsible for the information disclosed in the consolidated annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Accounting"). Our opinion on the consolidated financial statements expressed above does not apply to other information contained in the consolidated annual report.

In connection with audit of the consolidated financial statements it is our responsibility to understand the information disclosed in the consolidated annual report and to consider whether such information is not materially inconsistent with audited consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

We considered whether the Group's consolidated annual report contains information, disclosure of which is required by the Act on Accounting.

Based on procedures performed during the audit of consolidated financial statements, in our opinion:

- Information disclosed in the consolidated annual report prepared for 2021 is consistent with the consolidated financial statements for the relevant year,
- The consolidated annual report contains information based on the Act on Accounting.

Additionally, based on our understanding of the Group and its situation, obtained in the audit of the consolidated financial statements, we are required to disclose whether material misstatements were identified in the consolidated annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

Presentation of the Consolidated Financial Statements in Compliance with the Requirements of the European Single Electronic Format ("ESEF")

The management is responsible for the presentation of the consolidated financial statements for the year ended 31 December 2021 included in the Annual Financial Report that complies with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The presentation of the consolidated financial statements for the year ended 31 December 2021 in electronic XHTML format marked up using the XBRL markup language is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the compliance of the presentation of the accompanying consolidated financial statements with the requirements of the ESEF Regulation.

After management provides us with the electronic XHTML format of the accompanying consolidated financial statements marked up using the XBRL markup language, our responsibility will be to perform an engagement in accordance with the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits and Reviews of Historical Financial Information, with the objective to obtain reasonable assurance on the compliance of the consolidated financial statements with the requirements of the ESEF Regulation. Our updated auditor's report will either state that based on the procedures performed, the presentation of the consolidated financial statements complies, in all material respects, with the requirements of the ESEF Regulation, or we will describe any material non-compliance that we would identify in this respect.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment of Auditor

We were appointed as the statutory auditor by the General Meeting of Shareholder of the Bank on 19 April 2021. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 1 year.

Consistence with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Group, which we issued on 21 February 2022.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated annual report and in the consolidated financial statements, no other services which were provided by us to the Group.

23 February 2022
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský, statutory auditor
SKAU Licence No. 893

Consolidated statement of financial position as at 31 December 2021

(In thousands of euro)

	Note	2021	2020
Assets			
Cash and cash equivalents	7	2 612 787	1 571 642
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		30 064	85 423
Non-trading financial assets at fair value through profit or loss		7 316	711
Derivatives – Hedge accounting	9	55 574	85 192
Financial assets at fair value through other comprehensive income	10	1 671 403	1 618 067
of which pledged as collateral		1 549 666	*634 093*
Financial assets at amortised cost:	11		
Due from other banks		1 819 392	205 420
Due from customers		16 659 876	15 239 856
of which pledged as collateral		1 649 805	–
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	3 301	20 016
Investments in joint ventures and associates	13	18 090	11 058
Property and equipment	14	122 597	124 862
Intangible assets	15	131 776	129 527
Goodwill	16	29 305	29 305
Current income tax assets	17	1 594	26 518
Deferred income tax assets	17	55 471	54 802
Other assets	18	23 794	25 819
Non-current assets classified as held for sale	14	515	1
		23 242 855	19 228 219
Liabilities			
Financial liabilities at fair value through profit or loss:			
Financial liabilities held for trading	8	30 863	87 377
Derivatives – Hedge accounting	9	31 510	65 407
Financial liabilities at amortised cost:	11		
Due to banks		3 314 948	629 800
Due to customers		13 952 765	12 986 820
Lease liabilities		19 133	18 562
Subordinated debt		200 150	200 151
Debt securities in issue		3 829 056	3 422 729
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	2 816	6 990
Current income tax liabilities	17	12 018	3 411
Provisions	19	25 061	18 036
Other liabilities	20	89 611	81 997
		21 507 931	17 521 280
Equity			
Share capital	22	430 819	430 819
Share premium		13 719	13 719
Legal reserve fund		89 778	89 350
Retained earnings		1 175 583	1 145 632
Equity reserves		25 025	27 419
		1 734 924	1 706 939
		23 242 855	19 228 219

The accompanying notes on pages 45 to 220 form an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021

(In thousands of euro)

	Note	2021	2020
Interest income calculated using the effective interest method		319 637	326 535
Other interest income		5 166	6 183
Interest and similar expense		(37 345)	(37 899)
Net interest income	24	287 458	294 819
Fee and commission income		176 382	163 149
Fee and commission expense		(29 004)	(28 514)
Net fee and commission income	25	147 378	134 635
Net trading result	26	19 116	18 644
Other operating income	27	8 031	7 593
Other operating expenses	28	(25 393)	(18 461)
Special levy of selected financial institutions	29	–	(31 038)
Salaries and employee benefits	30	(126 078)	(126 630)
Other administrative expenses	31	(72 563)	(73 837)
Amortisation	15	(17 266)	(14 591)
Depreciation	14	(15 520)	(15 913)
Profit before provisions impairment and tax		205 163	175 221
Net modification losses		(80)	–
Provisions	19, 32	(12)	218
Impairment losses	21, 33	(80 310)	(62 305)
Net loss arising from the derecognition of financial assets at amortised cost	33	8 980	(7 436)
		133 741	105 698
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method		10 140	3 443
Profit before tax		143 881	109 141
Income tax expense	34	(30 542)	(26 447)
NET PROFIT FOR THE YEAR		113 339	82 694
Other comprehensive income for the year, after tax:	35, 36		
Items that shall not be reclassified to profit or loss in the future:			
Net revaluation gain from property and equipment		(22)	3 597
Reversal of deferred income tax on disposed property and equipment		22	99
Reversal of deferred income tax on FTA Reserve due to VÚB Leasing merger into VÚB Bank		(741)	–
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		37	(159)
		(704)	3 537
Items that may be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		2 538	7 454
Exchange difference on translation of foreign operations		79	(309)
		(2 459)	7 145
Other comprehensive income for the year, net of tax		(3 163)	10 682
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		110 176	93 376

The accompanying notes on pages 45 to 220 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2021

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2021	430 819	13 719	89 350	1 145 632	17 297	10 101	–	21	1 706 939
Total comprehensive income for the year, net of tax	–	–	–	112 598	–	(2 501)	–	79	110 176
Reclassification of Visa Inc. Series C Preferred Stock	–	–	–	–	–	–	–	–	–
Gain on disposal of property and equipment	–	–	–	82	(82)	–		–	–
Losses on the sale of shares at FVOCI	–	–	–	(110)	–	110	–	–	–
Transfers	–	–	428	(428)	–	–	–	–	–
Exchange difference	–	–	–	27	–	–	–	–	27
Transactions with owners, recorded directly in equity	–	–	–	(82 218)	–	–	–	–	(82 218)
Dividends to shareholders	–	–	–	*(82 487)*	–	–	–	–	*(82 487)*
Reversal of dividends distributed but not collected	–	–	–	*269*	–	–	–	–	*269*
At 31 December 2021	430 819	13 719	89 778	1 175 583	17 215	7 710	–	100	1 734 924

(Table continues on the next page)

The accompanying notes on pages 45 to 220 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2020

(In thousands of euro)

(continued)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2020	430 819	13 719	87 493	1 057 794	14 073	7 276	–	330	1 612 997
Total comprehensive income for the year, net of tax	–	–	–	82 694	3 696	7 295	–	(309)	93 376
Reclassification of Visa Inc. Series C Preferred Stock	–	–	–	4 724	–	(4 724)	–	–	–
Gain on disposal of property and equipment	–	–	–	472	(472)	–	–	–	–
Losses on the sale of shares at FVOCI	–	–	–	(254)	–	254	–	–	–
Transfers	–	–	364	(364)	–	–	–	–	–
Exchange difference	–	–	–	370	–	–	–	–	370
Transactions with owners, recorded directly in equity									
Dividends to shareholders	–	–	–	–	–	–	–	–	–
Reversal of dividends distributed but not collected (note 38)	–	–	–	*196*	–	–	–	–	*196*
At 31 December 2020	430 819	13 719	87 493	1 145 632	17 297	10 101	–	21	1 706 939

The accompanying notes on pages 45 to 220 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021

(In thousands of euro)

	Note	2021	2020
Cash flows from operating activities:			
Profit before tax		143 881	109 141
Adjustments for:			
Interest income	24	(324 803)	(332 718)
Interest expense	24	37 345	37 899
Loss/(gain) from sale/revaluation of financial assets at fair value through other comprehensive income		32 991	(11 401)
(Gain)/loss on sale of intangible assets and property and equipment	28	(811)	2 878
(Loss)/gain from revaluation of debt securities in issue		(52 996)	35 599
Amortisation	15	17 266	14 591
Depreciation	14	15 520	15 913
Impairment losses and similar charges	32, 33	145 054	91 242
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method and related items		(7 032)	577
Exchange difference on translation of foreign operations	35, 36	106	61
Interest received		348 699	288 147
Interest paid		(40 683)	(34 742)
Tax received/(paid)		1 579	(9 896)
Decrease/(increase) in financial assets at fair value through profit or loss		48 754	(62 122)
Decrease/(increase) in derivatives – hedge accounting (assets)		29 618	(2 691)
Financial assets at amortised cost:			
Increase in due from other banks		(1 614 324)	(25 675)
Increase in due from customers		(1 568 123)	(937 024)
Decrease/(increase) in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		16 715	(6 176)
Decrease/(increase) in other assets		1 444	(2 005)
(Decrease)/increase in financial liabilities at fair value through profit or loss		(56 514)	62 627
(Decrease)/increase in derivatives – hedge accounting (liabilities)		(33 897)	5 574
Financial liabilities measured at amortised cost:			
Increase/(decrease) in due to banks		2 571 282	(120 779)
Increase in due to customers		967 579	1 056 413
(Decrease)/increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		(4 174)	2 410
Increase in provisions		2 136	1 105
Increase/(decrease) in other liabilities		7 883	(18 696)
Net cash from operating activities		684 495	160 252
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(1 047 698)	(1 511 287)
Disposal of financial assets at fair value through other comprehensive income		412 985	758 638
Repayments of financial assets at fair value through other comprehensive income		530 900	757 370
Purchase of intangible assets and property and equipment		(31 307)	(43 684)
Disposal of intangible assets and property and equipment		3 747	3 287
Net cash used in investing activities		(131 373)	(35 676)

(Table continues on the next page)

The accompanying notes on pages 45 to 220 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021

(In thousands of euro)

(continued)

	Note	2021	2020
Cash flows from financing activities:			
Proceeds from issue of debt securities		500 000	500 000
Repayments of debt securities in issue		(47 597)	(235 840)
Proceeds from loans received from other banks		251 562	302 500
Repayments of loans received from other banks		(129 073)	(105 304)
Repayments of lease liabilities		(4 382)	(10 736)
Dividends paid		(82 487)	–
Net cash from financing activities		488 023	450 620
Net change in cash and cash equivalents		1 041 145	575 196
Cash and cash equivalents at the beginning of the year	7	1 571 642	996 446
Cash and cash equivalents at 31 December	7	2 612 787	1 571 642

The accompanying notes on pages 45 to 220 form an integral part of these financial statements.

1. Basis of preparation

1.1. Reporting entity general information

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

At 31 December 2021, the VUB Group had a network of 179 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2020: 197). The VUB Group also has one branch in the Czech Republic (31 December 2020: 1).

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

At 31 December 2021, the members of the Management Board are Alexander Resch (Chairman), Marie Kovářová, Peter Magala, Martin Techman, Roberto Vercelli, Andrej Viceník and Paolo Vivona.

At 31 December 2021, the members of the Supervisory Board are Ignacio Jaquotot (Chairman), Elena Kohútiková (Vice Chairman), Marco Fabris, Peter Gutten, Luca Leoncini Bartoli, Christian Schaack, and Róbert Szabo.

1.2. The VUB Group

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

	Share December 2021	Share December 2020	Principal business activity
Subsidiaries			
VÚB Leasing, a. s. ('VÚB Leasing')	100%	100%	Finance and operating leasing
VÚB Operating Leasing, a.s.	100%	–	Operating leasing
Joint ventures			
VÚB Generali d. s. s., a. s. ('VÚB Generali')	50%	50%	Pension fund administration
Associates			
Slovak Banking Credit Bureau, s. r. o. ('SBCB')	33,33%	33,33%	Credit database administration

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

1.3. Basis of accounting

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

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

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

1.4. Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Joint ventures

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

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

1.5. Functional and presentation currency

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

Negative balances are presented in brackets.

1.6. Use of judgements and estimates

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

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

1.6.1. Judgements

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

- Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ('SPPI') on the principal amount outstanding (note 3.4.2).
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL (note 4.1.2).
- Valuation of lease liabilities (note 11.5) and right-of-use assets (note 14).

The application of International Financial Reporting Standard 16 Leases ('IFRS 16') requires the VUB Group to make judgments that affect the valuation of the lease liabilities and the valuation of right-of-use assets (note 3.16). These include: determining contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the VUB Group generally comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the VUB Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the VUB Group is reasonably certain not to exercise that option. The same term is applied as economic useful life of right-of-use assets.

For contracts relating to branch and office premises, the VUB Group has concluded that there are a number of scenarios where the VUB Group might elect not to exercise the extension options. Therefore, the IFRS 16 criterion of being reasonably certain to exercise the extension options is not fulfilled. The periods covered by a potential use of an option to extend the lease were excluded from the lease term.

For leases of branch and office premises with indefinite term the VUB Group generally estimates the length of the contract to be five years. The Bank monitors these assumptions, reviews the industry practice and the evolution of the accounting interpretations in relation to the estimation of the lease terms among peer financial entities and is prepared to make adjustments, if necessary.

The present value of the lease payment is determined using the discount rate representing the rate of interest rate swap applicable for currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the VUB Group's rating, observed in the period when the lease contract commences or is modified.

1.6.2. Assumptions and estimation uncertainties

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

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

- Determination of the fair value of financial instruments with significant unobservable inputs. (note 5) Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the use of mathematical models. The inputs to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments.
- Impairment of financial instruments: determining inputs into the expected credil loss (ECL) measurement model, including incorporation of forward-looking information. (note 4.1.2)

  The Bank reviews its loans and advances at each reporting date to assess whether any individually assessed impairment loss should be recorded in the statement of profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment loss required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the individually assessed impairment losses.
- Recognition and measurement of legal claims: key assumptions about the likelihood and magnitude of an outflow of resources.
- Recognition of deferred tax assets: availability of future taxable profit against which deferred tax assets can be used.
- Impairment testing for cash generating units containing goodwill: key assumptions underlying recoverable amounts.

2. Changes in accounting policies

A number of the new standards are also effective from 1 January 2021 but they do not have a material effect on the financial statements.

The Visa Inc. Series C Preferred Stock were reclassified as at 1 January 2020 from fair value through other comprehensive income to fair value through profit or loss portfolio (note 8, note 10). The classification was revalued in the light of the significant change in the conversion ratio established by the issuer.

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

2.1. Standards and interpretations relevant to the VUB Group's operations issued that are effective for current year

Interest Rate Benchmark Reform ('IBOR Reform') – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities.

The amendments require the Bank to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

In accordance with exceptions provided in the Phase 2 amendments, the VUB Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020. There is no impact on opening equity balances as a result of retrospective application.

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption. The details of the accounting policies are disclosed in note 3.9. See also note 4.2.5 for related disclosures about risks and hedge accounting.

Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020.

IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as or less than the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The amendments did not have a material impact on the financial statements of the VUB Group because the VUB Group did not renegotiate rent agreements.

2.2. Standards and interpretations issued but not yet effective or not early adopted by the VUB Group

A number of new standards and amendments to standards are not yet effective or not yet adopted by the European Union. Early application is permitted; however, the VUB Group has not early adopted the new and amended standards in preparing these consolidated financial statements. The VUB Group intends to adopt these standards when they become effective.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU.

For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The VUB Group accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the VUB Group will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2021, the taxable temporary difference in relation to the right-of-use asset is € 18 966 thousand and the deductible temporary difference in relation to the lease liability is € 19 133 thousand, resulting in a net deferred tax asset of € 35 thousand.

Under the amendments, the VUB Group will present a separate deferred tax liability of € 3 983 thousand and a deferred tax asset of € 4 018 thousand. There will be no impact on retained earnings on adoption of the amendments.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

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

The following new and amended standards are not expected to have a significant impact on the VUB Group's consolidated financial statements:

– IFRS 17: Insurance Contracts and amendments to IFRS 17 Insurance Contracts,

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1),
- Reference to Conceptual Framework (Amendments to IFRS 3),
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16),
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37),
- Annual Improvements to IFRS Standards 2018–2020,
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16),
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2),
- Definition of Accounting Estimates (Amendments to IAS 8).

Annual Improvements to IFRS Standards 2018-2021

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.) Amendment to IFRS 9 Financial Instruments

The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

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

3. Significant accounting policies

3.1. Foreign currency transactions

Transactions in foreign currencies are translated into the euro at the official European Central Bank ('ECB') spot exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into euro at the official ECB spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into euro at the official ECB spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the official ECB spot exchange rate at the date of the transaction.

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income ('OCI'):

– qualifying cash flow hedges to the extent that the hedge is effective; and
– equity instruments in respect of which an election has been made to present subsequent changes in fair value in OCI.

3.2. Foreign operations

The financial statements include foreign operations in the Czech Republic. The assets and liabilities of foreign operations are translated into euro at the spot exchange rate at the reporting date. The income and expenses of foreign operations are translated to euro at rates approximating the foreign exchange rates at the dates of the transactions.

Foreign currency differences arising on these translations are recognised in OCI, and accumulated in the foreign currency translation reserve ('Translation of foreign operation' reserve).

3.3. Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, balances held with central banks, including compulsory minimum reserves, and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the VUB Group in the management of its short-term commitments.

'Cash and cash equivalents' are carried at amortised cost in the statement of financial position (note 7).

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

The VUB Group initially recognises loans and advances (e.g. 'Due from other banks', 'Due from customers'), deposits (e.g. 'Due to banks', 'Due to customers'), debt securities issued and subordinated debt on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the VUB Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.4.2. Classification

On initial recognition, a financial asset is classified as measured at:

– Amortised cost ('AC'), (note 3.21)

– Fair value through other comprehensive income ('FVOCI'), or

– Fair value through profit or loss ('FVTPL').

A financial asset is measured at AC, if it meets both of the following conditions and is not designated as at FVTPL:

– The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

– The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the VUB Group may irrevocably elect to present subsequent changes in fair value in OCI (note 3.6.2). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the VUB Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (note 3.4.7).

Business model assessment

The VUB Group uses the following business models:

– Held to collect,

– Held to collect and sell,

– Held for trading/Other.

The VUB Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

– How the performance of the portfolio is evaluated and reported to the Bank's management;

– The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales, in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the VUB Group states objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the VUB Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the VUB Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the VUB Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The VUB Group holds a portfolio of long-term fixed-rate loans for which the VUB Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The VUB Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

The VUB Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the VUB Group changes its business model for managing financial assets. Financial liabilities are never reclassified.

3.4.3. Subsequent measurement

After initial recognition, the VUB Group measures financial assets and financial liabilities in accordance to the classification at fair value through profit or loss (note 3.5), fair value through other comprehensive income (note 3.6) or at amortised cost (note 3.7).

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

The VUB Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the VUB Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained above. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the VUB Group is recognised as a separate asset or liability.

The VUB Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions. (note 3.8)

In transactions in which the VUB Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the VUB Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The VUB Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.4.5. Modifications

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

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see above under Derecognition other than due to substantial modification) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

– Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;

– Other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

3.4.6. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the VUB Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the VUB Group's trading activity.

3.4.7. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the VUB Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the VUB Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the VUB Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The hierarchy of valuation techniques is explained in note 5.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

If the VUB Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value according to model, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

Derivatives may be embedded in another contractual arrangement (a host contract). The VUB Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of International Financial Reporting Standard 9 Financial Instruments ('IFRS 9');
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

3.5.2. Financial assets at fair value through profit or loss

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

Financial assets at fair value also comprise equity instruments not held for trading where the Bank did not elect the option to classify investments at FVOCI. Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading result'. Interest income is recorded in 'Other interest income' and dividend income in 'Net trading result' according to the terms of the contract, or when the right to payment has been established.

3.6. Financial assets at fair value through other comprehensive income

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

The VUB Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

– The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.

– The contractual terms of the financial asset meet the SPPI test.

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

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

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

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

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

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

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

3.7. Financial assets and financial liabilities at amortised costs

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

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

The VUB Group only measures 'Due from other banks' and 'Due from customers' at amortised cost if both of the following conditions are met:

– The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Due from other banks

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

Due from customers

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

Impairment

The detailed description of policy is in the note 4.1.2.

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

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

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

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

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

Due to customers covers also lease liabilities (note 3.16).

In 2021 the VUB Group entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank and is presented under line item Due to central banks. As at 31 December 2021 the VUB Group has a liability in form of loans received in TLTRO in amount of 2 500 millions EUR. (note 11.3).

The VUB Group assessed accounting treatment which is appropriate for the TLTRO. The VUB Group decided that such instrument does not qualify as below-market interest rate loans. This is the reason why it is not related to IAS 20 government grants accounting. The VUB Group applies the accounting treatment determined in accordance with IFRS 9 to TLTRO III transactions, treating the refinancing conditions established by the ECB as market rates within the Eurosystem´s monetary policy measures.

3.8. Repurchase and reverse repurchase agreements

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

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

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

3.9. Derivatives – Hedge accounting

When initially applying IFRS 9, the VUB Group has elected to continue to apply the requirements of IAS 39 instead of those of IFRS 9.

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments
If a hedging relationship is directly affected by IBOR reform, then certain exceptions can be applied (referred to as 'the Phase 1 amendments') to the general hedge accounting policy.

All hedges affected by IBOR reform either matured or were discontinued therefore the VUB Group ceased to apply the respective Phase 1 amendments.

The Phase 2 amendments

Policies specific to non-contractually specified risk portions

When the VUB Group designates an alternative benchmark rate as a hedged risk and the alternative benchmark rate is a non-contractually specified risk portion that is not separately identifiable at the date it is designated, the VUB Group deems that the rate meets the separately identifiable criterion if it reasonably expects that the alternative benchmark rate will be separately identifiable within a 24-month period. The 24-month period applies on a rate-by-rate basis and starts from the date when the Bank first designates the alternative benchmark rate as a hedged risk.

If the Bank subsequently expects that a non-contractually specified alternative benchmark rate risk component will not be separately identifiable within the 24-month period, then it discontinues hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate is designated as a non-contractually specified risk portion.

Policies specific to cash flow hedges

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the VUB Group deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

3.10. Investments in joint ventures and associates

'Investments in joint ventures and associates' are recorded at cost less impairment losses. The impairment loss is measured using the Free Cash Flow to Equity model.

Free Cash Flow to Equity model

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

3.11. Transactions under common control

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

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

Comparative periods are not subject to restatement since the VUB Group was not consolidating the results of the acquiree in its consolidated financial statements before the date of the combination.

3.12. Property and equipment

Land and buildings are recognised at fair value based on periodic, but at least annually, valuations by external independent specialized companies, less subsequent depreciation for buildings.

If the new fair value is higher than the carrying amount the value of the asset on the balance sheet is increased through other comprehensive income and accumulated in equity under the heading 'Buildings and land'. In case that an impairment loss was previously recorded in the income statement, the reversal of this impairment is recorded in the income statement up to the amount previously recognised in the income statement. If the new fair value is lower than the carrying amount, the decrease is recognised in profit or loss. The ISP Group chose to apply the elimination approach, which means that the accumulated depreciation is eliminated against the gross carrying amount of the asset at revaluation date. The assets subject to the revaluation model are depreciated based on their revalued value.

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

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

	Years
Buildings	10 – 29
Equipment	4 – 12
Other tangibles	4 – 12

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

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Property and equipment contains also right-of-use assets. (note 3.16)

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7 – 10

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

3.14. Goodwill

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

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

3.15. Non-current assets held for sale

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

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

3.16. Leasing – right-of-use assets and lease liabilities

The VUB Group is a party to lease contracts for:

– Buildings and land (branch and office premises and lands under ATMs),

– Other tangible assets (motor vehicles).

Leases are recognized, measured and presented in line with IFRS 16.

Leases in which the VUB Group is a lessee

The VUB Group applies a single accounting model, requiring lessees to recognise assets and liabilities for all leases. However, the VUB Group applies exemptions regarding:

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

Based on the accounting policy applied the VUB Group recognizes a right-of-use asset (note 3.12) and a lease liability (note 3.7.2) at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- The amount of the initial measurement of the lease liability,
- Any lease payments made at or before the commencement date, less any lease incentives,
- Any initial direct costs incurred by the lessee,
- An estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

The right-of-use is recognized as part of 'Property and equipment'. Depreciation is calculated using the straight-line method over the estimated useful lives, as follows:

	Years
Buildings	2 – 6
Other tangibles	2 – 5

If the lease transfers ownership of the underlying asset to the VUB Group by the end of the lease term or if the cost of the right-of-use asset reflects that the VUB Group will exercise a purchase option, the VUB Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the VUB Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The VUB Group recognizes asset retirement obligations mainly in relation to leased premises which would need to be restored to previous state when the lease ends. Asset retirement obligations are capitalized as part of the cost of right-of-use assets and depreciated over the asset's estimated useful life. The VUB Group estimates the fair value of asset retirement obligations using average premises reinstatement cost and the discount rate which equals the risk-free interest rate for the VUB Group and the currency of the lease contract.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:

- Fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments exclude variable elements which are dependent on external factors. Variable lease payments not included in the initial measurement of the lease liability are recognized directly in the profit and loss in the line 'Other administrative expenses'.

The lease payments are discounted using the VUB Group's incremental borrowing rate or the rate implicit in the lease contract. Interest expense is recognised in the statement of profit or loss in the line 'Interest and similar expenses'.

The lease term determined by the VUB Group comprises:

– Non-cancellable period of lease contracts,
– Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option,
– Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the VUB Group measures the lease liability by:

– Increasing the carrying amount to reflect interest on the lease liability,
– Reducing the carrying amount to reflect lease payments made, and
– Re-measuring the carrying amount to reflect any reassessment or lease modifications.

Leases in which the VUB Group is a lessor

In case of lease contracts based on which the VUB Group is acting as a lessor each of its leases is classified as either operating or finance lease. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.
Finance leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Examples of situations where the risks and rewards of ownership are considered as having been transferred to the lessee are as follows:

– The lease transfers ownership of the asset to the lessee by the end of the lease term,
– The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
– The lease term is for at least 3/4 of the economic life of the asset even if title is not transferred,
– At the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, or
– The leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Lease classification is made at the inception date and is reassessed only if there is a lease modification.

At the commencement date, receivable from finance equal to the net investment in the lease is recognised in the statement of financial position in 'Due from customers'.

Initial measurement of the lease payments included in the net investment in the lease:

– fixed payments, less any lease incentives payable;
– any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
– the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
– payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent measurement:
Interest income is recognised in profit or loss statement in ‘Other interest income’ over the lease term using rate implicit in the lease, which represents the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

The lease payments are applied against the gross investment in the lease and reduce both the principal and the unearned finance income.

The detailed description of impairment of the net investment in the lease is described in the note 4.1.2.

Unguaranteed residual values are reviewed and estimated regularly in order to calculate the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately.

Operating leases

Recognition and measurement:
Lease payments from operating leases are recognised as income on a straight-line basis in profit or loss in ‘Other operating income’.

Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and this asset is being depreciated over the lease term on a straight-line basis.

Lease modifications:
In case of modification to an operating lease a new lease is booked from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.17. Provisions

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

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

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

Provisions for financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the in the statement of profit or loss in ‘Fee and commission income’ on a straight line basis over the lifetime of the guarantee, and an ECL allowance.

ECL allowances for financial guarantees are recognised based on stage of financial instrument (three-stage approach) which affects expected loss calculation for the financial guarantee. Any increase or decrease in the provision deriving from changes in ECL allowances relating to financial guarantees is recorded in the statement of profit or loss in ‘Impairment losses’.

In case when the VUB Group is called to fulfil the guarantee and the guarantee is paid to the holder of the guarantee it ceases to exist. Instead a receivable against the counterparty for which the VUB Group issued the guarantee is created and the former provision for financial guarantees is converted into impairment losses allowance on such receivable along with the movement, if any, within ‘Impairment losses’.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.
For loan commitments the VUB Group also recognises Provisions based on stage of financial instrument. Any increase or decrease in the provision relating to Loan commitments is reflected in the statement of profit or loss in ‘Impairment losses’.

3.18. Provisions for employee benefits

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

3.19. Equity reserves

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

– 'Revaluation surplus of buildings and land' reserve which consists of the revaluation surplus of buildings and land measured at fair value using a revaluation model.

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

– 'Financial assets at fair value through other comprehensive income' reserve which comprises changes in the fair value of financial assets at FVOCI.

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

3.20. Net interest income

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

Interest income and expense is recognised in the statement of profit or loss on an accrual basis using the effective interest rate method (EIR) for all financial instruments measured at amortised cost (note 3.7.1. and 3.7.2).

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost (AC) of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of 'fixed rate financial assets' or 'liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

In case of hedging relationship (as defined in note 3.9) interest from interest rate swap effectively replaces the contractual interest rate of the hedged item and such interest is disclosed under in 'Interest income calculated using the effective interest method'.

The IBOR reform Phase 2 amendments allow as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

Other interest income includes interest received on financial assets at fair value through profit or loss other than interest on derivatives using the contractual interest rate and finance leases where the rate implicit in the lease is being used.

Interest income/expense on all derivatives is recognised as a part of the fair value change in 'Net trading result'.

Negative interest arising from financial assets is presented in interest expense and negative interest arising from financial liabilities is presented in interest income.

In 2021 the VUB Group entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank and is presented under line item Due to central VUB Groups.

The VUB Group´s accounting policy, the special interest rates for the period from 24 June 2020 to 23 June 2022 are recognised in accordance with IFRS 9 as floating rates applicable to the reporting period, because the Governing Council of the ECB may at any time change the interest rate of TLTRO III operations prospectively (as it did in April and December 2020). The interest is therefore recognised periodically based on the interest rate of the instrument for each period (0,5)% until 24 June 2020, (1)% until 23 June 2022 and (0,5)% thereafter and until maturity, based on current rates – as required by paragraph B5.4 of IFRS 9.

Interest expense from TLTRO, presented under line "Interest Income".

3.21. Net fee and commission income

The VUB Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

Fee and commission income and expense such as up-front and commitment fees that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 3.21).

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

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The VUB Group's revenue contracts do not include multiple performance obligations.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

When the VUB Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

Nature and timing of satisfaction of performance obligations, including significant payment terms:

Current accounts	Fees for ongoing account management are charged to the customer's account on a monthly basis. The VUB Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.
Cards	Credit card and debit card fees relate to both fees for issuance of credit card for the period of card's validity as well as fees for specific transactions.
Payments and cash management	Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.
Loans	Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration. They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the VUB Group.
Indirect deposits	These fees mainly relate to providing Bank's retail network for the mediation of investments into funds. These fees are paid to the VUB Group by VÚB Asset Management, správ. spol., a. s. Since the VUB Group does not have any ongoing performance obligation regarding these fees, they are recognised in full when charged.
Insurance	The VUB Group provides insurance mediation along with selling its products. Except for life insurance mediation, only aliquot part of commission is sent by the insurance company on monthly basis, therefore the VUB Group only recognises aliquot part of commission as income with the passage of time. In case client cancels insurance contract with insurance company, the insurance company stops paying the aliquot part of the commission and the VUB Group therefore stops to recognise these fees. The VUB Group is not liable to return aliquot part of commissions recognised in fees to insurance company. Regarding life insurance mediation the VUB Group is exposed to clawbacks if client cancels the insurance contract within certain periods. The VUB Group calculated effect of IFRS 15 impact and evaluated this impact as non-material and continues to recognise income on these fees as the related mediation service is provided.
Trade finance, Structured finance	Fees for loan commitments which are not expected to result in the draw-down of a loan are recognised on a straight-line basis over the commitment period. Administration of a loan syndication, execution of client transactions with exchanges and securities underwriting, charges for premature termination of loans and other are charged when transaction takes place.
Factoring	Services related to factoring include: – Facility commitment, where fee is recognised on a straight-line basis over the commitment period; – Invoice processing fee, where fixed amount for each processed invoice is charged; – Factoring fee, where fee represent a percentage on a total receivable amount factored.

Revenue recognition under IFRS 15:

Current accounts	Revenue from account service and servicing fees is recognised over time as the services are provided.
Cards	Revenue from card issuance is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Payments and cash management	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loans	Overdraft fee is recognised on a straight-line basis over the overdraft duration. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Indirect deposits	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Insurance	Revenue from insurance mediation services is recognised over time for the duration of contract, except for life insurance mediation where service fee is recognised when service is provided and clawbacks are recognised when they occur.
Trade finance, Structured finance	Loan commitment fee is recognised on a straight-line basis over the commitment period. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Factoring	Facility fee is recognised on a straight-line basis over the commitment period. Revenues related to invoice processing and factoring fee are recognised at the point in time when the transaction takes place.

3.22. Net trading result

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

3.23. Dividend income

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

3.24. Special levy of selected financial institutions

Commencing 1 January 2012, banks operating in the Slovak Republic are subject to a special levy of selected financial institutions calculated from selected liabilities. Based on the amendment to the Act No. 384/2011 on the Special levy of selected financial institutions from 12 October 2016, the levy rate has been set to 0.2% p. a. for the years 2017 to 2020. Based on the another amendment from 28 November 2019, the levy rate has been set to 0.4% p. a. for the year 2020. The levy is recognized in the statement of profit or loss and other comprehensive income on an accrual basis and is payable at the beginning of each quarter. (note 29)

As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective. This amendment also covered measures in the area of special levy of selected financial institutions. According to these measures no more special levy payments were required from July 2020 until the end of 2020. (note 29)

Subsequently this special levy was cancelled in full effectively from 1 January 2021. (note 29)

3.25. Current and deferred income tax

Income tax is calculated in accordance with the regulations of the Slovak Republic and other jurisdictions, in which the VUB Group operates. Deferred income tax assets and liabilities are recognised, using the balance sheet method, for all temporary differences arising between the carrying amounts of assets and liabilities and their tax bases. Expected tax rates, applicable for the periods when assets and liabilities are realised, are used to determine deferred tax. The VUB Group is also subject to various indirect operating taxes, which are included in 'Other operating expenses'.

4. Financial and operational risk management

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

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

– Asset/Liability Committee ('ALCO'),

– Credit Risk Governance Committee ('CRGC'),

– Operational Risk Committee ('ORC').

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

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

4.1. Credit risk

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

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

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

– Authorized Approval Authority,

– Collateral Management Policy,

– Provisioning Policy,

– Credit Concentration Limits,

– Default Definition,

– Risk Management Client Segmentation Policy,

– Corporate Credit Policy, Retail Credit Policy,

– Retail and Corporate Remedial Management and Collections.

4.1.1. Management of credit risk

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

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

4.1.2. Impairment losses

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

If there is evidence of impairment for any individually significant client of the VUB Group, such as a breach of contract, problems with repayments or collateral, the VUB Group transfers such a client to management of the Recovery Department for pursuing collection activities. Such clients exceeding significant thresholds (€ 500 thousand, respectively € 100 thousand for clients of VUB Leasing) are considered to be individually impaired. For collective impairment (other than individually significant client), the VUB Group uses historical evidence of impairment and forward-looking information on a portfolio basis, mainly based on the payment discipline of the clients.

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

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

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

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

Inputs, assumptions and techniques used for estimating impairment

Calculation of ECL on a collective basis is based on particular regulatory segment, exposure at default ('EAD'), probability of default ('PD'), loss given default ('LGD'), credit conversion factor ('CCF'). For each segment were developed models for such risk parameters. These models are regularly reviewed by development function, Department Internal Validation and Controls and Department Internal Audit.

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

The methodology of risk parameters used by ECL calculation is compliant with the ISP Group methodology provided by Parent Company.

For PD models of the portfolios where the VUB Group uses internal models, the advanced approach is used. The modelling approach consists of the following steps:

- Creation of migration matrices using the internal ratings;
- Removal of macroeconomic effect from the migration matrices using the Merton formula;
- Creation of Through-the-cycle ('TTC') matrix computed as the average of the annual migration matrices obtained after the removal of the macroeconomic effect;
- Creation of the future Point-in-Time ('PIT') matrices obtained by conditioning the TTC matrix using Merton formula and forward looking information;
- Obtaining the final Lifetime PD vectors by multiplying the predicted PIT and TTC matrices adjusted by add-on for incorporation of various economic scenarios.
- For LGD models of the portfolios where the VUB Group uses internal models, the modelling approach consists of the following steps:
- Calculation of nominal LGD;
- Incorporation of forward looking information using coefficients calculated based on Path-generator issued by the European Banking Authority ('EBA');
- Obtaining the final LGD values by discounting the recovery rates using effective interest rate and average time to recovery.

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

The counterparties with low number of observations and with low numbers of observed defaults, where it was unable to create reliable migration matrices or develop the macroeconomic satellite models for prediction of default rate, were defined as the Low default portfolio. The parameters for these portfolios are obtained from parent company.

EAD is calculated separately for amortizing and non-amortizing products. EAD for amortizing products is based on the repayment plans, while EAD for non-amortizing products is calculated using Credit Conversion Factor (CCF). Currently, the VUB Group uses CCF models only for Retail Credit Cards and Retail Overdrafts. For all other segments regulatory CCF values are used.

Days past due ('DPD') methodology

The VUB Group 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.

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

The absolute threshold is exceeded when:

$$\text{overdue exposure} > \text{absolute threshold}$$

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

The relative threshold is exceeded when:

$$\text{overdue exposure/total obligor's on-balance sheet exposure} > \text{relative threshold}$$

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.

Staging methodology

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

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

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

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

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

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

In general following rules are applied:

- At origination financial instruments are classified in Stage 1, except instruments which are credit-impaired at the date of acquisition, which are classified in the relevant stage;

– If there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2.

As at 31 December 2020 and 31 December 2019 the Bank did not classify any financial assets as Purchased or Originated Credit Impaired ('POCI').

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

According to IFRS 9 Principle par. 5.5.11: '…there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.' To comply with this requirement the Bank adopts a days past due criterion according to the Days past due methodology described above.

Stage 2 criterion: Forborne performing exposures

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

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

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

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

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

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

According to the methodology, the comparison should be performed between:

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

– $PD_{reporting}$ – the lifetime PD over the residual maturity related to the rating to which the instrument belongs at the reporting date.

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

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

Stage 3 criterion

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

Evidence that a financial asset is credit-impaired includes the following observable data:

– Significant financial difficulty of the borrower or issuer;

– A breach of contract such as a default or past due event;

– The restructuring of a loan or advance by the VUB Group on terms that the VUB Group would not consider otherwise;

– It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

– The disappearance of an active market for a security because of financial difficulties.

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

Staging criteria for debt securities

Staging process for bonds is performed in parallel to the staging of loans. The criteria used to assess whether the credit quality of the bond has deteriorated significantly since origination is Lifetime PDs comparison.
The following criteria are approved for each stage for debt securities:

STAGE 1	STAGE 2	STAGE 3
Bonds with no significant credit quality deterioration Investment grade bonds (Low Credit Risk Exemption rule valid only for FVOCI Bonds for First Time Adoption of IFRS 9 ('FTA'))	Bonds with significant increase in PD since origination	Defaulted bonds

In addition to the above-mentioned criteria, the following rules should be followed for Stage Assignment:

– at origination financial instruments are classified in Stage 1;

– if there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2.

Staging criteria for Low Default Portfolio and Intragroup exposures

Low Default Portfolio consists of exposures with the following parties:

- Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
- Institutions (Banks, and Other Non-banking Financial Institutions);
- Large Corporate (Corporate with turnover more than € 500 million).

Intragroup exposures are exposures with the following parties:

- Parent Company;
- Bank's own subsidiaries;
- Other ISP Group subsidiaries.

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

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

Expected credit loss calculation

Stage 1

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

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

where:

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

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

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

where n is the number of months to maturity.

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

Stage 2

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

For exposures with remaining maturity less than or equal to one year (see Stage 1):

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

For exposures with remaining maturity greater than one year:

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

where:

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

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

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

where:

- EAD1, EAD2, EAD3 are exposure at default at the beginning of each residual year;
- PD_1 is probability that exposure enters in default during the first year of residual maturity;
- $PD_2 – PD_1$ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- $PD_3 – PD_2$ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- LGD_1, LGD_2, LGD_3 is percentage of loss in case of default of each residual year;
- EIR is Effective Interest Rate.

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

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

Additionally, for cases when residual maturity is a fraction of years, the VUB Group can choose to use the maturity as follows:

- When the portion of residual maturity that exceeds the year is greater than six months, the maturity will be rounded to the year immediately after;
- When the portion of residual maturity that exceeds the year is equal or lower than six months, the maturity will be rounded to the previous year.

Stage 3

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

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

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

where:

- PCBS is the provision calculated based on scenarios determined by the VUB Group on NPLs;
- $\text{Add-on}_{Performing}$ is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, Most-Likely and Worst scenarios given by EBA coefficients for corresponding segment.

Incorporation of forward-looking information

The VUB Group incorporates forward-looking information by using the Base scenario from the internal satellite models or the Baseline stress test coefficients, which are obtained from EBA Path-generator. Other scenarios are incorporated in the form of „add-on". Add-on is calculated as a combination of final PD or LGD values calculated for all three scenarios for 3 upcoming years.

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

The VUB Group uses also the stress test coefficients, which are the result of EBA Path-generator for stress testing. As the result we get the coefficients only for Adverse and Baseline scenario and therefore the Best coefficient is calculated additionally based on these two scenarios. The scenarios are then used for the calculation of the add-on. Using the EBA coefficients is characteristic for LGD models. Moreover, a similar approach is used for the calculation of add-on for the exposures in stage 3.

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

The VUB Group identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The economic scenarios used the following ranges of the inputs for the quarters of years 2022, 2023 and 2024 by the satellite model application in 2021. The inputs were updated by parent company and Research department in October 2021.

	GDP, (constant prices, % change)			Unemployment rate (Labour Force Sample Survey, %)			Consumer prices index (quarterly average, % change)			EURIBOR 3M (end of year)		
	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario
1Q 2022	6,20	7,55	4,70	6,8	6,5	7,4	4,3	4,5	3,8	(0,55)	(0,55)	(0,55)
2Q 2022	5,40	6,75	3,90	6,8	6,4	7,3	3,7	3,9	3,2	(0,55)	(0,55)	(0,55)
3Q 2022	4,30	5,65	2,80	6,7	6,4	7,3	3,0	3,2	2,5	(0,54)	(0,54)	(0,54)
4Q 2022	4,20	5,55	2,70	6,7	6,3	7,2	2,6	2,8	2,1	(0,54)	(0,54)	(0,54)
1Q 2023	4,01	5,11	2,71	6,6	6,2	7,1	2,4	2,6	2,1	(0,54)	(0,54)	(0,54)
2Q 2023	3,82	4,92	2,52	6,6	6,2	7,0	2,4	2,6	2,1	(0,53)	(0,53)	(0,53)
3Q 2023	3,90	5,00	2,60	6,5	6,2	7,0	2,6	2,7	2,2	(0,52)	(0,39)	(0,52)
4Q 2023	4,28	5,38	2,98	6,5	6,1	6,9	2,2	2,3	2,0	(0,52)	(0,27)	(0,52)
1Q 2024	2,93	3,73	1,58	6,4	6,0	6,9	2,1	2,2	2,0	(0,49)	(0,24)	(0,49)
2Q 2024	2,24	3,04	0,89	6,4	6,0	6,8	2,1	2,2	2,0	(0,47)	(0,10)	(0,47)
3Q 2024	1,63	2,43	0,28	6,3	6,0	6,7	2,1	2,2	2,0	(0,47)	(0,03)	(0,47)
4Q 2024	1,00	1,80	(0,35)	6,2	5,9	6,6	2,0	2,1	2,0	(0,40)	(0,19)	(0,43)

Predicted relationships between the relevant drivers and default rates for various segments have been developed based on analysing historical data over the past seven to thirteen years.

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

2021 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	1 818 800	(90)	1 818 710	–	–	–
Due from customers:						
Public administration	198 572	(1 598)	196 974	–	–	–
Corporate	5 667 010	(29 951)	5 637 059	–	–	–
Retail	9 868 834	(11 634)	9 857 200	–	–	–
	15 734 416	(43 183)	15 691 233	–	–	–
Financial assets at FVOCI – debt securities	1 664 143	(329)	1 663 814	–	–	–
Financial commitments and contingencies	5 219 620	(4 848)	5 214 772	–	–	–

2020 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:	206 126	(706)	205 420	–	–	–
Due from other banks	126 926	(1 075)	125 851	–	–	–
Due from customers:						
Public administration	126 926	(1 075)	125 851	–	–	–
Corporate	4 676 062	(26 135)	4 649 927	–	–	–
Retail	9 140 921	(13 313)	9 127 608	–	–	–
	14 150 035	(41 229)	14 108 806	–	–	–
Financial assets at FVOCI – debt securities	1 611 015	(306)	1 610 709	–	–	–
Financial commitments and contingencies	4 420 551	(7 001)	4 413 550	–	–	–

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

2021 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	701	(19)	682	–	–	–
Due from customers:						
Public administration	7 426	(288)	7 138	–	–	–
Corporate	316 789	(12 799)	303 990	–	–	–
Retail	585 087	(35 683)	549 404	–	–	–
	910 003	(48 789)	861 214	–	–	–
Financial commitments and contingencies	186 417	(6 690)	179 727	–	–	–

2020 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 2						
Financial assets at AC:						
Due from customers:						
Public administration	26 717	(1 605)	25 112	–	–	–
Corporate	613 410	(12 832)	600 578	–	–	–
Retail	576 783	(38 331)	538 452	–	–	–
	1 216 910	(52 768)	1 164 142	–	–	–
Financial commitments and contingencies	94 242	(2 163)	92 079	–	–	–

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

2021 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	8 535	(5 412)	3 123	74 211	(45 686)	28 525
Retail	267 595	(193 513)	74 082	12 394	(10 013)	2 381
	276 130	(198 925)	77 205	86 605	(55 699)	30 906
Financial commitments and contingencies	4 953	(2 690)	2 263	18 568	(6 218)	12 350

2020 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	14 059	(5 477)	8 582	62 110	(46 512)	15 598
Retail	319 930	(175 954)	143 976	14 157	(9 985)	4 172
	333 989	(181 431)	152 558	76 267	(56 497)	19 770
Financial commitments and contingencies	8 615	(1 678)	6 937	9 224	(3 091)	6 133

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

2021 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	306	151	(100)	–	–	–	(28)	–	329
Financial assets at AC:									
Due from other banks	706	19	(773)	446	(150)	–	(158)	–	90
Due from customers	40 523	37 724	(46 966)	43 957	(24 890)	(119)	(7 046)	–	43 183
	41 229	37 743	(47 739)	44 403	(25 040)	(119)	(7 204)	–	43 273
Financial commitments and contingencies	7 001	10 189	(12 843)	6 838	(3 493)	(14)	(2 830)	–	4 848
Stage 2									
Financial assets at AC:									
Due from other banks	–	–	315	(446)	150	–	–	–	19
Due from customers	52 768	–	36 899	(40 776)	32 038	(25 053)	(7 106)	–	48 770
	52 768	–	37 214	(41 222)	32 188	(25 053)	(7 106)	–	48 789
Financial commitments and contingencies	2 163	–	9 757	(6 295)	3 622	(2 053)	(504)	–	6 690
Stage 3									
Financial assets at AC:									
Due from customers	237 928	–	55 735	(3 181)	(7 148)	25 172	(221)	(53 661)	254 624
Financial commitments and contingencies	4 769	–	4 250	(543)	(129)	2 067	(1 506)	–	8 908

(Table continues on the next page)

2021 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	306	151	(100)	–	–	–	(28)	–	329
Financial assets at AC:									
Due from other banks	706	19	(458)	–	–	–	(158)	–	109
Due from customers	331 219	37 724	45 668	–	–	–	(14 373)	(53 661)	346 577
	331 925	37 743	45 210	–	–	–	(14 531)	(53 661)	346 686
Financial commitments and contingencies	13 933	10 189	1 164	–	–	–	(4 840)	–	20 446

2020 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	224	587	249	(72)	–	–	–	(95)	306
Financial assets at AC:									
Due from other banks	482	1 655	268	(1 572)	2 111	(416)	–	(167)	706
Due from customers	35 414	33 333	32 282	(54 600)	57 207	(23 390)	(242)	(6 148)	40 523
	35 896	34 988	32 550	(56 172)	59 318	(23 806)	(242)	(6 315)	41 229
Financial commitments and contingencies	4 232	6 169	11 089	(6 821)	3 171	(3 678)	(10)	(982)	7 001
Stage 2									
Financial assets at AC:									
Due from other banks	6	–	1 706	(2 111)	416	–	(17)	–	–
Due from customers	61 820	–	54 610	(54 515)	26 821	(31 965)	(4 003)	–	52 768
	61 826	–	56 316	(56 626)	27 237	(31 965)	(4 020)	–	52 768
Financial commitments and contingencies	1 710	–	1 685	(3 033)	3 778	(909)	(1 068)	–	2 163
Stage 3									
Financial assets at AC:									
Due from customers	251 514	–	31 291	(2 692)	(3 431)	32 207	(1 124)	(69 837)	237 928
Financial commitments and contingencies	3 428	–	1 676	(138)	(100)	919	(1 016)	–	4 769

(Table continues on the next page)

2020 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	224	249	(72)	–	–	–	(95)	–	306
Financial assets at AC:									
Due from other banks	488	268	134	–	–	–	(184)	–	706
Due from customers	348 748	32 282	31 301	–	–	–	(11 275)	(69 837)	331 219
	349 236	32 550	31 435	–	–	–	(11 459)	(69 837)	331 925
Financial commitments and contingencies	9 370	11 089	(3 460)	–	–	–	(3 066)	–	13 933

When there is transfer between stages, the original amount of the provision is transferred first and then the change in credit risk is reflected in the new stage.

The changes due to modifications that does not result in derecognition of the financial assets were immaterial.

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

2021 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1 610 709	782 032	–	–	–	(295 743)	(433 184)	1 663 814
Financial assets at AC:								
Due from other banks	206 126	5 455 215	84 955	(91 941)	–	(3 835 555)	–	1 818 800
Due from customers	13 943 909	7 731 569	1 093 513	(1 441 000)	(19 967)	(5 573 608)	–	15 734 416
	14 150 035	13 186 784	1 178 468	(1 532 941)	(19 967)	(9 409 163)	–	17 553 216
Financial commitments and contingencies	4 420 551	6 667 706	399 634	(513 277)	(20 365)	(5 734 629)	–	5 219 620
Stage 2								
Financial assets at AC:								
Due from other banks	–	–	(84 955)	91 941	–	(6 285)	–	701
Due from customers	1 216 910	–	(1 074 916)	1 469 010	(131 636)	(570 066)	–	909 302
	1 216 910	–	(1 159 871)	1 560 951	(131 636)	(576 351)	–	910 003
Financial commitments and contingencies	94 242	–	(374 942)	514 156	(19 632)	(27 407)	–	186 417
Stage 3								
Financial assets at AC:								
Due from customers	410 256	–	(18 597)	(28 010)	151 603	(87 773)	(64 744)	362 735
Financial commitments and contingencies	17 839	–	(24 692)	(879)	39 997	(8 744)	–	23 521

(Table continues on the next page)

2021 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1 610 709	782 032	–	–	–	(295 743)	(433 184)	1 663 814
Financial assets at AC:								
Due from other banks	206 126	5 455 215	–	–	–	(3 841 840)	–	1 819 501
Due from customers	15 571 075	7 731 569	–	–	–	(6 231 447)	(64 744)	17 006 453
	15 777 201	13 186 784	–	–	–	(10 073 287)	(64 744)	18 825 954
Financial commitments and contingencies	4 532 632	6 667 706	–	–	–	(5 770 780)	–	5 429 558

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

2020 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1 562 538	1 307 160	–	–	–	(524 489)	(734 500)	1 610 709
Financial assets at AC:								
Due from other banks	180 136	891 306	135 331	(135 337)	–	(865 310)	–	206 126
Due from customers	13 244 298	5 692 488	1 501 167	(2 386 966)	(19 451)	(4 087 627)	–	13 943 909
	13 424 434	6 583 794	1 636 498	(2 522 303)	(19 451)	(4 952 937)	–	14 150 035
Financial commitments and contingencies	3 743 616	3 727 701	225 574	(266 379)	(2 770)	(3 007 191)	–	4 420 551
Stage 2								
Financial assets at AC:								
Due from other banks	843	–	(135 331)	135 337	–	(849)	–	–
Due from customers	1 036 034	–	(1 487 999)	2 403 568	(148 248)	(586 445)	–	1 216 910
	1 036 877	–	(1 623 330)	2 538 905	(148 248)	(587 294)	–	1 216 910
Financial commitments and contingencies	134 792	–	(217 700)	266 704	(7 866)	(81 688)	–	94 242
Stage 3								
Financial assets at AC:								
Due from customers	445 430	–	(13 168)	(16 602)	167 699	(74 329)	(98 774)	410 256
Financial commitments and contingencies	22 647	–	(7 874)	(325)	10 636	(7 245)	–	17 839

(Table continues on the next page)

2020 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1 562 538	1 307 160	–	–	–	(524 489)	(734 500)	1 610 709
Financial assets at AC:								
Due from other banks	180 979	891 306	–	–	–	(866 159)	–	206 126
Due from customers	14 725 762	5 692 488	–	–	–	(4 748 401)	(98 774)	15 571 075
	14 906 741	6 583 794	–	–	–	(5 614 560)	(98 774)	15 777 201
Financial commitments and contingencies	3 901 055	3 727 701	–	–	–	(3 096 124)	–	4 532 632

4.1.3. Non-performing loan classification

The VUB Group considers a financial asset to be in Non-performing status in compliance with the Commission's Implementing Regulation (EU) No 680/2014 and its further amendments (Implementing Technical Standards, 'ITS') when:

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

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

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

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

For category Unlikely to pay are taken into account qualitative indicators such as:

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

For category Doubtful are taken into account qualitative indicators such as:

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

Non-performing status is carried out at borrower level following the united rules of the Parent Company.

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

2021 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	1 819 501	(109)	1 819 392
Due from customers:				
Public administration				
	Performing	205 998	(1 886)	204 112
Corporate				
	Performing	5 983 799	(42 750)	5 941 049
	Past due	809	(376)	433
	Unlikely to pay	44 285	(19 802)	24 483
	Doubtful	37 652	(30 920)	6 732
		6 066 545	(93 848)	5 972 697
Retail				
	Performing	10 453 921	(47 317)	10 406 604
	Past due	36 376	(19 353)	17 023
	Unlikely to pay	36 598	(23 656)	12 942
	Doubtful	207 015	(160 517)	46 498
		10 733 910	(250 843)	10 483 067
		17 006 453	(346 577)	16 659 876
		18 825 954	(346 686)	18 479 268
Financial assets at FVOCI – debt securities				
	Performing	1 664 143	(329)	1 663 814
Financial commitments and contingencies				
	Performing	5 406 037	(11 538)	5 394 499
	Past due	1 342	(4)	1 338
	Unlikely to pay	16 500	(4 266)	12 234
	Doubtful	5 679	(4 638)	1 041
		5 429 558	(20 446)	5 409 112

2020 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	206 126	(706)	205 420
Due from customers:				
Public administration				
	Performing	153 643	(2 680)	150 963
Corporate				
	Performing	5 289 472	(38 967)	5 250 505
	Past due	4 167	(489)	3 678
	Unlikely to pay	32 409	(18 724)	13 685
	Doubtful	39 593	(32 776)	6 817
		5 365 641	(90 956)	5 274 685
Retail				
	Performing	9 717 704	(51 644)	9 666 060
	Past due	46 073	(17 872)	28 201
	Unlikely to pay	34 097	(15 350)	18 747
	Doubtful	253 917	(152 717)	101 200
		10 051 791	(237 583)	9 814 208
		15 571 075	(331 219)	15 239 856
		15 777 201	(331 925)	15 445 276
Financial assets at FVOCI – debt securities				
	Performing	1 611 015	(306)	1 610 709
Financial commitments and contingencies				
	Performing	4 514 793	(9 164)	4 505 629
	Past due	4 120	(311)	3 809
	Unlikely to pay	9 924	(3 155)	6 769
	Doubtful	3 795	(1 303)	2 492
		4 532 632	(13 933)	4 518 699

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

2021 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	1 819 501	(109)	1 819 392
Due from customers:			
Public administration			
No delinquency	205 403	(1 884)	203 519
1 – 30 days	500	(2)	498
31 – 60 days	95	-	95
	205 998	(1 886)	204 112
Corporate			
No delinquency	6 003 819	(58 754)	5 945 065
1 – 30 days	16 794	(210)	16 584
31 – 60 days	4 594	(1 959)	2 635
61 – 90 days	1 890	(1 169)	721
91 – 180 days	3 168	(2 461)	707
Over 181 days	36 280	(29 295)	6 985
	6 066 545	(93 848)	5 972 697
Retail			
No delinquency	10 449 597	(72 594)	10 377 003
1 – 30 days	62 892	(10 222)	52 670
31 – 60 days	16 235	(6 121)	10 114
61 – 90 days	7 887	(2 184)	5 703
91 – 180 days	17 578	(12 987)	4 591
Over 181 days	179 721	(146 735)	32 986
	10 733 910	(250 843)	10 483 067
	17 006 453	(346 577)	16 659 876
	18 825 954	(346 686)	18 479 268
Financial assets at FVOCI – debt securities			
No delinquency	1 664 143	(329)	1 663 814
Financial commitments and contingencies			
No delinquency	5 429 558	(20 446)	5 409 112

2020 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	206 126	(706)	205 420
Due from customers:			
Public administration			
No delinquency	153 153	(2 677)	150 476
1 – 30 days	490	(3)	487
31 – 60 days	153 643	(2 680)	150 963
Corporate			
No delinquency	5 218 120	(50 765)	5 167 355
1 – 30 days	96 181	(1 059)	95 122
31 – 60 days	181	(2)	179
61 – 90 days	5 419	(1 429)	3 990
91 – 180 days	4 986	(4 415)	571
Over 181 days	40 754	(33 286)	7 468
	5 365 641	(90 956)	5 274 685
Retail			
No delinquency	9 704 186	(60 928)	9 643 258
1 – 30 days	62 237	(8 700)	53 537
31 – 60 days	1 046	(412)	634
61 – 90 days	18 476	(4 837)	13 639
91 – 180 days	27 052	(13 547)	13 505
Over 181 days	238 794	(149 159)	89 635
	10 051 791	(237 583)	9 814 208
	15 571 075	(331 219)	15 239 856
	15 777 201	(331 925)	15 445 276
Financial assets at FVOCI – debt securities			
No delinquency	1 611 015	(306)	1 610 709
Financial commitments and contingencies			
No delinquency	4 532 632	(13 933)	4 518 699

The table below shows the three-stage approach based on changes in credit quality by class of assets for all financial assets exposed to credit risk.

	Stage 1			Stage 2			Stage 3		
2021 €'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	1 818 800	(90)	1 818 710	701	(19)	682	–	–	–
Due from customers:									
Public administration									
State administration	95 147	(676)	94 471	–	–	–	–	–	–
Municipalities	102 920	(918)	102 002	7 438	(288)	7 150	–	–	–
Municipalities – Leasing	493	(4)	489	-	-	-	–	–	–
	198 560	(1 598)	196 962	7 438	(288)	7 150	–	–	–
Corporate									
Large Corporates	2 514 325	(1 347)	2 512 978	48 006	(231)	47 775	349	(233)	116
Large Corporates – debt securities	102 402	(97)	102 305	–	–	–	–	–	–
Specialized Lending	822 975	(24 207)	798 768	49 268	(7 041)	42 227	4 983	(3 862)	1 121
SME	1 381 342	(3 292)	1 378 050	211 149	(4 820)	206 329	69 035	(41 837)	27 198
Other Non-banking Financial Institutions	363 902	(94)	363 808	3	–	3	5	(5)	–
Other Non-banking Financial Institutions – debt securities	183 154	(65)	183 089	–	–	–	–	–	–
Public Sector Entities	3 293	(4)	3 289	500	–	500	2	–	2
Leasing	154 482	(1 405)	153 077	3 375	(89)	3 286	5 452	(4 032)	1 420
Factoring	142 685	(54)	142 631	2 937	(6)	2 931	2 921	(1 127)	1 794
	5 668 560	(30 565)	5 637 995	315 238	(12 187)	303 051	82 747	(51 096)	31 651

(Table continues on the next page)

2021 €'000	Gross amount	Impairment losses	Stage 1 Net amount	Gross amount	Impairment losses	Stage 2 Net amount	Gross amount	Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	353 757	(4 455)	349 302	111 033	(7 444)	103 589	23 642	(15 935)	7 707
Small Business – Leasing	49 217	(949)	48 268	2 597	(164)	2 433	10 767	(8 050)	2 717
Consumer Loans	1 038 101	(6 329)	1 031 772	181 837	(18 749)	163 088	146 240	(118 947)	27 293
Mortgages	8 284 451	(707)	8 283 744	252 409	(6 080)	246 329	77 054	(40 429)	36 625
Credit Cards	67 796	(156)	67 640	9 345	(775)	8 570	15 478	(14 238)	1 240
Overdrafts	39 866	(312)	39 554	20 379	(847)	19 532	6 789	(5 920)	869
Leasing	4 599	(28)	4 571	60	(1)	59	19	(7)	12
Flat Owners Associations	38 474	(321)	38 153	–	–	–	–	–	–
	9 876 261	(13 257)	9 863 004	577 660	(34 060)	543 600	279 989	(203 526)	76 463
	15 743 381	(45 420)	15 697 961	900 336	(46 535)	853 801	362 736	(254 622)	108 114
	17 562 181	(45 510)	17 516 671	901 037	(46 554)	854 483	362 736	(254 622)	108 114
Financial assets at FVOCI – debt securities	1 664 143	(329)	1 663 814	–	–	–	–	–	–
Financial commitments and contingencies	5 219 620	(4 848)	5 214 772	186 417	(6 690)	179 727	23 521	(8 908)	14 613

2020 €'000	Gross amount	Impairment losses	Net amount (Stage 1)	Gross amount	Impairment losses	Net amount (Stage 2)	Gross amount	Impairment losses	Net amount (Stage 3)
Financial assets at AC:									
Due from other banks	206 126	(706)	205 420	–	–	–	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	5 090	–	5 090	–	–	–	–	–	–
State administration	32 685	(3)	32 682	–	–	–	–	–	–
Municipalities	88 534	(1 068)	87 466	26 717	(1 605)	25 112	–	–	–
Municipalities – Leasing	617	(4)	613	–	–	–	–	–	–
	126 926	(1 075)	125 851	26 717	(1 605)	25 112	–	–	–
Corporate									
Large Corporates	1 816 889	(1 298)	1 815 591	302 690	(624)	302 066	4 321	(3 354)	967
Large Corporates – debt securities	141 947	(100)	141 847	8 480	(165)	8 315	–	–	–
Specialized Lending	827 636	(21 059)	806 577	60 498	(7 904)	52 594	4 808	(4 788)	20
SME	1 234 252	(2 342)	1 231 910	235 190	(3 810)	231 380	55 273	(37 994)	17 279
Other Non-banking Financial Institutions	366 332	(158)	366 174	–	–	–	5	(4)	1
Other Non-banking Financial Institutions – debt securities	50 056	(48)	50 008	–	–	–	–	–	–
Public Sector Entities	1 469	(48)	1 421	–	–	–	5	(1)	4
Leasing	159 783	(1 051)	158 732	3 958	(325)	3 633	8 162	(4 652)	3 510
Factoring	77 698	(32)	77 666	2 594	(3)	2 591	3 595	(1 196)	2 399
	4 676 062	(26 136)	4 649 926	613 410	(12 831)	600 579	76 169	(51 989)	24 180

(Table continues on the next page)

2020 €'000	Gross amount	Impairment losses	Stage 1 Net amount	Gross amount	Impairment losses	Stage 2 Net amount	Gross amount	Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	320 823	(2 920)	317 903	75 271	(4 732)	70 539	22 113	(13 694)	8 419
Small Business – Leasing	54 966	(436)	54 530	1 522	(86)	1 436	11 711	(7 117)	4 594
Consumer Loans	1 100 502	(7 892)	1 092 610	214 995	(24 156)	190 839	180 385	(110 680)	69 705
Mortgages	7 504 985	(1 033)	7 503 952	252 709	(7 280)	245 429	89 647	(33 335)	56 312
Credit Cards	69 727	(416)	69 311	11 578	(1 186)	10 392	22 787	(15 956)	6 831
Overdrafts	48 461	(379)	48 082	20 708	(891)	19 817	7 412	(5 151)	2 261
Leasing	4 281	(18)	4 263	–	–	–	32	(6)	26
Flat Owners Associations	37 176	(219)	36 957	–	–	–	–	–	–
	9 140 921	(13 313)	9 127 608	576 783	(38 331)	538 452	334 087	(185 939)	148 148
	13 943 909	(40 524)	13 903 385	1 216 910	(52 767)	1 164 143	410 256	(237 928)	172 328
	14 150 035	(41 230)	14 108 805	1 216 910	(52 767)	1 164 143	410 256	(237 928)	172 328
Financial assets at FVOCI – debt securities	1 611 015	(306)	1 610 709	–	–	–	–	–	–
Financial commitments and contingencies	4 420 551	(7 001)	4 413 550	94 242	(2 163)	92 079	17 839	(4 769)	13 070

The table below shows the three-stage approach based on changes in credit quality by days past due for all financial assets exposed to credit risk.

			Stage 1			Stage 2			Stage 3
2021 €'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	1 818 800	(90)	1 818 710	701	(19)	682	–	–	–
Due from customers:									
Public administration									
No delinquency	198 060	(1 596)	196 464	7 343	(288)	7 055	–	–	–
1 – 30 days	500	(2)	498	–	–	–	–	–	–
31 – 60 days	–	–	–	95	-	95	–	–	–
	198 560	(1 598)	196 962	7 438	(288)	7 150	–	–	–
Corporate									
No delinquency	5 655 094	(30 522)	5 624 572	309 663	(11 928)	297 735	39 062	(16 304)	22 758
1 – 30 days	12 794	(38)	12 756	3 809	(137)	3 672	191	(35)	156
31 – 60 days	72	(1)	71	1 690	(101)	1 589	2 832	(1 857)	975
61 – 90 days	-	-	-	76	(21)	55	1 814	(1 148)	666
91 – 180 days	-	-	-	–	–	–	3 168	(2 461)	707
Over 181 days	600	(4)	596	–	–	–	35 680	(29 291)	6 389
	5 668 560	(30 565)	5 637 995	315 238	(12 187)	303 051	82 747	(51 096)	31 651

(Table continues on the next page)

2021 €'000	Stage 1 Gross amount	Impair-ment losses	Net amount	Stage 2 Gross amount	Impair-ment losses	Net amount	Stage 3 Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	9 861 646	(12 943)	9 848 703	526 640	(26 566)	500 074	61 311	(33 085)	28 226
1 – 30 days	14 615	(314)	14 301	36 442	(4 893)	31 549	11 835	(5 015)	6 820
31 – 60 days	–	–	–	9 300	(1 581)	7 719	6 935	(4 540)	2 395
61 – 90 days	–	–	–	5 278	(1 020)	4 258	2 609	(1 164)	1 445
91 – 180 days	–	–	–	–	–	–	17 578	(12 987)	4 591
Over 181 days	–	–	–	–	–	–	179 721	(146 735)	32 986
	9 876 261	(13 257)	9 863 004	577 660	(34 060)	543 600	279 989	(203 526)	76 463
	15 743 381	(45 420)	15 697 961	900 336	(46 535)	853 801	362 736	(254 622)	108 114
	17 562 181	(45 510)	17 516 671	901 037	(46 554)	854 483	362 736	(254 622)	108 114
Financial assets at FVOCI									
– debt securities									
No delinquency	1 664 143	(329)	1 663 814	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	5 219 620	(4 848)	5 214 772	186 417	(6 690)	179 727	23 521	(8 908)	14 613

2020 €'000	Stage 1 Gross amount	Impair-ment losses	Net amount	Stage 2 Gross amount	Impair-ment losses	Net amount	Stage 3 Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	206 126	(706)	205 420	–	–	–	–	–	–
Due from customers:									
Public administration									
No delinquency	126 601	(1 075)	125 526	26 552	(1 602)	24 950	–	–	–
1 – 30 days	325	–	325	165	(3)	162	–	–	–
	126 926	(1 075)	125 851	26 717	(1 605)	25 112	–	–	–
Corporate									
No delinquency	4 663 469	(26 066)	4 637 403	526 849	(11 810)	515 039	27 802	(12 889)	14 913
1 – 30 days	12 562	(69)	12 493	82 533	(776)	81 757	1 086	(214)	872
31 – 60 days	31	(1)	30	150	(1)	149	–	–	–
61 – 90 days	–	–	–	3 878	(244)	3 634	1 541	(1 185)	356
91 – 180 days	–	–	–	–	–	–	4 986	(4 415)	571
Over 181 days	–	–	–	–	–	–	40 754	(33 286)	7 468
	4 676 062	(26 136)	4 649 926	613 410	(12 831)	600 579	76 169	(51 989)	24 180

(Table continues on the next page)

2020 €'000	Stage 1 Gross amount	Stage 1 Impair-ment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impair-ment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	9 120 501	(12 832)	9 107 669	533 434	(31 844)	501 590	50 251	(16 252)	33 999
1 – 30 days	20 420	(481)	19 939	31 124	(4 377)	26 747	10 693	(3 842)	6 851
31 – 60 days	–	–	–	558	(102)	456	488	(310)	178
61 – 90 days	–	–	–	11 667	(2 008)	9 659	6 809	(2 829)	3 980
91 – 180 days	–	–	–	–	–	–	27 052	(13 547)	13 505
Over 181 days	–	–	–	–	–	–	238 794	(149 159)	89 635
	9 140 921	(13 313)	9 127 608	576 783	(38 331)	538 452	334 087	(185 939)	148 148
	13 943 909	(40 524)	13 903 385	1 216 910	(52 767)	1 164 143	410 256	(237 928)	172 328
	14 150 035	(41 230)	1408 805	1 216 910	(52 767)	1 164 143	410 256	(237 928)	172 328
Financial assets at FVOCI									
– debt securities									
No delinquency	1 611 015	(306)	1 610 709	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	4 420 551	(7 001)	4 413 550	94 242	(2 163)	92 079	17 839	(4 769)	13 070

4.1.4. Loans with renegotiated terms and forbearance policy

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

– The VUB Group has identified financial difficulties that the debtor is facing or is about to face;

– The exposure has been subject to renegotiation or refinancing, granted in relation to the borrower's current financial difficulties or financial difficulties that would have occurred in the absence of the renegotiation or refinancing measures.

The VUB Group follows rules in ECB Guidance to VUB Groups on non-performing loans issued in March 2017.

Forborne exposures are those falling into the "Non-performing exposures with forbearance measures" and "Performing Forborne exposures" categories.

Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Forbearance measures entail:

– favourable contractual modifications granted to the debtor solely in consideration of its financial difficulties (**modification**);

– the granting, in favour of a debtor in financial difficulties, of a new loan to allow the fulfilment of the pre-existing obligation (**refinancing**);

– contractual modifications which may be requested by a debtor within the scope of a contract already subscribed and granted by the VUB Group in the knowledge that the debtor is in financial difficulties (so-called "**embedded forbearance clauses**").

Therefore, the definition of forborne exposure excludes the renegotiations made for commercial reasons/practices. The qualification of "Forborne Exposure" refers to the individual transactions subject to renegotiation and/or refinancing and should not be extended to the entire counterparty. The financial difficulty, however, shall be assessed at a debtor level.

During approval process it should be consider if a client in financial distress if:

– Light Blue or Red EWS synthetic indicator

– presence of 30 days past due (or greater) on the credit line (without considering compensation or materiality threshold) in the last 3 months and at least one of the following conditions is met:

– rating worsened in the last 3 months to a "high-risk" class;

– if rating and EWS are unavailable, the presence of at least one facility classified as Stage 2 according to IFRS9 standard should be checked instead.

The above list of presumptions is not exhaustive, and they are "relative" in their nature: contrary evidence is therefore admitted. As a consequence, it is allowed not to flag as forborne an exposure submitted to a modification/refinancing referred to a borrower who fulfils at least one of the above-mentioned conditions; in that case, however, it shall be mandatory to justify such a decision within the proposal/decision-making credit process.

Absence of financial distress requires a case by case assessment to analyze the borrower risk profile in order to establish whether the measure should be considered forborne.

The financial distress is always assumed if the counterparty is classified as non-performing (absolute presumption).

The aim of forborne exposures is to prevent potential financial difficulties of the debtor or to allow the return of the exposure to a situation of sustainable repayment. In case of performing borrowers, such a measure should not be used to delay the reclassification to non-performing statuses of a borrower whose financial conditions already justify a downgrade of its risk classification.

The extension of Forbearance Measures does not automatically lead to the classification of the forborne exposures as Non-Performing. Instead, a net present value (NPV) test is performed by Finevare to identify whether a forbearance measure leads to a diminished financial obligation according to:

$$DO = \frac{NPV_0 - NPV_1}{NPV_0}$$

where:

- DO is diminished financial obligation;
- NPV0 is net present value of cash flows (including unpaid interest and fees) expected under contractual obligations before the changes in terms and conditions of the contract discounted using the customer's original effective interest rate;
- NPV1 is net present value of the cash flows expected based on the new arrangement discounted using the customer's original effective interest rate.

Then, if the diminished financial obligation is higher than the threshold of 1%, the exposure is classified as Non-performing, otherwise it is Performing.

In order to identify forborne exposures, the European regulation envisages a distinction between **absolute presumptions** and **relative presumptions (rebuttable).** Absolute presumptions refer to circumstances which always fall within the concept of forborne, and don't admit contrary evidence. Relative presumptions refer to circumstances that fall within the concept of forborne until proven otherwise. Exclusively on the basis of specific analyses the VUB Group can prove that a certain circumstance does not give rise to a forbearance measure.

Listed below are some examples of the most common forms of contractual modifications which may be qualified as forbearance measures, when referred to counterparties in "financial difficulties" (the list is not exhaustive):

- Short term credit facilities subject to debt consolidation/debt rescheduling plan;
  - Medium/long-term loans subject to:
  - restructuring of the amortization plan with reductions or temporary suspensions of the instalments;
  - extension of the maturity;
  - extension of the pre-amortization period;
  - conversion of the repayment terms from instalments into bullet repayment at maturity
  - consolidation.
- Contractual modification/renegotiation resulting from the breach of financial covenants (waiver, amendment, cancellation) refinancing;
- Restructuring of performing exposures, or past due exposures not yet classified as non-performing, involving a pool of VUB Groups
- Contractual modification of the economic conditions i.e. granting a borrower a new, more favorable interest rate ("off-market conditions");
- Refinancing of exposure, even short-term, with new financing that allow the debtor to postpone repayment to the VUB Group;
- Conversion of Debt to Equity;

– In case of the Sale and Repurchase Agreements (REPOs), the capitalization of outflows when mark to market is negative.

Furthermore, according to the European regulation, the following cases have to be recognized as forborne exposures (they therefore represent "absolute" presumptions):

– Contractual modifications that imply partial or total write-off of exposure;
– The exercise of clauses which, when enforced at the discretion of the debtor, enable him to change the terms of the contract ("embedded forbearance clauses");
– Providing new financing to the debtor simultaneously (or almost) to the payment of principal and/or interest on another exposure;

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

		Performing forborne			Non-performing forborne	
2021 € '000	Gros amount	Impair-ment losses	Net amount	Gros amount	Impair-ment losses	Net amount
Financial assets at AC						
Corporate	67 688	(3 699)	63 989	36 403	(25 457)	10 946
Retail	99 746	(5 702)	94 044	29 754	(22 579)	7 175
	167 434	(9 401)	158 033	66 157	(48 036)	18 121
Financial commitments and contingencies	3 448	(4)	3 444	4 767	(1 525)	3 242

		Performing forborne			Non-performing forborne	
2020 € '000	Gros amount	Impair-ment losses	Net amount	Gros amount	Impair-ment losses	Net amount
Financial assets at AC						
Corporate	45 778	(969)	44 809	35 319	(26 518)	8 801
Retail	40 017	(1 706)	38 311	27 671	(16 491)	11 180
	85 795	(2 675)	83 120	62 990	(43 009)	19 981
Financial commitments and contingencies	1 270	(4)	1 266	4 200	1 142)	3 058

4.1.5. Write-off Policy

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

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

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

The amount of loans written off during the year that are still subject to enforcement activity is € 35 247 thousand (31 December 2020: € 39 210 thousand).

4.1.6. Collateral Policy

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

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

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

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

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

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

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

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

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

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

€ '000	Clients	2021 Banks	Clients	2020 Banks
Property	9 741 266	–	8 881 184	–
of which covering mortgages:	8 687 728	–	7 888 727	–
LTV* lower than 60%	2 593 810	–	2 294 528	–
LTV higher than 60% and lower than 80%	4 671 711	–	4 019 497	–
LTV higher than 80% and lower than 100%	1 417 289	–	1 568 727	–
LTV higher than 100%	4 918	–	5 976	–
Debt securities	32 913	211 260	34 899	–
Other	1 067 671	78 198	1 016 856	85 591
	10 841 850	289 458	9 932 939	85 591

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

€ '000	Clients	2021 Banks	Clients	2020 Banks
Property	137 936	–	151 975	–
of which covering mortgages:	105 640	–	122 190	–
LTV* lower than 60%	50 059	–	56 125	–
LTV higher than 60% and lower than 80%	46 318	–	53 404	–
LTV higher than 80% and lower than 100%	7 972	–	10 784	–
LTV higher than 100%	1 291	–	1 877	–
Other	23 586	–	17 555	–
	161 522	–	169 530	–

* LTV (loan to value) is the ratio of the current balance sheet balance of a loan to the currently allocated value of collateral for a given contract.

4.1.7. Offsetting financial assets and financial liabilities

Offsetting financial assets and financial liabilities relates to financial assets and financial liabilities that are:

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

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

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

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

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

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

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

					Related amounts not offset in SOFP		
2021 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	7	213 304	–	213 304	(213 304)	–	–
Derivative financial instruments	8, 9	70 931	–	70 931	–	(28 200)	42 731

					Related amounts not offset in SOFP		
2021 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral pledged	Net amount
Types of financial liabilities							
Derivative financial instruments	8, 9	50 586	–	50 586	–	(35 882)	14 704

					Related amounts not offset in SOFP		
2020 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	7	604 335	–	604 335	(604 335)	–	–
Derivative financial instruments	8, 9	148 162	–	148 162	–	(23 769)	124 393

					Related amounts not offset in SOFP		
2020 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral pledged	Net amount
Types of financial liabilities							
Derivative financial instruments	8, 9	141 674	–	141 674	–	(65 083)	76 591

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

€ '000	Note	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure
				2021			2020
Financial assets							
Cash and cash equivalents	7	2 612 787	213 304	2 399 483	1 571 642	604 335	967 307
Financial assets at FVTPL:	8						
Financial assets held for trading		30 064	15 357	14 707	79 260	62 970	16 290
Derivatives Hedge accounting	9	55 574	55 574	–	85 192	85 192	–
Financial liabilities							
Financial liabilities at FVTPL:	8						
Financial liabilities held for trading		30 863	19 076	11 787	87 377	76 267	11 110
Derivatives Hedge accounting	9	31 510	31 510	–	65 407	65 407	–

4.1.8. Concentrations of credit risk

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

2021 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from other banks	28	-	28
Due from customers:			
Public administration	170 533	(1 230)	169 303
Corporate	3 719 085	(91 421)	3 627 664
Retail	10 583 596	(247 960)	10 335 636
	14 473 214	(340 611)	14 132 603
	14 473 242	(340 611)	14 132 631
Financial assets at FVOCI – debt securities	863 374	(122)	863 252
Financial commitments and contingencies	3 460 902	(18 718)	3 442 184
Czech republic			
Financial assets at AC: Due from customers:			
Corporate	1 043 522	(1 830)	1 041 692
Retail	20 466	(2 131)	18 335
	1 063 988	(3 961)	1 060 027
Financial commitments and contingencies	1 320 873	(1 271)	1 319 602
Other European countries			
Financial assets at AC:			
Due from other banks	1 734 191	(34)	1 734 157
Due from customers:			
Corporate	1 206 779	(574)	1 206 205
Retail	112 420	(667)	111 753
	1 319 199	(1 241)	1 317 958
	3 053 390	(1 275)	3 052 115
Financial assets at FVOCI – debt securities	701 336	(197)	701 139
Financial commitments and contingencies	595 399	(234)	595 165

(Table continues on the next page)

2021 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	8 838	(3)	8 835
Retail	2 212	(2)	2 210
	11 050	(5)	11 045
Financial assets at FVOCI – debt securities	99 432	(10)	99 422
Financial commitments and contingencies	820	-	820
Asia			
Financial assets at AC:			
Due from other banks:	5 095	(1)	5 094
Due from customers			
Corporate	88 300	(20)	88 280
Retail	11 850	(50)	11 800
	100 150	(70)	100 080
	105 245	(71)	105 174
Financial commitments and contingencies	50 427	(27)	50 400
Rest of the World			
Financial assets at AC:			
Due from other banks	80 187	(74)	80 113
Due from customers:			
Public administration	35 465	(656)	34 809
Corporate	21	-	21
Retail	3 365	(32)	3 333
	38 851	(688)	38 163
	119 038	(762)	118 276
Financial commitments and contingencies	1 137	-	1 137

2020 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	115 868	(2 677)	113 191
Corporate	3 578 186	(85 129)	3 493 057
Retail	9 936 727	(235 004)	9 701 723
	13 630 781	(322 810)	13 307 971
Financial assets at FVOCI – debt securities	714 975	(69)	714 906
Financial commitments and contingencies	3 456 801	(13 198)	3 443 603
Czech republic			
Financial assets at AC: Due from customers:			
Corporate	599 239	(2 150)	597 089
Retail	19 608	(1 848)	17 760
	618 847	(3 998)	614 849
Financial commitments and contingencies	610 029	(365)	609 664
Other European countries			
Financial assets at AC:			
Due from other banks	116 486	(235)	116 251
Due from customers:			
Public administration	5 090	–	5 090
Corporate	1 180 008	(3 674)	1 176 334
Retail	82 928	(648)	82 280
	1 268 026	(4 322)	1 263 704
	1 384 512	(4 557)	1 379 955
Financial assets at FVOCI – debt securities	794 938	(213)	794 725
Financial commitments and contingencies	420 596	(243)	420 353

(Table continues on the next page)

2020 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	8 159	(3)	8 156
Retail	1 533	(3)	1 530
	9 692	(6)	9 686
Financial assets at FVOCI – debt securities	101 102	(24)	101 078
Financial commitments and contingencies	79	–	79
Asia			
Financial assets at AC:			
Due from other banks:	12 672	(5)	12 667
Due from customers			
Corporate			
Retail	8 476	(75)	8 401
	21 148	(80)	21 068
Financial commitments and contingencies	42 714	(123)	42 591
Rest of the World			
Financial assets at AC:			
Due from other banks	76 968	(466)	76 502
Due from customers:			
Public administration	32 685	(3)	32 682
Corporate	49	–	49
Retail	2 519	(5)	2 514
	35 253	(8)	35 245
	112 221	(474)	111 747
Financial commitments and contingencies	2 413	(4)	2 409

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

€ '000	Gross amount	Impairment losses	2021 Net amount	Gross amount	Impairment losses	2020 Net amount
Europe						
Slovakia	863 253	(122)	863 131	714 976	(69)	714 907
Italy	301 022	(98)	300 924	492 112	(105)	492 007
Spain	187 434	(13)	187 421	118 596	(11)	118 585
Poland	51 041	(12)	51 029	68 943	(28)	68 915
Great Britain	33 737	(4)	33 733	34 308	(11)	34 297
France	38 001	(5)	37 995	33 857	(6)	33 851
Estonia	22 516	(21)	22 496	22 874	(45)	22 829
Hungary	67 389	(44)	67 345	19 054	(7)	19 047
Austria	–	–	–	5 193	–	5 193
	1 564 392	(319)	1 564 073	1 509 913	(282)	1 509 631
North America						
Canada	99 421	(10)	99 411	101 102	(24)	101 078

An analysis of exposures based on the carrying amounts by industry sector is shown in the table below.

2021 € '000	Banks	Public administration	Financial assets at AC: Corporate	Retail*	Financial assets at FVOCI – debt securities	Financial commitments and contingencies
Agriculture, forestry and fishing	–	–	177 975	24 163	-	103 034
Mining and quarrying	–	–	49 832	485	-	37 680
Manufacturing	–	65	876 171	40 586	-	845 091
Electricity, gas, steam and air conditioning supply	–	–	791 757	941	-	464 699
Water supply	–	–	64 876	2 493	-	29 348
Construction	–	–	248 548	40 023	-	623 002
Wholesale and retail trade	–	–	1 007 026	104 069	-	492 768
Transport and storage	–	396	585 869	165 523	-	326 744
Accommodation and food service activities	–	–	32 745	14 333	-	3 295
Information and communication	–	11	126 641	9 559	-	75 103
Financial and insurance activities**	1 819 392	–	561 269	386	316 043	687 973
Real estate activities	–	–	562 413	61 667	-	367 244
Professional, scientific and technical activities	–	13	215 747	36 521	-	163 965
Administrative and support service activities	–	–	117 293	13 221	-	28 329
Public administration and defense, compulsory social security	–	203 626	809	154	1 347 770	191 905
Education	–	1	3 088	1 216	-	815
Human health services and social work activities	–	–	14 306	26 167	-	7 615
Arts, entertainment and recreation	–	–	36 706	9 625	-	1 112
Other services	–	–	499 626	5 676	-	64 898
Consumer Loans	–	–	–	1 359 558	-	300 612
Mortgage Loans	–	–	–	8 566 698	-	593 880
	1 819 392	204 112	5 972 697	10 483 067	1 663 813	5 409 112

2020 € '000	Banks	Public administration	Financial assets at AC: Corporate	Retail*	Financial assets at FVOCI – debt securities	Financial commitments and contingencies
Agriculture, forestry and fishing	–	–	169 237	22 181	–	101 518
Mining and quarrying	–	–	43 516	554	–	36 378
Manufacturing	–	3	821 067	36 161	–	736 817
Electricity, gas, steam and air conditioning supply	–	–	585 672	817	–	663 704
Water supply	–	–	76 598	2 269	–	23 664
Construction	–	–	230 850	33 182	–	541 115
Wholesale and retail trade	–	–	884 060	102 983	–	446 117
Transport and storage	–	522	465 219	141 703	–	306 361
Accommodation and food service activities	–	–	33 192	14 260	–	6 071
Information and communication	–	–	117 196	8 654	–	59 125
Financial and insurance activities**	205 420	–	517 873	369	338 715	308 066
Real estate activities	–	–	528 008	55 690	–	151 492
Professional, scientific and technical activities	–	7	201 286	34 878	–	170 855
Administrative and support service activities	–	–	199 748	9 769	–	15 973
Public administration and defense, compulsory social security	–	150 429	431	208	1 271 994	29 262
Education	–	2	663	1 111	–	301
Human health services and social work activities	–	–	41 512	20 450	–	10 081
Arts, entertainment and recreation	–	–	36 524	9 095	–	477
Other services	–	–	322 033	4 333	–	64 912
Consumer Loans	–	–	–	1 509 848	–	301 467
Mortgage Loans	–	–	–	7 805 693	–	544 943
	205 420	150 963	5 274 685	9 846 893	1 610 709	4 518 699

* 'Retail' includes Small Business and Flat Owners Associations.

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

4.1.9. Internal and external ratings

The overview of the internal rating scales according to the risk profile applicable for the corporate exposures and the retail exposures from small business, flat owners associations and public administration is shown below.

Risk Profile	Description
Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
Low	Satisfactory quality and chargeability of assets, market penetration and managerial quality on the average; well set solvency, capital structure and debt composition; above average debt coverage capacity.
Lower – Intermediate	Acceptable quality and chargeability of available assets, even if with a not negligible degree of risk; well-balanced solvency, capital structure and debt composition with slight liquidity surplus and weaker debt coverage capacity.
Intermediate	Acceptable quality and chargeability of available assets even if with a significant degree of risk; vulnerable margin at times, capital structure and debt composition that show worsening signals; low level of liquidity and short debt coverage margin.
Upper – Intermediate	Still acceptable asset quality even if with possible liquidity stress; high level of gearing; managerial weakness, little market penetration and positioning; margins and competitiveness under pressure.
High	In addition to riskiness features for Upper – Intermediate profile, there are evident difficulties as well as problematic debt management.
Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: – the obligor is past due more than 90 days (Days past due methodology) on any material credit obligation to the Bank, the Parent Company undertaking or any of its subsidiaries; – the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

Specialized Lending comprises of rating segments SPV and RED. For Specialized Lending the Slotting approach is used by the VUB Group. Clients are assigned into five slotting categories based on a qualitative valuation and information about the risk of default. Risk weights and expected loss used for the capital requirement calculation are also defined for each category. Categories are predefined by the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms ('CRR') and internally, the categories used are as follows:

Specialized Lending – SPV and RED

- Strong
- Good
- Satisfactory
- Weak
- Default

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

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

In the segments of the Single Resolution Fund, public sector entities, factoring and leasing, the VUB Group does not assign an internal rating to the client.

Capital requirement calculation

The VUB Group generally uses the standardised approach for the calculation of the capital requirements. However, for the calculation of the credit and counterparty risk capital requirements, the VUB Group, having received authorisation from the Supervisory Authority NBS, uses the Advanced IRB approach for its portfolio of residential mortgages from July 2012 and for the Corporate segment, Small and Medium size enterprises (SME) and for Retail Small Business from June 2014. The Foundation IRB approach is used for corporate exposures where a LGD is not available, but they are assigned according to regulation. Simple IRB approach is used for equity exposures and methodology for this capital requirement is in line with Article 155 of the CRR Regulation. The VUB Group is also proceeding with the development of rating models for other segments, to which the standard methods are currently applied, and also with the extension of the scope to subsidiaries in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

The following table shows the quality of the VUB Group's **stage 1** credit portfolio in terms of internal ratings:

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	2 966	-	2 966
	Low	132 684	(87)	132 597
	Lower – Intermediate	-	(3)	(3)
	Unrated	1 683 150	-	1 683 150
		1 818 800	(90)	1 818 710
Due from customers: Public administration				
	Very Low	146 893	(1 572)	145 321
	Low	13 059	(4)	13 055
	Upper – Intermediate	24 218	(12)	24 206
	High	7 461	(6)	7 455
	Unrated	6 941	(4)	6 937
		198 572	(1 598)	196 974
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	547 288	(72)	547 216
	Low	1 934 700	(522)	1 934 178
	Lower – Intermediate	952 731	(646)	952 085
	Intermediate	570 379	(1 029)	569 350
	Upper – Intermediate	256 160	(1 039)	255 121
	High	22 483	(367)	22 116
	Unrated	560 306	(2 074)	558 232
Specialized Lending – SPV, RED				
	Strong	167 549	(1 183)	166 366
	Good	355 334	(4 892)	350 442
	Satisfactory	253 408	(12 519)	240 889
	Weak	40 126	(5 545)	34 581
	Default	29	-	29
	Unrated	6 517	(63)	6 454
		5 667 010	(29 951)	5 637 059

(Table continues on the next page)

2021 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	13 734	(10)	13 724
	Low	26 246	(36)	26 210
	Lower – Intermediate	56 387	(219)	56 168
	Intermediate	129 162	(1 293)	127 869
	Upper – Intermediate	75 007	(1 620)	73 387
	High risk	1 412	(215)	1 197
	Unrated	138 959	(1 083)	137 876
Mortgages				
	Very Low	7 708 853	(316)	7 708 537
	Lower – Intermediate	567 707	(296)	567 411
	Intermediate	4 900	(18)	4 882
	High	2 649	(73)	2 576
	Unrated	342	(4)	338
Unsecured Retail				
	Very Low	345 010	(268)	344 742
	Low	115 065	(176)	114 889
	Lower – Intermediate	475 508	(1 734)	473 774
	Intermediate	83 476	(1 202)	82 274
	Upper – Intermediate	40 987	(2 002)	38 985
	High	4 039	(669)	3 370
	Unrated	79 391	(400)	78 991
		9 868 834	(11 634)	9 857 200
		15 734 416	(43 183)	15 691 233
Financial assets at FVOCI – debt securities				
	Unrated	1 664 143	(329)	1 663 814

(Table continues on the next page)

2021 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	5 706	(1)	5 705
	Lower – Intermediate	249 912	(17)	249 895
		255 618	(18)	255 600
Due from customers:				
Public administration				
	Very Low	163 505	(14)	163 491
	Low	952	-	952
	Intermediate	4 296	(1)	4 295
	Upper – Intermediate	22 265	(6)	22 259
	High	1 152	-	1 152
	Unrated	53	-	53
		192 223	(21)	192 202
Corporate Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 340 399	(85)	1 340 314
	Low	1 296 584	(208)	1 296 376
	Lower – Intermediate	380 292	(209)	380 083
	Intermediate	284 668	(529)	284 139
	Upper – Intermediate	88 611	(343)	88 268
	High	3 871	(55)	3 816
	Unrated	194 038	(258)	193 780
Specialized Lending – SPV, RED				
	Strong	129 600	(685)	128 915
	Good	52 154	(535)	51 619
	Satisfactory	38 328	(1 201)	37 127
	Weak	1 450	(155)	1 295
	Unrated	20	-	20
		3 810 015	(4 263)	3 805 752
Retail				
	Very Low	749 561	(68)	749 493
	Low	31 992	(16)	31 976
	Lower – Intermediate	146 165	(161)	146 004
	Intermediate	22 572	(87)	22 485
	Upper – Intermediate	6 223	(82)	6 141
	High	782	(110)	672
	Unrated	4 469	(22)	4 447
		961 764	(546)	961 218
		4 964 002	(4 830)	4 959 172

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	10 307	–	10 307
	Low	50 353	(65)	50 288
	Lower – Intermediate	144 414	(614)	143 800
	Upper – Intermediate	1 052	(27)	1 025
		206 126	(706)	205 420
Due from customers:				
Public administration				
	Risk-free	154	–	154
	Almost risk-free	1 047	–	1 047
	Very low risk	697	–	697
	Low risk	18 709	(12)	18 697
	Medium risk	56 907	(733)	56 174
	Higher risk	34 976	(16)	34 960
	High risk	8 622	(309)	8 313
	Unrated	5 814	(5)	5 809
		126 926	(1 075)	125 851
Corporate Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	454 164	(56)	454 108
	Low	1 481 295	(617)	1 480 678
	Lower – Intermediate	928 701	(846)	927 855
	Intermediate	400 739	(609)	400 130
	Upper – Intermediate	238 850	(886)	237 964
	High	13 099	(288)	12 811
	Unrated	331 578	(1 774)	329 804
Specialized Lending – SPV, RED				
	Strong	353 997	(2 488)	351 509
	Good	209 956	(2 932)	207 024
	Satisfactory	231 478	(11 095)	220 383
	Weak	30 957	(4 535)	26 422
	Unrated	1 248	(9)	1 239
		4 676 062	(26 135)	4 649 927

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19 928	(9)	19 919
	Low	27 433	(34)	27 399
	Lower – Intermediate	60 114	(199)	59 915
	Intermediate	116 978	(702)	116 276
	Upper – Intermediate	52 648	(1 368)	51 280
	High	2 340	(292)	2 048
	Unrated	133 525	(972)	132 553
Mortgages				
	Very Low	6 944 903	(489)	6 944 414
	Low	298 060	(121)	297 939
	Lower – Intermediate	252 350	(298)	252 052
	Intermediate	6 666	(40)	6 626
	High	3 006	(86)	2 920
Unsecured Retail				
	Very Low	344 523	(390)	344 133
	Low	117 219	(253)	116 966
	Lower – Intermediate	591 220	(2 625)	588 595
	Intermediate	104 959	(1 337)	103 622
	Upper – Intermediate	51 904	(2 900)	49 004
	High	6 094	(957)	5 137
	Unrated	7 051	(241)	6 810
		9 140 921	(13 313)	9 127 608
		13 943 909	(40 523)	13 903 386
Financial assets at FVOCI – debt securities				
	Unrated	1 611 015	(306)	1 610 709

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	6 073	(1)	6 072
	Lower – Intermediate	46 412	(64)	46 348
		52 485	(65)	52 420
Due from customers:				
Public administration				
	Risk-free	6	–	6
	Almost risk-free	20	–	20
	Very low risk	1 134	–	1 134
	Low risk	3 787	(1)	3 786
	Medium risk	19 885	(10)	19 875
	Higher risk	1 576	(4)	1 572
	High risk	2 130	(32)	2 098
		28 538	(47)	28 491
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	828 058	(81)	827 977
	Low	1 534 477	(683)	1 533 794
	Lower – Intermediate	349 005	(220)	348 785
	Intermediate	339 207	(921)	338 286
	Upper – Intermediate	98 775	(462)	98 313
	High	14 038	(302)	13 736
	Unrated	5 758	(62)	5 696
Specialized Lending – SPV, RED				
	Strong	100 517	(542)	99 975
	Good	102 957	(1 100)	101 857
	Satisfactory	53 487	(2 027)	51 460
	Weak	31	–	31
		3 426 310	(6 400)	3 419 910
Retail				
	Very Low	575 071	(89)	574 982
	Low	172 316	(19)	172 297
	Lower – Intermediate	140 995	(197)	140 798
	Intermediate	19 428	(69)	19 359
	Upper – Intermediate	4 898	(69)	4 829
	High	510	(46)	464
		913 218	(489)	912 729
		4 368 066	(6 936)	4 361 130

The following table shows the quality of the Bank's **stage 2** credit portfolio in terms of internal ratings:

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from banks:				
	Lower – Intermediate	701	(19)	682
		701	(19)	682
Due from customers:				
Public administration				
	Very Low	6 967	(286)	6 681
	Low	459	(2)	457
		7 426	(288)	7 138
Corporate Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	27	-	27
	Low	1 373	-	1 373
	Lower – Intermediate	38 776	(184)	38 592
	Intermediate	19 145	(188)	18 957
	Upper – Intermediate	144 685	(2 629)	142 056
	High	56 236	(2 268)	53 968
	Unrated	7 266	(484)	6 782
Specialized Lending – SPV, RED				
	Good	13 825	(693)	13 132
	Satisfactory	11 990	(1 715)	10 275
	Weak	23 439	(4 634)	18 805
	Unrated	27	(4)	23
		316 789	(12 799)	303 990

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Lower – Intermediate	3 534	(52)	3 482
	Intermediate	33 909	(1 035)	32 874
	Upper – Intermediate	59 418	(3 905)	55 513
	High risk	14 766	(2 773)	11 993
	Default	308	(255)	53
	Unrated	6 895	(865)	6 030
Mortgages				
	Very Low	32 550	(170)	32 380
	Lower – Intermediate	120 648	(1 349)	119 299
	Intermediate	52 039	(1 178)	50 861
	High	47 161	(3 383)	43 778
	Unrated	11	-	11
Unsecured Retail				
	Very Low	1 656	(9)	1 647
	Low	1 080	(10)	1 070
	Lower – Intermediate	52 413	(1 126)	51 287
	Intermediate	52 434	(2 354)	50 080
	Upper – Intermediate	52 660	(4 800)	47 860
	High	53 600	(12 420)	41 180
	Unrated	5	1	6
		585 087	(35 683)	549 404
		909 302	(48 770)	860 532

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Provision	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	High	309	(4)	305
		309	(4)	305
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	73	-	73
	Low	2 380	(2)	2 378
	Lower – Intermediate	1 179	(2)	1 177
	Intermediate	97 558	(1 064)	96 494
	Upper – Intermediate	29 637	(649)	28 988
	High	7 720	(350)	7 370
	Unrated	15 753	(1 478)	14 275
Specialized Lending – SPV, RED				
	Satisfactory	3 244	(539)	2 705
	Weak	11	(3)	8
		157 555	(4 087)	153 468
Retail				
	Very Low	425	(7)	418
	Low	16	-	16
	Lower – Intermediate	4 637	(70)	4 567
	Intermediate	4 361	(211)	4 150
	Upper – Intermediate	6 748	(341)	6 407
	High	2 366	(540)	1 826
	Unrated	10 000	(1 430)	8 570
		28 553	(2 599)	25 954
		186 417	(6 690)	179 727

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Public administration				
	Almost risk-free	534	(1)	533
	Low risk	2 953	(9)	2 944
	Medium risk	414	(3)	411
	Higher risk	6 215	(187)	6 028
	High risk	16 601	(1 405)	15 196
Corporate		26 717	(1 605)	25 112
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Low	85 597	(77)	85 520
	Lower – Intermediate	15 256	(52)	15 204
	Intermediate	68 112	(362)	67 750
	Upper – Intermediate	315 029	(2 146)	312 883
	High	54 863	(1 677)	53 186
	Unrated	14 055	(614)	13 441
Specialized Lending – SPV, RED				
	Strong	3 367	(2)	3 365
	Good	16 126	(2 007)	14 119
	Satisfactory	28 189	(1 911)	26 278
	Weak	12 816	(3 984)	8 832
		613 410	(12 832)	600 578

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	1	–	1
	Low	48	–	48
	Lower – Intermediate	4 196	(212)	3 984
	Intermediate	20 181	(483)	19 698
	Upper – Intermediate	35 419	(1 734)	33 685
	High risk	13 895	(2 134)	11 761
	Unrated	3 052	(254)	2 798
Mortgages				
	Very Low	15 420	(75)	15 345
	Low	5 075	(37)	5 038
	Lower – Intermediate	124 083	(2 056)	122 027
	Intermediate	54 327	(1 515)	52 812
	High	53 804	(3 596)	50 208
Unsecured Retail				
	Very Low	1 253	(9)	1 244
	Low	777	(9)	768
	Lower – Intermediate	60 052	(1 603)	58 449
	Intermediate	56 649	(3 246)	53 403
	Upper – Intermediate	66 499	(7 066)	59 433
	High	62 049	(14 300)	47 749
	Unrated	3	(2)	1
		576 783	(38 331)	538 452
		1 216 910	(52 768)	1 164 142

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	Low risk	226	(1)	225
	High risk	202	(4)	198
		428	(5)	423
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	6 769	(7)	6 762
	Low	586	–	586
	Lower – Intermediate	3 184	(7)	3 177
	Intermediate	43 123	(130)	42 993
	Upper – Intermediate	15 378	(401)	14 977
	High	5 967	(178)	5 789
	Unrated	51	(2)	49
Specialized Lending – SPV, RED				
	Satisfactory	3 425	(591)	2 834
		78 483	(1 316)	77 167
Retail				
	Very Low	448	(13)	435
	Low	624	(6)	618
	Lower – Intermediate	6 984	(158)	6 826
	Intermediate	2 887	(92)	2 795
	Upper – Intermediate	2 005	(158)	1 847
	High	2 383	(415)	1 968
		15 331	(842)	14 489
		94 242	(2 163)	92 079

The following table shows the quality of the Bank's **stage 3** credit portfolio in terms of internal ratings:

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing	Default	77 764	(47 236)	30 528
Specialized Lending – SPV, RED	Default	4 982	(3 862)	1 120
		82 746	(51 098)	31 648
Retail				
Small Business, Flat Owners Associations	Default	34 428	(23 993)	10 435
Mortgages	Default	77 054	(40 429)	36 625
Unsecured Retail	Default	168 507	(139 104)	29 403
		279 989	(203 526)	76 463
		362 735	(254 624)	108 111
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing	Default	19 025	(6 355)	12 670
		19 025	(6 355)	12 670
Retail	Default	4 496	(2 553)	1 943
		23 521	(8 908)	14 613

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing	Default	71 361	(47 201)	24 160
Specialized Lending – SPV, RED	Default	4 808	(4 788)	20
		76 169	(51 989)	24 180
Retail				
Small Business, Flat Owners Associations	Default	33 824	(20 811)	13 013
Mortgages	Default	89 647	(33 335)	56 312
Unsecured Retail	Default	210 616	(131 793)	78 823
		334 087	(185 939)	148 148
		410 256	(237 928)	172 328
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing	Default	12 042	(3 199)	8 843
Specialized Lending – SPV, RED	Default	229	(221)	8
		12 271	(3 420)	8 851
Retail	Default	5 568	(1 349)	4 219
		17 839	(4 769)	13 070

The following table shows the quality of the Bank's **total credit portfolio** in terms of internal ratings:

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks:				
	Very Low	2 966	-	2 966
	Low	132 684	(87)	132 597
	Lower – Intermediate	701	(22)	679
	Unrated	1 683 150	-	1 683 150
		1 819 501	(109)	1 819 392
Due from customers:				
Public administration				
	Very Low	153 860	(1 858)	152 002
	Low	13 518	(6)	13 512
	Upper – Intermediate	24 218	(12)	24 206
	High	7 461	(6)	7 455
	Unrated	6 941	(4)	6 937
		205 998	(1 886)	204 112
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	547 315	(72)	547 243
	Low	1 936 073	(522)	1 935 551
	Lower – Intermediate	991 507	(830)	990 677
	Intermediate	589 524	(1 217)	588 307
	Upper – Intermediate	400 845	(3 668)	397 177
	High	78 719	(2 635)	76 084
	Default	77 764	(47 236)	30 528
	Unrated	567 572	(2 558)	565 014
Specialized Lending – SPV, RED				
	Strong	167 549	(1 183)	166 366
	Good	369 159	(5 585)	363 574
	Satisfactory	265 398	(14 234)	251 164
	Weak	63 565	(10 179)	53 386
	Default	5 011	(3 862)	1 149
	Unrated	6 544	(67)	6 477
		6 066 545	(93 848)	5 972 697

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	13 734	(10)	13 724
	Low	26 246	(36)	26 210
	Lower – Intermediate	59 921	(271)	59 650
	Intermediate	163 071	(2 328)	160 743
	Upper – Intermediate	134 425	(5 525)	128 900
	High	16 178	(2 988)	13 190
	Default	34 736	(24 248)	10 488
	Unrated	145 854	(1 948)	143 906
Mortgages				
	Very Low	7 741 403	(486)	7 740 917
	Lower – Intermediate	688 355	(1 645)	686 710
	Intermediate	56 939	(1 196)	55 743
	High	49 810	(3 456)	46 354
	Default	77 054	(40 429)	36 625
	Unrated	353	(4)	349
Unsecured Retail				
	Very Low	346 666	(277)	346 389
	Low	116 145	(186)	115 959
	Lower – Intermediate	527 921	(2 860)	525 061
	Intermediate	135 910	(3 556)	132 354
	Upper – Intermediate	93 647	(6 802)	86 845
	High	57 639	(13 089)	44 550
	Default	168 507	(139 104)	29 403
	Unrated	79 396	(399)	78 997
		10 733 910	(250 843)	10 483 067
		17 006 453	(346 577)	16 659 876
Financial assets at FVOCI – debt securities				
	Unrated	1 664 143	(329)	1 663 814

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	5 706	(1)	5 705
	Lower – Intermediate	249 912	(17)	249 895
		255 618	(18)	255 600
Due from customers:				
Public administration				
	Very Low	163 505	(14)	163 491
	Low	952	-	952
	Intermediate	4 296	(1)	4 295
	Upper – Intermediate	22 265	(6)	22 259
	High	1 461	(4)	1 457
	Unrated	53	-	53
		192 532	(25)	192 507
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 340 472	(85)	1 340 387
	Low	1 298 964	(210)	1 298 754
	Lower – Intermediate	381 471	(211)	381 260
	Intermediate	382 226	(1 593)	380 633
	Upper – Intermediate	118 248	(992)	117 256
	High	11 591	(405)	11 186
	Default	19 025	(6 355)	12 670
	Unrated	209 791	(1 736)	208 055
Specialized Lending – SPV, RED				
	Strong	129 600	(685)	128 915
	Good	52 154	(535)	51 619
	Satisfactory	41 572	(1 740)	39 832
	Weak	1 461	(158)	1 303
	Unrated	20	-	20
		3 986 595	(14 705)	3 971 890
Retail				
	Very Low	749 986	(75)	749 911
	Low	32 008	(16)	31 992
	Lower – Intermediate	150 802	(231)	150 571
	Intermediate	26 933	(298)	26 635
	Upper – Intermediate	12 971	(423)	12 548
	High	3 148	(650)	2 498
	Default	4 496	(2 553)	1 943
	Unrated	14 469	(1 452)	13 017
		994 813	(5 698)	989 115
		5 173 940	(20 428)	5 153 512

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks:				
	Very Low	10 307	–	10 307
	Low	50 353	(65)	50 288
	Lower – Intermediate	144 414	(614)	143 800
	Upper – Intermediate	1 052	(27)	1 025
		206 126	(706)	205 420
Due from customers:				
Public administration				
	Risk-free	154	–	154
	Almost risk-free	1 581	(1)	1 580
	Very low risk	697	–	697
	Low risk	21 662	(21)	21 641
	Medium risk	57 321	(736)	56 585
	Higher risk	41 191	(203)	40 988
	High risk	25 223	(1 714)	23 509
	Unrated	5 814	(5)	5 809
Corporate		153 643	(2 680)	150 963
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	454 164	(56)	454 108
	Low	1 566 892	(694)	1 566 198
	Lower – Intermediate	943 957	(898)	943 059
	Intermediate	468 851	(971)	467 880
	Upper – Intermediate	553 879	(3 032)	550 847
	High	67 962	(1 965)	65 997
	Default	71 361	(47 201)	24 160
	Unrated	345 633	(2 388)	343 245
Specialized Lending – SPV, RED				
	Strong	357 364	(2 490)	354 874
	Good	226 082	(4 939)	221 143
	Satisfactory	259 667	(13 006)	246 661
	Weak	43 773	(8 519)	35 254
	Default	4 808	(4 788)	20
	Unrated	1 248	(9)	1 239
		5 365 641	(90 956)	5 274 685

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19 929	(9)	19 920
	Low	27 481	(34)	27 447
	Lower – Intermediate	64 310	(411)	63 899
	Intermediate	137 159	(1 185)	135 974
	Upper – Intermediate	88 067	(3 102)	84 965
	High	16 235	(2 426)	13 809
	Default	33 824	(20 811)	13 013
	Unrated	136 577	(1 226)	135 351
Mortgages				
	Very Low	6 960 323	(564)	6 959 759
	Low	303 135	(158)	302 977
	Lower – Intermediate	376 433	(2 354)	374 079
	Intermediate	60 993	(1 555)	59 438
	High	56 810	(3 682)	53 128
	Default	89 647	(33 335)	56 312
Unsecured Retail				
	Very Low	345 776	(399)	345 377
	Low	117 996	(262)	117 734
	Lower – Intermediate	651 272	(4 228)	647 044
	Intermediate	161 608	(4 583)	157 025
	Upper – Intermediate	118 403	(9 966)	108 437
	High	68 143	(15 257)	52 886
	Default	210 616	(131 793)	78 823
	Unrated	7 054	(243)	6 811
		10 051 791	(237 583)	9 814 208
		15 571 075	(331 219)	15 239 856
Financial assets at FVOCI – debt securities				
	Unrated	1 611 015	(306)	1 610 709

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	6 073	(1)	6 072
	Lower – Intermediate	46 412	(64)	46 348
		52 485	(65)	52 420
Due from customers:				
Public administration				
	Risk-free	6	–	6
	Almost risk-free	20	–	20
	Very low risk	1 134	–	1 134
	Low risk	4 013	(2)	4 011
	Medium risk	19 885	(10)	19 875
	Higher risk	1 576	(4)	1 572
	High risk	2 332	(36)	2 296
Corporate		28 966	(52)	28 914
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	834 827	(88)	834 739
	Low	1 535 063	(683)	1 534 380
	Lower – Intermediate	352 189	(227)	351 962
	Intermediate	382 330	(1 051)	381 279
	Upper – Intermediate	114 153	(863)	113 290
	High	20 005	(480)	19 525
	Default	12 042	(3 199)	8 843
Specialized Lending – SPV, RED	Unrated	5 809	(64)	5 745
	Strong	100 517	(542)	99 975
	Good	102 957	(1 100)	101 857
	Satisfactory	56 912	(2 618)	54 294
	Weak	31	–	31
	Default	229	(221)	8
Retail		3 517 064	(11 136)	3 505 928
	Very Low	575 519	(102)	575 417
	Low	172 940	(25)	172 915
	Lower – Intermediate	147 979	(355)	147 624
	Intermediate	22 315	(161)	22 154
	Upper – Intermediate	6 903	(227)	6 676
	High	2 893	(461)	2 432
	Default	5 568	(1 349)	4 219
		934 117	(2 680)	931 437
		4 480 147	(13 868)	4 466 279

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortised cost: due from other banks is in the rating scale from Aaa to Caa1 (31 December 2020: Aa1 to Caa1). The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on **Moody's** ratings.

2021 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aaa	224 319	(23)	224 297
	Aa1	91 781	(35)	91 747
	Aa2	5 038	(0)	5 038
	A2	805 195	(118)	805 077
	Baa1	169 254	(11)	169 244
	Baa2	67 433	(44)	67 389
	Baa3	301 120	(98)	301 022
		1 664 142	(329)	1 663 814

2020 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aaa	228 624	(48)	228 576
	Aa1	115 411	(79)	115 332
	A2	655 618	(62)	655 556
	Baa1	100 195	(5)	100 190
	Baa3	511 167	(112)	511 055
		1 611 015	(306)	1 610 709

4.1.10. Sensitivity analysis of impairment losses

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

2021 € '000	Base scenario Impairment losses			Decrease PD by 10%
		Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	109	96	(13)	(11,93)%
Due from customers:				
Public administration	1 886	1 695	(191)	(10,13)%
Corporate				
Large Corporates	1 811	1 654	(157)	(8,67)%
Large Corporates – debt securities	97	88	(9)	(9,28)%
Specialized Lending	35 110	31 982	(3 128)	(8,91)%
SME	49 949	49 140	(809)	(1,62)%
Other Non-banking Financial Institutions	99	94	(5)	(5,05)%
Other Non-banking Financial Institutions – debt securities	65	59	(6)	(9,23)%
Public Sector Entities	4	4	-	-
Leasing	5 526	5 376	(150)	(2,71)%
Factoring	1 187	1 180	(7)	(0,59)%
	93 848	89 577	(4 271)	(4,55)%
Retail				
Small Business	27 834	26 647	(1 187)	(4,26)%
Small Business – Leasing	9 163	9 051	(112)	(1,22)%
Consumer Loans	144 025	141 515	(2 510)	(1,74)%
Mortgages	47 216	46 536	(680)	(1,44)%
Credit Cards	15 169	15 076	(93)	(0,61)%
Overdrafts	7 079	6 964	(115)	(1,62)%
Leasing	36	33	(3)	(8,33)%
Flat Owners Associations	321	289	(32)	(9,97)%
	250 843	246 111	(4 732)	(1,89)%
	346 577	337 383	(9 194)	(2,65)%
	346 686	337 479	(9 207)	(2,66)%
Financial assets at FVOCI – debt securities	329	296	(33)	(10,03)%

2020 € '000	Base scenario Impairment losses	Decrease PD by 10% Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	706	636	(70)	(9,92)%
Due from customers:				
Public administration	2 680	2 408	(272)	(10,15)%
Corporate				
Large Corporates	5 276	5 084	(192)	(3,64)%
Large Corporates – debt securities	265	238	(27)	(10,19)%
Specialized Lending	33 751	30 854	(2 897)	(8,58)%
SME	44 146	43 531	(615)	(1,39)%
Other Non-banking Financial Institutions	162	145	(17)	(10,49)%
Other Non-banking Financial Institutions – debt securities	48	43	(5)	(10,42)%
Public Sector Entities	49	43	(6)	(12,24)%
Leasing	6 028	5 890	(138)	(2,29)%
Factoring	1 231	1 228	(3)	(0,24)%
	90 956	87 056	(3 900)	(4,29)%
Retail				
Small Business	21 346	20 581	(765)	(3,58)%
Small Business – Leasing	7 639	7 586	(53)	(0,69)%
Consumer Loans	142 728	139 523	(3 205)	(2,25)%
Mortgages	41 648	40 817	(831)	(2,00)%
Credit Cards	17 558	17 398	(160)	(0,91)%
Overdrafts	6 421	6 294	(127)	(1,98)%
Leasing	24	22	(2)	(8,33)%
Flat Owners Associations	219	197	(22)	(10,05)%
	237 583	232 418	(5 165)	(2,17)%
	331 219	321 882	(9 337)	(2,82)%
	331 925	322 518	(9 407)	(2,83)%
Financial assets at FVOCI – debt securities	306	275	(31)	(10,13)%

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

2021 € '000	Base scenario Impairment losses	Increase PD by 10% Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	109	117	8	7,34%
Due from customers:				
Public administration	1 886	2 071	185	9,81%
Corporate				
Large Corporates	1 811	1 969	158	8,72%
Large Corporates – debt securities	97	108	11	11,34%
Specialized Lending	35 110	38 232	3 122	8,89%
SME	49 949	50 762	813	1,63%
Other Non-banking Financial Institutions	99	114	15	15,15%
Other Non-banking Financial Institutions – debt securities	65	72	7	10,77%
Public Sector Entities	4	5	1	25,00%
Leasing	5 526	5 675	149	2,70%
Factoring	1 187	1 193	6	0,51%
	93 848	98 130	4 282	4,56%
Retail				
Small Business	27 834	29 028	1 194	4,29%
Small Business – Leasing	9 163	9 274	111	1,21%
Consumer Loans	144 025	146 530	2 505	1,74%
Mortgages	47 216	47 894	678	1,44%
Credit Cards	15 169	15 262	93	0,61%
Overdrafts	7 079	7 196	117	1,65%
Leasing	36	39	3	8,33%
Flat Owners Associations	321	353	32	9,97%
	250 843	255 576	4 733	1,89%
	346 577	355 777	9 200	2,65%
	346 686	355 894	9 208	2,66%
Financial assets at FVOCI – debt securities	329	362	33	10,03%

2020 € '000	Base scenario Impairment losses	Increase PD by 10% Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	706	777	71	10,06%
Due from customers:				
Public administration	2 680	2 943	263	9,81%
Corporate				
Large Corporates	5 276	5 468	192	3,64%
Large Corporates – debt securities	265	291	26	9,81%
Specialized Lending	33 751	36 647	2 896	8,58%
SME	44 146	44 761	615	1,39%
Other Non-banking Financial Institutions	162	180	18	11,11%
Other Non-banking Financial Institutions – debt securities	48	53	5	10,42%
Public Sector Entities	49	54	5	10,20%
Leasing	6 028	6 165	137	2,27%
Factoring	1 231	1 235	4	0,32%
	90 956	94 854	3 898	4,29%
Retail				
Small Business	21 346	22 112	766	3,59%
Small Business – Leasing	7 639	7 691	52	0,68%
Consumer Loans	142 728	145 933	3 205	2,25%
Mortgages	41 648	42 480	832	2,00%
Credit Cards	17 558	17 718	160	0,91%
Overdrafts	6 421	6 548	127	1,98%
Leasing	24	26	2	8,33%
Flat Owners Associations	219	241	22	10,05%
	237 583	242 749	5 166	2,17%
	331 219	340 546	9 327	2,82%
	331 925	341 323	9 398	2,83%
Financial assets at FVOCI – debt securities	306	336	30	9,80%

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

The behavior of the model is described by six possible scenarios simulating a worsening of the macroeconomic situation. The scenarios resulted in the increase of expected loss in both stage 1 and stage 2. The simulation was run on VÚB Group level on the most significant segment Mortgages (the segment as of 31.12.2021 is summarized in the right-hand side table).

If the predicted GDP growth will be decreased by 66 bps (30% of the last available value at the time of development of the model - the last available values as of 4Q2019: GDP y/y growth = 2.20%; UR y/y change = -0.5%) then the impact on the P&L effect will be 19 ths EUR for Stage 1 and 55 ths EUR for Stage 2.

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

2021 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	707	110	817
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	713	111	824
		Absolute change	6	1	7
		Relative change	0,88%	0,88%	0,88%
UR stress 10%	UR increase by 15 bps				
		ECL	711	111	822
		Absolute change	4	1	5
		Relative change	0,53%	0,53%	0,53%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	716	112	828
		Absolute change	9	2	11
		Relative change	1,23%	1,22%	1,23%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	723	113	836
		Absolute change	16	3	19
		Relative change	2,29%	2,27%	2,29%
UR stress 30%	UR increase by 45 bps				
		ECL	719	112	831
		Absolute change	12	2	14
		Relative change	1,76%	1,75%	1,76%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	734	115	849
		Absolute change	27	5	32
		Relative change	3,88%	3,85%	3,88%

2020 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	1 033	159	1 192
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	1 042	160	1 202
		Absolute change	9	1	10
		Relative change	0,94%	0,91%	0,93%
UR stress 10%	UR increase by 15 bps				
		ECL	1 043	161	1 204
		Absolute change	10	2	12
		Relative change	1,04%	1,02%	1,04%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	1 053	162	1 215
		Absolute change	20	3	23
		Relative change	1,98%	1,93%	1,97%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	1 061	163	1 224
		Absolute change	28	4	32
		Relative change	2,71%	2,65%	2,70%
UR stress 30%	UR increase by 45 bps				
		ECL	1 067	164	1 231
		Absolute change	34	5	39
		Relative change	3,34%	3,26%	3,62%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	1 097	169	1 266
		Absolute change	64	10	74
		Relative change	6,17%	6,01%	6,15%

2021 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	6 080	175	6 255
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	6 099	176	6 275
		Absolute change	19	1	20
		Relative change	0,31%	0,21%	0,31%
UR stress 10%	UR increase by 15 bps				
		ECL	6 095	175	6 270
		Absolute change	15	0	15
		Relative change	0,25%	0,17%	0,25%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	6 114	176	6 290
		Absolute change	34	1	35
		Relative change	0,55%	0,37%	0,54%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	6 134	176	6 310
		Absolute change	54	1	55
		Relative change	0,89%	0,61%	0,88%
UR stress 30%	UR increase by 45 bps				
		ECL	6 127	176	6 303
		Absolute change	47	1	48
		Relative change	0,77%	0,52%	0,76%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	6 181	177	6 358
		Absolute change	101	2	103
		Relative change	1,66%	1,12%	1,64%

2020 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	7 280	238	7 518
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	7 314	239	7 553
		Absolute change	34	1	35
		Relative change	0,48%	0,28%	0,47%
UR stress 10%	UR increase by 15 bps				
		ECL	7 319	239	7 558
		Absolute change	39	1	40
		Relative change	0,55%	0,32%	0,54%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	7 352	240	7 592
		Absolute change	72	2	74
		Relative change	1,01%	0,59%	0,99%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	7 380	240	7 620
		Absolute change	100	2	102
		Relative change	1,39%	0,81%	1,37%
UR stress 30%	UR increase by 45 bps				
		ECL	7 401	240	7 641
		Absolute change	121	2	123
		Relative change	1,71%	0,85%	1,68%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	7 502	242	7 744
		Absolute change	222	4	226
		Relative change	3,08%	1,80%	3,04%

4.1.12. Credit risk of financial derivatives

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

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

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

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

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

€ '000	2021	2020
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	47 277	109 307
Derivatives – Hedge accounting	107 954	127 863
	155 231	237 170

4.1.13. The impact of the COVID-19 pandemic

On 4 April 2020, Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 entered into force (amended several times), which includes, inter alia, financial market measures that directly affect the VUB Group's activities, such as measures in the field of financial assistance, financial market supervision, measures to defer loan repayments and measures in the field of contactless payments. The VUB Group complies with valid legislation and applies the prudential framework published by the European Banking Authority in relation to default, forbearance and IFRS 9 in relation to measures related to the COVID-19 pandemic.

As at 12 December 2020 EBA amended Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02), which contains rules for the assessment of clients who requested deferral of payments during a pandemic and extended its validity until 31 March 2021. Under the specified conditions, the bank should not worsen the creditworthiness of the client in deferred loan repayments approved until 31 March 2021.

The VUB Group updated its IFRS 9 PD and LGD models by the new economic predictions. The last update is from November 2021 and it is linked to actual economic forecast. The outcome is creation of additional ECL in amount of € 7 million. The additional part of ECL was created in the form of post-model adjustments/managerial overlay as a reaction of the senior management on potential negative economic outlooks. The managerial overlay at 31 December 2021 increased the ECL by € 19 million in segment of retail. Another important factor is the deterioration of credit quality as indicated by rating downgrade, i.e. some portion of portfolios has been re-classified to stage 2, with additional impact on level of ECL in the amount of € 1,5 million, mainly in small business segment and to some extent consumer loans. Common drivers for stage 2 reclassification are: significant rating downgrade, 30 days past due, forbearance flag and monitoring of client in proactive credit risk regime. However, the primary driver observed throughout the year was the significant rating downgrade which triggers migration from Stage 1 to Stage 2. Finally, the migration to stage 3 was observed mainly for clients without legal moratorium, driven dominantly by consumer loans.

During the pandemic period, the borrower might request the VUB Group to defer payments for a period not exceeding nine months. The Bank is obliged to allow deferral of installments if the legal requirements were met. By allowing deferred payments, the effects of the debtor's delay do not occur to the extent of deferred fulfillment. Deferral of repayments does not affect the flag of default and does not worsen the credit quality of the borrower. The debtor does not lose the obligation to pay interest for the period of deferred payments and interest is accrued even during the duration of deferred payments.

Till 31 December 2021 the VUB Group received 25 476 requests for deferral of repayments of corporate and retail loans, of which 23 418 was granted in the total gross amount of € 1 085 148 thousand. Out of these, expired € 1 085 143 thousand.

			Performing			Non-performing
2021 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	–	–	–	–	–	–
Retail	5	–	5	–	–	–
	5	–	5	–	–	–

			Performing			Non-performing
2020 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	93 467	(3 009)	90 458	641	(407)	234
Retail	379 716	(9 691)	370 025	4 321	(2 038)	2 283
	473 183	(12 700)	460 483	4 962	(2 445)	2 517

The VUB Group has joined the SIH Anti-Corona Guarantee 1 and SIH Anti-Corona Guarantee 2 programs, under which it, in cooperation with Slovak Investment Holding ('SIH'), provided assistance to companies to bridge income shortfalls during crisis measures against the spread of coronavirus. SIH assistance consisted of a portfolio guarantee for a loan provided by the VUB Group and, under the SIH anti-corona guarantee 1 under the conditions of maintaining employment in small and medium-sized enterprises, as well as an interest subsidy of up to 4%. Loans were provided for a maximum of four years up to the amount of € 1,180 thousand with a 12-month deferral of repayment of principal and interest. Under the SIH anti-corona guarantee 2, the SIH guarantee represented 90% of the principal and loans with a maturity of two to six years were provided in a maximum amount of € 2,000 thousand with deferral of principal and interest payments for 12 months with the possibility of waiving the guarantee fee if the conditions are met. Interest rates were limited for micro-enterprises at 3.9% p. a. and for other enterprises 1.9% p. a.

The VUB Group also participated in the program of financial assistance for Slovak companies to mitigate the effects of the COVID-19 pandemic, launched by EXIMBANKA SR. The aid consisted of a guarantee of 80% of the principal and loans were provided with a maturity of two to six years in the amount of € 2 to 20 million with deferral of principal and interest payments for 12 months with the possibility of waiving the guarantee fee if the conditions are met. The interest rate was limited to 1.9% p. a.

The loans were provided under market conditions and the programs in which the VUB Group participated are not government grants.

Till 31 December 2021 the VUB Group provided 1 722 newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis to enterprises in the total gross amount of € 246 960 thousand.

			Performing			Non-performing
2021 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	186 399	(943)	185 456	2 238	(457)	1 781
Retail	58 163	(1 229)	56 934	160	(89)	71
	244 562	(2 172)	242 390	2 398	(546)	1 852

			Performing			Non-performing
2020 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	101 930	(224)	101 706	587	(113)	474
Retail	27 654	(168)	27 486	–	–	–
	129 584	(392)	129 192	587	(113)	474

4.2. Market risk

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

4.2.1. Management of market risk

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

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. Financial instruments with non-trading purpose are part of the 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 VUB Group enters into derivative financial instrument transactions to hedge its liquidity, foreign exchange and interest rate risks. The VUB Group also enters into proprietary derivative financial transactions for the purpose of generating profits from short-term fluctuations in market prices. The VUB Group operates a system of market risk and counterparty limits, which are designed to restrict exposure to movements in market prices and counterparty concentrations. The VUB Group also monitors adherence to these limits on a daily basis.

4.2.2. Exposure to market risk – trading portfolios

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

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

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

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

				2021				2020
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	68	49	125	12	88	76	277	3
Interest rate risk	109	88	251	35	162	218	489	22
Total VaŔ	96	109	278	39	164	261	633	30
Total sVaR	338	498	1 466	195	178	503	1 265	135

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

– VaR does not measure the worst case loss, since a 99% confidence interval means that in 1% of cases the loss is expected to be greater than the VaR amount;

– VaR calculated using a one day holding period assumes hedge or disposal of a position within one day, which might not be realistic in the case of a longer illiquid situation on the market.

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

4.2.3. Exposure to interest rate risk of banking book

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

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

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

The Risk Management division is responsible for monitoring and reporting of interest rate gaps at least on a monthly basis. The management of interest rate risk is measured by shift sensitivity of fair value analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and instantaneous shift of +/100 basis points of the yield curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and instantaneous shift of +/-200 basis points, and non-parallel steepening and flattening scenarios as well as short rates up and down scenarios. Six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision, have been introduced in 2017. All scenarios are applied on monthly basis as from September 2019.

The sensitivity of the interest margin is also measured with a set of scenarios similar to shift sensitivity analysis – baseline, internal stress and regulatory scenarios. The baseline scenario is represented by parallel and instantaneous +/-50 bps shocks in the yield curve, in a period of the following 12 months. Furthermore, additional internal stress and regulatory scenarios are applied: +/-100, +/-200 and six stress scenarios according to the Interest Rate Risk in the Banking Book Guidelines published by the Basel Committee on Banking Supervision.

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

Models applied for the interest rate risk ('IRR') calculation

Each financial and non-financial instrument is allocated to the time bucket based on its contractual or behavioural repricing date:

Contractual

This category includes instruments where the VUB Group knows exactly when the maturity or next re-pricing takes place. This treatment is applied mainly to: bought and issued securities, received loans and term deposits.

Behavioural

These are items for which it is not exactly known when the maturity or next repricing will take place (e.g. current accounts). There are also some items where the maturity or repricing period is known but it can be assumed that they will behave differently (e.g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the behaviour characteristics of these items. The assumptions are based on the detailed analysis of the VUB Group's historical time series data and statistical models.

At 31 December 2021, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 57 014 thousand (31 December 2020: € 44,546 thousand).

At 31 December 2021, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (42 921) thousand (31 December 2020: € (48,402) thousand).

At 31 December 2021, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (19 680) thousand (31 December 2020: € (23,704) thousand).

At 31 December 2021, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € 9 452 thousand (31 December 2020: € 8,657 thousand).

At 31 December 2021, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2 601) thousand (31 December 2020: € (2,523) thousand).

The re-pricing structure of interest rate bearing financial assets and financial liabilities based on contractual discounted cash-flows for the non-trading portfolios was as follows:

2021 €'000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	2 612 787	–	–	–	–	-	2 612 787
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	2 906	4 410	7 316
Financial assets at FVOCI	276	70 109	504 328	655 065	434 036	7 589	1 671 403
Financial assets at AC:							
Due from other banks	(7 835)	83 458	1 654 286	50 856	-	38 627	1 819 392
Due from customers	2 607 288	1 977 012	1 841 372	9 518 711	557 830	157 663	16 659 876
	5 212 516	2 130 579	3 999 986	10 224 632	994 772	208 289	22 770 774
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(2 727 827)	(252 919)	(90 726)	(242 191)	(1 051)	(234)	(3 314 948)
Due to customers	(6 732 984)	(883 145)	(2 223 746)	(3 682 855)	(430 035)	–	(13 952 765)
Lease liabilities	(535)	(1 068)	(4 080)	(12 033)	(1 417)	–	(19 133)
Subordinated debt	–	(200 150)	–	–	–	–	(200 150)
Debt securities in issue	(44 012)	(2 217)	(307 636)	(2 425 283)	(1 049 908)	–	(3 829 056)
	(9 505 358)	(1 339 499)	(2 626 188)	(6 362 362)	(1 482 411)	(234)	(21 316 052)
Net position of financial instruments	(4 292 842)	791 080	1 373 798	3 862 270	(487 639)	208 055	1 454 722
Cumulative net position of financial instruments	(4 292 842)	(3 501 762)	(2 127964)	1 734 306	1 246 667	1 454 722	–
Cash inflow from derivatives	3 595 572	2 521 112	1 924 274	1 733 614	1 425 149	–	11 199 721
Cash outflow from derivatives	(2 032 999)	(1 241 650)	(3 120 102)	(4 169 201)	(642 490)	–	(11 206 442)
Net position from derivatives	1 562 573	1 279 462	(1 195 828)	(2 435 587)	782 659	–	(6 721)
Total net position	(2 730 269)	2 070 542	177 970	1 426 683	295 020	208 055	1 448 001
Cumulative total net position	(2 730 269)	(659 727)	(481 757)	944 926	1 239 946	1 448 001	–

2020 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	1 571 642	–	–	–	–	–	1 571 642
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	6 874	6 874
Financial assets at FVOCI	759	295	742 700	235 347	631 608	7 358	1 618 067
Financial assets at AC:							
Due from other banks	5 829	91 669	1 024	49 936	–	56 962	205 420
Due from customers	1 930 692	1 804 978	1 715 812	8 738 427	760 450	289 497	15 239 856
	3 508 922	1 896 942	2 459 536	9 023 710	1 392 058	360 691	18 641 859
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(60 063)	(32 338)	(126 673)	(358 622)	(50 016)	(2 088)	(629 800)
Due to customers	(6 573 816)	(1 342 664)	(1 489 878)	(3 251 932)	(328 530)	–	(12 986 820)
Lease liabilities	(552)	(1 101)	(4 081)	(11 126)	(1 702)	–	(18 562)
Subordinated debt	–	(200 151)	–	–	–	–	(200 151)
Debt securities in issue	(47 961)	(50 843)	(8 374)	(2 228 784)	(1 086 767)	–	(3 422 729)
	(6 682 392)	(1 627 097)	(1 629 006)	(5 850 464)	(1 467 015)	(2 088)	(17 258 062)
Net position of financial instruments	(3 173 470)	269 845	830 530	3 173 246	(74 957)	358 603	1 383 797
Cumulative net position of financial instruments	(3 173 470)	(2 903 625)	(2 073 095)	1 100 151	1 025 194	1 383 797	–
Cash inflow from derivatives	3 102 593	2 488 693	1 213 750	1 811 214	1 696 666	–	10 312 916
Cash outflow from derivatives	(2 043 894)	(1 211 567)	(1 517 064)	(4 222 592)	(1 319 411)	–	(10 314 528)
Net position from derivatives	1 058 699	1 277 126	(303 314)	(2 411 378)	377 255	–	(1 612)
Total net position	(2 114 771)	1 546 971	527 216	761 868	302 298	358 603	1 382 185
Cumulative total net position	(2 114 771)	(567 800)	(40 584)	721 284	1 023 582	1 382 185	–

4.2.4. Currency denominations of assets and liabilities

Foreign exchange rate risk comprises the risk that the value of financial assets and financial liabilities will fluctuate due to changes in foreign exchange rates. It is the policy of the VUB Group to manage its exposure to fluctuations in exchange rates through regular monitoring and reporting of open foreign exchange positions and the application of a matrix of position exposure in single currencies and overall position limit.

2021 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	2 276 977	3 644	326 986	5 180	2 612 787
Financial assets at FVTPL	26 848	10 279	(43)	296	37 380
Derivatives – Hedge accounting	48 476	–	7 098	–	55 574
Financial assets at FVOCI	1 589 943	81 460	–	–	1 671 403
Financial assets at AC:			–	–	
Due from other banks	1 821 093	6 824	(8 525)	–	1 819 392
Due from customers	15 576 098	321 008	573 822	188 948	16 659 876
Fair value changes of the hedged items in portfolio hedge of IRR	3 301	–	–	–	3 301
	21 342 736	423 215	899 338	194 424	22 859 713
Financial liabilities					
Financial liabilities at FVTPL	29 527	2 818	(1 542)	60	30 863
Derivatives – Hedge accounting	23 226	5 075	569	2 640	31 510
Financial liabilities at AC:					
Due to banks	3 261 981	6 997	45 931	39	3 314 948
Due to customers	13 051 798	231 015	606 503	82 582	13 971 898
Subordinated debt	200 150	–	–	–	200 150
Debt securities in issue	3 829 056	–	–	–	3 829 056
Fair value changes of the hedged items in portfolio hedge of IRR	2 816	–	–	–	2 816
	20 398 554	245 905	651 461	85 321	21 381 241
Net position	944 182	177 310	247 877	109 103	1 478 472

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2021 € '000	EUR	USD	CZK	Other	Total
Receivables	590 582	56 675	87 000	63 223	797 480
Payables	(60 976)	(247 819)	(317 455)	(178 032)	(804 282)
Net position from derivatives	529 606	(191 144)	(230 455)	(114 809)	(6 802)

2020 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	939 596	2 499	624 558	4 989	1 571 642
Financial assets at FVTPL	77 179	8 518	437	–	86 134
Derivatives – Hedge accounting	84 688	68	436	–	85 192
Financial assets at FVOCI	1 611 115	6 952	–	–	1 618 067
Financial assets at AC:				–	
Due from other banks	196 994	8 426	–	–	205 420
Due from customers	14 592 850	214 683	357 296	75 027	15 239 856
Fair value changes of the hedged items in portfolio hedge of IRR	20 016	–	–	–	20 016
	17 522 438	241 146	982 727	80 016	18 826 327
Financial liabilities					
Financial liabilities at FVTPL	82 680	3 091	1 559	47	87 377
Derivatives – Hedge accounting	59 502	3 545	67	2 293	65 407
Financial liabilities at AC:					
Due to banks	598 454	9 137	22 143	66	629 800
Due to customers	12 297 888	231 786	382 865	74 281	12 986 820
Lease liabilities	18 562	–	–	–	18 562
Subordinated debt	200 151	–	–	–	200 151
Debt securities in issue	3 422 729	–	–	–	3 422 729
Fair value changes of the hedged items in portfolio hedge of IRR	6 990	–	–	–	6 990
	16 686 956	247 559	406 634	76 687	17 417 836
Net position	835 482	(6 413)	576 093	3 329	1 408 491

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2020 € '000	EUR	USD	CZK	Other	Total
Receivables	846 188	174 006	31 500	68 701	1 120 395
Payables	(257 380)	(177 452)	(601 231)	(85 848)	(1 121 911)
Net position from derivatives	588 808	(3 446)	(569 731)	(17 147)	(1 516)

4.2.5. Interest rate benchmark reform

The Interbank offered rate ('IBOR') replacement represents one of the major undertakings for the financial services industry. For the VUB Group the impact is not expected to be material and can be split into three main categories:

- Replacement of Euro OverNight Index Average ('EONIA');
- Change of Euro Interbank Offered Rate ('EURIBOR') calculation;
- Replacement of London Interbank Offered Rate ('LIBOR').

The biggest impact on the internal IT systems is coming from the discontinuation of the LIBOR rates, which will be replaced by different type of rates as well as a different calculation logic. Currently a project is underway at the bank to address the adjustments of the systems and the implementation is planned during the first half of 2022.

	Financial assets at AC		Financial liabilities at AC		Derivatives	
2021 € '000	Number of contracts	Net amount	Number of contracts	Net amount	Number of contracts	Notional amount
Referenced to:						
EONIA	–	–	–	–	–	–
EURIBOR	5 400	3 305 273	–	–	193	9 926 636
LIBOR	24	199 869	–	–	4	89 469
Of which: USD	22	199 869	–	–	4	89 469
Of which: GBP	2	–	–	–	–	–

	Financial assets at AC		Financial liabilities at AC		Derivatives	
2020 € '000	Number of contracts	Net amount	Number of contracts	Net amount	Number of contracts	Notional amount
Referenced to:						
EONIA	–	–	4	15 141	7	683 100
EURIBOR	5 180	2 863 896	–	–	223	8 477 301
LIBOR	32	113 674	–	–	5	117 602
Of which: USD	30	113 674	–	–	5	117 602
Of which: GBP	2	–	–	–	–	–

4.3. Liquidity risk

Liquidity risk is defined as the risk that the VUB Group is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the VUB Group is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit.

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

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

– The existence of an operating structure that works within set of limits and of a control structure that is independent from the operating structure;

– A prudential approach to the estimate of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity;

– An assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time;

– The maintenance of an adequate level of unencumbered highly liquid assets, capable of enabling ordinary operations, also on an intraday basis, and overcoming the initial stages of a shock involving the VUB Group's liquidity or system liquidity.

The VUB Group is regularly stress testing its liquidity position in order to simulate potential stress scenarios. The unencumbered highly liquid assets are kept at levels that should support the VUB Group also in case of these extraordinary events. The VUB Group is also able to seek short term funding from the parent company or interbank market in order to support its liquidity position. There are no specific lines of credit for liquidity stress situations.

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.

The departments of the VUB Group responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department. These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process. ALM Department is responsible for liquidity management and the Risk Management Department responsible for monitoring indicators and verifying the observation of limits.

The Short term Liquidity Policy includes a set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management. The main regulatory indicator used for monitoring and managing short term liquidity is the Liquidity coverage ratio. It is required by the CRR Regulation, more precisely defined in Delegated Regulation (EU) 2015/61. Main content of the Liquidity coverage ratio: Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows.

The Structural Liquidity Policy of the VUB Group incorporates a set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term. The main regulatory indicator used for monitoring and managing structural liquidity is the Net Stable Funding Ratio(NSFR). It is required by the CRR Regulation. The net stable funding shall be equal to the ratio of the institution's available stable funding to the institution's required stable funding, and shall be expressed as a percentage. Together with the Short term and Structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the VUB Group to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

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

The liquidity position of the VUB Group is regularly presented by Risk Management Department and discussed during the ALCO meetings

The table below shows an analysis of assets and liabilities (**discounted** cash flow basis) according to when they are expected to be recovered or settled:

2021 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	2 612 787	–	2 612 787
Financial assets at FVTPL	4 789	32 591	37 380
Derivatives – Hedge accounting	2 368	53 206	55 574
Financial assets at FVOCI	574 713	1 096 690	1 671 403
Financial assets at AC:			
Due from other banks	1 703 049	116 343	1 819 392
Due from customers	3 330 681	13 329 195	16 659 876
Fair value changes of the hedged items in portfolio hedge of IRR	–	3 301	3 301
Investments in subsidiaries, joint ventures and associates	–	18 090	18 090
Property and equipment	–	122 597	122 597
Intangible assets	–	131 776	131 776
Goodwill	–	29 305	29 305
Current income tax assets	1 594	–	1 594
Deferred income tax assets	–	55 471	55 471
Other assets	23 794	–	23 794
Non-current assets classified as held for sale	515	–	515
	8 254 290	14 988 565	23 242 855
Liabilities			
Financial liabilities at FVTPL	(8 596)	(22 267)	(30 863)
Derivatives – Hedge accounting	(1 310)	(30 200)	(31 510)
Financial liabilities measured at AC:			
Due to banks	(280 482)	(3 034 466)	(3 314 948)
Due to customers	(1 934 185)	(12 018 580)	(13 952 765)
Lease liabilities	(5 767)	(13 366)	(19 133)
Subordinated debt	(150)	(200 000)	(200 150)
Debt securities in issue	(354 265)	(3 474 791)	(3 829 056)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(2 816)	(2 816)
Current income tax liabilities	(12 018)	–	(12 018)
Provisions	–	(25 061)	(25 061)
Other liabilities	(84 602)	(5 009)	(89 611)
	(2 681 375)	(18 826 556)	(21 507 931)
Net position	5 572 915	(3 837 991)	1 734 924

2020 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	1 571 642	–	1 571 642
Financial assets at FVTPL	5 791	80 343	86 134
Derivatives – Hedge accounting	100	85,092	85,192
Financial assets at FVOCI	743,755	874,312	1,618,067
Financial assets at AC:			
Due from other banks	77,254	128,166	205,420
Due from customers	2,758,041	12,481,815	15,239,856
Fair value changes of the hedged items in portfolio hedge of IRR	–	20,016	20,016
Investments in subsidiaries, joint ventures and associates	–	11,058	11,058
Property and equipment	–	124,862	124,862
Intangible assets	–	129,527	129,527
Goodwill	–	29,305	29,305
Current income tax assets	26 518	–	26 518
Deferred income tax assets	–	54 802	54 802
Other assets	25 819	–	25 819
Non-current assets classified as held for sale	1	–	1
	5 208 921	14 019 298	19 228 219
Liabilities			
Financial liabilities at FVTPL	(12 068)	(75 309)	(87 377)
Derivatives – Hedge accounting	(7 607)	(57 800)	(65 407)
Financial liabilities measured at AC:			
Due to banks	(170 207)	(459 593)	(629 800)
Due to customers	(1 588 769)	(11 398 051)	(12 986 820)
Lease liabilities	(5 734)	(12 828)	(18 562)
Subordinated debt	(151)	(200 000)	(200 151)
Debt securities in issue	(108 020)	(3 314 709)	(3 422 729)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(6 990)	(6 990)
Provisions	–	(18 036)	(18 036)
Other liabilities	(76 590)	(5 407)	(81 997)
	(1 972 557)	(15 548 723)	(17 521 280)
Net position	3 236 364	(1 529 425)	1 706 939

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

2021 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	2 595 508	–	–	–	–	–	2 595 508
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	3 000	7 319	10 319
Financial assets at FVOCI	293	70 034	505 142	662 322	420 122	7 589	1 665 502
Financial assets at AC							
Due from other banks	48 014	11 398	1 653 428	115 463	7 445	-	1 835 748
Due from customers	1 226 298	632 910	1 452 665	6 196 676	9 308 311	60 946	18 877 806
	3 870 113	714 342	3 611 235	6 974 461	9 738 878	75 854	24 984 883
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(123 775)	(112 106)	(57 031)	(2 785 364)	(264 726)	–	(3 343 002)
Due to customers	(12 216 469)	(885 636)	(772 294)	(81 006)	–	–	(13 955 405)
Lease liabilities	(552)	(1 102)	(4 089)	(10 987)	(1 944)	–	(18 674)
Subordinated debt	-	(1 330)	(4 206)	(25 222)	(201 787)	–	(232 545)
Debt securities in issue	(3 589)	(2 871)	(321 237)	(2 500 422)	(1 089 592)	–	(3 917 711)
	(12 344 385)	(1 003 045)	(1 158 857)	(5 403 001)	(1 558 049)	–	(21 467 337)
Net position of financial instruments	(8 474 272)	(288 703)	2 452 378	1 571 460	8 180 829	75 854	3 517 546
Cash inflows from derivatives	409 085	97 107	111 535	63 651	–	–	681 378
Cash outflows from derivatives	(410 619)	(99 746)	(112 741)	(67 035)	–	–	(690 141)
Net position from derivatives	(1 534)	(2 639)	(1 206)	(3 384)	–	–	(8 763)
Net position from financial commitments and contingencies	(5 637 432)	–	–	–	–	–	(5 637 432)

2020 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	1 571 642	–	–	–	–	–	1 571 642
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	6 874	6 874
Financial assets at FVOCI	808	546	743 051	249 248	592 786	7 358	1 593 797
Financial assets at AC							
Due from other banks	61 870	8 125	8 440	115 581	20 463	–	214 479
Due from customers	1 106 650	525 493	1 298 081	5 336 725	8 409 895	279 338	16 956 182
	2 740 970	534 164	2 049 572	5 701 554	9 023 144	293 570	20 342 974
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(57 687)	(24 922)	(88 147)	(400 984)	(70 730)	–	(642 470)
Due to customers	(11 209 031)	(1 157 722)	(489 642)	(131 468)	–	–	(12 987 863)
Lease liabilities	(552)	(1 102)	(4 089)	(10 987)	(1 944)	–	(18 674)
Subordinated debt	–	(1 344)	(4 081)	(20 814)	(207 368)	–	(233 607)
Debt securities in issue	(3 607)	(51 710)	(21 238)	(2 314 597)	(1 102 794)	–	(3 493 946)
	(11 270 877)	(1 236 800)	(607 197)	(2 878 850)	(1 382 836)	–	(17 376 560)
Net position of financial instruments	(8 529 907)	(702 636)	1 442 375	2 822 704	7 640 308	293 570	2 966 414
Cash inflows from derivatives	773 460	31 953	196 150	191 708	121 634	–	1 314 905
Cash outflows from derivatives	(776 379)	(31 709)	(206 497)	(195 545)	(81 652)	–	(1 291 782)
Net position from derivatives	(2 919)	244	(10 347)	(3 837)	39 982	–	23 123
Net position from financial commitments and contingencies	(4 878 988)	–	–	–	–	–	(4 878 988)

* The high negative liquidity gap in the first bucket is caused by a huge volume of deposits on demand (without contractual maturity) which are presented under 'Due to customers'. For the purpose of internal liquidity management monitoring the behavioural profile of on-demand deposits is taken into account based on a statistical model using internal historical data. According to when they are expected to be settled such deposits are then placed into later buckets (see the previous table).

4.4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, information and communication technology risk and financial reporting risk; strategic and reputational risks are not included. Operational risk can arise from legal and regulatory requirements, non-compliance with generally accepted standards of corporate behaviour and from all of the VUB Group's operations.

4.4.1. Operational risk management strategies and processes

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

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

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: CRO, CFO, COO, Head of Compliance Department, Head of Anti-Money Laundering Department; permanent invitees without voting rights: Head of Corporate & SME Division, Head of Retail Division, Head of Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Information Security sub-department), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

4.4.2. Organisational structure of the associated risk management function

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

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

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

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

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

4.4.4. Policies for hedging and mitigating risk

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

5. Estimated fair value of financial assets and financial liabilities

See accounting policy in note 3.4.7.

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

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

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

Level 3: inputs unobservable for the asset or liability.

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

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

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

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

(a) Cash and cash equivalents

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

(b) Due from other banks

The fair value of due from other banks balances with maturities more than one year is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. For maturities up to one year and not significant balances, the carrying amounts of amounts due from other banks approximate their fair value.

(c) Due from customers

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

(d) Purchased debt securities and equities

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

(e) Due to banks and Due to customers

The carrying amounts of due to banks approximate their fair value. The fair value of due to customers is estimated by discounting their future expected cash flows using the risk free interest rate curve.

(f) Subordinated debt

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

(g) Debt securities in issue

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

		Carrying amount			Fair value			
2021 € '000	Note	At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and cash equivalents	7	2 612 785	–	2 612 785	–	2 612 787	–	2 612 787
Financial assets at FVTPL	8	–	37 380	37 380	7 316	30 064	–	37 380
Derivatives – Hedge accounting	9	–	55 574	55 574	–	55 574	–	55 574
Financial assets at FVOCI	10	–	1 671 403	1 671 403	1 610 548	60 855	–	1 671 403
Financial assets at AC:	11							
Due from other banks		1 819 392	–	1 819 392	–	1 819 392	–	1 819 391
Due from customers		16 659 876	–	16 659 876	–	152 485	18 376 823	18 529 308
		21 092 055	1 764 357	22 856 412	1 617 864	4 731 157	18 376 823	24 725 844
Financial liabilities								
Financial liabilities at FVTPL	8	–	30 863	30 863	–	30 863	–	30 863
Derivatives – Hedge accounting	9	–	31 510	31 510	–	31 510	–	31 510
Financial liabilities at AC:	11							
Due to banks		3 314 948	–	3 314 948	–	3 314 948	–	3 314 948
Due to customers		13 952 765	–	13 952 765	–	13 956 907	–	13 956 907
Lease liabilities		19 133		19 133	–	19 133	–	19 133
Subordinated debt		200 150	–	200 150	–	228 948	–	228 948
Debt securities in issue		3 829 056	–	3 829 056	–	3 858 052	–	3 858 052
		21 316 052	62 373	21 378 425	–	21 440 361	–	21 440 361

2020 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash and cash equivalents	7	1 571 642	–	1 571 642	–	1 571 642	–	1 571 642
Financial assets at FVTPL	8	–	86 134	86 134	711	85 423	–	86 134
Derivatives – Hedge accounting	9	–	85 192	85 192	–	85 192	–	85 192
Financial assets at FVOCI	10	–	1 618 067	1 618 067	896 128	721 938	–	1 618 066
Financial assets at AC:	11							
Due from other banks		205 420	–	205 420	–	205 420	–	205 420
Due from customers		15 239 856	–	15 239 856	–	96 415	17 270 273	17 366 688
		17 016 918	1 875 527	18 892 445	897 550	2 851 453	17 270 273	21 019 276
Financial liabilities								
Financial liabilities at FVTPL	8	–	87 377	87 377	–	87 377	–	87 377
Derivatives – Hedge accounting	9	–	65 407	65 407	–	65 407	–	65 407
Financial liabilities at AC:	11							
Due to banks		629 800	–	629 800	–	629 800	–	629 800
Due to customers		12 986 820	–	12 986 820	–	12 996 977	–	12 996 977
Lease liabilities		18 562		18 562	–	18 562	–	18 562
Subordinated debt		200 151	–	200 151	–	233 805	–	233 805
Debt securities in issue		3 422 729	–	3 422 729	–	3 488 512	–	3 488 512
		17 258 062	152 784	17 410 846	–	17 520 440	–	17 520 440

There were transfers of financial instruments among the levels during 2021 and 2020.

6. Segment reporting

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

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

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

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

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

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

Corporate Banking comprises SME, the Corporate Customer Desk ('CCD'), Municipalities and Public Sector Entities. SME includes complex loan structures, deposits and other transactions and balances with SME (company revenue up to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes complex loan structures, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

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

The VUB Group reported within Other a Central Governance Centre that manages the VUB Group's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio. Unclassified items are also reported within this column.

2021 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	201 960	123 425	(19 399)	305 986	18 817	324 803
Interest and similar expense	(5 406)	(2 947)	(8 288)	(16 641)	(20 704)	(37 345)
Inter-segment revenue	(6 951)	(19 903)	29 299	2 445	(2 445)	-
Net interest income	189 603	100 575	1 612	291 790	(4 332)	287 458
Net fee and commission income (note 25)	113 101	36 160	1 321	150 582	(3 204)	147 378
Dividend income	–	–	–	–	–	–
Net trading result	4 747	6 090	8 152	18 989	127	19 116
Other operating income	(2 870)	6 423	(1 707)	1 846	6 185	8 031
Other operating expense	(12 845)	(2 917)	19	(15 743)	(9 650)	(25 393)
Salaries and employee benefit	(47 107)	(13 562)	(681)	(61 350)	(64 728)	(126 078)
Other administrative expenses*	-	(816)	1 596	780	(73 343)	(72 563)
Amortisation	(6 320)	(483)	(1)	(6 804)	(10 462)	(17 266)
Depreciation	(2 734)	(2 516)	131	(5 119)	(10 401)	(15 520)
Profit before provisions, impairment and tax	235 575	128 954	10 442	374 971	(169 808)	205 163
Net modification gains or losses					(80)	(80)
Provisions*	–	(142)	–	(142)	130	(12)
Impairment losses	(66 598)	(13 681)	461	(79 818)	(492)	(80 310)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	8 026	1 079	–	9 105	(125)	8 980
Profit before tax	177 003	116 210	10 903	304 116	(170 375)	133 741
Segment assets	10 443 053	6 201 646	6 084 620	22 729 319	513 536	23 242 855
Segment liabilities	8 913 870	4 889 742	7 3460 323	21 163 935	343 996	21 507 931

* The Bank does not allocate these items to the individual segments.

2020 €'000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	218 177	119 959	(11 509)	326 627	6 091	332 718
Interest and similar expense	(9 168)	(3 986)	(17 675)	(30 829)	(7 070)	(37 899)
Inter-segment revenue	(18 721)	(23 336)	41 869	(188)	188	–
Net interest income	190 288	92 637	12 685	295 610	(791)	294 819
Net fee and commission income (note 25)	104 460	31 079	2 439	137 978	(3 343)	134 635
Dividend income	–	–	–	–	–	–
Net trading result	4 201	5 983	8 415	18 599	45	18 644
Other operating income	356	6 758	(1 712)	5 402	2 191	7 593
Other operating expense	(11 507)	(3 114)	–	(14 621)	(3 840)	(18 461)
Special levy of selected financial institutions	–	–	–	–	(31 038)	(31 038)
Salaries and employee benefit	(50 707)	(13 946)	(676)	(65 329)	(61 301)	(126 630)
Other administrative expenses*	–	2 154	(1 572)	582	(74 419)	(73 837)
Amortisation	(5 977)	(356)	(2)	(6 335)	(8 256)	(14 591)
Depreciation	(2 864)	(2 298)	89	(5 073)	(10 840)	(15 913)
Profit before provisions, impairment and tax	228 250	118 897	19 666	366 813	(191 592)	175 221
Provisions*	–	(137)	–	(137)	355	218
Impairment losses	(39 512)	(24 648)	(208)	(64 368)	2 063	(62 305)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(8 433)	1 723	–	(6 710)	(726)	(7 436)
Profit before tax	180 305	95 835	19 458	295 598	(189 900)	105 698
Segment assets	9 753 639	5 666 640	3 284 621	18 704 900	523 319	19 228 219
Segment liabilities	8 060 841	4 874 949	4 259 883	17 195 673	325 607	17 521 280

* The Bank does not allocate these items to the individual segments.

7. Cash and cash equivalents

'Cash and cash equivalents' comprise the following balances:

€ '000	2021	2020
Cash in hand	175 676	161 161
Balances at central banks:		
Compulsory minimum reserves	2 109 981	777 270
Current accounts	2	38
Term deposits	96 548	7 621
Loans and advances	213 304	604 335
	2 419 835	1 389 264
Due from other banks:		
Current accounts	17 276	21 217
	2 612 787	1 571 642

At 31 December 2021 the balance of 'Loans and advances' comprised of seven reverse repo trade concluded with Intesa Sanpaolo S.p.A. in the total nominal amount of € 1 652 million (31 December 2020: five reverse repo trade, CZK 15 860 million (€ 604 306 thousand). The repo trades were secured by 1 648 000 bonds (31 December 2020: 15 573 treasury bills of ČNB).

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

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation. The compliance with the compulsory minimum reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period.

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

€ '000	2021	2020
Financial assets held for trading:		
Trading derivatives	27 158	79 260
Equity instruments	–	6 163
Government debt securities of European Union countries	2 906	–
	30 064	85 423
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	7 316	711
Financial liabilities held for trading:		
Trading derivatives	30 863	87 377

On the line 'Equity instruments' in 'Financial assets held for trading' is recognized the fair value of the Visa Inc. Series C Preferred Stock that were reclassified as at 1 January 2020 from FVOCI (note 10) to FVTPL portfolio.

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and they form the part of the incentive plan introduced by the Parent Company in line with the Capital Directive ‚CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). The VUB Group did not elect the option to present these at FVOCI.

€ '000	2021 Assets	2020 Assets	2021 Liabilities	2020 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	16 173	71 917	17 744	74 070
Foreign currency instruments:				
Forwards and swaps	5 232	5 616	7 398	11 728
Options	103	194	103	194
	5 335	5 810	7 501	11 922
Equity and commodity instruments:				
Commodity forwards and swaps	5 650	1 533	5 618	1 385
	5 650	1 533	5 618	1 385
	27 158	79 260	30 863	87 377

€ '000	2021 Assets	2020 Assets	2021 Liabilities	2020 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	1 848 175	3 834 656	1 848 175	3 834 656
Options	109 565	116 703	109 565	116 703
	1 957 740	3 951 359	1 957 740	3 951 359
Foreign currency instruments:				
Forwards and swaps	721 750	1 025 828	726 204	1 032 169
Options	5 211	21 859	5 211	21 859
	726 961	1 047 687	731 415	1 054 028
Equity and commodity instruments:				
Commodity forwards and swaps	6 867	37 770	6 867	37 770
	6 867	37 770	6 867	37 770
	2 691 568	5 036 816	2 696 022	5 043 157

9. Derivatives – Hedge accounting

€ '000	2021 Assets	2020 Assets	2021 Liabilities	2020 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	55 574	85 192	31 510	65 407

9.1. Fair value hedges of interest rate, foreign currency and inflation risk as of date of preparation of the financial statements

The VUB Group used **13 interest rate swaps** to hedge the interest rate risk of a pool of **mortgage loans**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The VUB Group used **27 interest rate swaps** to hedge the interest rate risk of a pool of **current accounts**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The VUB Group used **21 interest rate swaps** to hedge the interest rate risk of **10 fixed rate state bonds from the FVOCI portfolio.** The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used **17 interest rate swaps** to hedge the interest rate risk of **15 fixed rate financial institutions bonds from the FVOCI portfolio**. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used **9 interest rate swaps** hedge the interest rate risk of **9 corporate loans denominated in EUR**. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

The VUB Group used **2 cross currency swaps** to hedge the interest rate and foreign currency risk of **2 corporate loans denominated in GBP and USD**. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of both interest rates and foreign exchange rates.

The VUB Group used **1 interest rate swap** to hedge the interest rate risk of **1 loan received from European Investment VUB Group ('EIB')**. The changes in fair value of this interest rate swap substantially offset the changes in fair value of this loan in relation to changes of interest rates.

The VUB Group used **30 interest rate swaps** to hedge the interest rate risk arising from the issuance of **16 fixed rate covered bonds**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

The VUB Group used **1 interest rate swap** to hedge the interest rate risk arising from the issuance of **1 loan in form of reverse repo deal with INTESA SANPAOLO** . The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

The VUB Group used **8 interest rate swaps** to hedge the interest rate risk of **8 internal loans to VUB Branch Prague** The changes in fair value of these interest rate swaps substantially offset the changes in fair value of this loan in relation to changes of interest rates.

2021 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffectiveness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	6 178	1 873	1 138 100	1 138 100	23 164	–
Hedge of corporate loans	7 415	1 981	399 770	399 770	8 427	–
Hedge of loans received from EIB	–	584	50 000	50 000	(1 124)	15
Hedge of covered bonds	29 859	11 409	2 192 400	2 192 400	(44 194)	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	–	7 714	87 606	89 868	5 200	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	5 845	6 972	2 290 000	2 290 000	14 566	(29)
Hedge of current accounts	4 012	977	506 500	506 500	(4 102)	73
Hedge of reverse REPO	2 265	–	1 650 000	1 650 000	(150)	(230)

2020 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffectiveness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	7 712	36 754	1 084 900	1 084 900	(17 430)	–
Hedge of corporate loans	436	2 954	277 418	277 418	(1 829)	339
Hedge of loans received from EIB	533	–	50 000	50 000	1 323	16
Hedge of covered bonds	67 951	–	1 145 400	1 145 400	40 565	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	68	5 838	91 532	86 805	(3 594)	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	979	19 861	2 300 000	2 300 000	(6 468)	240
Hedge of current accounts	7 513	–	112 500	112 500	2 445	35

The amounts relating to items designated as hedged items were as follows:

2021 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Accumulated amount of fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 114 512	–	(23 164)	(113)
Corporate loans	Financial assets at AC: Due from customers	397 119	7 240	(13 627)	131
Loans received from EIB	Financial assets at AC: Due to banks	50 000	(544)	(1 139)	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1 582 705	17 611	(44 194)	40 572
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	1 975 000	1 869	(14 595)	1 352
Current accounts	Financial liabilities at AC: Due to customers	452 500	2 816	(4 175)	–
Reverse REPO	Financial assets at AC: Loans and advances to banks	1 650 248	80	(80)	–

* Interest rate risk hedging of covered bonds is sometimes closed before the original maturity of the interest rate swap. The reason is that the Interest rate risk position of the VUB Group changed in a way, which required more fixed rate liabilities. And since the originally fixed rate covered bonds were in the past swapped into float rate, these swaps were early terminated in order to achieve the required interest risk position of the VUB Group.

2020 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Accumulated amount of fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 014 069	–	17 430	(3 108)
Corporate loans	Financial assets at AC: Due from customers	364 223	5 946	5 762	928
Loans received from EIB	Financial assets at AC: Due to banks	50 000	595	1 307	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	733 786	65 807	40 565	45 372
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	2 300 000	19 396	6 708	620
Current accounts	Financial liabilities at AC: Due to customers	112 500	6 990	2 410	–

Maturity of notional values of hedging instruments designated as fair value hedges of interest rate risk and their average interest rates:

€ '000	Less than 1 year	2021 1 – 5 years	More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	28 000	642 100	410 000
	(0,33)%	(0,22)%	0,00%
Hedge of REPO deal	1 650 000	–	–
	(0,54)%	–	–
Hedge of corporate loans	116 509	283 260	–
	0,03%	1,17%	–
Hedge of mortgage loans	–	2 290 000	–
	–	(0,21)%	–
Hedge of TLTRO	–	50 000	–
	–	(0,26)%	–
Hedge of current account	340 000	85 500	81 000
	(0,56)%	0,62%	–
Hedge of covered bonds	250 000	824 500	917 900
	(0,57)%	0,82%	0,89%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	89 868	–
	–	0,00%	–

€ '000	Less than 1 year	2020 1 – 5 years	More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	118 900	231 000	577 000
	0,19%	(0,27)%	0,12%
Hedge of corporate loans	–	248 076	29 342
	–	0,20%	0,98%
Hedge of mortgage loans	345 000	1 955 000	–
	(0,09)%	(0,03)%	–
Hedge of TLTRO	–	–	50 000
	–	–	(0,26)%
Hedge of current account	–	31 500	81 000
	–	0,0056%	0,67%
Hedge of covered bonds	10 000	465 500	669 900
	0,85%	1,10%	1,17%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	86 805	–
	–	1,75%	–

10. Financial assets at fair value through other comprehensive income

€ '000	2021	2020
Government debt securities of European Union countries	1 347 770	1 271 994
of which Italian government debt securities	*301 022*	*492 007*
Bank debt securities	283 081	304 864
Other debt securities	32 962	33 851
Equity instruments:		
Visa Inc. Series A Preferred Stock	7 462	6 952
Visa Inc. Series C Preferred Stock	–	–
Intesa Sanpaolo S.p.A.	43	326
S.W.I.F.T.	85	80
	7 590	7 358
	1 671 403	1 618 067

At 31 December 2021, the bonds in the total nominal amount of € 1 516 100 thousand were pledged by the Bank to secure collateralized transactions (31 December 2020: € 583 000 thousand). These bonds were pledged in favour of the ECB within the pool of assets which can be immediately used as collateral for received funds needed for liquidity management purposes.

The Visa Inc. Series C Preferred Stock are convertible in shares of Class A Common Stock or Series A Preferred Stock on a conversion rate based on a periodic conservative assessment of the ongoing risk of liability pursuant to covered claims in the Visa Europe territory. These assessments are undertaken by Visa Inc., in consultation with the Litigation Management Committee comprising the former Visa Europe member representative, on predetermined anniversaries of the closing of acquisition of Visa Europe Limited by Visa Inc. On the twelfth anniversary of the Closing, each share of Preferred Stock will be converted into shares of Class A Common Stock or Series A Preferred Stock.

Following the first assessment carried out on the fourth anniversary (as at 21 June 2020), Visa Inc., on 24 September 2020, has issued to each holder, for each share of Series C Preferred stock, whole shares of Class A Common Stock (or Serie A Preferred Stock) equal to the conversion adjustment (divided by 100 in the case of Serie A Preferred Stock; for each Serie A Preferred Stock are recognized number 100 Class A Common Stock) equal to 6.861.

In the case of the VUB bank, 50% of the value of Series C Preferred stock, in number of 5,686, was converted into Serie A Preferred Stock in number of 390 (equal to 39,012 Class A Common Stock).

The Visa Inc. Series C Preferred Stock were reclassified as at 1 January 2020 from FVOCI to FVTPL portfolio (note 8).

11. Financial assets and financial liabilities at amortised cost

11.1. Due from other banks

€ '000	Note	2021	2020
Term deposits:			
with contractual maturity over 90 days		28	-
Loans and advances:			
with contractual maturity over 90 days		1 786 002	149 755
Cash collateral		33 471	56 371
Impairment losses	21	(109)	(706)
		1 819 392	205 420

11.2. Due from customers

2021 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
State administration	95 147	(676)	94 471
Municipalities	110 358	(1 206)	109 152
Municipalities – Leasing	493	(4)	489
	205 998	(1 886)	204 112
Corporate			
Large Corporates	2 562 680	(1 811)	2 560 869
Large Corporates – debt securities	102 402	(97)	102 305
Specialized Lending	877 226	(35 110)	842 116
SME	1 661 526	(49 949)	1 611 577
Other Non-banking Financial Institutions	363 910	(99)	363 811
Other Non-banking Financial Institutions – debt securities	183 154	(65)	183 089
Public Sector Entities	3 795	(4)	3 791
Leasing	163 309	(5 526)	157 783
Factoring	148 543	(1 187)	147 356
	6 066 545	(93 848)	5 972 697
Retail			
Small Business	488 432	(27 834)	460 598
Small Business – Leasing	62 581	(9 163)	53 418
Consumer Loans	1 366 178	(144 025)	1 222 153
Mortgages	8 613 914	(47 216)	8 566 698
Credit Cards	92 619	(15 169)	77 450
Overdrafts	67 034	(7 079)	59 955
Leasing	4 678	(36)	4 642
Flat Owners Associations	38 474	(321)	38 153
	10 733 910	(250 843)	10 483 067
	17 006 453	(346 577)	16 659 876

2020 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
Single resolution fund	5 090	–	5 090
State administration	32 685	(3)	32 682
Municipalities	115 251	(2 673)	112 578
Municipalities – Leasing	617	(4)	613
	153 643	(2 680)	150 963
Corporate			
Large Corporates	2 123 900	(5 276)	2 118 624
Large Corporates – debt securities	150 427	(265)	150 162
Specialized Lending	892 942	(33 751)	859 191
SME	1 524 715	(44 146)	1 480 569
Other Non-banking Financial Institutions	366 337	(162)	366 175
Other Non-banking Financial Institutions – debt securities	50 056	(48)	50 008
Public Sector Entities	1 474	(49)	1 425
Leasing	171 903	(6 028)	165 875
Factoring	83 887	(1 231)	82 656
	5 365 641	(90 956)	5 274 685
Retail			
Small Business	418 207	(21 346)	396 861
Small Business – Leasing	68 199	(7 639)	60 560
Consumer Loans	1 495 882	(142 728)	1 353 154
Mortgages	7 847 341	(41 648)	7 805 693
Credit Cards	104 092	(17 558)	86 534
Overdrafts	76 581	(6 421)	70 160
Leasing	4 313	(24)	4 289
Flat Owners Associations	37 176	(219)	36 957
	10 051 791	(237 583)	9 814 208
	15 571 075	(331 219)	15 239 856

At 31 December 2021, the 20 largest corporate customers represented a total balance of € 1 418 491 thousand (31 December 2020: € 1 482 594 thousand), respectively 8,51% (31 December 2020: 10,31%) of the total loan portfolio.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

€ '000	2021	2020
Up to one year	92 482	91 170
one to two years	55 679	69 071
two to three years	39 170	43 183
three to four years	24 928	24 859
four to five years	10 530	14 856
Over five years	9 772	14 502
	232 561	257 641
Unearned future finance income on finance leases	(1 501)	(12 610)
Impairment losses	(14 728)	(13 694)
	216 332	231 337

11.3. Due to banks

€ '000	2021	2020
Due to central banks:		
Current accounts	913	1 458
Loans received from central banks	2 490 778	–
	2 491 691	1 458
Due to other banks:		
Current accounts	89 915	27 464
Term deposits	5 862	8 170
Loans received from other banks	699 824	568 344
Revaluation of fair value hedged loans received	(544)	595
Cash collateral received	28 200	23 769
	823 257	628 342
	3 314 948	629 800

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

€ '000	2021	2020
Intesa Sanpaolo S. p. A.	601 596	420 898
European Investment Bank	91 660	138 964
European Bank for Reconstruction and Development	6 568	7 149
Council of Europe Development Bank	–	1 333
	699 824	568 344

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

		Cash flow		Non-cash changes			
2021 € '000	1 January	Proceeds	Repayments	Accruals	Revaluation	Other	31 December
Loans received from other banks (including revaluation)	568 939	251 562	(129 073)	8 971	(1 119)	–	699 280

		Cash flow		Non-cash changes			
2020 € '000	1 January	Proceeds	Repayments	Accruals	Revaluation	Other	31 December
Loans received from other banks (including revaluation)	352 759	302 500	(105 304)	17 677	1 307	–	568 939

11.4. Due to customers

€ '000	2021	2020
Current accounts	10 508 478	9 533 964
Term deposits	2 345 852	2 618 892
Government and municipal deposits	772 184	486 233
Savings accounts	212 319	229 480
Loans received	–	9 103
Other deposits	113 932	109 148
	13 952 765	12 986 820

11.5. Lease liabilities

€ '000	2021	2020
Lease liabilities	19 133	18 562

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

		Cash flow		Non-cash changes			
2021 € '000	1 January	Proceeds	New	Accruals	Revaluation	Other	31 December
Lease liabilities	18 562	(4 382)	4 953	–	–	–	19 133

		Cash flow		Non-cash changes			
2020 € '000	1 January	Proceeds	New	Accruals	Revaluation	Other	31 December
Lease liabilities	20 068	(10 736)	9 230	–	–	–	18 562

11.6. Subordinated debt

€ '000	2021	2020
Subordinated debt	200 150	200 151

At 31 December 2021, the balance of subordinated debt comprised of one ten-year loan in the nominal amount of € 200,000 thousand (31 December 2020: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. The variable interest rate was 2,697% as at 31 December 2021 (31 December 2020: 2,89%). In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

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

2021 € '000	1 January	Cash flow Proceeds	Repayments	Accruals	Non-cash changes Revaluation	Other	31 December
Subordinated debt	200 151	–	–	(1)	–	–	200 150

2020 € '000	1 January	Cash flow Proceeds	Repayments	Accruals	Non-cash changes Revaluation	Other	31 December
Subordinated debt	200 143	–	–	8	–	–	200 151

11.7. Debt securities in issue

€ '000	2021	2020
Covered bonds	2 584 897	2 577 764
Covered bonds subject to fair value hedges	1 185 976	733 786
	3 770 873	3 311 550
Revaluation of fair value hedged covered bonds	17 611	65 807
Unamortized part of revaluation related to terminated fair value hedges	40 572	45 372
	3 829 056	3 422 729

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the VUB Group (note 11.2.) and debt securities in FVOCI portfolio (note 10).

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

2021 € '000	1 January	Cash flow Proceeds from issue	Repayments	Accruals	Non-cash changes Revaluation	Other	31 December
Covered bonds	3 422 729	500 000	(47 597)	6 920	(52 996)	–	3 829 056

2020 € '000	1 January	Cash flow Proceeds from issue	Repayments	Accruals	Non-cash changes Revaluation	Other	31 December
Covered bonds	3 120 695	500 000	(235 840)	2 275	35 599	–	3 422 729

12. Fair value changes of the hedged items in portfolio hedge of interest rate risk

€ '000	2021	2020
Financial assets at AC:		
Due from other banks:		
Loans and advances	80	–
Due from customers:		
Retail		
Mortgages	3 221	20 016
Financial liabilities at AC:		
Due to customers	2 816	6 990

13. Investments in joint ventures and associates

2021 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50,00%	16 597	1 406	18 003
SBCB	33,33%	3	84	87
		16 600	1 490	18 090

2020 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50,00%	16 597	(5 619)	10 978
SBCB	33,33%	3	77	80
		16 600	(5 542)	11 058

SBCB is associates of the VUB Group for which equity method of consolidation is used.

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

VÚB Generali and SBCB are incorporated in the Slovak Republic.

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

€ '000	VÚB Generali	2021 SBCB	VÚB Generali	2020 SBCB
Net profit for the year*	20 276	4	6 884	4
Other comprehensive income	(220)	–	(31)	–
Total comprehensive income for the year	20 056	4	6 853	4
Assets**	40 642	261	23 275	268
Liabilities	(4 634)	(11)	(1 320)	(26)
Equity	36 008	249	21 995	242
VUB Group's interest on equity at 1 January	10 978	83	11 552	83
Share of profit/(loss)	10 138	–	3 443	(3)
Share of other comprehensive income	(110)	–	(16)	–
Dividends received during the year	(3 002)	–	(4 001)	–
VUB Group's interest on equity at 31 December	18 004	83	10 978	80
Carrying amount at 31 December	18 004	83	10 978	80
* *includes: Interest income*	458	–	399	–
Depreciation and amortization	(174)	–	(166)	–
Income tax expense	(5 396)	–	(1 836)	–
* * *includes: Cash and cash equivalents*	19	6	4	5

14. Property and equipment and Non-current assets classified as held for sale

2021 € '000	Owned and used	Owned and leased	Right-of-use	Total
Buildings and land	76 596	–	16 718	93 314
Equipment	6 133	53	–	6 186
Other tangibles	1 200	13 694	2 248	17 142
Assets in progress	6 470	–	–	6 470
	90 399	13 747	18 966	123 112

2020 € '000	Owned and used	Owned and leased	Right-of-use	Total
Buildings and land	75 649	–	18 480	94 129
Equipment	6 443	153	–	6 596
Other tangibles	1 703	14 469	22	16 194
Assets in progress	7 185	759	–	7 944
	89 136	15 380	20 347	124 863

2021 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	109 558	53 534	47 323	7 944	218 359
Additions	5 151	–	2 712	8 852	16 715
Disposals	(6 121)	(8 733)	(8 541)	–	(23 395)
Transfers	4 596	1 561	4 169	(10 326)	–
Exchange differences	17	10	2	–	29
At 31 December	113 201	46 372	45 665	6 470	211 708
Accumulated depreciation					
At 1 January	(15 080)	(46 938)	(30 808)	–	(92 826)
Depreciation for the year	(9 948)	(1 956)	(3 616)	–	(15 520)
Disposals	5 478	8 716	6 263	–	20 457
Exchange differences	(11)	(8)	–	–	(19)
At 31 December	(19 561)	(40 186)	(28 161)	–	(87 908)
Impairment losses (note 21)					
At 1 January	(349)	–	(321)	–	(670)
Creation	–	–	(114)	–	(114)
Release	23	–	73	–	96
At 31 December	(326)	–	(362)	–	(688)
Carrying amount					
At 1 January	94 129	6 596	16 194	7 944	124 863
At 31 December	93 314	6 186	17 142	6 470	123 112

2020 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	106 640	56 006	47 910	7 026	217 582
Additions	6 050	–	38	11 109	17 197
Revaluation	(3 356)	(6 097)	(5 665)	–	(15 118)
Disposals	(1 271)	–	–	–	(1 271)
Transfers	1 519	3 631	5 041	(10 191)	–
Exchange differences	(24)	(6)	(1)	–	(31)
At 31 December	109 558	53 534	47 323	7 944	218 359
Accumulated depreciation					
At 1 January	(11 787)	(50 968)	(31 379)	–	(94 134)
Depreciation for the year	(10 386)	(2 139)	(3 388)	–	(15 913)
Disposals	1 263	6 243	3 879	–	11 385
Revaluation	5 824	–	–	–	5 824
Transfers	–	(79)	79	–	–
Exchange differences	6	5	1	–	12
At 31 December	(15 080)	(46 938)	(30 808)	–	(92 826)
Impairment losses (note 21)					
At 1 January	(2 328)	–	(325)	–	(2 653)
Creation	(52)	–	(119)	–	(171)
Release	2 031	–	123	–	2 154
At 31 December	(349)	–	(321)	–	(670)
Carrying amount					
At 1 January	92 525	5 038	16 206	7 026	120 795
At 31 December	94 129	6 596	16 194	7 944	124 863

Of which owned and leased property and equipment:

2021 € '000	Equipment	Other tangibles	Assets in progress	Total
Cost				
At 1 January	277	21 685	759	22 721
Additions	–	–	3 052	3 052
Disposals	–	(4 476)	–	(4 476)
Transfers	22	3 789	(3 811)	–
At 31 December	299	20 998	–	21 297
Accumulated depreciation				
At 1 January	(125)	(6 895)	–	(7 020)
Depreciation for the year	(121)	(2 733)	–	(2 854)
Disposals	–	2 686	–	2 686
At 31 December	(246)	(6 942)	–	(7 188)
Impairment losses				
At 1 January	–	(321)	–	(321)
Creation	–	(114)	–	(114)
Release	–	73	–	73
At 31 December	–	(362)	–	(362)
Carrying amount				
At 1 January	152	14 469	759	15 380
At 31 December	53	13 694	–	13 747

2020 € '000	Equipment	Other tangibles	Assets in progress	Total
Cost				
At 1 January	284	21 331	124	21 739
Additions	–	–	5 123	5 123
Disposals	(7)	(4 134)	–	(4 141)
Transfers	–	4 488	(4 488)	–
At 31 December	277	21 685	759	22 721
Accumulated depreciation				
At 1 January	(19)	(6 418)	–	(6 437)
Depreciation for the year	(112)	(2 886)	–	(2 998)
Disposals	6	2 409	–	2 415
At 31 December	(125)	(6 895)	–	(7 020)
Impairment losses				
At 1 January	–	(325)	–	(325)
Creation	–	(119)	–	(119)
Release	–	123	–	123
At 31 December	–	(321)	–	(321)
Carrying amount				
At 1 January	265	14 588	124	14 977
At 31 December	152	14 469	759	15 380

Of which right-of-use assets:

2021 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	31 338	37	31 375
Additions	5 151	2 712	7 863
Disposals	(3 994)	(16)	(4 010)
Exchange differences	11	2	13
At 31 December	32 506	2 735	35 241
Accumulated depreciation			
At 1 January	(12 858)	(15)	(12 873)
Depreciation for the year	(6 583)	(472)	(7 055)
Disposals	3 658	–	3 658
Exchange differences	(5)	–	(5)
At 31 December	(15 788)	(487)	(16 275)
Carrying amount			
At 1 January	18 480	22	18 502
At 31 December	16 718	2 248	18 966

2020 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	25 760	–	25 760
Additions	6 050	38	6 088
Disposals	(452)	–	(452)
Exchange differences	(20)	(1)	(21)
At 31 December	31 338	37	31 375
Accumulated depreciation			
At 1 January	(5 659)	–	(5 659)
Depreciation for the year	(7 264)	(15)	(7 279)
Disposals	62	–	62
Exchange differences	3	–	3
At 31 December	(12 858)	(15)	(12 873)
Carrying amount			
At 1 January	20 101	–	20 101
At 31 December	18 480	22	18 502

For 'Buildings and land' the VUB Group uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The VUB Group uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs. As at 31 October 2020, the VUB Group updated the revaluation of buildings and land to their current market value.

In order to optimize costs, the VUB Group decided to sell part of its own buildings and land during 2020 and 2019, which it did not use or used only part of its premises primarily as its branches. From November 2019 to March 2020, these buildings and land were sold, and approximately 35% of the premises were subsequently rented back by the VUB Group to continue to use them. The VUB Group thus entered into sale and leaseback transactions. The buildings sold were excluded from property and equipment and the premises that the VUB Group began to lease back were falling back to property and equipment as rights of use. At the same time, lease liabilities of the same amount as the rights of use were recognized. The gains from these transactions were € nil thousand, as the selling price corresponded to their fair value, in which these buildings were also recognized in the accounting under the revaluation model. The contracts were concluded under current market conditions. The lease term was agreed in the contracts for an average of four years.

In 2021 the VUB Group reviewed the carrying amount of its property and equipment. An impairment test was carried out to determine the recoverable amount. The recoverable amount is determined with reference to the fair value less costs to sell or the value in use, if determinable and if it is higher than fair value. For property and equipment other than buildings and land is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances. The VUB Group measures buildings and land according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement. As a result of the impairment test the VUB Group recognized an impairment loss in the amount of € 40 thousand (31 December 2020: € 670 thousand).

For 'Buildings and land' the VUB Group uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The VUB Group uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs.

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2021	2020
Cost	105 888	102 888
Accumulated depreciation	(55 409)	(52 980)
Impairment losses	(326)	(350)
	50 153	49 558

The VUB Group held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2021	2020
Cost	614	1
Accumulated depreciation	(22)	–
Impairment losses	(77)	–
	515	1

At 31 December 2021, the gross book value of fully depreciated tangible assets that are still used by the VUB Group amounted to € 67 514 thousand (31 December 2020: € 80,394 thousand).

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

At 31 December 2021, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2020: € nil thousand).

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

15. Intangible assets

2021 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	295 943	10 729	55 923	362 595
Additions	–	–	19 505	19 505
Disposals	(1 926)	–	–	(1 926)
Transfers	13 679	–	(13 678)	1
Exchange differences	48	–	3	51
At 31 December	307 744	10 729	61 753	380 226
Accumulated amortisation				
At 1 January	(222 697)	(10 371)	–	(233 068)
Amortization for the year	(17 163)	(103)	–	(17 266)
Disposals	1 924	–	–	1 924
Exchange differences	(40)	–	–	(40)
At 31 December	(237 976)	(10 474)	–	(248 450)
Carrying amount				
At 1 January	73 246	358	55 923	129 527
At 31 December	69 768	255	61 753	131 776

2020 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	276 790	10 931	43 738	331 459
Additions	–	–	31 881	31 881
Disposals	(619)	(102)	–	(721)
Transfers	19 792	(96)	(19 696)	–
Exchange differences	(20)	(4)	–	(24)
At 31 December	295 943	10 729	55 923	362 595
Accumulated amortisation				
At 1 January	(208 544)	(10 332)	–	(218 876)
Amortization for the year	(14 467)	(124)	–	(14 591)
Disposals	312	82	–	394
Exchange differences	2	3	–	5
At 31 December	(222 697)	(10 371)	–	(233 068)
Carrying amount				
At 1 January	68 246	599	43 738	112 583
At 31 December	73 246	358	55 923	129 527

Assets in progress include development of new software applications, mainly the new core banking system € 32 011 thousand (31 December 2020: € 31 216 thousand), that is being developed and the costs for the technical upgrade of software that have not yet been put in use.

At 31 December 2021, the gross book value of fully amortised intangible assets that are still used by the VUB Group amounted to € 153 444 thousand (31 December 2020: € 162 487 thousand).

At 31 December 2021, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2020: € nil thousand).

16. Goodwill

€ '000	2021	2020
Retail Banking	18 871	18 871
VÚB Leasing, a. s.	10 434	10 434
	29 305	29 305

Goodwill related to Consumer Finance Holding, a. s. arose in 2005 on the acquisition of Consumer Finance Holding, a. s. and in 2018 was merged into the Bank. The VUB Group allocated this goodwill to cash generating unit Retail Banking, as Consumer Finance Holding, a. s. was operating in the area of consumer loans.

Goodwill related to VÚB Leasing includes both goodwill related to purchase of the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million) from 2007 and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million) from 2010.

The VUB Group identified four cash generating units – Retail Banking, Corporate Banking, VÚB Leasing, a. s. and Central Treasury, which also representing the operating segment considered for segment reporting (note 6). VÚB Leasing, a. s. is part of the operating segment Corporate Banking. Each of them constitutes the smallest group of assets generating independent incoming cash flows and also the minimum level set by the Bank for planning and reporting processes.

Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses on goodwill were recognized during 2021 and 2020.

The VUB Group uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on ISP Group level specifically for the Slovak market.

The following rates are used by the VUB Group:

€ '000	2021	2020
Pre-tax discount rate – cash flows	9,60%	5.67%
Pre-tax discount rate – terminal value	10,54%	7.65%
Projected growth rate	1,94%	1.82%

The calculation considers the following key assumptions:

- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

17. Current and deferred income tax assets and liabilities

€ '000	2021	2020
Current income tax assets	1 594	26 518
Deferred income tax assets	55 471	54 802
Current income tax liabilities	12 018	3 411

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2020: 21%) as follows:

€ '000	2021	Profit/ (loss) (note 34)	Equity	2020
Financial assets at FVOCI	(1 896)	–	611	(2 507)
Financial assets at AC:	–	–		
Due from other banks	22	(96)	–	118
Due from customers	45 614	(7 626)	–	53 224
Property and equipment	(12 223)	1 921	22	(14 167)
Other assets	7	-	–	7
Financial liabilities at AC:		-	–	
Lease liabilities	4 296	(164)	–	4 460
Provisions	3 909	1 155	–	2 754
Other liabilities	9 888	1 484	–	8 403
Other	5 854	4 091	(746)	2 510
	55 471	765	(113)	54 802

18. Other assets

€ '000	Note	2021	2020
Operating receivables and advances		14 185	16 643
Prepayments and accrued income		10 661	10 196
Inventories		1 175	1 213
Other tax receivables		964	712
Other		513	382
Receivables from termination of leasing		273	64
Settlement of operations with financial instruments		7	12
Impairment losses	21	(3 984)	(3 403)
		23 794	25 819

19. Provisions

€ '000	Note	2021	2020
Financial guarantees and commitments	21	20 446	13 933
Litigation	23	3 715	3 702
Restructuring provision		900	400
Other provisions		–	1
		25 061	18 036

2021 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	3 702	158	(145)	3 715
Restructuring provision	32	400	500	–	900
Other provisions	32	1	(1)	–	–
		4 103	657	(145)	4 615

2020 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	3 920	(68)	(150)	3 702
Restructuring provision	32	334	400	(334)	400
Other provisions	32	1	–	–	1
		4 255	332	(484)	4 103

20. Other liabilities

€ '000	2021	2020
Various creditors	45 402	40 435
Settlement with employees	28 012	28 524
Severance and Jubilee benefits	5 009	5 407
Settlement of operations with financial instruments	4 108	1
Accruals and deferred income	1 888	2 211
VAT payable and other tax payables	1 659	1 710
Settlement with shareholders	846	1 404
Share remuneration scheme	622	711
Investment certificates	526	843
Other	1 539	751
	89 611	81 997

At 31 December 2021 and 31 December 2020 there were no overdue balances within 'Other liabilities'.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to yield curve on Slovak government bonds with a fifteen years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the Projected Unit Credit Method. For the calculation the VUB Group used an average turnover rate which is based on historical data on employees' turnover at the VUB Group for the last three years. The average age-specific turnover rate is calculated as the ratio of number of terminations and the average number of employees. All employees of the VUB Group are covered by the retirement and jubilee employee benefits program.

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

	2021		2020	
	Jubilee benefits	Retirement benefits	Jubilee benefits	Retirement benefits
Discount rate	0,32%	(0,48)%	(0,66)%	(0,11)%
Growth of wages*	–	0,00%	–	0,00%
Future growth of wages*	2%	3%	–	4,50%
Turnover rate (based on age)	4,6% – 42,6%	4,6% – 42,6%	5,1% – 40,9%	5,1% – 40,9%
Retirement age	Based on valid legislation		Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic		Based on mortality tables issued by the Statistical Office of the Slovak Republic	

* Growth of wages and Future growth of wages is not part of calculation for Jubilee benefits.

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

2021 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	2 672	1 145	(2 292)	1 525

2020 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	2 039	2 746	(2 112)	2 673

21. Movements in impairment losses and provisions for financial guarantees and commitments

2021 €'000	Note	1 January	Net creation/ (release) (note 33)	Assets Written off / sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		306	23	–	–	–	329
Financial assets at AC:	11						
Due from other banks		706	(583)	–	(14)	–	109
Due from customers		331 219	75 360	(53 661)	(1 330)	(5 011)	346 577
Impairment losses according to IFRS 9		332 231	74 800	(53 661)	(1 344)	(5 011)	346 686
Financial guarantees and commitments	19	13 933	4 889	–	1 624	–	20 446
Impairment losses and provisions according to IFRS 9		346 164	79 689	(53 661)	280	(5 011)	367 132
Property and equipment and Non–current assets classified as held for sale	14	670	40	(24)	2	–	688
Other assets	18	3 403	581	–	–	–	3 984
Total impairment losses and provisions for financial guarantees and commitments		350 237	80 310	(53 685)	282	(5 011)	372 133

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

2020 €'000	Note	1 January	Net creation/ (release) (note 33)	Assets Written off / sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		224	82	–	–	–	306
Financial assets at AC:	11						
Due from other banks		488	218	–	–	–	706
Due from customers		348 748	60 745	(69 837)	(1 571)	(6 866)	331 219
Impairment losses according to IFRS 9		349 460	61 045	(69 837)	(1 571)	(6 866)	332 231
Financial guarantees and commitments	19	9 370	3 306	–	1 257	–	13 933
Impairment losses and provisions according to IFRS 9		358 830	64 351	(69 837)	(314)	(6 866)	346 164
Property and equipment and Non–current assets classified as held for sale	14	2 653	(1 071)	(912)	–	–	670
Other assets	18	4 378	(975)	–	–	–	3 403
Total impairment losses and provisions for financial guarantees and commitments		365 861	62 305	(70 749)	(314)	(6 866)	350 237

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

22. Equity

€ '000	2021	2020
Share capital – authorised, issued and fully paid:		
89 ordinary shares of € 3 319 391,89 each, not traded	295 426	295 426
4 078 108 ordinary shares of € 33,2 each, publicly traded	135 393	135 393
	430 819	430 819
Share premium	13 719	13 719
Reserves	114 062	116 769
Retained earnings (excluding net profit for the year)	1 062 985	1 062 938
	1 621 585	1 624 245

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

€ '000	2021	2020
Net profit for the year attributable to shareholders in € '000	113 339	82 694

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

The structure of shareholders is as follows:

€ '000	2021	2020
Intesa Sanpaolo Holding International S. A.	100,00%	97.03%
Domestic shareholders	0,00%	2.17%
Foreign shareholders	0,00%	0.80%
	100,00%	100.00%

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

The VUB Group manages its capital structure and adjust to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the VUB Group may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue capital securities or other capital instruments, classified as Additional Tier 1, or Tier2. No changes have been made in the objectives, policies and processes from the previous years.

The VUB Group's regulatory capital position was determined based on the rules for capital adequacy calculation set by the CRR Regulation:

€ '000	2021 (Unaudited)	2020
Tier 1 capital		
Share capital	430 819	430 819
Share premium	13 719	13 719
Retained earnings	1 053 780	1 054 474
Profit or loss eligible	90 440	–
Legal reserve fund	89 778	89 350
Other capital funds	8 464	8 464
Accumulated other comprehensive income	25 025	27 419
(-) Value adjustments due to the requirements for prudent valuation	(56)	(47)
Other transitional adjustments to CET1 Capital	22 438	31 413
CET1 capital elements or deductions — other	(6 400)	(5 090)
Less goodwill and intangible assets	(137 793)	(129 041)
Less IRB shortfall of credit risk adjustments to expected losses	–	(8 416)
(-) Insufficient coverage for non-performing exposures	(336)	–
	1 589 878	1 513 064
Tier 2 capital		
IRB excess of provisions over expected losses eligible	14 502	–
Subordinated debt	200 000	200 000
Other transitional adjustments to T2 Capital	(5 141)	(7 197)
	209 361	192 803
Total regulatory capital	1 799 239	1 705 867

€ '000	2021	2020
Retained earnings	1 175 583	1 145 632
Net profit for the year	(113 339)	(82 694)
Other capital funds	(8 464)	(8 464)
	1 053 780	1 054 474

€ '000	2021	2020	2021 Required	2020 Required
Tier 1 capital	1 589 878	1 513 064	737 602	726 425
Tier 2 capital	209 361	192 803	209 361	192 803
Total regulatory capital	1 799 239	1 705 867	737 602	726 425
Total Risk Weighted Assets	9 220 027	9 080 316	9 220 027	9 080 316
CET 1 capital ratio	17,24%	16.66%	11,84%	11.84%
Total capital ratio	19,51%	18.79%	15,00%	6.00%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings, accumulated other comprehensive income, foreign currency translation and reserves. The deducted amounts in Tier 1 capital are goodwill, intangible assets and irrevocable payment commitments (contribution to Single Resolution Fund) and IRB shortfall. Certain adjustments are made to IFRSs-components as prescribed by the CRR Regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long-term debt and IRB excess of provisions over expected losses.

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2021 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU ('CRD IV') and in the CRR Regulation of 26 June 2013 (in compliance with their amendments – Regulation (EU) 2019/876 and Directive (EU) 2019/878), which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that the Bank must comply with on sub-consolidated and individual level. Starting from 1 January 2021, the overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 10.5%. This is the result:

– the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.5%, entirely of Common Equity Tier 1 ratio;

– additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an Other Systemically Important Institutions Buffer ('O-SII Buffer') of 1% and Systemic Risk Buffer ('SRB') of 1%.

For the sake of completeness, please note that CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer ('CCyB') starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Slovakia by National Bank of Slovakia in relevant regulation, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the National Bank of Slovakia decided to set the countercyclical ratio (relating to the exposures towards Slovak counterparties). Due to COVID-19 pandemic situation, NBS has decreased countercyclical buffer to 1% since 1 August 2020 (previously 1.5%). On 12 March 2020, ECB announced relaxation of the capital requirements in relation to COVID-19 pandemic, by allowing the banks to fully release the P2CG (1%) and allow banks to operate temporarily below the level of capital defined by the capital conservation buffer (CCB) (2.5%), meaning in total effect of 3.5%. Moreover, requirement on P2R composition based on CRD V rules has been updated to 75% Tier 1, out of which 75% should represent CET 1 (56.25% of P2R). These changes represent from 1 January 2021 capital requirement for CET 1 of 11.84% and capital requirement for Tier 1 of 13.63%.

The Overall Capital Requirement was at VÚB group level, as of 1 January 2021 set at 16% and consists of:

– capital requirement for Pillar 1 (8%),

– capital requirement for Pillar 2 (SREP add on 1,5% and Pillar 2 Capital Guidance 1%),

– capital requirement for a combined buffer (5,5%), consisting of Capital Conservation Buffer of 2,5%, and Other Systemically Important Institutions Buffer of 1% and Systemic Risk Buffer of 1% and a Countercyclical Buffer 1,5%.

Since November 2014, the Bank has been under the supervision of the European Central Bank.

Internally, within its Risk Appetite framework, the VUB Group has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) 2017/2395 amending the CRR Regulation as regard transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, integrating the CRR Regulation with Article 473 "Introduction of IFRS 9". The new Article allows Banks to re-introduce in their Common Equity Tier 1 ('CET 1') a decreasing quota of the impact of IFRS 9 in a five-year transitional period (2018 – 2022). That amount shall be determined using the static approach which are adopted by the VUB Group. It refers only to the impact of FTA resulting from the comparison of IAS 39 impairments as at 31 December 2017 and IFRS 9 impairments as at 1 January 2018 – including both performing loans classified in Stages 1 and 2 and adjustments to non-performing loans (Stage 3) – to which is applied a decreasing factor (95% for 2018, 85% in 2020, 70% in 2021, 50% in 2022 and 25% in 2022) to set the amount to be included in CET 1.

The static transitional approach is not applicable to the changes in valuation reserves deriving from re-classification of financial instruments during FTA (impact resulting from classification and measurement).

€ '000	2018	2019	2020	2021	2022
Decreasing factor	95%	85%	70%	50%	25%
Impact to CET 1	39 281	35 146	28 944	20 674	10 337

Furthermore, under paragraph 7 of Article 473 of the CRR Regulation, ISP Group companies adopting the transitional approach shall update calculation of the following components relevant to the determination of supervisory capital requirements, so as to avoid inappropriate benefits:

- Deferred tax assets deducted from CET 1 relating to Standard and Internal ratings-based ('IRB') exposures;
- Determination of Exposure At Default using the scaling factor to assess the Risk Weighted Assets of Standard exposures;
- Tier 2 elements relating to IRB weighted exposures.

The impact on own funds of the first-time adoption of IFRS 9 and the adoption of the "static" approach during the transitional period (2018 – 2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios (with and without applying the transitional provisions for IFRS 9) following:

- the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9,
- the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the aforementioned Regulation, aimed at mitigating the impact of FTA;
- the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
- the reduction of the risk-weighted assets (RWA) on standard exposures as at 1 January 2018, which as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
- the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

Regulation (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) No 2019/876 as regards certain adjustments in response to the COVID-19 pandemic meaning amendments of the transitional arrangements for adoption of IFRS 9 (Art. 473a of CRR) the Bank continues to apply the static approach as defined for the first-time adoption of IFRS 9 in relation to own funds calculation, which is in line with ISP Group approach. Moreover, the Bank has decided not to adopt temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (Art. 468).

The prudential treatment of software assets

The VUB Group has adopted prudential treatment of software assets based on the Final Report "Draft Regulatory Technical Standards on the prudential treatment of software assets under Article 36 of Regulation (EU) 575/2013 (CRR)", EBA/RTS/2020/07, regarding updated version of the Capital Requirements Regulation 2019/876 and Directive 2019/878 (CRR II/CRD V) published in June 2019 concerning the modified version of article 36(1)b (CRR II) with regard to own funds requirements for institutions. The Bank has adopted the prudential amortization approach for software assets for the calculation of CET1 at individual and consolidated level starting from December 2020 based on EBA/RTS/ 2020/07 methodology, which is in line with ISP Group Approach. The prudential amortization allows the banks not to deduct from CET1 software assets that are prudentially valued (i.e. when the value of software assets is not negatively affected by status of resolution, insolvency or liquidation of the bank). The residual portion of the carrying amount of software is risk-weighted (100%), in accordance with the current CRR provisions. This treatment has also been established by Commission delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items.

23. Financial commitments and contingencies

23.1. Issued guarantees and commitments and undrawn credit facilities

€ '000	2021	2020
Issued guarantees	1 003 796	866 694
Commitments and undrawn credit facilities	4 425 762	3 665 938
of which revocable	*1 535 398*	*567 499*
	5 429 558	4 532 632

Issued guarantees represent irrevocable assurances that the VUB Group will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the VUB Group recognizes provisions for these instruments. (note 19)

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

23.2. Operating leasing

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

€ '000	2021	2020
Up to one year	6 548	3 387
One to two years	4 250	2 102
Two to three years	2 141	1 213
Three to four years	1 054	460
Four to five years	866	41
Over to five years	33	–
	14 892	7 203

23.3. Legal proceedings

In the normal course of business, the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2021. Pursuant to this review, management has recorded total provisions of € 3 715 thousand (31 December 2020: € 3 702 thousand) in respect of such legal proceedings (note 19). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 32 516 thousand, as at 31 December 2021 (31 December 2020: € 30 367 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the VUB Group.

€ '000	2021	2020
Legal proceedings related to leasing contracts	3 253	3 111
Legal proceedings related to credit contracts	228	584
Legal proceedings related bankruptcy revocations	223	–
Legal proceedings on credit collection	7	7
Legal proceedings related to all other civil disputes	4	–
	3 715	3 702

24. Net interest income

€ '000	2021	2020
Interest and similar income		
Financial assets at FVTPL	36	127
Financial assets at FVOCI	691	2 582
Financial assets at AC:		
Due from other banks	4 767	3 799
Due from customers	326 893	340 775
Derivatives – Hedge accounting	(18 387)	(15 475)
Interest income on liabilities	10 803	910
	324 803	332 718
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(1 918)	(2 005)
Due to customers and Subordinated debt	(13 964)	(17 601)
Lease liabilities	(154)	(78)
Debt securities in issue	(30 689)	(28 283)
Derivatives – Hedge accounting	18 536	10 584
Interest expense on assets	(9 310)	(516)
	(37 345)	(37 899)
	287 458	294 819

€ '000	2021	2020
Interest and similar income		
Total interest income calculated using the effective interest method	319 637	326 535
Other interest income – interest income on finance leases	5 130	6 056
Other interest income – interest income on financial assets at FVTPL	36	127
	324 803	332 718

€ '000	2021	2020
Net interest income		
Financial assets at FVOCI	691	2 582
Financial assets at AC	317 220	338 002
	317 911	340 584
Financial liabilities at AC	(35 768)	(47 057)

Interest income on impaired loans and advances to customers for 2021 amounted to € 10 879 thousand (2020: € 11 716 thousand).

25. Net fee and commission income

2021 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38 205	3 626	–	11	41 842
Payments and cash management	14 340	9 214	16	2	23 572
Cards	29 143	267	–	68	29 478
Loans	12 691	7 575	–	341	20 607
Indirect deposits	22 411	42	–	–	22 453
Insurance	13 305	–	–	–	13 305
Trade finance	14	8 126	1 508	–	9 648
Factoring	–	1 630	–	–	1 630
Structured finance	–	1 547	–	–	1 547
Other	539	4 104	1 477	35	6 155
	130 648	36 131	3 001	457	170 237
Fee and commission expense					
Cards	(15 166)	–	–	–	(15 166)
Payments and cash management	(1 871)	(5 609)	–	(564)	(8 044)
Current accounts	–	–	(384)	(737)	(1 121)
Insurance	(394)	–	–	–	(394)
Factoring	–	(353)	–	–	(353)
Indirect deposits	–	35	–	–	35
Other	(116)	(189)	(1 296)	(2 360)	(3 961)
	(17 547)	(6 116)	(1 680)	(3 661)	(29 004)
Net fee and commission income under IFRS 15	113 101	30 015	1 321	(3 204)	141 233
Income from guarantees under IFRS 9	–	6 145	–	–	6 145
Total net fee and commission income	113 101	36 160	1 321	(3 204)	147 378

2020	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38 525	3 174	–	9	41 708
Payments and cash management	14 441	13 148	1 351	11	28 951
Cards	27 714	290	–	39	28 043
Loans	9 837	7 524	–	516	17 877
Indirect deposits	17 740	43	–	–	17 783
Insurance	13 702	3	–	–	13 705
Trade finance	10	635	1 776	–	2 421
Factoring	–	1 193	–	–	1 193
Structured finance	–	951	–	–	951
Other	585	2 395	249	102	3 331
	122 554	29 356	3 376	677	155 963
Fee and commission expense					
Cards	(15 523)	–	–	–	(15 523)
Payments and cash management	(1 762)	(5 232)	(470)	(493)	(7 957)
Current accounts	–	–	–	(613)	(613)
Insurance	(432)	–	–	–	(432)
Factoring	–	(229)	–	–	(229)
Other	(377)	(2)	(467)	(2 914)	(3 760)
	(18 094)	(5 463)	(937)	(4 020)	(28 514)
Net fee and commission income under IFRS 15	104 460	23 893	2 439	(3 343)	127 449
Income from guarantees under IFRS 9	–	7 186	–	–	7 186
Total net fee and commission income	104 460	31 079	2 439	(3 343)	134 635

26. Net trading result

€ '000	2021	2020
Foreign currency derivatives and transactions	11 756	(2 363)
Customer foreign exchange margins	7 656	6 831
Financial assets measured at FVOCI	6 140	6 754
Interest rate derivatives	306	(3 978)
Non-trading financial assets measured at FVTPL	116	(93)
Dividends from equity shares measured at FVOCI	98	–
Financial assets held for trading – debt securities	62	3 982
Other derivatives	62	177
Dividends from equity shares held in FVTPL	–	63
Equity derivatives	–	–
Net result from hedging transactions	(172)	630
Cross currency swaps	(6 908)	6 641
	19 116	18 644

27. Other operating income

€ '000	2021	2020
Income from operating leasing	4 281	4 498
Net profit from sale of fixed assets	812	696
Financial revenues	765	1 579
Services	47	7
Other	2 126	813
	8 031	7 593

28. Other operating expenses

€ '000	2021	2020
Contribution to the Single Resolution Fund*	(7 424)	(6 880)
Contribution to the Deposit Protection Fund**	(5 267)	(605)
Costs of product support – credit cards	(1 497)	(1 892)
Court fees and expenses and out-of-court settlements	(1 215)	(1 421)
Other damages	(600)	(267)
Other	(9 390)	(7 396)
	(25 393)	(18 461)

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

** The annual contribution for 2021 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2021, the VUB Group expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2021 was set at 0.0075% p. q. of the amount of protected deposits.

29. Special levy of selected financial institutions

€ '000	2021	2020
Special levy of selected financial institutions	–	(31 038)

The special levy of selected financial institutions was set to 0.4% p. a. of selected liabilities for the year 2020 (2019: 0.4% p. a.).

As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective. This amendment also covered measures in the area of special levy of selected financial institutions. According to these measures no more special levy payments were required from July 2020 until the end of 2020.

30. Salaries and employee benefits

€ '000	2021	2020
Remuneration	(90 145)	(89 530)
Social security costs	(34 686)	(34 514)
Social fund	(1 145)	(2 746)
Termination benefit	(500)	(66)
Severance and Jubilee benefits	398	226
	(126 078)	(126 630)

At 31 December 2021, the total number of employees of the VUB Group was 3 417 (31 December 2020: 3 655). The average number of employees of the VUB Group during the year ended as at 31 December 2021 was 3 503 (31 December 2020: 3 699).

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

31. Other administrative expenses

€ ’000	2021	2020
Third parties' services	(17 683)	(18 693)
Information technologies systems maintenance	(14 658)	(13 747)
Maintenance and repairs	(6 406)	(5 561)
Advertising and sponsorship	(5 110)	(5 060)
Rental of buildings and related expenses	(3 834)	(3 728)
Postage costs	(3 607)	(4 223)
Telephone and telecommunication costs	(3 226)	(2 818)
Energy costs	(2 917)	(2 552)
Forms and office supplies	(2 475)	(2 500)
Electronic data processing system leasing	(1 979)	(1 844)
Cleaning of premises	(1 518)	(1 451)
Archives and documents	(1 306)	(894)
Indirect personnel costs and compensation	(1 287)	(1 423)
Security	(1 276)	(1 444)
Transport	(1 131)	(1 443)
Insurance	(1 130)	(989)
Other rentals	(769)	(779)
Cost of legal services	(692)	(936)
Consultations and other fees*	(591)	(919)
Information and research	(207)	(211)
Other expenses**	(1 830)	(2 940)
Value added tax and other taxes	(180)	(207)
Reinvoicing	1 249	525
	(72 563)	(73 837)

* ‘Consultations and other fees’ includes the fee for the statutory audit and financial statements in amount € 302 thousand (2020: € 256 thousand). There is included fee for audit of the year end group reporting package, ancillary charge, audit of the consolidated financial statements. Other audit-related assurance services and non-audit services performed by the statutory auditor related to limited review of the half-yearly financial statements and reporting packages, limited review of the financial statements and reporting packages as at 31 March and 30 September, audit of the regulatory prudential returns as requested by the Slovak legislation and the Extended auditor's report to the National Bank of Slovakia, Q3 Interim condensed FS ISRE 2410 review, ISRS 4400 - AUP in respect of the Commercial code requirements before the Legal merger amounted to € 127 thousand (2020: € 407 thousand).

** These items includes among other things:

€ ’000	2021	2020
Expenses relating to membership fees in various professional organisations & associations	(309)	(1 069)
Expenses relating to ECB supervisory fee	(519)	(522)
	(828)	(1 591)

32. Provisions

€ '000	Note	2021	2020
Net release and use of provisions for litigations	19	(12)	218
Net release and use of provisions for other provisions	19	–	–
		(12	218

33. Impairment losses and Net loss arising from the derecognition of financial assets at amortised cost

€ '000	Note	2021	2020
Net creation of impairment losses	21	(75 422)	(59 043)
Net (creation)/release of provisions for financial guarantees and commitments	21	(4 888)	(3 262)
		(80 310)	(62 305)
Net loss arising from the derecognition of financial assets at AC		8 980	(7 436)

34. Income tax expense

€ '000	Note	2021	2020
Current income tax	17	(31 307)	(16 743)
Deferred income tax	17	765	(9 704)
		(30 542)	(26 447)

The movement in deferred taxes in the statement of profit or loss is as follows:

€ '000	2021	2020
Due from other banks	(96)	23
Due from customers	(7 626)	(5 656)
Property and equipment	1 921	(4 721)
Lease liabilities	(164)	196
Provisions	1 155	898
Other liabilities	1 484	(646)
Other	4 091	202
	765	(9 704)

The effective tax rate differs from the statutory tax rate in 2021 and in 2020. The reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

€ '000	2021	2020
Profit before tax	143 881	109 141
Theoretical tax calculated at the tax rate 21%	(30 215)	(22 930)
Tax impact:		
Non-taxable income	1 849	2 371
Tax non-deductible expenses	(8 156)	(7 390)
Impairment allowances and provisions, net	5 193	10 320
Additional tax of prior years	22	876
Creation/(release) of allowances for uncertain realisation of deferred tax receivables	765	(9 704)
Income tax expense	(30 542)	(26 447)
Effective tax for the year	21.23%	24.23%

35. Other comprehensive income

€ '000	2021	2020
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation (loss)/gain arising during the year	(35)	3 080
Reclassification adjustment for profit on sale of FVOCI equities within equity	110	(4 470)
	75	(1 390)
Net revaluation gain from property and equipment	(28)	4 553
Reversal of deferred income tax on FTA Reserve due to VÚB Leasing merger into VÚB Bank	(741)	–
Reversal of deferred income tax on disposed property and equipment	22	99
	(672)	3 262
Items that may be reclassified to statement of profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation gain arising during the year	–	–
Change in value of financial assets at FVOCI (debt instruments):		
Revaluation loss arising during the year	17 360	33 284
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(20 573)	(23 849)
	(3 213)	9 435
Exchange difference on translation foreign operation	79	(309)
	(3 134)	9 126
Total other comprehensive income	(3 806)	12 388
Income tax relating to components of other comprehensive income (note 36)	643	(1 706)
Other comprehensive income for the year after tax	(3 163)	10 682

36. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense) /benefit	2021 Net of tax amount	Before tax amount	Tax (expense) /benefit	2020 Net of tax amount
Items that shall not be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (equity instruments)	(28)	6	(22)	4 553	(956)	3 597
Reversal of deferred income tax on disposed property and equipment	22	–	22	99	–	99
	(741)	–	(741)			
Net revaluation gain from property and equipment	75	(38)	37	(1 390)	1 231	(159)
	(672)	(32)	(704)	3 262	275	3 537
Items that may be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (debt instruments)	(3 213)	675	(2 538)	9 435	(1 981)	7 454
Exchange differences on translation foreign operations	79		79	(309)		(309)
Change in value of cash flow hedges	–	–	–	–	–	–
	(3 134)	675	(2 459)	9 126	(1 981)	7 145
	(3 806)	643	(3 163)	12 388	(1 706)	10 682

37. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates – enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the VUB Group that gives them significant influence over the VUB Group, and anyone expected to influence, or be influenced by, that person in their dealings with the VUB Group;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the VUB Group, including directors and officers of the VUB Group and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the VUB Group and enterprises that have a member of key management in common with the VUB Group.In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The stated transactions have been made under arms-length commercial and banking conditions.

In 2021, the remuneration and other benefits provided to members of the Management Board were € 3,372 thousand (2020: € 3,227 thousand), of which the severance benefits € 24 thousand (2020: € 79 thousand), and to members of the Supervisory Board € 55 thousand (2020: € 55 thousand).

On 20 July 2020 was completed the merger by incorporation of Banca IMI S.p.A., the part of the ISP Group, into the Parent Company Intesa Sanpaolo S.p.A. From this day all legal relations concerning the merged company will be intended as referred to Intesa Sanpaolo S.p.A.

As at 31 December 2021, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Cash and cash equivalents	–	–	–	35 165	388	35 553
Financial assets at FVTPL:						
Financial assets held for trading	–	–	–	8 925	7	8 932
Non-trading financial assets at FVTPL	–	–	–	622	–	622
Derivatives – Hedge accounting	–	–	–	55 574	–	55 574
Financial assets at FVOCI	–	–	–	43	–	43
Financial assets at AC:						
Due from other banks	–	–	–	1 649 885	–	1 649 885
Due from customers	312	3	–	–	19 988	20 303
Other assets	–	–	–	1	1 186	1 187
	312	3	–	1 750 215	21 569	1 772 099
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	–	–	–	16 317	–	16 317
Derivatives – Hedge accounting	–	–	–	23 787	–	23 787
Financial liabilities at AC:						
Due to banks	–	–	–	322 788	33 161	355 949
Due to customers	854	–	230	350 885	3 423	355 392
Subordinated debt	–	–	–	–	200 150	200 150
Provisions	–	–	–	10	–	10
Other liabilities	622	–	–	1 766	–	2 388
	1 476	–	230	715 553	236 734	953 993

As at 31 December 2020, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Financial assets at FVTPL:						
Financial assets held for trading	–	–	–	58 969	15	58 984
Non-trading financial assets at FVTPL	–	–	–	711	–	711
Derivatives – Hedge accounting	–	–	–	85 124	–	85 124
Financial assets at FVOCI	–	–	–	326	–	326
Financial assets at AC:						
Due from other banks	–	–	–	69 198	315	69 513
Due from customers	329	1	–	–	–	330
Other assets	–	–	–	–	1 139	1 139
	329	1	–	214 328	1 469	216 127
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	–	–	–	73 861	–	73 861
Derivatives – Hedge accounting	–		–	52 625	–	52 625
Financial liabilities at AC:		–				
Due to banks	–	–	–	467 438	2 092	469 530
Due to customers	1 311	–	245	–	11 226	12 782
Subordinated debt	–	–	–	–	200 151	200 151
Provisions	–	–	–	21	–	21
Other liabilities	711	–	–	2 510	–	3 221
	2 022	–	245	596 455	213 469	812 191

As at 31 December 2021, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	57	18	–	201 167	–	201 242
Issued guarantees	–	–	–	25 193	117	25 310
Received guarantees	–	–	–	6 408	–	6 408
Derivative transactions (notional amount – receivable)	–	–	–	9 991 301	6 907	9 998 208
Derivative transactions (notional amount – payable)	–	–	–	9 989 521	6 903	9 996 424

As at 31 December 2020, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	56	20	–	14	–	90
Issued guarantees	–	–	–	10 360	85	10 445
Received guarantees	–	–	–	10 157	–	10 157
Derivative transactions (notional amount – receivable)	–	–	–	8 739 712	5 038	8 744 750
Derivative transactions (notional amount – payable)	–	–	–	8 741 454	5 028	8 746 482

For the year ended 31 December 2021, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	3	–	–	3	97	103
Interest and similar expense	(2)	–	–	(4 353)	(5 620)	(9 975)
Fee and commission income	–	–	1	112	18 146	18 259
Fee and commission expense	–	–	–	(571)	(6)	(577)
Net trading result	–	–	–	(93 607)	(41)	(93 648)
Other operating income	–	–	–	44	60	104
Other operating expenses	–	–	–	(514)	–	(514)
Other administrative expenses	–	–	–	(8 570)	(2 589)	(11 159)
Impairment losses	–	–	–	24	–	24
	1	–	1	(107 432)	10 047	(97 383)

For the year ended 31 December 2020, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	2	–	1	12	19	34
Interest and similar expense	(1)	–	–	(1 325)	(5 903)	(7 229)
Fee and commission income	–	–	–	310	15 080	15 390
Fee and commission expense	–	–	–	(1 168)	(5)	(1 173)
Net trading result	–	–	–	(41 125)	(328)	(41 453)
Other operating income	–	–	–	279	197	476
Other operating expenses	–	–	–	(516)	–	(516)
Other administrative expenses	–	–	–	(11 569)	(387)	(11 956)
Impairment losses	–	–	–	(18)	2	(16)
	1	–	–	(55 120)	8 675	(46 443)

38. Events after the end of the reporting period

The Bank´s 100% subsidiary **VÚB Leasing, a.s.** (Business Reg. Nr.: 31318045) ceased its operations as of 31.12.2021 and as of this day the company has been removed from the list of active companies in Business Register of the Slovak Republic. Its operations related to finance lease have been transferred to the Bank and those related to operating lease to the company **VÚB Operating Leasing, a.s.** (Business Reg. Nr.: 54108128), that is also 100% subsidiary of the Bank.

From 31 December 2021, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue by the Management Board on 23 February 2022. These financial statements will be published 25 February 2022 and will be available at the registered office of the Bank.

Alexander Resch

Chairman of the Management Board

Paolo Vivona

Member of the Management Board

Separate financial statements

Separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditors' Report for the year ended 31 December 2021

Contents

Separate statement of financial position as at 31 December 2021 (In thousands of euro)

	Note	2021	2020
Assets			
Cash and cash equivalents	7	2 612 785	1 571 629
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading	8	30 064	85 423
Non-trading financial assets at fair value through profit or loss		7 316	711
Derivatives – Hedge accounting	9	55 574	85 192
Financial assets at fair value through other comprehensive income	10	1 671 403	1 618 067
of which pledged as collateral		1 549 666	*634 093*
Financial assets at amortised cost:	11		
Due from other banks		1 819 364	205 420
Due from customers		16 256 447	14 724 137
of which pledged as collateral		1 649 805	–
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	3 301	20 016
Investments in subsidiaries, joint ventures and associates	13	69 656	69 629
Property and equipment	14	110 087	113 163
Intangible assets	15	130 848	128 896
Goodwill	16	18 871	18 871
Current income tax assets	17	-	26 518
Deferred income tax assets	17	53 880	51 056
Other assets	18	21 108	22 685
Non-current assets classified as held for sale	14	515	1
		22 861 219	18 741 414
Liabilities			
Financial liabilities at fair value through profit or loss:			
Financial liabilities held for trading		30 863	87 377
Derivatives – Hedge accounting	9	31 510	65 407
Financial liabilities at amortised cost:	11		
Due to banks		2 964 063	170 671
Due to customers		13 952 764	12 977 960
Lease liabilities		20 474	22 858
Subordinated debt		200 150	200 151
Debt securities in issue		3 829 056	3 422 729
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	2 816	6 990
Current income tax liabilities	17	12 018	635
Provisions	19	21 597	14 895
Other liabilities	20	86 186	78 495
		21 151 497	17 048 168
Equity	22		
Share capital		430 819	430 819
Share premium		13 719	13 719
Legal reserve fund		87 493	87 493
Retained earnings		1 152 984	1 134 224
Equity reserves		24 707	26 991
		1 709 722	1 693 246
		22 861 219	18 741 414

The accompanying notes on pages 235 to 409 form an integral part of these financial statements.

Separate statement of profit or loss and other comprehensive income for the year ended 31December 2021 (In thousands of euro)

	Note	2021	2020
Interest income calculated using the effective interest method		306 313	313 931
Other interest income		36	127
Interest and similar expense		(35 980)	(36 504)
Net interest income	24	270 369	277 554
Fee and commission income		174 420	161 004
Fee and commission expense		(28 889)	(28 411)
Net fee and commission income	25	145 531	132 593
Dividend income		3 002	4 001
Net trading result	26	19 131	18 646
Other operating income	27	2 875	2 218
Other operating expenses	28	(22 339)	(15 257)
Special levy of selected financial institutions	29	-	(31 038)
Salaries and employee benefits	30	(122 908)	(122 778)
Other administrative expenses	31	(70 839)	(71 487)
Amortisation	15	(17 124)	(14 489)
Depreciation	16	(13 112)	(13 592)
Profit before provisions, impairment and tax		194 586	166 371
Net modification or losses		(80)	-
Provisions	19, 32	129	355
Impairment losses	21, 33	(73 090)	(49 147)
Net loss arising from the derecognition of financial assets at amortised cost	33	8 610	(7 458)
Profit before tax		130 155	110 121
Income tax expense	34	(29 169)	(25 082)
NET PROFIT FOR THE YEAR		100 986	85 039
Other comprehensive income for the year, after tax:	35, 36		
Items that shall not be reclassified to profit or loss in the future:			
Net revaluation gain from property and equipment		(22)	3 597
Reversal of deferred income tax on disposed property and equipment		22	99
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		37	(159)
		37	*3 537*
Items that may be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		(2 428)	7 470
Change in value of cash flow hedges		-	-
Exchange difference on translation of foreign operations		79	(309)
		(2 349)	7 161
Other comprehensive income for the year, net of tax		(2 312)	10 698
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		98 674	95 737
Basic and diluted earnings per € 33,2 share in €		7,78	6,55

The accompanying notes on pages 235 to 409 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2021

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2021	430 819	13 719	87 493	1 134 224	17 297	9 673	–	21	1 693 246
Total comprehensive income for the year, net of tax	–	–	–	100 986	–	(2 391)	–	79	98 674
Reclassification of Visa Inc. Series C Preferred Stock	–	–	–	–	–	–	–	–	–
Gain on disposal of property and equipment	–	–	–	82	(82)	–	–	–	–
Transfer	–	–	–	20	–	–	–	–	20
Losses on the sale of shares at FVOCI	–	–	–	(110)	–	110	–	–	–
Exchange difference	–	–	–	–	–	–	–	–	–
Transactions with owners, recorded directly in equity									
Dividends to shareholders	–	–	–	*(82 487)*	–	–	–	–	*(82 487)*
Reversal of dividends distributed but not collected (note 38)	–	–	–	*269*	–	–	–	–	*269*
At 31 December 2021	430 819	13 719	87 493	1 152 984	17 215	7 392	–	100	1 709 722

The accompanying notes on pages 235 to 409 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2021

(In thousands of euro)

(continued)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2020	430 819	13 719	87 493	1 043 673	14 073	6 832	–	330	1 596 939
Total comprehensive income for the year, net of tax	–	–	–	85 039	3 696	7 311	–	(309)	95 737
Reclassification of Visa Inc. Series C Preferred Stock	–	–	–	4 724	–	(4 724)	–	–	–
Gain on disposal of property and equipment	–	–	–	472	(472)	–	–	–	–
Losses on the sale of shares at FVOCI	–	–	–	(254)	–	254	–	–	–
Exchange difference	–	–	–	374	–	–	–	–	–
Transactions with owners, recorded directly in equity									
Dividends to shareholders	–	–	–	–	–	–	–	–	–
Reversal of dividends distributed but not collected (note 38)	–	–	–	*196*	–	–	–	–	*196*
At 31 December 2020	430 819	13 719	87 493	1 134 224	17 297	9 673	–	21	1 693 246

The accompanying notes on pages 235 to 409 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2021

(In thousands of euro)

	Note	2021	2020
Cash flows from operating activities:			
Profit before tax		130 155	110 121
Adjustments for:			
Interest income	24	(306 349)	(314 058)
Interest expense	24	35 980	36 504
Dividend income		(3 002)	(4 001)
Loss/(gain) from sale/revaluation of financial assets at fair value through other comprehensive income		33 101	(11 385)
(Gain)/loss on sale of intangible assets and property and equipment	28	(95)	3 725
(Loss)/gain from revaluation of debt securities in issue		(52 996)	35 598
Amortisation	15	17 124	14 489
Depreciation	14	13 112	13 592
Impairment losses and similar charges	32, 33	131 417	75 018
Exchange difference on translation of foreign operations	35, 36	99	65
Interest received		330 245	269 509
Interest paid		(39 318)	(33 347)
Tax received/(paid)		5 908	(13 555)
Decrease/(increase) in financial assets at fair value through profit or loss		48 754	(62 122)
Decrease/(increase) in derivatives – hedge accounting (assets)		29 618	(2 691)
Financial assets at amortised cost:			
Increase in due from other banks		(1 614 323)	(25 675)
Increase in due from customers		(1 667 086)	(710 043)
Decrease/(increase) in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		16 715	(6 176)
Decrease/(increase) in other assets		1 084	(699)
(Decrease)/increase in financial liabilities at fair value through profit or loss		(56 514)	62 627
(Decrease)/increase in derivatives – hedge accounting (liabilities)		(33 897)	5 574
Financial liabilities measured at amortised cost:			
Increase/(decrease) in due to banks		2 562 334	(138 464)
Increase in due to customers		976 438	1 073 500
(Decrease)/increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		(4 174)	2 410
Increase in provisions		1 995	968
Increase/(decrease) in other liabilities		7 960	(12 066)
Net cash from operating activities		564 285	369 418
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(1 047 698)	(1 511 287)
Disposal of financial assets at fair value through other comprehensive income		412 985	758 638
Repayments of financial assets at fair value through other comprehensive income		530 900	757 370
Purchase of intangible assets and property and equipment		(24 864)	(41 356)
Disposal of intangible assets and property and equipment		400	647
Dividends received		3 002	4 001
Net cash used in investing activities		(125 275)	(31 987)

(Table continues on the next page)

The accompanying notes on pages 235 to 409 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2021

(In thousands of euro)

(continued)

	Note	2021	2020
Cash flows from financing activities:			
Proceeds from issue of debt securities		500 000	500 000
Repayments of debt securities in issue		(47 597)	(235 840)
Proceeds from loans received from other banks		251 562	2 500
Repayments of loans received from other banks		(11 881)	(20 550)
Repayments of lease liabilities		(7 451)	(8 350)
Dividends paid		(82 487)	–
Net cash from financing activities		602 146	237 760
Net change in cash and cash equivalents		1 041 156	575 191
Cash and cash equivalents at the beginning of the year		1 571 629	996 438
Cash and cash equivalents at 31 December		2 612 785	1 571 629

The accompanying notes on pages 235 to 409 form an integral part of these financial statements.

1. Basis of preparation

1.1. Reporting entity general information

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

At 31 December 2021, the Bank had a network of 179 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2020: 197). The Bank also has one branch in the Czech Republic (31 December 2020: 1).

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

At 31 December 2021, the members of the Management Board are Alexander Resch (Chairman), Marie Kovářová, Peter Magala, Martin Techman, Roberto Vercelli, Andrej Viceník and Paolo Vivona.

At 31 December 2021, the members of the Supervisory Board are Ignacio Jaquotot (Chairman), Elena Kohútiková (Vice Chairman), Marco Fabris, Peter Gutten, Luca Leoncini Bartoli, Christian Schaack, and Róbert Szabo.

1.2. Basis of accounting

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

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

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

1.3. Functional and presentation currency

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

Negative balances are presented in brackets.

1.4. Use of judgements and estimates

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

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

1.4.1. Judgements

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

- Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ('SPPI') on the principal amount outstanding. (note 3.4.2)
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into

measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL. (note 4.1.2)

– Valuation of lease liabilities (note 11.5) and right-of-use assets (note 14)

The application of International Financial Reporting Standard 16 Leases ('IFRS 16') requires the Bank to make judgments that affect the valuation of the lease liabilities and the valuation of right-of-use assets (note 3.16). These include: determining contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Bank generally comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option. The same term is applied as economic useful life of right-of-use assets.

For contracts relating to branch and office premises, the Bank has concluded that there are a number of scenarios where the Bank might elect not to exercise the extension options. Therefore, the IFRS 16 criterion of being reasonably certain to exercise the extension options is not fulfilled. The periods covered by a potential use of an option to extend the lease were excluded from the lease term.

For leases of branch and office premises with indefinite term the Bank generally estimates the length of the contract to be five years. The Bank monitors these assumptions, reviews the industry practice and the evolution of the accounting interpretations in relation to the estimation of the lease terms among peer financial entities and is prepared to make adjustments, if necessary.

The present value of the lease payment is determined using the discount rate representing the rate of interest rate swap applicable for currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the Bank's rating, observed in the period when the lease contract commences or is modified.

1.4.2. Assumptions and estimation uncertainties

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

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

- Determination of the fair value of financial instruments with significant unobservable inputs. (note 5) Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the use of mathematical models. The inputs to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments.
- Impairment of financial instruments: determining inputs into the expected credit loss (ECL) measurement model, including incorporation of forward-looking information. (note 4.1.2)

  The Bank reviews its loans and advances at each reporting date to assess whether any individually assessed impairment loss should be recorded in the statement of profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment loss required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the individually assessed impairment losses.
- Recognition and measurement of legal claims: key assumptions about the likelihood and magnitude of an outflow of resources.
- Recognition of deferred tax assets: availability of future taxable profit against which deferred tax assets can be used.
- Impairment testing for cash generating units containing goodwill: key assumptions underlying recoverable amounts.

2. Changes in accounting policies

A number of the new standards are also effective from 1 January 2020 but they do not have a material effect on the financial statements.

The Visa Inc. Series C Preferred Stock were reclassified as at 1 January 2020 from fair value through other comprehensive income to fair value through profit or loss portfolio (note 8, note 10). The classification was revalued in the light of the significant change in the conversion ratio established by the issuer.

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

2.1. Standards and interpretations relevant to the Bank's operations issued that are effective for current year

Interest Rate Benchmark Reform ('IBOR Reform') – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities.

The amendments require the Bank to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

In accordance with exceptions provided in the Phase 2 amendments, the Bank has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2019. There is no impact on opening equity balances as a result of retrospective application.

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption. The details of the accounting policies are disclosed in note 3.9. See also note 4.2.5 for related disclosures about risks and hedge accounting.

Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020.
IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The amendments, did not have a material impact on the financial statements of the Bank because the Bank did not renegotiate rent agreements.

2.2. Standards and interpretations issued but not yet effective or not early adopted by the Bank

A number of new standards and amendments to standards are not yet effective or not yet adopted by the European Union. Early application is permitted, however, the Bank has not early adopted the new and amended standards in preparing these consolidated financial statements. The Bank intends to adopt these standards when they become effective.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU.

For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Bank accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Bank will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2021, the taxable temporary difference in relation to the right-of-use asset is € 20 232 thousand and the deductible temporary difference in relation to the lease liability is € 20 474 thousand, resulting in a net deferred tax asset of € 51 thousand.

Under the amendments, the VUB Group will present a separate deferred tax liability of € 4 249 thousand and a deferred tax asset of € 4 300 thousand. There will be no impact on retained earnings on adoption of the amendments.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

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

The following new and amended standards are not expected to have a significant impact on the Bank's separate financial statements:

- IFRS 17: Insurance Contracts and amendments to IFRS 17 Insurance Contracts,
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1),
- Reference to Conceptual Framework (Amendments to IFRS 3),

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16),
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37),
- Annual Improvements to IFRS Standards 2018–2020,
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16),
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2),
- Definition of Accounting Estimates (Amendments to IAS 8).

Annual Improvements to IFRS Standards 2018-2021

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.)

Amendment to IFRS 9 Financial Instruments

The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

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

3. Significant accounting policies

3.1. Foreign currency transactions

Transactions in foreign currencies are translated into the euro at the official European Central Bank ('ECB') spot exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into euro at the official ECB spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into euro at the official ECB spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the official ECB spot exchange rate at the date of the transaction.

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income ('OCI'):

– qualifying cash flow hedges to the extent that the hedge is effective; and
– equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.

3.2. Foreign operations

The financial statements include foreign operations in the Czech Republic. The assets and liabilities of foreign operations are translated into euro at the spot exchange rate at the reporting date. The income and expenses of foreign operations are translated to euro at rates approximating the foreign exchange rates at the dates of the transactions.

Foreign currency differences arising on these translations are recognised in OCI, and accumulated in the foreign currency translation reserve ('Translation of foreign operation' reserve).

3.3. Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, balances held with central banks, including compulsory minimum reserves, and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

'Cash and cash equivalents' are carried at amortised cost in the statement of financial position (note 7).

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

The Bank initially recognises loans and advances (e.g. 'Due from other banks', 'Due from customers'), deposits (e.g. 'Due to banks', 'Due to customers'), debt securities issued and subordinated debt on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.4.2. Classification

On initial recognition, a financial asset is classified as measured at:

- Amortised cost ('AC'), (note 3.21)
- Fair value through other comprehensive income ('FVOCI'), or
- Fair value through profit or loss ('FVTPL').

A financial asset is measured at AC, if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI (note 3.6.2). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (note 3.4.7).

Business model assessment

The Bank uses the following business models:

- Held to collect,
- Held to collect and sell,
- Held for trading/Other.

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales, in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank states objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

Contingent events that would change the amount and timing of cash flows;

- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified.

3.4.3. Subsequent measurement

After initial recognition, the Bank measures financial assets and financial liabilities in accordance to the classification at fair value through profit or loss (note 3.5), fair value through other comprehensive income (note 3.6) or at amortised cost (note 3.7).

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained above. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions. (note 3.8)

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.4.5. Modifications

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

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see above under Derecognition other than due to substantial modification) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

3.4.6. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3.4.7. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The hierarchy of valuation techniques is explained in note 5.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value according to model, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of International Financial Reporting Standard 9 Financial Instruments ('IFRS 9');
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

3.5.2. Financial assets at fair value through profit or loss

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

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

3.6. Financial assets at fair value through other comprehensive income

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

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

– The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
– The contractual terms of the financial asset meet the SPPI test.

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

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

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

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

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

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

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

3.7. Financial assets and financial liabilities at amortised costs

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

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

The Bank only measures 'Due from other banks' and 'Due from customers' at amortised cost if both of the following conditions are met:

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

Due from other banks

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

Due from customers

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

Impairment

The detailed description of policy is in the note 4.1.2.

The Bank writes off 'Due from other banks' and 'Due from customers' when it determines that the loans and advances are uncollectible. Loans and advances are written off against the Impairment losses on Financial Assets in amortised cost with the remaining part being written-off against profit or loss reported under 'Net loss arising from the derecognition of financial assets at amortised cost'. Any recoveries of written off loans are credited to the same line in the statement of profit or loss on receipt.

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

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

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

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

Due to customers covers also lease liabilities (note 3.16).

In 2021 the Bank entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank and is presented under line item Due to central banks. As at 31 December 2021 the Bank has a liability in form of loans received in TLTRO in amount of 2 500 millions EUR. (note 11.3).

The Bank assessed accounting treatment which is appropriate for the TLTRO. The Bank decided that such instrument do not qualify as below-market interest rate loans. This is the reason why it is not related to IAS 20 government grants accounting. The Bank applies the accounting treatment determined in accordance with IFRS 9 to TLTRO III transactions, treating the refinancing conditions established by the ECB as market rates within the Eurosystem´s monetary policy measures.

3.8. Repurchase and reverse repurchase agreements

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

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

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

3.9. Derivatives – Hedge accounting

When initially applying IFRS 9, the Bank has elected to continue to apply the requirements of IAS 39 instead of those of IFRS 9.

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments
If a hedging relationship is directly affected by IBOR reform, then certain exceptions can be applied (referred to as 'the Phase 1 amendments') to the general hedge accounting policy.

All hedges affected by IBOR reform either matured or were discontinued therefore the VUB Group ceased to apply the respective Phase 1 amendments.

The Phase 2 amendments

Policies specific to non-contractually specified risk portions

When the Bank designates an alternative benchmark rate as a hedged risk and the alternative benchmark rate is a non-contractually specified risk portion that is not separately identifiable at the date it is designated, the Bank deems that the rate meets the separately identifiable criterion if it reasonably expects that the alternative benchmark rate will be separately identifiable within a 24-month period. The 24-month period applies on a rate-by-rate basis and starts from the date when the Bank first designates the alternative benchmark rate as a hedged risk.

If the Bank subsequently expects that a non-contractually specified alternative benchmark rate risk component will not be separately identifiable within the 24-month period, then it discontinues hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate is designated as a non-contractually specified risk portion.

Policies specific to cash flow hedges

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Bank deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

3.10 Investments in subsidiaries, joint ventures and associates

'Investments in subsidiaries, joint ventures and associates' are recorded at cost less impairment losses. The impairment loss is measured using the Free Cash Flow to Equity model.

Free Cash Flow to Equity model

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

3.11. Transactions under common control

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

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

Comparative periods are not subject to restatement since the Bank was not consolidating the results of the acquiree in its separate financial statements before the date of the combination.

3.12. Property and equipment

Land and buildings are recognised at fair value based on periodic, but at least annually, valuations by external independent specialized companies, less subsequent depreciation for buildings.

If the new fair value is higher than the carrying amount the value of the asset on the balance sheet is increased through other comprehensive income and accumulated in equity under the heading 'Buildings and land'. In case that an impairment loss was previously recorded in the income statement, the reversal of this impairment is recorded in the income statement up to the amount previously recognised in the income statement. If the new fair value is lower than the carrying amount, the decrease is recognised in profit or loss. The ISP Group chose to apply the elimination approach, which means that the accumulated depreciation is eliminated against the gross carrying amount of the asset at revaluation date. The assets subject to the revaluation model are depreciated based on their revalued value.

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

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

	Years
Buildings	10 – 29
Equipment	4 – 12
Other tangibles	4 – 12

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

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

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

Property and equipment contains also right-of-use assets. (note 3.16)

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7 – 10

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

3.14. Goodwill

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

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

3.15. Non-current assets held for sale

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

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

3.16. Leasing – right-of-use assets and lease liabilities

The Bank is a party to lease contracts for:

– Buildings and land (branch and office premises and lands under ATMs),
– Other tangible assets (motor vehicles).

Leases are recognized, measured and presented in line with IFRS 16.

Leases in which the Bank is a lessee

The Bank applies a single accounting model, requiring lessees to recognise assets and liabilities for all leases. However, the Bank applies exemptions regarding:

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

Based on the accounting policy applied the Bank recognizes a right-of-use asset (note 3.12) and a lease liability (note 3.7.2) at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

– The amount of the initial measurement of the lease liability,
– Any lease payments made at or before the commencement date, less any lease incentives,
– Any initial direct costs incurred by the lessee,
– An estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

The right-of-use is recognized as part of 'Property and equipment'. Depreciation is calculated using the straight-line method over the estimated useful lives, as follows:

	Years
Buildings	2 – 6
Other tangibles	2 – 5

If the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or if the cost of the right-of-use asset reflects that the Bank will exercise a purchase option, the Bank depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Bank depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Bank recognizes asset retirement obligations mainly in relation to leased premises which would need to be restored to previous state when the lease ends. Asset retirement obligations are capitalized as part of the cost of right-of-use assets and depreciated over the asset's estimated useful life. The Bank estimates the fair value of asset retirement obligations using average premises reinstatement cost and the discount rate which equals the risk-free interest rate for the Bank and the currency of the lease contract.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:

– Fixed payments, less any lease incentives receivable;
– Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– Amounts expected to be payable by the lessee under residual value guarantees;
– The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
– Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments exclude variable elements which are dependent on external factors. Variable lease payments not included in the initial measurement of the lease liability are recognized directly in the profit and loss in the line 'Other administrative expenses'.

The lease payments are discounted using the Bank's incremental borrowing rate or the rate implicit in the lease contract. Interest expense is recognised in the statement of profit or loss in the line 'Interest and similar expenses'.

The lease term determined by the Bank comprises:

- Non-cancellable period of lease contracts,
- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option,
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Bank measures the lease liability by:

- Increasing the carrying amount to reflect interest on the lease liability,
- Reducing the carrying amount to reflect lease payments made, and
- Re-measuring the carrying amounts to reflect any reassessment or lease modifications.

Leases in which the Bank is a lessor

In case of lease contracts based on which the Bank is acting as a lessor each of its leases is classified as either operating or finance lease. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Finance leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Examples of situations where the risks and rewards of ownership are considered as having been transferred to the lessee are as follows:

- The lease transfers ownership of the asset to the lessee by the end of the lease term,
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- The lease term is for at least 3/4 of the economic life of the asset even if title is not transferred,
- At the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, or
- The leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Lease classification is made at the inception date and is reassessed only if there is a lease modification.

At the commencement date, receivable from finance equal to the net investment in the lease is recognised in the statement of financial position in 'Due from customers'.

Initial measurement of the lease payments included in the net investment in the lease

- fixed payments, less any lease incentives payable;
- any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent measurement

Interest income is recognised in profit or loss statement in 'Other interest income' over the lease term using rate implicit in the lease, which represents the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

The lease payments are applied against the gross investment in the lease and reduce both the principal and the unearned finance income.

The detailed description of impairment of the net investment in the lease is described in the note 4.1.2.

Unguaranteed residual values are reviewed and estimated regularly in order to calculate the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately.

Operating leases

Recognition and measurement

Lease payments from operating leases are recognised as income on a straight-line basis in profit or loss in 'Other operating income'.

Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and this asset is being depreciated over the lease term on a straight-line basis.

Lease modifications

In case of modification to an operating lease a new lease is booked from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.17. Provisions

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

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

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

Provisions for financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee, and an ECL allowance.

ECL allowances for financial guarantees are recognised based on stage of financial instrument (three-stage approach) which affects expected loss calculation for the financial guarantee. Any increase or decrease in the provision deriving from changes in ECL allowances relating to financial guarantees is recorded in the statement of profit or loss in 'Impairment losses'.

In case when the Bank is called to fulfil the guarantee and the guarantee is paid to the holder of the guarantee it ceases to exist. Instead a receivable against the counterparty for which the Bank issued the guarantee is created and the former provision for financial guarantees is converted into impairment losses allowance on such receivable along with the movement, if any, within 'Impairment losses'.

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

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

3.18. Provisions for employee benefits

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

3.19. Equity reserves

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

- 'Revaluation surplus of buildings and land' reserve which consists of the revaluation surplus of buildings and land measured at fair value using a revaluation model.
- 'Cash flow hedges' reserve which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.
- 'Financial assets at fair value through other comprehensive income' reserve which comprises changes in the fair value of financial assets at FVOCI.
- 'Translation of foreign operation' reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations.

3.20. Net interest income

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

Interest income and expense is recognised in the statement of profit or loss on an accrual basis using the effective interest rate method (EIR) for all financial instruments measured at amortised cost (note 3.7.1. and 3.7.2).

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost (AC) of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of 'fixed rate financial assets' or 'liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

In case of hedging relationship (as defined in note 3.9) interest from interest rate swap effectively replaces the contractual interest rate of the hedged item and such interest is disclosed under in 'Interest income calculated using the effective interest method'.

The IBOR reform Phase 2 amendments allow as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

Other interest income includes interest received on financial assets at fair value through profit or loss other than interest on derivatives using the contractual interest rate and finance leases where the rate implicit in the lease is being used.

Interest income/expense on all derivatives is recognised as a part of the fair value change in 'Net trading result'.

Negative interest arising from financial assets is presented in interest expense and negative interest arising from financial liabilities is presented in interest income.

In 2021 the Bank entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank and is presented under line item Due to central banks

The bank´s accounting policy, the special interest rates for the period from 24 June 2020 to 23 June 2022 are recognised in accordance with IFRS 9 as floating rates applicable to the reporting period, because the Governing Council of the ECB may at any time change the interest rate of TLTRO III operations prospectively (as it did in April and December 2020). The interest is therefore recognised periodically based on the interest rate of the instrument for each period (0,5)% until 24 June 2020, (1)% until 23 June 2022 and (0,5)% thereafter and until maturity, based on current rates – as required by paragraph B5.4 of IFRS 9.

Interest expense from TLTRO, presented under line "Interest Income".

3.21. Net fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

Fee and commission income and expense such as up-front and commitment fees that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 3.21).

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

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank´s revenue contracts do not include multiple performance obligations.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

Nature and timing of satisfaction of performance obligations, including significant payment terms:

Current accounts	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.
Cards	Credit card and debit card fees relate to both fees for issuance of credit card for the period of card's validity as well as fees for specific transactions.
Payments and cash management	Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.
Loans	Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration. They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.
Indirect deposits	These fees mainly relate to providing Bank's retail network for the mediation of investments into funds. These fees are paid to the Bank by VÚB Asset Management, správ. spol., a. s. Since the Bank does not have any ongoing performance obligation regarding these fees, they are recognised in full when charged.
Insurance	The Bank provides insurance mediation along with selling its products. Except for life insurance mediation, only aliquot part of commission is sent by the insurance company on monthly basis, therefore the Bank only recognises aliquot part of commission as income with the passage of time. In case client cancels insurance contract with insurance company, the insurance company stops paying the aliquot part of the commission and the Bank therefore stops to recognise these fees. The Bank is not liable to return aliquot part of commissions recognised in fees to insurance company. Regarding life insurance mediation the Bank is exposed to clawbacks if client cancels the insurance contract within certain periods. The Bank calculated effect of International Financial Reporting Standard 15 Revenue from Contracts with Customers ('IFRS 15') impact and evaluated this impact as non-material and continues to recognise income on these fees as the related mediation service is provided.
Trade finance, Structured finance	Fees for loan commitments which are not expected to result in the draw-down of a loan are recognised on a straight-line basis over the commitment period. Administration of a loan syndication, execution of client transactions with exchanges and securities underwriting, charges for premature termination of loans and other are charged when transaction takes place.
Factoring	Services related to factoring include: – Facility commitment, where fee is recognised on a straight-line basis over the commitment period; – Invoice processing fee, where fixed amount for each processed invoice is charged; – Factoring fee, where fee represent a percentage on a total receivable amount factored.

Revenue recognition under IFRS 15:

Current accounts	Revenue from account service and servicing fees is recognised over time as the services are provided.
Cards	Revenue from card issuance is recognised over time as the services are provided.
	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Payments and cash management	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loans	Overdraft fee is recognised on a straight-line basis over the overdraft duration.
	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Indirect deposits	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Insurance	Revenue from insurance mediation services is recognised over time for the duration of contract, except for life insurance mediation where service fee is recognised when service is provided and clawbacks are recognised when they occur.
Trade finance, Structured finance	Loan commitment fee is recognised on a straight-line basis over the commitment period.
	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Factoring	Facility fee is recognised on a straight-line basis over the commitment period.
	Revenues related to invoice processing and factoring fee are recognised at the point in time when the transaction takes place.

3.22. Net trading result

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

3.23. Dividend income

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

3.24. Special levy of selected financial institutions

Commencing 1 January 2012, banks operating in the Slovak Republic are subject to a special levy of selected financial institutions calculated from selected liabilities. Based on the amendment to the Act No. 384/2011 on the Special levy of selected financial institutions from 12 October 2016, the levy rate has been set to 0.2% p.a. for the years 2017 to 2020. Based on the another amendment from 28 November 2019, the levy rate has been set to 0.4% p. a. for the year 2020. The levy is recognized in the statement of profit or loss and other comprehensive income on an accrual basis and is payable at the beginning of each quarter. (note 29)

As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective. This amendment also covered measures in the area of special levy of selected financial institutions. According to these measures no more special levy payments were required from July 2020 until the end of 2020. (note 29)

Subsequently this special levy was cancelled in full effectively from 1 January 2021. (note 29)

3.25. Current and deferred income tax

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

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

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

4. Financial and operational risk management

This note presents information about the Bank's exposure to the risks related to the use of financial instruments, the Bank's objectives, policies and processes for measuring and managing risk.

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

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

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

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

4.1. Credit risk

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

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

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

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

4.1.1. Management of credit risk

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

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

4.1.2. Impairment losses

The Bank establishes an allowance for impairment losses, which represents its ECL in its loan portfolio.

If there is evidence of impairment for any individually significant client of the Bank, such as a breach of contract, problems with repayments or collateral, the Bank transfers such a client to management of the Recovery Department for pursuing collection activities. Such clients exceeding significant thresholds (€ 500 thousand) are considered to be individually impaired. For collective impairment (other than individually significant client), the Bank uses historical evidence of impairment and forward-looking information on a portfolio basis, mainly based on the payment discipline of the clients.

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

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

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

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

Inputs, assumptions and techniques used for estimating impairment

Calculation of ECL on a collective basis is based on particular regulatory segment, exposure at default ('EAD'), probability of default ('PD'), loss given default ('LGD'), credit conversion factor ('CCF'). For each segment were developed models for such risk parameters. These models are regularly reviewed by development function, Department Internal Validation and Controls and Department Internal Audit.

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

The methodology of risk parameters used by ECL calculation is compliant with the ISP Group methodology provided by Parent Company.

For PD models of the portfolios where the Bank uses internal models, the advanced approach is used. The modelling approach consists of the following steps:

– Creation of migration matrices using the internal ratings;
– Removal of macroeconomic effect from the migration matrices using the Merton formula;
– Creation of Through-the-cycle ('TTC') matrix computed as the average of the annual migration matrices obtained after the removal of the macroeconomic effect;
– Creation of the future Point-in-Time ('PIT') matrices obtained by conditioning the TTC matrix using Merton formula and forward looking information;
– Obtaining the final Lifetime PD vectors by multiplying the predicted PIT and TTC matrices adjusted by add-on for incorporation of various economic scenarios.

For LGD models of the portfolios where the Bank uses internal models, the modelling approach consists of the following steps:

– Calculation of nominal LGD values;
– Incorporation of forward looking information using coefficients calculated based on Path-generator issued by the European Banking Authority ('EBA');
– Obtaining the final LGD values by discounting the recovery rates using effective interest rate and average time to recovery.

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

The counterparties with low number of observations and with low numbers of observed defaults, where it was unable to create reliable migration matrices or develop the macroeconomic satellite models for prediction of default rate, were defined as the Low default portfolio. The parameters for these portfolios are obtained from parent company.

EAD is calculated separately for amortizing and non-amortizing products. EAD for amortizing products is based on the repayment plans, while EAD for non-amortizing products is calculated using Credit Conversion Factor (CCF). Currently, the Bank uses CCF models only for Retail Credit Cards and Retail Overdrafts. For all other segments regulatory CCF values are used.

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.

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

The absolute threshold is exceeded when:

overdue exposure > absolute threshold

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

The relative threshold is exceeded when:

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

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.

Staging methodology

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

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

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

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

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

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

In general following rules are applied:

– At origination financial instruments are classified in Stage 1, except instruments which are credit-impaired at the date of acquisition, which are classified in the relevant stage;

– If there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2.

As at 31 December 2021 and 31 December 2020 the Bank did not classify any financial assets as Purchased or Originated Credit Impaired ('POCI').

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

According to IFRS 9 Principle par. 5.5.11: '…there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.' To comply with this requirement the Bank adopts a days past due criterion according to the Days past due methodology described above.

Stage 2 criterion: Forborne performing exposures

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

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

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

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

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

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

According to the methodology, the comparison should be performed between:

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

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

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

Stage 3 criterion

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

Evidence that a financial asset is credit-impaired includes the following observable data:

– Significant financial difficulty of the borrower or issuer;
– A breach of contract such as a default or past due event;
– The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
– It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
– The disappearance of an active market for a security because of financial difficulties.

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

Staging criteria for debt securities

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

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

STAGE 1	STAGE 2	STAGE 3
Bonds with no significant credit quality deterioration Investment grade bonds (Low Credit Risk Exemption rule valid only for FVOCI Bonds for First Time Adoption of IFRS 9 ('FTA'))	Bonds with significant increase in PD since origination	Defaulted bonds

In addition to the above-mentioned criteria, the following rules should be followed for Stage Assignment:

– at origination financial instruments are classified in Stage 1;
– if there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2.

Staging criteria for Low Default Portfolio and Intragroup exposures

Low Default Portfolio consists of exposures with the following parties:

– Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
– Institutions (Banks, and Other Non-banking Financial Institutions);
– Large Corporate (Corporate with turnover more than € 500 million).

Intragroup exposures are exposures with the following parties:

– Parent Company;
– Bank's own subsidiaries;
– Other ISP Group subsidiaries.

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

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

Expected credit loss calculation

Stage 1

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

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

where:

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

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

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

where n is the number of months to maturity.

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

Stage 2

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

For exposures with remaining maturity less than or equal to one year (see Stage 1):

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

For exposures with remaining maturity greater than one year:

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

where:

– PD_t is cumulative PD estimated between time 0 and time *t* (time 0 is the reporting date, time *t* is the number of years till maturity);

- LGD_t is percentage of loss in case of default, estimated at time *t*;
- EAD_t is exposure at default, estimated at the beginning of the year *t*;
- EIR is Effective Interest Rate;
- M is residual maturity in years.

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

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

where:
- EAD1, EAD2, EAD3 are exposure at default at the beginning of each residual year;
- PD_1 is probability that exposure enters in default during the first year of residual maturity;
- $PD_2 – PD_1$ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- $PD_3 – PD_2$ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- LGD_1, LGD_2, LGD_3 is percentage of loss in case of default of each residual year;
- EIR is Effective Interest Rate.

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

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

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

Stage 3

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

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

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

where:
- PCBS is the provision calculated based on scenarios determined by the VUB Group on NPLs;
- $\text{Add-on}_{Performing}$ is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, Most-Likely and Worst scenarios given by EBA coefficients for corresponding segment.

Incorporation of forward-looking information

The Bank incorporates forward-looking information by using the Base scenario from the internal satellite models or the Baseline stress test coefficients, which are obtained from EBA Path-generator. Other scenarios are incorporated in the form of „add-on". Add-on is calculated as a combination of final PD or LGD values calculated for all three scenarios for 3 upcoming years.

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

The Bank uses also the stress test coefficients, which are the result of EBA Path-generator for stress testing. As the result we get the coefficients only for Adverse and Baseline scenario and therefore the Best coefficient is calculated additionally based on these two scenarios. The scenarios are then used for the calculation of the add-on. Using the EBA coefficients is characteristic for LGD models. Moreover, a similar approach is used for the calculation of add-on for the exposures in stage 3.

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

The Bank identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The economic scenarios used the following ranges of the inputs for the quarters of years 2022, 2023 and 2024 by the satellite model application in 2021.The inputs were updated by parent company and Research department in October 2021.

	GDP, (constant prices, % change)			Unemployment rate (Labour Force Sample Survey, %)			Consumer prices index (quarterly average, % change)			EURIBOR 3M (end of period)		
	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario
1Q 2022	6,20	7,55	4,70	6,8	6,5	7,4	4,3	4,5	3,8	(0,55)	(0,55)	(0,55)
2Q 2022	5,40	6,75	3,90	6,8	6,4	7,3	3,7	3,9	3,2	(0,55)	(0,55)	(0,55)
3Q 2022	4,30	5,65	2,80	6,7	6,4	7,3	3,0	3,2	2,5	(0,54)	(0,54)	(0,54)
4Q 2022	4,20	5,55	2,70	6,7	6,3	7,2	2,6	2,8	2,1	(0,54)	(0,54)	(0,54)
1Q 2023	4,01	5,11	2,71	6,6	6,2	7,1	2,4	2,6	2,1	(0,54)	(0,54)	(0,54)
2Q 2023	3,82	4,92	2,52	6,6	6,2	7,0	2,4	2,6	2,1	(0,53)	(0,53)	(0,53)
3Q 2023	3,90	5,00	2,60	6,5	6,2	7,0	2,6	2,7	2,2	(0,52)	(0,39)	(0,52)
4Q 2023	4,28	5,38	2,98	6,5	6,1	6,9	2,2	2,3	2,0	(0,52)	(0,27)	(0,52)
1Q 2024	2,93	3,73	1,58	6,4	6,0	6,9	2,1	2,2	2,0	(0,49)	(0,24)	(0,49)
2Q 2024	2,24	3,04	0,89	6,4	6,0	6,8	2,1	2,2	2,0	(0,47)	(0,10)	(0,47)
3Q 2024	1,63	2,43	0,28	6,3	6,0	6,7	2,1	2,2	2,0	(0,47)	(0,03)	(0,47)
4Q 2024	1,00	1,80	(0,35)	6,2	5,9	6,6	2,0	2,1	2,0	(0,40)	(0,19)	(0,43)

Predicted relationships between the relevant drivers and default rates for various segments have been developed based on analysing historical data over the past seven to thirteen years.

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

2021 € '000	Portfolio assessed Gross amount	Portfolio assessed Impairment losses	Portfolio assessed Net amount	Individually assessed Gross amount	Individually assessed Impairment losses	Individually assessed Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	1 818 772	(90)	1 818 682	–	–	–
Due from customers:						
Public administration	197 988	(1 594)	196 394	–	–	–
Corporate	5 581 214	(27 711)	5 553 503	–	–	–
Retail	9 583 400	(7 492)	9 575 908	–	–	–
	15 362 602	(36 797)	15 325 805	–	–	–
Financial assets at FVOCI – debt securities	1 664 143	(329)	1 663 814	–	–	–
Financial commitments and contingencies	5 428 578	(4 847)	5 423 731	–	–	–

2020 € '000	Portfolio assessed Gross amount	Portfolio assessed Impairment losses	Portfolio assessed Net amount	Individually assessed Gross amount	Individually assessed Impairment losses	Individually assessed Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	206 126	(706)	205 420	–	–	–
Due from customers:						
Public administration	126 202	(1 070)	125 132	–	–	–
Corporate	4 478 108	(24 315)	4 453 793	–	–	–
Retail	8 861 776	(9 549)	8 852 227	–	–	–
	13 466 086	(34 934)	13 431 152	–	–	–
Financial assets at FVOCI – debt securities	1 611 015	(306)	1 610 709	–	–	–
Financial commitments and contingencies	4 767 567	(7 023)	4 760 544	–	–	–

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

2021 € '000	Portfolio assessed Gross amount	Portfolio assessed Impairment losses	Portfolio assessed Net amount	Individually assessed Gross amount	Individually assessed Impairment losses	Individually assessed Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	701	(19)	682	–	–	–
Due from customers:						
Public administration	7 426	(288)	7 138	–	–	–
Corporate	309 594	(11 946)	297 648	–	–	–
Retail	567 266	(32 939)	534 327	–	–	–
	884 286	(45 173)	839 113	–	–	–
Financial commitments and contingencies	185 878	(6 683)	179 195	–	–	–

2020 € '000	Portfolio assessed Gross amount	Portfolio assessed Impairment losses	Portfolio assessed Net amount	Individually assessed Gross amount	Individually assessed Impairment losses	Individually assessed Net amount
Stage 2						
Financial assets at AC:				–	–	–
Due from customers:						
Public administration	26 717	(1 605)	25 112	–	–	–
Corporate	601 259	(12 125)	589 134	–	–	–
Retail	561 966	(36 312)	525 654	–	–	–
	1 189 942	(50 042)	1 139 900	–	–	–
Financial commitments and contingencies	94 192	(2 161)	92 031	–	–	–

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

2021 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	5 600	(3 697)	1 903	63 044	(39 940)	23 104
Retail	246 629	(180 799)	65 830	3 356	(2 664)	692
	252 229	(184 496)	67 733	66 400	(42 604)	23 796
Financial commitments and contingencies	4 822	(2 686)	2 136	18 154	(6 019)	12 135

2020 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	9 280	(4 085)	5 195	54 499	(41 206)	13 293
Retail	298 019	(164 654)	133 365	4 621	(3 389)	1 232
	307 299	(168 739)	138 560	59 120	(44 595)	14 525
Financial commitments and contingencies	8 013	(1 635)	6 378	9 216	(3 085)	6 131

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

2021 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	306	151	(100)	–	–	–	(28)	–	329
Financial assets at AC:									
Due from other banks	706	19	(773)	446	(150)	–	(158)	–	90
Due from customers	34 934	31 095	(37 079)	37 109	(22 648)	(96)	(6 518)	–	36 797
	35 640	31 114	(37 852)	37 555	(22 798)	(96)	(6 676)	–	36 887
Financial commitments and contingencies	7 023	10 131	(12 815)	6 795	(3 445)	(14)	(2 828)	–	4 847
Stage 2									
Financial assets at AC:									
Due from other banks	–	–	315	(446)	150	–	–	–	19
Due from customers	50 042	–	30 244	(35 108)	28 593	(21 686)	(6 912)	–	45 173
	50 042	–	30 559	(35 554)	28 743	(21 686)	(6 912)	–	45 192
Financial commitments and contingencies	2 161	–	9 736	(6 291)	3 574	(1 993)	(504)	–	6 683
Stage 3									
Financial assets at AC:									
Due from customers	213 334	–	51 501	(2 001)	(5 945)	21 782	(221)	(51 350)	227 100
Financial commitments and contingencies	4 720	–	4 117	(504)	(129)	2 007	(1 506)	–	8 705

(Table continues on the next page)

2021 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	306	151	(100)	–	–	–	(28)	–	329
Financial assets at AC:									
Due from other banks	706	19	(458)	–	–	–	(158)	–	109
Due from customers	298 310	31 095	44 666	–	–	–	(13 651)	(51 350)	309 070
	299 016	31 114	44 208	–	–	–	(13 809)	(51 350)	309 179
Financial Commitments and contingencies	13 904	10 131	1 038	–	–	–	(4 838)	–	20 235

2020 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	224	249	(72)	–	–	–	(95)	–	306
Financial assets at AC:									
Due from other banks	482	268	(1 572)	2 111	(416)	–	(167)	–	706
Due from customers	31 234	27 913	(47 705)	50 212	(20 713)	(183)	(5 824)	–	34 934
	31 716	28 181	(49 277)	52 323	(21 129)	(183)	(5 991)	–	35 640
Financial commitments and contingencies	4 253	11 082	(6 761)	3 111	(3 675)	(9)	(978)	–	7 023
Stage 2									
Financial assets at AC:									
Due from other banks	6	–	1 706	(2 111)	416	–	(17)	–	–
Due from customers	59 302	–	47 147	(48 148)	23 742	(28 351)	(3 650)	–	50 042
	59 308	–	48 853	(50 259)	24 158	(28 351)	(3 667)	–	50 042
Financial commitments and contingencies	1 710	–	1 597	(2 989)	3 775	(864)	(1 068)	–	2 161
Stage 3									
Financial assets at AC:									
Due from customers	230 586	–	27 453	(2 064)	(3 029)	28 534	(116)	(68 030)	213 334
Financial commitments and contingencies	3 428	–	1 502	(122)	(100)	873	(861)	–	4 720

(Table continues on the next page)

2020 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	224	249	(72)	–	–	–	(95)	–	306
Financial assets at AC:									
Due from other banks	488	268	134	–	–	–	(184)	–	706
Due from customers	321 122	27 913	26 895	–	–	–	(9 590)	(68 030)	298 310
	321 610	28 181	27 029	–	–	–	(9 774)	(68 030)	299 016
Financial commitments and contingencies	9 391	11 082	(3 662)	–	–	–	(2 907)	–	13 904

When there is transfer between stages, the original amount of the provision is transferred first and then the change in credit risk is reflected in the new stage.

The changes due to modifications that does not result in derecognition of the financial assets were immaterial.

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

2021 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1 610 709	782 032	–	–	–	(295 743)	(433 184)	1 663 814
Financial assets at AC:								
Due from other banks	206 126	5 455 188	84 955	(91 941)	–	(3 835 556)	–	1 818 772
Due from customers	13 466 086	7 595 303	1 041 407	(1 368 736)	(18 500)	(5 352 958)	–	15 362 602
	13 672 212	13 050 491	1 126 362	(1 460 677)	(18 500)	(9 188 514)	–	17 181 374
Financial commitments and contingencies	4 767 567	6 664 816	399 203	(512 420)	(20 365)	(5 870 223)	–	5 428 578
Stage 2								
Financial assets at AC:								
Due from other banks	–	–	(84 955)	91 941	–	(6 285)	–	701
Due from customers	1 189 942	–	(1 030 316)	1 393 027	(105 399)	(562 968)	–	884 286
	1 189 942	–	(1 115 271)	1 484 968	(105 399)	(569 253)	–	884 987
Financial commitments and contingencies	94 192	–	(374 895)	513 299	(19 312)	(27 406)	–	185 878
Stage 3								
Financial assets at AC:								
Due from customers	366 419	–	(11 091)	(24 291)	123 899	(77 980)	(58 327)	318 629
Financial commitments and contingencies	17 229	–	(24 308)	(879)	39 677	(8 743)	–	22 976

(Table continues on the next page)

2021 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1 610 709	782 032	–	–	–	(295 743)	(433 184)	1 663 814
Financial assets at AC:								
Due from other banks	206 126	5 455 188	–	–	–	(3 841 841)	–	1 819 473
Due from customers	15 022 447	7 595 303	–	–	–	(5 993 906)	(58 327)	16 565 517
	15 228 573	13 050 491	–	–	–	(9 835 747)	(58 327)	18 384 990
Financial commitments and contingencies	4 878 988	6 664 816	–	–	–	(5 906 372)	–	5 637 432

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

2020 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1 562 538	1 307 160	–	–	–	(524 489)	(734 500)	1 610 709
Financial assets at AC:								
Due from other banks	180 136	891 306	135 331	(135 337)	–	(865 310)	–	206 126
Due from customers	12 979 628	5 468 698	1 426 501	(2 279 263)	(15 120)	(4 114 358)	–	13 466 086
	13 159 764	6 360 004	1 561 832	(2 414 600)	(15 120)	(4 979 668)	–	13 672 212
Financial commitments and contingencies	3 846 979	3 968 944	224 459	(264 749)	(2 262)	(3 005 804)	–	4 767 567
Stage 2								
Financial assets at AC:								
Due from other banks	843	–	(135 331)	135 337	–	(849)	–	–
Due from customers	1 016 226	–	(1 419 129)	2 294 044	(124 249)	(576 950)	–	1 189 942
	1 017 069	–	(1 554 460)	2 429 381	(124 249)	(577 799)	–	1 189 942
Financial commitments and contingencies	134 792	–	(216 944)	265 074	(7 042)	(81 688)	–	94 192
Stage 3								
Financial assets at AC:								
Due from customers	403 409	–	(7 372)	(14 781)	139 369	(60 304)	(93 902)	366 419
Financial commitments and contingencies	22 647	–	(7 515)	(325)	9 304	(6 882)	–	17 229

(Table continues on the next page)

2020 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1 562 538	1 307 160	–	–	–	(524 489)	(734 500)	1 610 709
Financial assets at AC:								
Due from other banks	180 979	891 306	–	–	–	(866 159)	–	206 126
Due from customers	14 399 263	5 468 698	–	–	–	(4 751 612)	(93 902)	15 022 447
	14 580 242	6 360 004	–	–	–	(5 617 771)	(93 902)	15 228 573
Financial commitments and contingencies	4 004 418	3 968 944	–	–	–	(3 094 374)	–	4 878 988

4.1.3. Non-performing loan classification

The Bank considers a financial asset to be in Non-performing status in compliance with the Commission's Implementing Regulation (EU) No 680/2014 and its further amendments (Implementing Technical Standards, 'ITS') when:

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

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

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

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

For category Unlikely to pay are taken into account qualitative indicators such as:

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

For category Doubtful are taken into account qualitative indicators such as:

– If the borrower is under voluntary dissolution or under any legally binding liquidation, without possibility to operate on 'going concern basis';
– If the Court already ordered the legal liquidation, even if the borrower's operations are not suspended under the legal procedures;
– If according to any public Registry or by Court order the borrower ceases to exist as legal entity;
– If the borrower has been registered (has to be registered) on the Fraud/Black List;
– Borrowers which expected cash flows will not be generated from the borrowers' operations, but from the enforcement of collateral/ guarantees ('gone concern' approach);
– Borrowers (typically, Individuals) against whom the Bank initiates receivership or enforcement proceedings.
– Non-performing status is carried out at borrower level following the united rules of the Parent Company.

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

2021 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	1 819 473	(109)	1 819 364
Due from customers:				
Public administration				
	Performing	205 414	(1 882)	203 532
Corporate				
	Performing	5 890 808	(39 657)	5 851 151
	Past due	179	(90)	89
	Unlikely to pay	33 938	(15 293)	18 645
	Doubtful	34 527	(28 254)	6 273
		5 959 452	(83 294)	5 876 158
Retail				
	Performing	10 150 666	(40 431)	10 110 235
	Past due	28 266	(15 426)	12 840
	Unlikely to pay	31 266	(20 974)	10 292
	Doubtful	190 453	(147 063)	43 390
		10 400 651	(223 894)	10 176 757
		16 565 517	(309 070)	16 256 447
		18 384 990	(309 179)	18 075 811
Financial assets at FVOCI – debt securities				
	Performing	1 664 143	(329)	1 663 814
Financial commitments and contingencies				
	Performing	5 614 456	(11 530)	5 602 926
	Past due	1 342	(4)	1 338
	Unlikely to pay	16 500	(4 266)	12 234
	Doubtful	5 134	(4 435)	699
		5 637 432	(20 235)	5 617 197

2020 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	206 126	(706)	205 420
Due from customers:				
Public administration				
	Performing	152 919	(2 675)	150 244
Corporate				
	Performing	5 079 367	(36 440)	5 042 927
	Past due	1 496	(93)	1 403
	Unlikely to pay	27 108	(16 318)	10 790
	Doubtful	35 175	(28 880)	6 295
		5 143 146	(81 731)	5 061 415
Retail				
	Performing	9 423 742	(45 861)	9 377 881
	Past due	38 260	(15 046)	23 214
	Unlikely to pay	27 739	(12 950)	14 789
	Doubtful	236 641	(140 047)	96 594
		9 726 382	(213 904)	9 512 478
		15 022 447	(298 310)	14 724 137
		15 228 573	(299 016)	14 929 557
Financial assets at FVOCI – debt securities				
	Performing	1 611 015	(306)	1 610 709
Financial commitments and contingencies				
	Performing	4 861 759	(9 184)	4 852 575
	Past due	3 553	(271)	3 282
	Unlikely to pay	9 881	(3 146)	6 735
	Doubtful	3 795	(1 303)	2 492
		4 878 988	(13 904)	4 865 084

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

2021 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	1 819 473	(109)	1 819 364
Due from customers:			
Public administration			
No delinquency	204 832	(1 881)	202 951
1 – 30 days	487	(1)	486
31 – 60 days	95	-	95
	205 414	(1 882)	203 532
Corporate			
No delinquency	5 910 133	(54 366)	5 855 767
1 – 30 days	11 829	(38)	11 791
31 – 60 days	2 109	(212)	1 897
61 – 90 days	190	(97)	93
91 – 180 days	2 490	(2 110)	380
Over 181 days	32 701	(26 471)	6 230
	5 959 452	(83 294)	5 876 158
Retail			
No delinquency	10 142 759	(57 859)	10 084 900
1 – 30 days	53 915	(9 224)	44 691
31 – 60 days	10 363	(2 675)	7 688
61 – 90 days	6 807	(1 955)	4 852
91 – 180 days	15 265	(11 778)	3 487
Over 181 days	171 542	(140 403)	31 139
	10 400 651	(223 894)	10 176 757
	16 565 517	(309 070)	16 256 447
	18 384 990	(309 179)	18 075 811
Financial assets at FVOCI – debt securities			
No delinquency	1 664 143	(329)	1 663 814
Financial commitments and contingencies			
No delinquency	5 637 432	(20 235)	5 617 197

2020 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	206 126	(706)	205 420
Due from customers:			
Public administration			
No delinquency	152 429	(2 672)	149 757
1 – 30 days	490	(3)	487
	152 919	(2 675)	150 244
Corporate			
No delinquency	5 013 493	(47 934)	4 965 559
1 – 30 days	89 686	(949)	88 737
31 – 60 days	181	(2)	179
61 – 90 days	1 932	(892)	1 040
91 – 180 days	4 655	(4 187)	468
Over 181 days	33 199	(27 767)	5 432
	5 143 146	(81 731)	5 061 415
Retail			
No delinquency	9 420 955	(54 553)	9 366 402
1 – 30 days	47 832	(7 743)	40 089
31 – 60 days	1 031	(410)	621
61 – 90 days	12 460	(3 037)	9 423
91 – 180 days	22 935	(11 336)	11 599
Over 181 days	221 169	(136 825)	84 344
	9 726 382	(213 904)	9 512 478
	15 022 447	(298 310)	14 724 137
	15 228 573	(299 016)	14 929 557
Financial assets at FVOCI – debt securities			
No delinquency	1 611 015	(306)	1 610 709
Financial commitments and contingencies			
No delinquency	4 878 988	(13 904)	4 865 084

The table below shows the three-stage approach based on changes in credit quality by class of assets for all financial assets exposed to credit risk.

2021 €'000	Stage 1 Gross amount	Stage 1 Impairment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impairment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks	1 818 772	(90)	1 818 682	701	(19)	682	–	–	–
Due from customers:									
Public administration									
State administration	95 147	(676)	94 471	–	–	–	–	–	–
Municipalities	102 841	(918)	101 923	7 426	(288)	7 138	–	–	–
	197 988	(1 594)	196 394	7 426	(288)	7 138	–	–	–
Corporate									
Large Corporates	2 507 423	(1 302)	2 506 121	48 005	(231)	47 774	249	(144)	105
Large Corporates – debt securities	102 402	(97)	102 305	–	–	–	–	–	–
Specialized Lending	816 417	(24 139)	792 278	49 253	(7 041)	42 212	4 983	(3 862)	1 121
SME	1 260 582	(1 956)	1 258 626	208 898	(4 668)	204 230	60 491	(38 504)	21 987
Other Non-banking Financial Institutions	565 614	(97)	565 517	–	–	–	–	–	–
Other Non-banking Financial Institutions – debt securities	183 154	(65)	183 089	–	–	–	–	–	–
Public Sector Entities	2 938	(1)	2 937	500	–	500	–	–	–
Factoring	142 685	(54)	142 631	2 937	(6)	2 931	2 921	(1 127)	1 794
	5 581 215	(27 711)	5 553 504	309 593	(11 946)	297 647	68 644	(43 637)	25 007

(Table continues on the next page)

2021 €'000	Stage 1 Gross amount	Stage 1 Impair-ment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impair-ment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	195 070	(1 413)	193 657	104 424	(6 680)	97 744	13 168	(9 982)	3 186
Consumer Loans	957 740	(4 583)	953 157	180 710	(18 557)	162 153	137 497	(112 894)	24 603
Mortgages	8 284 452	(706)	8 283 745	252 409	(6 080)	246 329	77 054	(40 429)	36 625
Credit Cards	67 796	(156)	67 640	9 345	(775)	8 570	15 478	(14 238)	1 240
Overdrafts	39 867	(312)	39 554	20 379	(847)	19 532	6 788	(5 920)	868
Flat Owners Associations	38 474	(321)	38 153	–	–	–	–	–	–
	9 583 399	(7 492)	9 575 907	567 267	(32 939)	534 328	249 985	(183 463)	66 522
	15 362 602	(36 797)	15 325 805	884 286	(45 173)	839 113	318 629	(227 100)	91 529
	17 181 374	(36 887)	17 144 487	884 987	(45 192)	839 795	318 629	(227 100)	91 529
Financial assets at FVOCI – debt securities	1 664 143	(329)	1 663 814	–	–	–	–	–	–
Financial commitments and contingencies	5 428 578	(4 847)	5 423 731	185 878	(6 683)	179 195	22 976	(8 705)	14 271

2020 €'000	Stage 1 Gross amount	Impair-ment losses	Net amount	Stage 2 Gross amount	Impair-ment losses	Net amount	Stage 3 Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	206 126	(706)	205 420	–	–	–	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	5 090	–	5 090	–	–	–	–	–	–
State administration	32 685	(3)	32 682	–	–	–	–	–	–
Municipalities	88 427	(1 067)	87 360	26 717	(1 605)	25 112	–	–	–
	126 202	(1 070)	125 132	26 717	(1 605)	25 112	–	–	–
Corporate									
Large Corporates	1 813 653	(1 277)	1 812 376	302 690	(624)	302 066	4 221	(3 254)	967
Large Corporates – debt securities	141 947	(100)	141 847	8 480	(165)	8 315	–	–	–
Specialized Lending	826 388	(21 050)	805 338	60 498	(7 904)	52 594	4 808	(4 788)	20
SME	1 135 338	(1 592)	1 133 746	226 996	(3 428)	223 568	51 149	(36 052)	15 097
Other Non-banking Financial Institutions	431 750	(171)	431 579	–	–	–	1	–	1
Other Non-banking Financial Institutions – debt securities	50 056	(48)	50 008	–	–	–	–	–	–
Public Sector Entities	1 279	(46)	1 233	–	–	–	5	(1)	4
Factoring	77 698	(32)	77 666	2 594	(3)	2 591	3 595	(1 196)	2 399
	4 478 109	(24 316)	4 453 793	601 258	(12 124)	589 134	63 779	(45 291)	18 488

(Table continues on the next page)

2020 €'000	Stage 1 Gross amount	Stage 1 Impair-ment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impair-ment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	190 314	(979)	189 335	66 212	(3 405)	62 807	13 620	(9 728)	3 892
Consumer Loans	1 011 112	(6 523)	1 004 589	210 760	(23 550)	187 210	169 174	(103 873)	65 301
Mortgages	7 504 985	(1 033)	7 503 952	252 709	(7 280)	245 429	89 647	(33 335)	56 312
Credit Cards	69 727	(416)	69 311	11 578	(1 186)	10 392	22 787	(15 956)	6 831
Overdrafts	48 461	(379)	48 082	20 708	(891)	19 817	7 412	(5 151)	2 261
Flat Owners Associations	37 176	(219)	36 957	–	–	–	–	–	–
	8 861 775	(9 549)	8 852 226	561 967	(36 312)	525 655	302 640	(168 043)	134 597
	13 466 086	(34 935)	13 431 151	1 189 942	(50 041)	1 139 901	366 419	(213 334)	153 085
	13 672 212	(35 641)	13 636 571	1 189 942	(50 041)	1 139 901	366 419	(213 334)	153 085
Financial assets at FVOCI – debt securities	1 611 015	(306)	1 610 709	–	–	–	–	–	–
Financial commitments and contingencies	4 767 567	(7 023)	4 760 544	94 192	(2 161)	92 031	17 229	(4 720)	12 509

The table below shows the three-stage approach based on changes in credit quality by days past due for all financial assets exposed to credit risk.

2021 €'000	Stage 1 Gross amount	Stage 1 Impair-ment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impair-ment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	1 818 772	(90)	1 818 682	701	(19)	682	–	–	–
Due from customers:									
Public administration									
No delinquency	197 501	(1 593)	195 908	7 331	(288)	7 043	–	–	–
1 – 30 days	487	(1)	486	–	–	–	–	–	–
31 – 60 days	–	–	–	95	–	95	–	–	–
	197 988	(1 594)	196 394	7 426	(288)	7 138	–	–	–
Corporate									
No delinquency	5 571 934	(27 700)	5 544 234	305 477	(11 897)	293 580	32 722	(14 769)	17 953
1 – 30 days	8 679	(8)	8 671	3 150	(30)	3 120	-	-	-
31 – 60 days	2	–	2	966	(19)	947	1 141	(193)	948
61 – 90 days	–	–	–	–	–	–	190	(97)	93
91 – 180 days	–	–	–	–	–	–	2 490	(2 110)	380
Over 181 days	600	(3)	597	–	–	–	32 101	(26 468)	5 633
	5 581 215	(27 711)	5 553 504	309 593	(11 946)	297 647	68 644	(43 637)	25 007

(Table continues on the next page)

2021 €'000	Stage 1 Gross amount	Impair-ment losses	Net amount	Stage 2 Gross amount	Impair-ment losses	Net amount	Stage 3 Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	9 573 304	(7 245)	9 566 059	522 118	(26 498)	495 620	47 337	(24 116)	23 221
1 – 30 days	10 095	(247)	9 848	33 424	(4 333)	29 091	10 396	(4 644)	5 752
31 – 60 days	-	-	-	7 168	(1 213)	5 955	3 195	(1 462)	1 733
61 – 90 days	-	-	-	4 557	(895)	3 662	2 250	(1 060)	1 190
91 – 180 days	-	-	-	-	-	-	15 265	(11 778)	3 487
Over 181 days	-	-	-	-	-	-	171 542	(140 403)	31 139
	9 583 399	(7 492)	9 575 907	567 267	(32 939)	534 328	249 985	(183 463)	66 522
	15 362 602	(36 797)	15 325 805	884 286	(45 173)	839 113	318 629	(227 100)	91 529
	17 181 374	(36 887)	17 144 487	884 987	(45 192)	839 795	318 629	(227 100)	91 529
Financial assets at FVOCI									
– debt securities									
No delinquency	1 664 143	(329)	1 663 814	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	5 428 578	(4 847)	5 423 731	185 878	(6 683)	179 195	22 976	(8 705)	14 271

2020 €'000	Stage 1 Gross amount	Impair-ment losses	Net amount	Stage 2 Gross amount	Impair-ment losses	Net amount	Stage 3 Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	206 126	(706)	205 420	–	–	–	–	–	–
Due from customers:									
Public administration									
No delinquency	125 877	(1 070)	124 807	26 552	(1 602)	24 950	–	–	–
1 – 30 days	325	–	325	165	(3)	162	–	–	–
	126 202	(1 070)	125 132	26 717	(1 605)	25 112	–	–	–
Corporate									
No delinquency	4 471 397	(24 288)	4 447 109	517 730	(11 352)	506 378	24 366	(12 294)	12 072
1 – 30 days	6 681	(28)	6 653	82 468	(769)	81 699	537	(152)	385
31 – 60 days	31	–	31	150	(2)	148	–	–	–
61 – 90 days	–	–	–	910	(1)	909	1 022	(891)	131
91 – 180 days	–	–	–	–	–	–	4 655	(4 187)	468
Over 181 days	–	–	–	–	–	–	33 199	(27 767)	5 432
	4 478 109	(24 316)	4 453 793	601 258	(12 124)	589 134	63 779	(45 291)	18 488

(Table continues on the next page)

2020 €'000	Stage 1 Gross amount	Impair-ment losses	Net amount	Stage 2 Gross amount	Impair-ment losses	Net amount	Stage 3 Gross amount	Impair-ment losses	Net amount
Financial assets at AC: Due from customers:									
Retail									
No delinquency	8 851 958	(9 235)	8 842 723	524 281	(30 649)	493 632	44 716	(14 669)	30 047
1 – 30 days	9 817	(314)	9 503	28 815	(4 007)	24 808	9 200	(3 422)	5 778
31 – 60 days	–	–	–	543	(100)	443	488	(310)	178
61 – 90 days	–	–	–	8 328	(1 556)	6 772	4 132	(1 481)	2 651
91 – 180 days	–	–	–	–	–	–	22 935	(11 336)	11 599
Over 181 days	–	–	–	–	–	–	221 169	(136 825)	84 344
	8 861 775	(9 549)	8 852 226	561 967	(36 312)	525 655	302 640	(168 043)	134 597
	13 466 086	(34 935)	13 431 151	1 189 942	(50 041)	1 139 901	366 419	(213 334)	153 085
	13 672 212	(35 641)	13 636 571	1 189 942	(50 041)	1 139 901	366 419	(213 334)	153 085
Financial assets at FVOCI									
– debt securities									
No delinquency	1 611 015	(306)	1 610 709	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	4 767 567	(7 023)	4 760 544	94 192	(2 161)	92 031	17 229	(4 720)	12 509

4.1.4. Loans with renegotiated terms and forbearance policy

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

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

The bank follows rules in ECB Guidance to banks on non-performing loans issued in March 2017.

Forborne exposures are those falling into the "Non-performing exposures with forbearance measures" and "Performing Forborne exposures" categories.

Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Forbearance measures entail:

– favorable contractual modifications granted to the debtor solely in consideration of its financial difficulties **(modification**);
– the granting, in favor of a debtor in financial difficulties, of a new loan to allow the fulfilment of the pre-existing obligation (**refinancing**);
– contractual modifications which may be requested by a debtor within the scope of a contract already subscribed and granted by the Bank in the knowledge that the debtor is in financial difficulties (so-called "**embedded forbearance clauses**").

Therefore, the definition of forborne exposure excludes the renegotiations made for commercial reasons/practices. The qualification of "Forborne Exposure" refers to the individual transactions subject to renegotiation and/or refinancing and should not be extended to the entire counterparty. The financial difficulty, however, shall be assessed at a debtor level.

During approval process it should be consider if a client in financial distress if:

– Light Blue or Red EWS synthetic indicator
– presence of 30 days past due (or greater) on the credit line (without considering compensation or materiality threshold) in the last 3 months and at least one of the following conditions is met:
– rating worsened in the last 3 months to a "high-risk" class;
– if rating and EWS are unavailable, the presence of at least one facility classified as Stage 2 according to IFRS9 standard should be checked instead.

The above list of presumptions is not exhaustive, and they are "relative" in their nature: contrary evidence is therefore admitted. As a consequence, it is allowed not to flag as forborne an exposure submitted to a modification/refinancing referred to a borrower who fulfils at least one of the above-mentioned conditions; in that case, however, it shall be mandatory to justify such a decision within the proposal/decision-making credit process.

Absence of financial distress requires a case by case assessment to analyze the borrower risk profile in order to establish whether the measure should be considered forborne.

The financial distress is always assumed if the counterparty is classified as non-performing (absolute presumption).

The aim of forborne exposures is to prevent potential financial difficulties of the debtor or to allow the return of the exposure to a situation of sustainable repayment. In case of performing borrowers, such a measure should not be used to delay the reclassification to non-performing statuses of a borrower whose financial conditions already justify a downgrade of its risk classification.

The extension of Forbearance Measures does not automatically lead to the classification of the forborne exposures as Non-Performing. Instead, a net present value (NPV) test is performed by Finevare to identify whether a forbearance measure leads to a diminished financial obligation according to:

$$DO = \frac{NPV_0 - NPV_1}{NPV_0}$$

where:

- DO is diminished financial obligation;
- NPV0 is net present value of cash flows (including unpaid interest and fees) expected under contractual obligations before the changes in terms and conditions of the contract discounted using the customer's original effective interest rate;
- NPV1 is net present value of the cash flows expected based on the new arrangement discounted using the customer's original effective interest rate.

Then, if the diminished financial obligation is higher than the threshold of 1%, the exposure is classified as Non-performing, otherwise it is Performing.

In order to identify forborne exposures, the European regulation envisages a distinction between **absolute presumptions** and **relative presumptions (rebuttable).** Absolute presumptions refer to circumstances which always fall within the concept of forborne, and don't admit contrary evidence. Relative presumptions refer to circumstances that fall within the concept of forborne until proven otherwise. Exclusively on the basis of specific analyses the Bank can prove that a certain circumstance does not give rise to a forbearance measure.

Listed below are some examples of the most common forms of contractual modifications which may be qualified as forbearance measures, when referred to counterparties in "financial difficulties" (the list is not exhaustive):

- Short term credit facilities subject to debt consolidation/debt rescheduling plan;
  - Medium/long-term loans subject to:
  - restructuring of the amortization plan with reductions or temporary suspensions of the instalments;
  - extension of the maturity;
  - extension of the pre-amortization period;
  - conversion of the repayment terms from instalments into bullet repayment at maturity
  - consolidation.
- Contractual modification/renegotiation resulting from the breach of financial covenants (waiver, amendment, cancellation) refinancing;
- Restructuring of performing exposures, or past due exposures not yet classified as non-performing, involving a pool of banks
- Contractual modification of the economic conditions i.e. granting a borrower a new, more favorable interest rate ("off-market conditions");
- Refinancing of exposure, even short-term, with new financing that allow the debtor to postpone repayment to the bank;
- Conversion of Debt to Equity;

– In case of the Sale and Repurchase Agreements (REPOs), the capitalization of outflows when mark to market is negative.

Furthermore, according to the European regulation, the following cases have to be recognized as forborne exposures (they therefore represent "absolute" presumptions):

– Contractual modifications that imply partial or total write-off of exposure;
– The exercise of clauses which, when enforced at the discretion of the debtor, enable him to change the terms of the contract ("embedded forbearance clauses");
– Providing new financing to the debtor simultaneously (or almost) to the payment of principal and/or interest on another exposure;

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

	Performing forborne			Non-performing forborne		
2021 € '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC						
Corporate	64 193	(3 344)	60 849	32 984	(22 766)	10 218
Retail	92 876	(4 832)	88 044	20 687	(15 254)	5 433
	157 069	(8 176)	148 893	53 671	(38 020)	15 651
Financial commitments and contingencies	3 448	(4)	3 444	4 767	(1 525)	3 242

	Performing forborne			Non-performing forborne		
2020 € '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC						
Corporate	44 401	(841)	43 560	31 024	(23 665)	7 359
Retail	37 619	(1 525)	36 094	18 820	(10 361)	8 459
	82 020	(2 366)	79 654	49 844	(34 026)	15 818
Financial commitments and contingencies	1 270	(4)	1 266	4 200	(1 142)	3 058

4.1.5. Write-off Policy

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

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

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

The amount of loans written off during the year that are still subject to enforcement activity is € 34 146 thousand (31 December 2020: € 38 112 thousand).

4.1.6. Collateral Policy

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

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

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

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

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

The Bank mainly uses the following means of enforcement of collateral:

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

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

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

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

	2021		2020	
€ '000	Clients	Banks	Clients	Banks
Property	9 726 888	–	8 859 996	–
of which covering mortgages:	8 687 728	–	7 888 727	–
LTV* lower than 60%	2 593 810	–	2 294 528	–
LTV higher than 60% and lower than 80%	4 671 711	–	4 019 497	–
LTV higher than 80% and lower than 100%	1 417 289	–	1 568 727	–
LTV higher than 100%	4 918	–	5 976	–
Debt securities	32 913	211 260	34 899	–
Other	602 319	78 198	558 195	85 591
	10 362 120	289 458	9 453 090	85 591

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

	2021		2020	
€ '000	Clients	Banks	Clients	Banks
Property	136 974	–	149 877	–
of which covering mortgages:	105 640	–	122 190	–
LTV* lower than 60%	50 059	–	56 125	–
LTV higher than 60% and lower than 80%	46 318	–	53 404	–
LTV higher than 80% and lower than 100%	7 972	–	10 784	–
LTV higher than 100%	1 291	–	1 877	–
Other	6 691	–	4 928	–
	143 665	–	154 805	–

* LTV (loan to value) is the ratio of the current balance sheet balance of a loan to the currently allocated value of collateral for a given contract.

4.1.7. Offsetting financial assets and financial liabilities

Offsetting financial assets and financial liabilities relates to financial assets and financial liabilities that are:

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

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

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

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

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

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

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

					Related amounts not offset in SOFP		
2021 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	7	213 304	–	213 304	(213 304)	–	–
Derivative financial instruments	8, 9	70 931	–	70 931	–	(28 200)	42 731

					Related amounts not offset in SOFP		
2021 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral pledged	Net amount
Types of financial liabilities							
Derivative financial instruments	8, 9	50 586	–	50 586	–	(35 882)	14 704

					Related amounts not offset in SOFP		
2020 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	7	604 335	–	604 335	(604 335)	–	–
Derivative financial instruments	8, 9	148 162	–	148 162	–	(23 769)	124 393

					Related amounts not offset in SOFP		
2020 € '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral pledged	Net amount
Types of financial liabilities							
Derivative financial instruments	8, 9	141 674	–	141 674	–	(65 083)	76 591

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

				2021			2020
€ '000	Note	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure
Financial assets							
Cash and cash equivalents	7	2 612 785	213 304	2 399 481	1 571 629	604 335	967 294
Financial assets at FVTPL:	8						
Financial assets held for trading		30 064	15 357	14 707	79 260	62 970	16 290
Derivatives Hedge accounting	9	55 574	55 574	–	85 192	85 192	–
Financial liabilities							
Financial liabilities at FVTPL:	8						
Financial liabilities held for trading		30 863	19 076	11 787	87 377	76 267	11 110
Derivatives Hedge accounting	9	31 510	31 510	–	65 407	65 407	–

4.1.8. Concentrations of credit risk

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

2021 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	169 949	(1 226)	168 723
Corporate	3 611 992	(80 868)	3 531 124
Retail	10 250 338	(221 012)	10 029 326
	14 032 279	(303 106)	13 729 173
Financial assets at FVOCI – debt securities	863 375	(122)	863 253
Financial commitments and contingencies	3 668 776	(18 703)	3 650 073
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	1 043 522	(1 830)	1 041 692
Retail	20 466	(2 131)	18 335
	1 063 988	(3 961)	1 060 027
Financial commitments and contingencies	1 320 873	(1 271)	1 319 602
Other European countries			
Financial assets at AC:			
Due from other banks	1 734 191	(34)	1 734 157
Due from customers:			
Corporate	1 206 779	(574)	1 206 205
Retail	112 420	(667)	111 753
	1 319 199	(1 241)	1 317 958
	3 053 390	(1 275)	3 052 115
Financial assets at FVOCI – debt securities	701 336	(197)	701 139
Financial commitments and contingencies	595 399	(234)	595 165

2021 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	8 838	(3)	8 835
Retail	2 212	(2)	2 210
	11 050	(5)	11 045
Financial assets at FVOCI – debt securities	99 432	(10)	99 422
Financial commitments and contingencies	820	–	820
Asia			
Financial assets at AC:			
Due from other banks:	5 095	(1)	5 094
Due from customers			
Corporate	88 300	(20)	88 280
Retail	11 850	(50)	11 800
	100 150	(70)	100 080
	105 245	(71)	105 174
Financial commitments and contingencies	50 427	(27)	50 400
Rest of the World			
Financial assets at AC:			
Due from other banks	80 187	(74)	80 113
Due from customers:			
Public administration	35 465	(656)	34 809
Corporate	21	-	21
Retail	3 365	(32)	3 333
	38 851	(688)	38 163
	119 038	(762)	118 276
Financial commitments and contingencies	1 137	–	1 137

2020 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	115 144	(2 672)	112 472
Corporate	3 355 691	(75 904)	3 279 787
Retail	9 611 318	(211 325)	9 399 993
	13 082 153	(289 901)	12 792 252
Financial assets at FVOCI – debt securities	714 975	(69)	714 906
Financial commitments and contingencies	3 803 157	(13 169)	3 789 988
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	599 239	(2 150)	597 089
Retail	19 608	(1 848)	17 760
	618 847	(3 998)	614 849
Financial commitments and contingencies	610 029	(365)	609 664
Other European countries			
Financial assets at AC:			
Due from other banks	116 486	(235)	116 251
Due from customers:			
Public administration	5 090	–	5 090
Corporate	1 180 008	(3 674)	1 176 334
Retail	82 928	(648)	82 280
	1 268 026	(4 322)	1 263 704
	1 384 512	(4 557)	1 379 955
Financial assets at FVOCI – debt securities	794 938	(213)	794 725
Financial commitments and contingencies	420 596	(243)	420 353

(Table continues on the next page)

2020 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	8 159	(3)	8 156
Retail	1 533	(3)	1 530
	9 692	(6)	9 686
Financial assets at FVOCI – debt securities	101 102	(24)	101 078
Financial commitments and contingencies	79	–	79
Asia			
Financial assets at AC:			
Due from other banks:	12 672	(5)	12 667
Due from customers			
Retail	8 476	(75)	8 401
	21 148	(80)	21 068
Financial commitments and contingencies	42 714	(123)	42 591
Rest of the World			
Financial assets at AC:			
Due from other banks	76 968	(466)	76 502
Due from customers:			
Public administration	32 685	(3)	32 682
Corporate	49	–	49
Retail	2 519	(5)	2 514
	35 253	(8)	35 245
	112 221	(474)	111 747
Financial commitments and contingencies	2 413	(4)	2 409

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

€ '000	Gross amount	Impairment losses	2021 Net amount	Gross amount	Impairment losses	2020 Net amount
Europe						
Slovakia	863 253	(122)	863 131	714 976	(69)	714 907
Italy	301 022	(98)	300 924	492 112	(105)	492 007
Spain	187 434	(13)	187 421	118 596	(11)	118 585
Poland	51 041	(12)	51 029	68 943	(28)	68 915
Great Britain	33 737	(4)	33 733	34 308	(11)	34 297
France	38 001	(5)	37 995	33 857	(6)	33 851
Estonia	22 516	(21)	22 496	22 874	(45)	22 829
Hungary	67 389	(44)	67 345	19 054	(7)	19 047
Austria	–	–	–	5 193	–	5 193
	1 564 392	(319)	1 564 073	1 509 913	(282)	1 509 631
North America						
Canada	99 421	(10)	99 411	101 102	(24)	101 078

An analysis of exposures based on the carrying amounts by industry sector is shown in the table below.

2021 € '000	Banks	Public administration	Financial assets at AC: Corporate	Retail*	Financial assets at FVOCI – debt securities	Financial commitments and contingencies
Agriculture, forestry and fishing	–	–	170 302	21 748	–	103 034
Mining and quarrying	–	–	49 359	146	–	37 680
Manufacturing	–	–	848 606	34 409	–	845 091
Electricity, gas, steam and air conditioning supply	–	–	790 966	925	–	464 699
Water supply	–	–	64 180	2 345	–	29 348
Construction	–	–	243 879	35 469	–	623 002
Wholesale and retail trade	–	–	992 153	79 333	–	492 619
Transport and storage	–	–	389 342	16 741	–	322 070
Accommodation and food service activities	–	–	32 218	12 815	–	3 295
Information and communication	–	–	118 078	7 656	–	75 103
Financial and insurance activities**	1 819 364	–	763 087	386	316 044	901 152
Real estate activities	–	–	561 939	54 965	–	367 244
Professional, scientific and technical activities	–	–	194 405	25 596	–	163 497
Administrative and support service activities	–	–	117 094	9 145	–	28 329
Public administration and defense, compulsory social security	–	203 531	774	128	1 347 770	191 905
Education	–	1	2 279	844	–	815
Human health services and social work activities	–	–	13 231	24 870	–	7 615
Arts, entertainment and recreation	–	–	25 156	1 174	–	1 112
Other services	–	–	499 110	4 044	–	64 899
Consumer Loans	–	–	–	1 277 319	–	300 808
Mortgage Loans	–	–	–	8 566 699	–	593 880
	1 819 364	203 532	5 876 158	10 176 757	1 663 814	5 617 197

2020 € '000			Financial assets at AC:		Financial assets at FVOCI – debt securities	Financial commitments and contingencies
	Banks	Public administration	Corporate	Retail*		
Agriculture, forestry and fishing	–	–	163 424	19 593	–	101 518
Mining and quarrying	–	–	43 174	322	–	36 378
Manufacturing	–	–	794 002	30 138	–	736 817
Electricity, gas, steam and air conditioning supply	–	–	584 421	648	–	663 704
Water supply	–	–	75 704	2 170	–	23 664
Construction	–	–	228 499	30 201	–	541 115
Wholesale and retail trade	–	–	870 671	68 864	–	446 117
Transport and storage	–	–	283 898	13 855	–	303 526
Accommodation and food service activities	–	–	32 500	13 063	–	6 071
Information and communication	–	–	110 245	7 162	–	59 125
Financial and insurance activities**	205 420	–	583 339	369	338 715	657 569
Real estate activities	–	–	525 585	53 017	–	151 492
Professional, scientific and technical activities	–	–	176 970	22 019	–	170 572
Administrative and support service activities	–	–	199 107	5 809	–	15 973
Public administration and defense, compulsory social security	–	150 242	386	169	1 271 994	29 262
Education	–	2	367	906	–	301
Human health services and social work activities	–	–	40 627	19 447	–	10 081
Arts, entertainment and recreation	–	–	27 403	1 561	–	477
Other services	–	–	321 093	3 678	–	64 912
Consumer Loans	–	–	–	1 413 794	–	301 467
Mortgage Loans	–	–	–	7 805 693	–	544 943
	205 420	150 244	5 061 415	9 512 478	1 610 709	4 865 084

* 'Retail' includes Small Business and Flat Owners Associations.
** 'Financial and insurance activities' involves financial services, leasing and insurance.

4.1.9. Internal and external ratings

The overview of the internal rating scales according to the risk profile applicable for the corporate exposures and the retail exposures from small business, flat owners associations and public administrations is shown below.

Risk Profile	Description
Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
Low	Satisfactory quality and chargeability of assets, market penetration and managerial quality on the average; well set solvency, capital structure and debt composition; above average debt coverage capacity.
Lower – Intermediate	Acceptable quality and chargeability of available assets, even if with a not negligible degree of risk; well-balanced solvency, capital structure and debt composition with slight liquidity surplus and weaker debt coverage capacity.
Intermediate	Acceptable quality and chargeability of available assets even if with a significant degree of risk; vulnerable margin at times, capital structure and debt composition that show worsening signals; low level of liquidity and short debt coverage margin.
Upper – Intermediate	Still acceptable asset quality even if with possible liquidity stress; high level of gearing; managerial weakness, little market penetration and positioning; margins and competitiveness under pressure.
High	In addition to riskiness features for Upper – Intermediate profile, there are evident difficulties as well as problematic debt management.
Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: - the obligor is past due more than 90 days (Days past due methodology) on any material credit obligation to the Bank, the Parent Company undertaking or any of its subsidiaries; - the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

Specialized Lending comprises of rating segments SPV and RED. For Specialized Lending the Slotting approach is used by the Bank. Clients are assigned into five slotting categories based on a qualitative valuation and information about the risk of default. Risk weights and expected loss used for the capital requirement calculation are also defined for each category. Categories are predefined by the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms ('CRR') and internally, the categories used are as follows:

Specialized Lending – SPV and RED

- Strong
- Good
- Satisfactory
- Weak
- Default

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

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

In the segments of the Single Resolution Fund, public sector entities and factoring, the bank does not assign an internal rating to the client.

Capital requirement calculation

The Bank generally uses the standardised approach for the calculation of the capital requirements. However, for the calculation of the credit and counterparty risk capital requirements, the Bank, having received authorisation from the Supervisory Authority NBS, uses the Advanced IRB approach for its portfolio of residential mortgages from July 2012 and for the Corporate segment, Small and Medium size enterprises (SME) and for Retail Small Business from June 2014. The Foundation IRB approach is used for corporate exposures where a LGD is not available, but they are assigned according to regulation. Simple IRB approach is used for equity exposures and methodology for this capital requirement is in line with Article 155 of the CRR Regulation. The Bank is also proceeding with the development of rating models for other segments, to which the standard methods are currently applied, and also with the extension of the scope to subsidiaries in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

The following table shows the quality of the Bank's **stage 1** credit portfolio in terms of internal ratings:

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	2 938	–	2 938
	Low	132 684	(87)	132 597
	Lower – Intermediate	–	(3)	(3)
	Unrated	1 683 150	–	1 683 150
		1 818 772	(90)	1 818 682
Due from customers: Public administration				
	Very Low	146 893	(1 572)	145 321
	Low	13 059	(4)	13 055
	Upper – Intermediate	24 218	(12)	24 206
	High	7 461	(6)	7 455
	Unrated	6 357	–	6 357
		197 988	(1 594)	196 394
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	547 288	(72)	547 216
	Low	1 934 700	(522)	1 934 178
	Lower – Intermediate	1 150 500	(629)	1 149 871
	Intermediate	567 884	(993)	566 891
	Upper – Intermediate	251 867	(912)	250 955
	High	22 258	(345)	21 913
	Unrated	290 300	(99)	290 201
Specialized Lending – SPV, RED				
	Strong	167 549	(1 183)	166 366
	Good	355 334	(4 892)	350 442
	Satisfactory	253 408	(12 519)	240 889
	Weak	40 126	(5 545)	34 581
		816 417	(24 139)	792 278
		5 581 214	(27 711)	5 553 503

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	13 732	(9)	13 723
	Low	26 235	(36)	26 199
	Lower – Intermediate	38 806	(128)	38 678
	Intermediate	110 611	(1 033)	109 578
	Upper – Intermediate	43 299	(375)	42 924
	High	865	(153)	712
Mortgages				
	Very Low	7 708 853	(315)	7 708 538
	Lower – Intermediate	567 707	(296)	567 411
	Intermediate	4 900	(18)	4 882
	High	2 650	(73)	2 577
	Unrated	342	(4)	338
Unsecured Retail				
	Very Low	345 009	(268)	344 741
	Low	109 372	(167)	109 205
	Lower – Intermediate	435 077	(1 557)	433 520
	Intermediate	68 806	(1 006)	67 800
	Upper – Intermediate	27 068	(1 418)	25 650
	High	3 797	(650)	3 147
	Unrated	76 271	14	76 285
		1 065 400	(5 052)	1 060 348
		9 583 400	(7 492)	9 575 908
		15 362 602	(36 797)	15 325 805
Financial assets at FVOCI – debt securities				
	Unrated	1 664 142	(329)	1 663 814

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	5 706	(1)	5 705
	Lower – Intermediate	249 912	(17)	249 895
		255 618	(18)	255 600
Due from customers:				
Public administration				
	Very Low	163 505	(14)	163 491
	Low	952	-	952
	Intermediate	4 296	(1)	4 295
	Upper – Intermediate	22 265	(6)	22 259
	High	1 152	-	1 152
	Unrated	53	-	53
		192 223	(21)	192 202
Corporate Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 340 399	(85)	1 340 314
	Low	1 296 584	(208)	1 296 376
	Lower – Intermediate	589 250	(208)	589 042
	Intermediate	284 668	(529)	284 139
	Upper – Intermediate	88 611	(343)	88 268
	High	3 871	(55)	3 816
	Unrated	194 038	(258)	193 780
Specialized Lending – SPV, RED				
	Strong	129 600	(685)	128 915
	Good	52 154	(535)	51 619
	Satisfactory	38 328	(1 201)	37 127
	Weak	1 450	(155)	1 295
	Unrated	20	-	20
		4 018 973	(4 262)	4 014 711
Retail				
	Very Low	749 561	(68)	749 493
	Low	31 992	(16)	31 976
	Lower – Intermediate	146 165	(161)	146 004
	Intermediate	22 572	(87)	22 485
	Upper – Intermediate	6 223	(82)	6 141
	High	782	(110)	672
	Unrated	4 469	(22)	4 447
		961 764	(546)	961 218
		5 172 960	(4 829)	5 168 131

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	10 307	–	10 307
	Low	50 353	(65)	50 288
	Lower – Intermediate	144 414	(614)	143 800
	Upper – Intermediate	1 052	(27)	1 025
		206 126	(706)	205 420
Due from customers:				
Public administration				
	Risk-free	154	–	154
	Almost risk-free	1 047	–	1 047
	Very low risk	697	–	697
	Low risk	18 709	(12)	18 697
	Medium risk	56 907	(733)	56 174
	Higher risk	34 976	(16)	34 960
	High risk	8 622	(309)	8 313
	Unrated	5 090	–	5 090
		126 202	(1 070)	125 132
Corporate Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	454 164	(56)	454 108
	Low	1 481 295	(617)	1 480 678
	Lower – Intermediate	993 224	(852)	992 372
	Intermediate	399 792	(594)	399 198
	Upper – Intermediate	237 066	(822)	236 244
	High	12 847	(260)	12 587
	Unrated	73 332	(64)	73 268
Specialized Lending – SPV, RED				
	Strong	353 997	(2 488)	351 509
	Good	209 956	(2 932)	207 024
	Satisfactory	231 478	(11 095)	220 383
	Weak	30 957	(4 535)	26 422
		4 478 108	(24 315)	4 453 793

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19 928	(9)	19 919
	Low	27 423	(34)	27 389
	Lower – Intermediate	43 554	(87)	43 467
	Intermediate	104 239	(490)	103 749
	Upper – Intermediate	31 155	(407)	30 748
	High	1 191	(170)	1 021
Mortgages				
	Very Low	6 944 903	(489)	6 944 414
	Low	298 060	(121)	297 939
	Lower – Intermediate	252 350	(298)	252 052
	Intermediate	6 666	(40)	6 626
	High	3 006	(86)	2 920
Unsecured Retail				
	Very Low	344 523	(390)	344 133
	Low	110 989	(239)	110 750
	Lower – Intermediate	539 197	(2 331)	536 866
	Intermediate	89 755	(1 106)	88 649
	Upper – Intermediate	39 267	(2 338)	36 929
	High	5 570	(914)	4 656
		8 861 776	(9 549)	8 852 227
		13 466 086	(34 934)	13 431 152
Financial assets at FVOCI – debt securities				
	Unrated	1 611 015	(306)	1 610 709

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	6 073	(1)	6 072
	Lower – Intermediate	46 412	(64)	46 348
		52 485	(65)	52 420
Due from customers:				
Public administration				
	Risk-free	6	–	6
	Almost risk-free	20	–	20
	Very low risk	1 134	–	1 134
	Low risk	3 787	(1)	3 786
	Medium risk	19 885	(10)	19 875
	Higher risk	1 576	(4)	1 572
	High risk	2 130	(32)	2 098
		28 538	(47)	28 491
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	828 058	(81)	827 977
	Low	1 534 477	(683)	1 533 794
	Lower – Intermediate	698 540	(252)	698 288
	Intermediate	339 206	(921)	338 285
	Upper – Intermediate	98 775	(462)	98 313
	High	14 038	(302)	13 736
	Unrated	3 240	(52)	3 188
Specialized Lending – SPV, RED				
	Strong	100 517	(542)	99 975
	Good	102 957	(1 100)	101 857
	Satisfactory	53 487	(2 027)	51 460
	Weak	31	–	31
		3 773 326	(6 422)	3 766 904
Retail				
	Very Low	575 071	(89)	574 982
	Low	172 316	(19)	172 297
	Lower – Intermediate	140 995	(197)	140 798
	Intermediate	19 428	(69)	19 359
	Upper – Intermediate	4 898	(69)	4 829
	High	510	(46)	464
		913 218	(489)	912 729
		4 715 082	(6 958)	4 708 124

The following table shows the quality of the Bank's **stage 2** credit portfolio in terms of internal ratings:

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from banks				
	Lower – Intermediate	701	(19)	682
		701	(19)	682
Due from customers:				
Public administration				
	Very Low	6 967	(286)	6 681
	Low	459	(2)	457
		7 426	(288)	7 138
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	27	-	27
	Low	1 373	-	1 373
	Lower – Intermediate	38 776	(184)	38 592
	Intermediate	19 135	(187)	18 948
	Upper – Intermediate	144 493	(2 614)	141 879
	High	54 667	(1 919)	52 748
	Unrated	1 869	-	1 869
Specialized Lending – SPV, RED				
	Good	13 825	(693)	13 132
	Satisfactory	11 990	(1 715)	10 275
	Weak	23 439	(4 634)	18 805
		49 254	(7 042)	42 212
		309 594	(11 946)	297 648

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Lower – Intermediate	3 498	(51)	3 447
	Intermediate	33 771	(1 030)	32 741
	Upper – Intermediate	58 563	(3 838)	54 725
	High risk	8 281	(1 506)	6 775
	Default	308	(255)	53
Mortgages				
	Very Low	32 550	(170)	32 380
	Lower – Intermediate	120 648	(1 349)	119 299
	Intermediate	52 039	(1 178)	50 861
	High	47 161	(3 384)	43 777
	Unrated	11	-	11
Unsecured Retail				
	Very Low	1 656	(9)	1 647
	Low	1 069	(10)	1 059
	Lower – Intermediate	52 245	(1 123)	51 122
	Intermediate	52 340	(2 349)	49 991
	Upper – Intermediate	52 146	(4 763)	47 383
	High	50 980	(11 924)	39 056
		210 436	(20 178)	190 258
		567 266	(32 939)	534 327
		884 286	(45 173)	839 113

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Provision	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	High	309	(4)	305
		309	(4)	305
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	73	-	73
	Low	2 380	(2)	2 378
	Lower – Intermediate	1 179	(2)	1 177
	Intermediate	97 019	(1 057)	95 962
	Upper – Intermediate	29 637	(649)	28 988
	High	7 720	(350)	7 370
	Unrated	15 753	(1 478)	14 275
Specialized Lending – SPV, RED				
	Satisfactory	3 244	(539)	2 705
	Weak	11	(3)	8
		157 016	(4 080)	152 936
Retail				
	Very Low	425	(7)	418
	Low	16	-	16
	Lower – Intermediate	4 637	(70)	4 567
	Intermediate	4 361	(211)	4 150
	Upper – Intermediate	6 748	(341)	6 407
	High	2 366	(540)	1 826
	Unrated	10 000	(1 430)	8 570
		28 553	(2 599)	25 954
		185 878	(6 683)	179 195

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Public administration				
	Almost risk-free	534	(1)	533
	Low risk	2 953	(9)	2 944
	Medium risk	414	(3)	411
	Higher risk	6 215	(187)	6 028
	High risk	16 601	(1 405)	15 196
		26 717	(1 605)	25 112
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Low	85 597	(77)	85 520
	Lower – Intermediate	15 256	(52)	15 204
	Intermediate	68 112	(362)	67 750
	Upper – Intermediate	314 847	(2 125)	312 722
	High	54 355	(1 600)	52 755
	Unrated	2 594	(5)	2 589
Specialized Lending – SPV, RED				
	Strong	3 367	(2)	3 365
	Good	16 126	(2 007)	14 119
	Satisfactory	28 189	(1 911)	26 278
	Weak	12 816	(3 984)	8 832
		601 259	(12 125)	589 134

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	1	–	1
	Low	48	–	48
	Lower – Intermediate	4 196	(212)	3 984
	Intermediate	20 103	(476)	19 627
	Upper – Intermediate	34 030	(1 612)	32 418
	High risk	7 834	(1 106)	6 728
Mortgages				
	Very Low	15 420	(75)	15 345
	Low	5 075	(37)	5 038
	Lower – Intermediate	124 083	(2 056)	122 027
	Intermediate	54 327	(1 515)	52 812
	High	53 804	(3 596)	50 208
Unsecured Retail				
	Very Low	1 253	(9)	1 244
	Low	777	(9)	768
	Lower – Intermediate	60 038	(1 603)	58 435
	Intermediate	56 596	(3 242)	53 354
	Upper – Intermediate	65 496	(6 986)	58 510
	High	58 885	(13 778)	45 107
		561 966	(36 312)	525 654
		1 189 942	(50 042)	1 139 900

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	Low risk	226	(1)	225
	High risk	202	(4)	198
		428	(5)	423
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	6 769	(7)	6 762
	Low	586	–	586
	Lower – Intermediate	3 184	(7)	3 177
	Intermediate	43 124	(130)	42 994
	Upper – Intermediate	15 378	(401)	14 977
	High	5 967	(178)	5 789
Specialized Lending – SPV, RED				
	Satisfactory	3 425	(591)	2 834
		78 433	(1 314)	77 119
Retail				
	Very Low	448	(13)	435
	Low	624	(6)	618
	Lower – Intermediate	6 984	(158)	6 826
	Intermediate	2 887	(92)	2 795
	Upper – Intermediate	2 005	(158)	1 847
	High	2 383	(415)	1 968
		15 331	(842)	14 489
		94 192	(2 161)	92 031

The following table shows the quality of the Bank's **stage 3** credit portfolio in terms of internal ratings:

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Corporate				
Large, SME, Other Non banking Financial and Public Corporates, and Factoring				
	Default	63 662	(39 776)	23 886
Specialized Lending – SPV, RED				
	Default	4 982	(3 861)	1 121
		68 644	(43 637)	25 007
Retail				
Small Business, Flat Owners Associations				
	Default	13 167	(9 982)	3 185
Mortgages				
	Default	77 054	(40 429)	36 625
Unsecured Retail				
	Default	159 764	(133 052)	26 712
		249 985	(183 463)	66 522
		318 629	(227 100)	91 529
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Default	18 480	(6 152)	12 328
Retail				
	Default	4 496	(2 553)	1 943
		4 496	(2 553)	1 943
		22 976	(8 705)	14 271

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring	Default	58 971	(40 503)	18 468
Specialized Lending – SPV, RED	Default	4 808	(4 788)	20
		63 779	(45 291)	18 488
Retail				
Small Business, Flat Owners Associations	Default	13 620	(9 728)	3 892
Mortgages	Default	89 647	(33 335)	56 312
Unsecured Retail	Default	199 373	(124 980)	74 393
		302 640	(168 043)	134 597
		366 419	(213 334)	153 085
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring	Default	11 432	(3 150)	8 282
Specialized Lending – SPV, RED	Default	229	(221)	8
		11 661	(3 371)	8 290
Retail	Default	5 568	(1 349)	4 219
		17 229	(4 720)	12 509

The following table shows the quality of the Bank's **total credit portfolio** in terms of internal ratings:

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks:				
	Very Low	2 938	-	2 938
	Low	132 684	(87)	132 597
	Lower – Intermediate	701	(22)	679
	Unrated	1 683 150	-	1 683 150
		1 819 473	(109)	1 819 364
Due from customers:				
Public administration				
	Very Low	153 860	(1 858)	152 002
	Low	13 518	(6)	13 512
	Upper – Intermediate	24 218	(12)	24 206
	High	7 461	(6)	7 455
	Unrated	6 357	-	6 357
		205 414	(1 882)	203 532
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	547 315	(72)	547 243
	Low	1 936 073	(522)	1 935 551
	Lower – Intermediate	1 189 276	(813)	1 188 463
	Intermediate	587 019	(1 180)	585 839
	Upper – Intermediate	396 360	(3 526)	392 834
	High	76 925	(2 264)	74 661
	Default	63 662	(39 776)	23 886
	Unrated	292 169	(99)	292 070
Specialized Lending – SPV, RED				
	Strong	167 549	(1 183)	166 366
	Good	369 159	(5 585)	363 574
	Satisfactory	265 398	(14 234)	251 164
	Weak	63 565	(10 179)	53 386
	Default	4 982	(3 861)	1 121
		5 959 452	(83 294)	5 876 158

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	13 732	(9)	13 723
	Low	26 235	(36)	26 199
	Lower – Intermediate	42 304	(179)	42 125
	Intermediate	144 382	(2 063)	142 319
	Upper – Intermediate	101 862	(4 213)	97 649
	High	9 146	(1 659)	7 487
	Default	13 475	(10 237)	3 238
Mortgages				
	Very Low	7 741 403	(485)	7 740 918
	Lower – Intermediate	688 355	(1 645)	686 710
	Intermediate	56 939	(1 196)	55 743
	High	49 811	(3 457)	46 354
	Default	77 054	(40 429)	36 625
	Unrated	353	(4)	349
Unsecured Retail				
	Very Low	346 665	(277)	346 388
	Low	110 441	(177)	110 264
	Lower – Intermediate	487 322	(2 680)	484 642
	Intermediate	121 146	(3 355)	117 791
	Upper – Intermediate	79 214	(6 181)	73 033
	High	54 777	(12 574)	42 203
	Default	159 764	(133 052)	26 712
	Unrated	76 271	14	76 285
		10 400 651	(223 894)	10 176 757
		16 565 517	(309 070)	16 256 447
Financial assets at FVOCI – debt securities				
	Unrated	1 664 143	(329)	1 663 814

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	5 706	(1)	5 705
	Lower – Intermediate	249 912	(17)	249 895
		255 618	(18)	255 600
Due from customers:				
Public administration				
	Very Low	163 505	(14)	163 491
	Low	952	-	952
	Intermediate	4 296	(1)	4 295
	Upper – Intermediate	22 265	(6)	22 259
	High	1 461	(4)	1 457
	Unrated	53	-	53
		192 532	(25)	192 507
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 340 472	(85)	1 340 387
	Low	1 298 964	(210)	1 298 754
	Lower – Intermediate	590 429	(210)	590 219
	Intermediate	381 687	(1 586)	380 101
	Upper – Intermediate	118 248	(992)	117 256
	High	11 591	(405)	11 186
	Default	18 480	(6 152)	12 328
	Unrated	209 791	(1 736)	208 055
Specialized Lending – SPV, RED				
	Strong	129 600	(685)	128 915
	Good	52 154	(535)	51 619
	Satisfactory	41 572	(1 740)	39 832
	Weak	1 461	(158)	1 303
	Unrated	20	-	20
		4 194 469	(14 494)	4 179 975
Retail				
	Very Low	749 986	(75)	749 911
	Low	32 008	(16)	31 992
	Lower – Intermediate	150 802	(231)	150 571
	Intermediate	26 933	(298)	26 635
	Upper – Intermediate	12 971	(423)	12 548
	High	3 148	(650)	2 498
	Default	4 496	(2 553)	1 943
	Unrated	14 469	(1 452)	13 017
		994 813	(5 698)	989 115
		5 381 814	(20 217)	5 361 597

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks:				
	Very Low	10 307	–	10 307
	Low	50 353	(65)	50 288
	Lower – Intermediate	144 414	(614)	143 800
	Upper – Intermediate	1 052	(27)	1 025
		206 126	(706)	205 420
Due from customers:				
Public administration				
	Risk-free	154	–	154
	Almost risk-free	1 581	(1)	1 580
	Very low risk	697	–	697
	Low risk	21 662	(21)	21 641
	Medium risk	57 321	(736)	56 585
	Higher risk	41 191	(203)	40 988
	High risk	25 223	(1 714)	23 509
	Unrated	5 090	–	5 090
		152 919	(2 675)	150 244
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	454 164	(56)	454 108
	Low	1 566 892	(694)	1 566 198
	Lower – Intermediate	1 008 480	(904)	1 007 576
	Intermediate	467 904	(956)	466 948
	Upper – Intermediate	551 913	(2 947)	548 966
	High	67 202	(1 860)	65 342
	Default	58 971	(40 503)	18 468
	Unrated	75 926	(69)	75 857
Specialized Lending – SPV, RED				
	Strong	357 364	(2 490)	354 874
	Good	226 082	(4 939)	221 143
	Satisfactory	259 667	(13 006)	246 661
	Weak	43 773	(8 519)	35 254
	Default	4 808	(4 788)	20
		5 143 146	(81 731)	5 061 415

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19 929	(9)	19 920
	Low	27 471	(34)	27 437
	Lower – Intermediate	47 750	(299)	47 451
	Intermediate	124 342	(966)	123 376
	Upper – Intermediate	65 185	(2 019)	63 166
	High	9 025	(1 276)	7 749
	Default	13 620	(9 728)	3 892
Mortgages				
	Very Low	6 960 323	(564)	6 959 759
	Low	303 135	(158)	302 977
	Lower – Intermediate	376 433	(2 354)	374 079
	Intermediate	60 993	(1 555)	59 438
	High	56 810	(3 682)	53 128
	Default	89 647	(33 335)	56 312
Unsecured Retail				
	Very Low	345 776	(399)	345 377
	Low	111 766	(248)	111 518
	Lower – Intermediate	599 235	(3 934)	595 301
	Intermediate	146 351	(4 348)	142 003
	Upper – Intermediate	104 763	(9 324)	95 439
	High	64 455	(14 692)	49 763
	Default	199 373	(124 980)	74 393
		9 726 382	(213 904)	9 512 478
		15 022 447	(298 310)	14 724 137
Financial assets at FVOCI – debt securities				
	Unrated	1 611 015	(306)	1 610 709

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	6 073	(1)	6 072
	Lower – Intermediate	46 412	(64)	46 348
		52 485	(65)	52 420
Due from customers:				
Public administration				
	Risk-free	6	–	6
	Almost risk-free	20	–	20
	Very low risk	1 134	–	1 134
	Low risk	4 013	(2)	4 011
	Medium risk	19 885	(10)	19 875
	Higher risk	1 576	(4)	1 572
	High risk	2 332	(36)	2 296
Corporate		28 966	(52)	28 914
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	834 827	(88)	834 739
	Low	1 535 063	(683)	1 534 380
	Lower – Intermediate	701 724	(259)	701 465
	Intermediate	382 330	(1 051)	381 279
	Upper – Intermediate	114 153	(863)	113 290
	High	20 005	(480)	19 525
	Default	11 432	(3 150)	8 282
	Unrated	3 240	(52)	3 188
Specialized Lending – SPV, RED				
	Strong	100 517	(542)	99 975
	Good	102 957	(1 100)	101 857
	Satisfactory	56 912	(2 618)	54 294
	Weak	31	–	31
	Default	229	(221)	8
		3 863 420	(11 107)	3 852 313
Retail				
	Very Low	575 519	(102)	575 417
	Low	172 940	(25)	172 915
	Lower – Intermediate	147 979	(355)	147 624
	Intermediate	22 315	(161)	22 154
	Upper – Intermediate	6 903	(227)	6 676
	High	2 893	(461)	2 432
	Default	5 568	(1 349)	4 219
		934 117	(2 680)	931 437
		4 826 503	(13 839)	4 812 664

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortised cost: due from other banks is in the rating scale from Aaa to Caa1 (31 December 2020: Aa1 to Caa1). The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on **Moody's** ratings.

2021 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aaa	224 319	(23)	224 297
	Aa1	91 781	(35)	91 747
	Aa2	5 038	(0)	5 038
	A2	805 195	(118)	805 077
	Baa1	169 254	(11)	169 244
	Baa2	67 433	(44)	67 389
	Baa3	301 120	(98)	301 022
		1 664 142	(329)	1 663 814

2020 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aaa	228 624	(48)	228 576
	Aa1	115 411	(79)	115 332
	A2	655 618	(62)	655 556
	Baa1	100 195	(5)	100 190
	Baa3	511 167	(112)	511 055
		1 611 015	(306)	1 610 709

4.1.10. Sensitivity analysis of impairment losses

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

2021 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	109	96	(13)	(11,93)%
Due from customers:				
Public administration	1 882	1 694	(188)	(9,99)%
Corporate				
Large Corporates	1 677	1 524	(153)	(9,12)%
Large Corporates – debt securities	97	88	(9)	(9,28)%
Specialized Lending	35 042	31 924	(3 118)	(8,90)%
SME	45 128	44 466	(662)	(1,47)%
Other Non-banking Financial Institutions	97	87	(10)	(10,31)%
Other Non-banking Financial Institutions – debt securities	65	59	(6)	(9,23)%
Public Sector Entities	1	1	–	–
Factoring	1 187	1 180	(7)	(0,59)%
	83 294	79 329	(3 965)	(4,76)%
Retail				
Small Business	18 075	17 266	(809)	(4,48)%
Consumer Loans	136 034	133 720	(2 314)	(1,70)%
Mortgages	47 216	46 536	(680)	(1,44)%
Credit Cards	15 169	15 076	(93)	(0,61)%
Overdrafts	7 079	6 964	(115)	(1,62)%
Flat Owners Associations	321	289	(32)	(9,97)%
	223 894	219 851	(4 043)	(1,81)%
	309 070	300 874	(8 196)	(2,65)%
	309 179	300 970	(8 209)	(2,66)%
Financial assets at FVOCI – debt securities	329	296	(33)	(10,03)%

2020 € '000	Base scenario Impairment losses	Decrease PD by 10% Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	706	636	(70)	(9,92)%
Due from customers:				
Public administration	2 675	2 407	(268)	(10,02)%
Corporate				
Large Corporates	5 155	4 965	(190)	(3,69)%
Large Corporates – debt securities	265	238	(27)	(10,19)%
Specialized Lending	33 742	30 846	(2 896)	(8,58)%
SME	41 072	40 570	(502)	(1,22)%
Other Non-banking Financial Institutions	171	154	(17)	(9,94)%
Other Non-banking Financial Institutions – debt securities	48	43	(5)	(10,42)%
Public Sector Entities	47	42	(5)	(10,64)%
Factoring	1 231	1 228	(3)	(0,24)%
	81 731	78 086	(3 645)	(4,46)%
Retail				
Small Business	14 112	13 674	(438)	(3,10)%
Consumer Loans	133 946	130 938	(3 008)	(2,25)%
Mortgages	41 648	40 817	(831)	(2,00)%
Credit Cards	17 558	17 398	(160)	(0,91)%
Overdrafts	6 421	6 294	(127)	(1,98)%
Flat Owners Associations	219	197	(22)	(10,05)%
	213 904	209 318	(4 586)	(2,14)%
	298 310	289 811	(8 499)	(2,85)%
	299 016	290 447	(8 569)	(2,87)%
Financial assets at FVOCI – debt securities	306	275	(31)	(10,13)%

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

2021 € '000	Base scenario	Increase PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	109	117	8	7,34%
Due from customers:				
Public administration	1 882	2 070	188	9,99%
Corporate				
Large Corporates	1 677	1 830	153	9,12%
Large Corporates – debt securities	97	108	11	11,34%
Specialized Lending	35 042	38 160	3 118	8,90%
SME	45 128	45 790	662	1,47%
Other Non-banking Financial Institutions	97	106	9	9,28%
Other Non-banking Financial Institutions – debt securities	65	72	7	10,77%
Public Sector Entities	1	1	–	–
Factoring	1 187	1 193	6	0,51%
	83 294	87 260	3 966	4,76%
Retail				
Small Business	18 075	18 885	810	4,48%
Consumer Loans	136 034	138 348	2 314	1,70%
Mortgages	47 216	47 894	678	1,44%
Credit Cards	15 169	15 262	93	0,61%
Overdrafts	7 079	7 196	117	1,65%
Flat Owners Associations	321	353	32	9,97%
	223 894	227 938	4 044	1,81%
	309 070	317 268	8 198	2,65%
	309 179	317 385	8 206	2,65%
Financial assets at FVOCI – debt securities	329	362	33	10,03%

2020 € '000	Base scenario	Increase PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	706	777	71	10,06%
Due from customers:				
Public administration	2 675	2 942	267	9,98%
Corporate				
Large Corporates	5 155	5 345	190	3,69%
Large Corporates – debt securities	265	291	26	9,81%
Specialized Lending	33 742	36 637	2 895	8,58%
SME	41 072	41 574	502	1,22%
Other Non-banking Financial Institutions	171	188	17	9,94%
Other Non-banking Financial Institutions – debt securities	48	53	5	10,42%
Public Sector Entities	47	52	5	10,64%
Factoring	1 231	1 235	4	0,32%
	81 731	85 375	3 644	4,46%
Retail				
Small Business	14 112	14 551	439	3,11%
Consumer Loans	133 946	136 953	3 007	2,24%
Mortgages	41 648	42 480	832	2,00%
Credit Cards	17 558	17 718	160	0,91%
Overdrafts	6 421	6 548	127	1,98%
Flat Owners Associations	219	241	22	10,05%
	213 904	218 491	4 587	2,14%
	298 310	306 808	8 498	2,85%
	299 016	307 585	8 569	2,87%
Financial assets at FVOCI – debt securities	306	336	30	9,80%

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

The behavior of the model is described by six possible scenarios simulating a worsening of the macroeconomic situation. The scenarios resulted in the increase of expected loss in both stage 1 and stage 2. The simulation was run on VÚB Group level on the most significant segment Mortgages (the segment as of 31.12.2021 is summarized in the right-hand side table).

If the predicted GDP growth will be decreased by 66 bps (30% of the last available value at the time of development of the model - the last available values as of 4Q2019: GDP y/y growth = 2.20%; UR y/y change = -0.5%) then the impact on the P&L effect will be 19 ths EUR for Stage 1 and 55 ths EUR for Stage 2.

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

2021 € '000					Stage 1
Scenario	Scenario description		Impairment losses	Provisions	Total
Base	without stressing				
		ECL	707	110	817
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	713	111	824
		Absolute change	6	1	7
		Relative change	0,88%	0,88%	0,88%
UR stress 10%	UR increase by 15 bps				
		ECL	711	111	822
		Absolute change	4	1	5
		Relative change	0,53%	0,53%	0,53%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	716	112	828
		Absolute change	9	2	11
		Relative change	1,23%	1,22%	1,23%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	723	113	836
		Absolute change	16	3	19
		Relative change	2,29%	2,27%	2,29%
UR stress 30%	UR increase by 45 bps				
		ECL	719	112	831
		Absolute change	12	2	14
		Relative change	1,76%	1,75%	1,76%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	734	115	849
		Absolute change	27	5	32
		Relative change	3,88%	3,85%	3,88%

2020 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	1 033	159	1 192
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	1 042	160	1 202
		Absolute change	9	1	10
		Relative change	0,94%	0,91%	0,93%
UR stress 10%	UR increase by 15 bps				
		ECL	1 043	161	1 204
		Absolute change	10	2	12
		Relative change	1,04%	1,02%	1,04%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	1 053	162	1 215
		Absolute change	20	3	23
		Relative change	1,98%	1,93%	1,97%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	1 061	163	1 224
		Absolute change	28	4	32
		Relative change	2,71%	2,65%	2,70%
UR stress 30%	UR increase by 45 bps				
		ECL	1 067	164	1 231
		Absolute change	34	5	39
		Relative change	3,34%	3,26%	3,62%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	1 097	169	1 266
		Absolute change	64	10	74
		Relative change	6,17%	6,01%	6,15%

2021 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	6 080	175	6 255
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	6 099	176	6 275
		Absolute change	19	1	20
		Relative change	0,31%	0,21%	0,31%
UR stress 10%	UR increase by 15 bps				
		ECL	6 095	175	6 270
		Absolute change	15	0	15
		Relative change	0,25%	0,17%	0,25%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	6 114	176	6 290
		Absolute change	34	1	35
		Relative change	0,55%	0,37%	0,54%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	6 134	176	6 310
		Absolute change	54	1	55
		Relative change	0,89%	0,61%	0,88%
UR stress 30%	UR increase by 45 bps				
		ECL	6 127	176	6 303
		Absolute change	47	1	48
		Relative change	0,77%	0,52%	0,76%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	6 181	177	6 358
		Absolute change	101	2	103
		Relative change	1,66%	1,12%	1,64%

2020 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	7 280	238	7 518
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	7 314	239	7 553
		Absolute change	34	1	35
		Relative change	0,48%	0,28%	0,47%
UR stress 10%	UR increase by 15 bps				
		ECL	7 319	239	7 558
		Absolute change	39	1	40
		Relative change	0,55%	0,32%	0,54%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	7 352	240	7 592
		Absolute change	72	2	74
		Relative change	1,01%	0,59%	0,99%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	7 380	240	7 620
		Absolute change	100	2	102
		Relative change	1,39%	0,81%	1,37%
UR stress 30%	UR increase by 45 bps				
		ECL	7 401	240	7 641
		Absolute change	121	2	123
		Relative change	1,71%	0,85%	1,68%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	7 502	242	7 744
		Absolute change	222	4	226
		Relative change	3,08%	1,80%	3,04%

4.1.12. Credit risk of financial derivatives

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

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

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

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

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

€ '000	2021	2020
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	47 277	109 307
Derivatives – Hedge accounting	107 954	127 863
	155 231	237 170

4.1.13. The impact of the COVID-19 pandemic

On 4 April 2020, Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 entered into force (amended several times), which includes, inter alia, financial market measures that directly affect the Bank's activities, such as measures in the field of financial assistance, financial market supervision, measures to defer loan repayments and measures in the field of contactless payments. The Bank complies with valid legislation and applies the prudential framework published by the European Banking Authority in relation to default, forbearance and IFRS 9 in relation to measures related to the COVID-19 pandemic.

As at 12 December 2020 EBA amended Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02), which contains rules for the assessment of clients who requested deferral of payments during a pandemic and extended its validity until 31 March 2021. Under the specified conditions, the bank should not worsen the creditworthiness of the client in deferred loan repayments approved until 31 March 2021.

The Bank updated its IFRS 9 PD and LGD models by the new economic predictions. The last update is from

November 2021 and it is linked to actual economic forecast. The outcome is creation of additional ECL in amount of € 7 million. The additional part of ECL was created in the form of post-model adjustments/managerial overlay as a reaction of the senior management on potential negative economic outlooks. The managerial overlay at 31 December 2021 increased the ECL by € 19 million in segment of retail. Another important factor is the deterioration of credit quality as indicated by rating downgrade, i.e. some portion of portfolios has been re-classified to stage 2, with additional impact on level of ECL in the amount of € 1,5 million, mainly in small business segment and to some extent consumer loans. Common drivers for stage 2 reclassification are: significant rating downgrade, 30 days past due, forbearance flag and monitoring of client in proactive credit risk regime. However, the primary driver observed throughout the year was the significant rating downgrade which triggers migration from Stage 1 to Stage 2. Finally, the migration to stage 3 was observed mainly for clients without legal moratorium, driven dominantly by consumer loans.

During the pandemic period, the borrower might request the Bank to defer payments for a period not exceeding nine months. The Bank is obliged to allow deferral of installments if the legal requirements were met. By allowing deferred payments, the effects of the debtor's delay do not occur to the extent of deferred fulfillment. Deferral of repayments does not affect the flag of default and does not worsen the credit quality of the borrower. The debtor does not lose the obligation to pay interest for the period of deferred payments and interest is accrued even during the duration of deferred payments.

Till 31 December 2021 the Bank received 23 452 requests for deferral of repayments of corporate and retail loans, of which 21 394 was granted in the total gross amount of € 1 012 865 thousand. Out of these, expired € 1 012 860 thousand.

			Performing			Non-performing
2021 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	–	–	–	–	–	–
Retail	5	–	5	–	–	–
	5	–	5	–	–	–

			Performing			Non-performing
2020 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	92 828	(2 590)	90 238	516	(372)	144
Retail	377 408	(7 539)	369 869	4 080	(1 949)	2 131
	470 236	(10 129)	460 107	4 596	(2 321)	2 275

The Bank has joined the SIH Anti-Corona Guarantee 1 and SIH Anti-Corona Guarantee 2 programs, under which it, in cooperation with Slovak Investment Holding ('SIH'), provided assistance to companies to bridge income shortfalls during crisis measures against the spread of coronavirus. SIH assistance consisted of a portfolio guarantee for a loan provided by the Bank and, under the SIH anti-corona guarantee 1 under the conditions of maintaining employment in small and medium-sized enterprises, as well as an interest subsidy of up to 4%. Loans were provided for a maximum of four years up to the amount of € 1,180 thousand with a 12-month deferral of repayment of principal and interest. Under the SIH anti-corona guarantee 2, the SIH guarantee represented 90% of the principal and loans with a maturity of two to six years were provided in a maximum amount of € 2,000 thousand with deferral of principal and interest payments for 12 months with the possibility of waiving the guarantee fee if the conditions are met. Interest rates were limited for micro-enterprises at 3.9% p. a. and for other enterprises 1.9% p. a.

The Bank also participated in the program of financial assistance for Slovak companies to mitigate the effects of the COVID-19 pandemic, launched by EXIMBANKA SR. The aid consisted of a guarantee of 80% of the principal and loans were provided with a maturity of two to six years in the amount of € 2 to 20 million with deferral of principal and interest payments for 12 months with the possibility of waiving the guarantee fee if the conditions are met. The interest rate was limited to 1.9% p. a.

The loans were provided under market conditions and the programs in which the Bank participated are not government grants.

Till 31 December 2021 the Bank provided 1 722 newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis to enterprises in the total gross amount of € 246 960 thousand.

			Performing			Non-performing
2021 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	186 399	(943)	185 456	2 238	(457)	1 781
Retail	58 163	(1 229)	56 934	160	(89)	71
	244 562	(2 172)	242 390	2 398	(546)	1 852

			Performing			Non-performing
2020 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	101 930	(224)	101 706	587	(113)	474
Retail	27 654	(168)	27 486	–	–	–
	129 584	(392)	129 192	587	(113)	474

4.2. Market risk

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

4.2.1. Management of market risk

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

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. Financial instruments with non-trading purpose are part of the 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 market risk monitoring and reporting.

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

4.2.2. Exposure to market risk – trading portfolios

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

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

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

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

				2021				2020
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	68	49	125	12	88	76	277	3
Interest rate risk	109	88	251	35	162	218	489	22
Total VaŔ	96	109	278	39	164	261	633	30
Total sVaR	338	498	1 466	195	178	503	1 265	135

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

– VaR does not measure the worst case loss, since a 99% confidence interval means that in 1% of cases the loss is expected to be greater than the VaR amount;
– VaR calculated using a one day holding period assumes hedge or disposal of a position within one day, which might not be realistic in the case of a longer illiquid situation on the market;

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

4.2.3. Exposure to interest rate risk of banking book

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

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

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

The Risk Management division is responsible for monitoring and reporting of interest rate gaps at least on a monthly basis. The management of interest rate risk is measured by shift sensitivity of fair value analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and instantaneous shift of +/100 basis points of the yield curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and instantaneous shift of +/-200 basis points, and non-parallel steepening and flattening scenarios as well as short rates up and down scenarios. Six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision, have been introduced in 2017. All scenarios are applied on monthly basis as from September 2019.

The sensitivity of the interest margin is also measured with a set of scenarios similar to shift sensitivity analysis – baseline, internal stress and regulatory scenarios. The baseline scenario is represented by parallel and instantaneous +/-50 bps shocks in the yield curve, in a period of the following 12 months. Furthermore, additional internal stress and regulatory scenarios are applied: +/-100, +/-200 and six stress scenarios according to the Interest Rate Risk in the Banking Book Guidelines published by the Basel Committee on Banking Supervision.

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

Models applied for the interest rate risk ('IRR') calculation

Each financial and non-financial instrument is allocated to the time bucket based on its contractual or behavioural repricing date:

Contractual category

This category includes instruments where the Bank knows exactly when the maturity or next re-pricing takes place. This treatment is applied mainly to: bought and issued securities, received loans and term deposits.

Behavioural category

These are items for which it is not exactly known when the maturity or next re-pricing will take place (e.g. current accounts). There are also some items where the maturity or re-pricing period is known but it can be assumed that they will behave differently (e.g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the behaviour characteristics of these items. The assumptions are based on the detailed analysis of the Bank's historical time series data and statistical models.

At 31 December 2021, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 56 634 thousand (31 December 2020: € 43,717 thousand).

At 31 December 2021, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (42 562) thousand (31 December 2020: € (47,618) thousand).

At 31 December 2021, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (12 345) thousand (31 December 2020: € (20,783) thousand).

At 31 December 2021, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € 4 484 thousand (31 December 2020: € 7,937 thousand).

At 31 December 2021, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2 601) thousand (31 December 2020: € (2,523) thousand).

The re-pricing structure of interest rate bearing financial assets and financial liabilities based on contractual discounted cash-flows for the non-trading portfolios was as follows:

2021 €'000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	2 612 785	–	–	–	–	–	2 612 785
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	2 906	4 410	7 316
Financial assets at FVOCI	276	70 109	504 328	655 065	434 036	7 589	1 671 403
Financial assets at AC:							
Due from other banks	(7 863)	83 458	1 654 286	50 856	-	38 627	1 819 364
Due from customers	2 774 002	1 944 716	1 705 487	9 189 987	510 184	132 071	16 256 447
	5 379 200	2 098 283	3 864 101	9 895 908	947 126	182 697	22 367 315
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(2 627 827)	(252 919)	(40 726)	(41 314)	(1 051)	(226)	(2 964 063)
Due to customers	(6 733 466)	(883 024)	(2 223 315)	(3 682 127)	(430 832)	–	(13 952 764)
Lease liabilities	(596)	(1 189)	(4 511)	(12 761)	(1 417)	–	(20 474)
Subordinated debt	-	(200 150)	–	–	–	–	(200 150)
Debt securities in issue	(44 012)	(2 217)	(307 636)	(2 425 283)	(1 049 908)	–	(3 829 056)
	(9 405 901)	(1 339 499)	(2 576 188)	(6 161 485)	(1 483 208)	(226)	(20 966 507)
Net position of financial instruments	(4 026 701)	758 784	1 287 913	3 734 423	(536 082)	182 471	1 400 808
Cumulative net position of financial instruments	(4 026 701)	(3 267 917)	(1 980 004)	1 754 419	1 218 337	1 400 808	–
Cash inflow from derivatives	3 595 572	2 521 112	1 924 274	1 733 614	1 425 149	–	11 199 721
Cash outflow from derivatives	(2 032 999)	(1 241 650)	(3 120 102)	(4 169 201)	(642 490)	–	(11 206 442)
Net position from derivatives	1 562 573	1 279 462	(1 195 828)	(2 435 587)	782 659	–	(6 721)
Total net position	(2 464 128)	2 038 246	92 085	1 298 836	246 577	182 471	1 394 087
Cumulative total net position	(2 464 128)	(425 882)	(333 797)	965 039	1 211 616	1 394 087	–

2020 €'000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	1 571 629	–	–	–	–	–	1 571 629
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	6 874	6 874
Financial assets at FVOCI	759	295	742 700	235 347	631 608	7 358	1 618 067
Financial assets at AC:							
Due from other banks	5 829	91 669	1 024	49 936	–	56 962	205 420
Due from customers	1 927 691	1 788 836	1 604 514	8 418 775	716 586	267 735	14 724 137
	3 505 908	1 880 800	2 348 238	8 704 058	1 348 194	338 929	18 126 127
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(59 144)	(4 118)	(46 686)	(8 619)	(50 016)	(2 088)	(170 671)
Due to customers	(6 573 722)	(1 342 480)	(1 489 156)	(3 239 636)	(332 966)	–	(12 977 960)
Lease liabilities	(646)	(1 285)	(4 803)	(14 422)	(1 702)	–	(22 858)
Subordinated debt	–	(200 151)	–	–	–	–	(200 151)
Debt securities in issue	(47 961)	(50 843)	(8 374)	(2 228 784)	(1 086 767)	–	(3 422 729)
	(6 681 473)	(1 598 877)	(1 549 019)	(5 491 461)	(1 471 451)	(2 088)	(16 794 369)
Net position of financial instruments	(3 175 565)	281 923	799 219	3 212 597	(123 257	336 841	1 331 758
Cumulative net position of financial instruments	(3 175 565)	(2 893 642)	(2 094 423)	1 118 174	994 917	1 331 758	–
Cash inflow from derivatives	3 102 593	2 488 693	1 213 750	1 811 214	1 696 666	–	10 312 916
Cash outflow from derivatives	(2 043 894)	(1 211 567)	(1 517 064)	(4 222 592)	(1 319 411)	–	(10 314 528)
Net position from derivatives	1 058 699	1 277 126	(303 314)	(2 411 378)	377 255	–	(1 612)
Total net position	(2 116 866)	1 559 049	495 905	801 219	253 998	336 841	1 330 146
Cumulative total net position	(2 116 866)	(557 817)	(61 912)	739 307	993 305	1 330 146	–

4.2.4. Currency denominations of assets and liabilities

Foreign exchange rate risk comprises the risk that the value of financial assets and financial liabilities will fluctuate due to changes in foreign exchange rates. It is the policy of the Bank to manage its exposure to fluctuations in exchange rates through regular monitoring and reporting of open foreign exchange positions and the application of a matrix of position exposure in single currencies and overall position limit.

2021 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	2 276 975	3 644	326 986	5 180	2 612 785
Financial assets at FVTPL	26 848	10 279	(43)	296	37 380
Derivatives – Hedge accounting	48 476	–	7 098	–	55 574
Financial assets at FVOCI	1 589 943	81 460	–	–	1 671 403
Financial assets at AC:					
Due from other banks	1 821 065	6 824	(8 525)	–	1 819 364
Due from customers	15 172 669	321 008	573 822	188 948	16 256 447
Fair value changes of the hedged items in portfolio hedge of IRR	3 301	–	–	–	3 301
	20 939 277	423 215	899 338	194 424	22 456 254
Financial liabilities					
Financial liabilities at FVTPL	29 527	2 818	(1 542)	60	30 863
Derivatives – Hedge accounting	23 226	5 075	569	2 640	31 510
Financial liabilities at AC:					
Due to banks	2 911 096	6 997	45 931	39	2 964 063
Due to customers	13 053 138	231 015	606 503	82 582	13 973 238
Subordinated debt	200 150	–	–	–	200 150
Debt securities in issue	3 829 056	–	–	–	3 829 056
Fair value changes of the hedged items in portfolio hedge of IRR	2 816	–	–	–	2 816
	20 049 009	245 905	651 461	85 321	21 031 696
Net position	890 268	177 310	247 877	109 103	1 424 558

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2021 € '000	EUR	USD	CZK	Other	Total
Receivables	590 582	56 675	87 000	63 223	797 480
Payables	(60 976)	(247 819)	(317 455)	(178 032)	(804 282)
Net position from derivatives	529 606	(191 144)	(230 455)	(114 809)	(6 802)

2020 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	939 583	2 499	624 558	4 989	1 571 629
Financial assets at FVTPL	77 179	8 518	437	–	86 134
Derivatives – Hedge accounting	84 688	68	436	–	85 192
Financial assets at FVOCI	1 611 115	6 952	–	–	1 618 067
Financial assets at AC:					
Due from other banks	196 994	8 426	–	–	205 420
Due from customers	14 077 131	214 683	357 296	75 027	14 724 137
Fair value changes of the hedged items in portfolio hedge of IRR	20 016	–	–	–	20 016
	17 006 706	241 146	982 727	80 016	18 310 595
Financial liabilities					
Financial liabilities at FVTPL	82 680	3 091	1 559	47	87 377
Derivatives – Hedge accounting	59 502	3 545	67	2 293	65 407
Financial liabilities at AC:					
Due to banks	139 325	9 137	22 143	66	170 671
Due to customers	12 289 028	231 786	382 865	74 281	12 977 960
Lease liabilities	22 858	–	–	–	22 858
Subordinated debt	200 151	–	–	–	200 151
Debt securities in issue	3 422 729	–	–	–	3 422 729
Fair value changes of the hedged items in portfolio hedge of IRR	6 990	–	–	–	6 990
	16 223 263	247 559	406 634	76 687	16 954 143
Net position	783 443	(6 413)	576 093	3 329	1 356 452

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2020 € '000	EUR	USD	CZK	Other	Total
Receivables	846 188	174 006	31 500	68 701	1 120 395
Payables	(257 380)	(177 452)	(601 231)	(85 848)	(1 121 911)
Net position from derivatives	588 808	(3 446)	(569 731)	(17 147)	(1 516)

4.2.5. Interest rate benchmark reform

The Interbank offered rate ('IBOR') replacement represents one of the major undertakings for the financial services industry. For the Bank the impact is not expected to be material and can be split into three main categories:

– Replacement of Euro OverNight Index Average ('EONIA');
– Change of Euro Interbank Offered Rate ('EURIBOR') calculation;
– Replacement of London Interbank Offered Rate ('LIBOR').

The biggest impact on the internal IT systems is coming from the discontinuation of the LIBOR rates, which will be replaced by different type of rates as well as a different calculation logic. Currently a project is underway at the bank to address the adjustments of the systems and the implementation is planned during the first half of 2022.

	Financial assets at AC		Financial liabilities at AC		Derivatives	
2021 € '000	Number of contracts	Net amount	Number of contracts	Net amount	Number of contracts	Notional amount
Referenced to:						
EONIA	–	–	–	–	–	–
EURIBOR	5 400	3 305 273	–	–	193	9 926 636
LIBOR	24	199 869	–	–	4	89 469
Of which: USD	22	199 869	–	–	4	89 469
Of which: GBP	2	–	–	–	–	–

	Financial assets at AC		Financial liabilities at AC		Derivatives	
2020 € '000	Number of contracts	Net amount	Number of contracts	Net amount	Number of contracts	Notional amount
Referenced to:						
EONIA	–	–	4	15 141	7	683 100
EURIBOR	5 180	2 863 896	–	–	223	8 477 301
LIBOR	32	113 674	–	–	5	117 602
Of which: USD	30	113 674	–	–	5	117 602
Of which: GBP	2	–	–	–	–	–

4.3. Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit.

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

The basic principles underpinning the Liquidity Policy of the Bank are:

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

The Bank is regularly stress testing its liquidity position in order to simulate potential stress scenarios. The level of unencumbered highly liquid assets are kept at levels that, should support the bank also in case of these extraordinary events. The bank is also able to seek short term funding from the parent company or interbank market in order to support its liquidity position. There are no specific lines of credit for liquidity stress situations.

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.

The departments of the Bank responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department. These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process. ALM Department is responsible for liquidity management and the Risk Management Department responsible for monitoring indicators and verifying the observation of limits.

The Short term Liquidity Policy includes a set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management. The main regulatory indicator used for monitoring and managing short term liquidity is the Liquidity coverage ratio. It is required by the CRR Regulation, more precisely defined in Delegated Regulation (EU) 2015/61. Main content of the Liquidity coverage ratio: Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows.

The Structural Liquidity Policy of the Bank incorporates a set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term. The main regulatory indicator used for monitoring and managing structural liquidity is the Net Stable Funding Ratio (NSFR). It is required by the CRR Regulation. The net stable funding shall be equal to the ratio of the institution's available stable funding to the institution's required stable funding, and shall be expressed as a percentage. Together with the Short term and Structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

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

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

The table below shows an analysis of assets and liabilities (**discounted** cash flow basis) according to when they are expected to be recovered or settled:

2021 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	2 612 785	–	2 612 785
Financial assets at FVTPL	4 789	32 591	37 380
Derivatives – Hedge accounting	2 368	53 206	55 574
Financial assets at FVOCI	574 713	1 096 690	1 671 403
Financial assets at AC:			
Due from other banks	1 703 049	116 315	1 819 364
Due from customers	3 105 836	13 150 611	16 256 447
Fair value changes of the hedged items in portfolio hedge of IRR	–	3 301	3 301
Investments in subsidiaries, joint ventures and associates	–	69 656	69 656
Property and equipment	–	110 087	110 087
Intangible assets	–	130 848	130 848
Goodwill	–	18 871	18 871
Current income tax assets	–	–	–
Deferred income tax assets	–	53 880	53 880
Other assets	21 108	–	21 108
Non-current assets classified as held for sale	515	–	515
	8 025 163	14 836 056	22 861 219
Liabilities			
Financial liabilities at FVTPL	(8 596)	(22 267)	(30 863)
Derivatives – Hedge accounting	(1 310)	(30 200)	(31 510)
Financial liabilities measured at AC:			
Due to banks	(129 597)	(2 834 466)	(2 964 063)
Due to customers	(1 933 561)	(12 019 203)	(13 952 764)
Lease liabilities	(6 391)	(14 083)	(20 474)
Subordinated debt	(150)	(200 000)	(200 150)
Debt securities in issue	(354 265)	(3 474 791)	(3 829 056)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(2 816)	(2 816)
Current income tax liabilities	(12 018)	–	(12 018)
Provisions	–	(21 597)	(21 597)
Other liabilities	(81 177)	(5 009)	(86 186)
	(2 527 065)	(18 624 432)	(21 151 497)
Net position	5 498 098	(3 788 376)	1 709 722

2020 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	1 571 629	–	1 571 629
Financial assets at FVTPL	5 791	80 343	86 134
Derivatives – Hedge accounting	100	85 092	85 192
Financial assets at FVOCI	743 755	874 312	1 618 067
Financial assets at AC:			
Due from other banks	77 261	128 159	205 420
Due from customers	2 632 937	12 091 200	14 724 137
Fair value changes of the hedged items in portfolio hedge of IRR	–	20 016	20 016
Investments in subsidiaries, joint ventures and associates	–	69 629	69 629
Property and equipment	–	113 163	113 163
Intangible assets	–	128 896	128 896
Goodwill	–	18 871	18 871
Current income tax assets	26 518	–	26 518
Deferred income tax assets	–	51 056	51 056
Other assets	22 685	–	22 685
Non-current assets classified as held for sale	1	–	1
	5 080 677	13 660 737	18 741 414
Liabilities			
Financial liabilities at FVTPL	(12 068)	(75 309)	(87 377)
Derivatives – Hedge accounting	(7 607)	(57 800)	(65 407)
Financial liabilities measured at AC:			
Due to banks	(67 225)	(103 446)	(170 671)
Due to customers	(1 587 769)	(11 390 191)	(12 977 960)
Lease liabilities	(6 734)	(16 124)	(22 858)
Subordinated debt	(151)	(200 000)	(200 151)
Debt securities in issue	(108 020)	(3 314 709)	(3 422 729)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(6 990)	(6 990)
Current income tax liabilities	(635)	–	(635)
Provisions	–	(14 895)	(14 895)
Other liabilities	(73 088)	(5 407)	(78 495)
	(1 863 297)	(15 184 871)	(17 048 168)
Net position	3 217 380	(1 524 134)	1 693 246

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

2021 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	2 595 505	–	–	–	–	–	2 595 505
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	3 000	7 319	10 319
Financial assets at FVOCI	293	70 034	505 142	662 322	420 122	7 589	1 665 502
Financial assets at AC							
Due from other banks	48 014	11 398	1 653 428	115 463	7 445	–	1 835 748
Due from customers	1 408 471	586 781	1 294 361	5 825 292	9 267 348	47 242	18 429 495
	4 052 283	668 213	3 452 931	6 603 077	9 697 915	62 150	24 536 569
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(123 775)	(12 026)	(6 827)	(2 584 021)	(264 726)	–	(2 991 375)
Due to customers	(12 216 375)	(885 451)	(771 555)	(77 221)	–	–	(13 950 602)
Lease liabilities	(646)	(1 287)	(4 828)	(14 772)	(1 944)	–	(23 477)
Subordinated debt	-	(1 330)	(4 206)	(25 222)	(201 787)	–	(232 545)
Debt securities in issue	(3 589)	(2 871)	(321 237)	(2 500 422)	(1 089 592)	–	(3 917 711)
	(12 344 385)	(902 965)	(1 108 653)	(5 201 658)	(1 558 049)	–	(21 115 710)
Net position of financial instruments	(8 292 102)	(234 752)	2 344 278	1 401 419	8 139 866	62 150	3 420 859
Cash inflows from derivatives	409 085	97 107	111 535	63 651	–	–	681 378
Cash outflows from derivatives	(410 619)	(99 746)	(112 741)	(67 035)	–	–	(690 141)
Net position from derivatives	(1 534)	(2 639)	(1 206)	(3 384)	–	–	(8 763)
Net position from financial commitments and contingencies	(5 637 432)	–	–	–	–	–	(5 637 432)

2020 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	1 571 629	–	–	–	–	–	1 571 629
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	6 874	6 874
Financial assets at FVOCI	808	546	743 051	249 248	592 786	7 358	1 593 797
Financial assets at AC							
Due from other banks	61 877	8 125	8 440	115 581	20 463	–	214 486
Due from customers	1 108 032	503 432	1 174 894	4 962 428	8 374 379	274 450	16 397 615
	2 742 346	512 103	1 926 385	5 327 257	8 987 628	288 682	19 784 401
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(56 644)	(4 118)	(6 464)	(33 217)	(70 730)	–	(171 173)
Due to customers	(11 208 937)	(1 157 522)	(488 903)	(122 999)	–	–	(12 978 361)
Lease liabilities	(646)	(1 287)	(4 828)	(14 772)	(1 944)	–	(23 477)
Subordinated debt	–	(1 344)	(4 081)	(20 814)	(207 368)	–	(233 607)
Debt securities in issue	(3 607)	(51 710)	(21 238)	(2 314 597)	(1 102 794)	–	(3 493 946)
	(11 269 834)	(1 215 981)	(525 514)	(2 506 399)	(1 382 836)	–	(16 900 564)
Net position of financial instruments	(8 527 488)	(703 878)	1 400 871	2 820 858	7 604 792	288 682	2 883 837
Cash inflows from derivatives	773 460	31 953	196 150	191 708	121 634	–	1 314 905
Cash outflows from derivatives	(776 379)	(31 709)	(206 497)	(195 545)	(81 652)	–	(1 291 782)
Net position from derivatives	(2 919)	244	(10 347)	(3 837)	39 982	–	23 123
Net position from financial commitments and contingencies	(4 878 988)	–	–	–	–	–	(4 878 988)

* The high negative liquidity gap in the first bucket is caused by a huge volume of deposits on demand (without contractual maturity) which are presented under 'Due to customers'. For the purpose of internal liquidity management monitoring the behavioural profile of on-demand deposits is taken into account based on a statistical model using internal historical data. According to when they are expected to be settled such deposits are then placed into later buckets (see the previous table).

4.4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, information and communication technology risk and financial reporting risk; strategic and reputational risk are not included. Operational risk can arise from legal and regulatory requirements, non-compliance with generally accepted standards of corporate behaviour and from all of the Bank's operations.

4.4.1. Operational risk management strategies and processes

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

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

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: CRO, CFO, COO, Head of Compliance Department, Head of Anti-Money Laundering Department; permanent invitees without voting rights: Head of Corporate & SME Division, Head of Retail Division, Head of Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Information Security sub-department), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

4.4.2. Organisational structure of the associated risk management function

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

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

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

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

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

4.4.4. Policies for hedging and mitigating risk

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

5. Estimated fair value of financial assets and financial liabilities

See accounting policy in note 3.4.7.

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

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

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

Level 3: inputs unobservable for the asset or liability.

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

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

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

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

(a) Cash and cash equivalents

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

(b) Due from other banks

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

(c) Due from customers

The fair value of loans and advances to customers is estimated using discounted cash flow analyses, based upon the risk free interest rate curve and risk reflecting credit-worthiness of the counterparty.

(d) Purchased debt securities and equities

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

(e) Due to banks and Due to customers

The carrying amounts of due to banks approximates their fair value. The fair value of due to customers is estimated by discounting their future expected cash flows using the risk free interest rate curve.

(f) Subordinated debt

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

(g) Debt securities in issue

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

2021 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash and cash equivalents	7	2 612 785	–	2 612 785	–	2 612 784	–	2 612 784
Financial assets at FVTPL	8	–	37 380	37 380	3 528	33 852	–	37 380
Derivatives – Hedge accounting	9	–	55 574	55 574	–	55 574	–	55 574
Financial assets at FVOCI	10	–	1 671 403	1 671 403	1 610 549	60 855	–	1 671 404
Financial assets at AC:	11						–	
Due from other banks		1 819 364	–	1 819 364	–	1 819 364	–	1 819 364
Due from customers		16 256 447	–	16 256 447	–	152 485	17 930 469	18 082 954
		20 688 596	1 764 357	22 452 953	1 614 077	4 734 914	17 930 469	24 279 460
Financial liabilities								
Financial liabilities at FVTPL	8	–	30 863	30 863	–	30 863	–	30 863
Derivatives – Hedge accounting	9	–	31 510	31 510	–	31 510	–	31 510
Financial liabilities at AC:	11				–		–	
Due to banks		2 964 063	–	2 964 063	–	2 964 063	–	2 964 063
Due to customers		13 952 764	–	13 952 764	–	13 953 979	–	13 953 979
Lease liabilities		20 474	–	20 474	–	20 474	–	20 474
Subordinated debt		200 150	–	200 150	–	228 948	–	228 948
Debt securities in issue		3 829 056	–	3 829 056	–	3 858 052	–	3 858 052
		20 966 507	62 373	21 028 880	–	21 087 889	–	21 087 889

2020 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash and cash equivalents	7	1 571 629	–	1 571 629	–	1 571 629	–	1 571 629
Financial assets at FVTPL	8	–	86 134	86 134	711	85 423	–	86 134
Derivatives – Hedge accounting	9	–	85 192	85 192	–	85 192	–	85 192
Financial assets at FVOCI	10	–	1 618 067	1 618 067	896 128	721 938	–	1 618 066
Financial assets at AC:	11							
Due from other banks		205 420	–	205 420	–	205 420	–	205 420
Due from customers		14 724 137	–	14 724 137	–	96 415	16 699 116	16 795 531
		16 501 186	1 789 393	18 290 579	896 839	2 766 017	16 699 116	20 361 972
Financial liabilities								
Financial liabilities at FVTPL	8	–	87 377	87 377	–	87 377	–	87 377
Derivatives – Hedge accounting	9	–	65 407	65 407	–	65 407	–	65 407
Financial liabilities at AC:	11						–	
Due to banks		170 671	–	170 671	–	170 671	–	170 671
Due to customers		12 977 960	–	12 977 960	–	12 981 028	–	12 981 028
Lease liabilities		22 858	–	22 858	–	22 858	–	22 858
Subordinated debt		200 151	–	200 151	–	233 805	–	233 805
Debt securities in issue		3 422 729	–	3 422 729	–	3 488 512	–	3 488 512
		16 794 369	152 784	16 947 153	–	17 049 658	–	17 049 658

There were no other transfers of financial instruments among the levels during 2021 and 2020.

6. Segment reporting

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

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

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

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

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

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

Corporate Banking comprises SME, the Corporate Customer Desk ('CCD'), Municipalities and Public Sector Entities. SME includes complex loan structures, deposits and other transactions and balances with SME (company revenue up to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes complex loan structures, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

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

The Bank reported within Other a Central Governance Centre that manages the Bank's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio. Unclassified items are also reported within this column.

2021 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	201 031	105 900	(19 399)	287 532	18 817	306 349
Interest and similar expense	(5 406)	(2 873)	(6 997)	(15 276)	(20 704)	(35 980)
Inter-segment revenue	(6 951)	(19 903)	29 299	2 445	(2 445)	–
Net interest income	188 674	83 124	2 903	274 701	(4 332)	270 369
Net fee and commission income (note 25)	113 009	34 422	1 305	148 736	(3 205)	145 531
Dividend income	–	–	–	–	3 002	3 002
Net trading result	4 762	6 090	8 152	19 004	127	19 131
Other operating income	(3 213)	(99)	–	(3 312)	6 187	2 875
Other operating expense	(12 691)	–	–	(12 691)	(9 648)	(22 339)
Salaries and employee benefit	(46 948)	(10 551)	(681)	(58 181)	(64 727)	(122 908)
Other administrative expenses*	-	-	-	-	(70 839)	(70 839)
Amortisation	(6 313)	(347)	(1)	(6 661)	(10 463)	(17 124)
Depreciation	(2 572)	(137)	(2)	(2 711)	(10 401)	(13 112)
Profit before provisions, impairment and tax	234 708	112 502	11 676	358 885	(164 299)	194 586
Net modification gains or losses	–	–	–	–	(80)	(80)
Provisions*	–	–	–	–	129	129
Impairment losses	(66 239)	(6 819)	461	(72 597)	(493)	(73 090)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	8 007	727	–	8 734	(124)	8 610
Profit before tax	176 476	106 410	12 137	295 022	(164 867)	130 155
Segment assets	10 135 873	6 088 556	6 084 618	22 309 047	552 172	22 861 219
Segment liabilities	8 913 870	4 889 742	7 009 438	20 813 050	338 447	21 151 497

* The Bank does not allocate these items to the individual segments.

2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	217 235	102 242	(11 509)	307 968	6 090	314 058
Interest and similar expense	(9 168)	(3 992)	(16 274)	(29 434)	(7 070)	(36 504)
Inter-segment revenue	(18 721)	(23 336)	41 869	(188)	188	–
Net interest income	189 346	74 914	14 086	278 346	(792)	277 554
Net fee and commission income (note 25)	104 358	29 152	2 425	135 935	(3 342)	132 593
Dividend income	–	–	–	–	4 001	4 001
Net trading result	4 203	5 983	8 415	18 601	45	18 646
Other operating income	–	–	8	8	2 210	2 218
Other operating expense	(11 346)	(51)	–	(11 397)	(3 860)	(15 257)
Special levy of selected financial institutions*	–	–	–	–	(31 038)	(31 038)
Salaries and employee benefit	(50 514)	(10 287)	(676)	(61 477)	(61 301)	(122 778)
Other administrative expenses*	–	–	–	–	(71 487)	(71 487)
Amortisation	(5 972)	(259)	(2)	(6 233)	(8 256)	(14 489)
Depreciation	(2 696)	(52)	(3)	(2 751)	(10 841)	(13 592)
Profit before provisions, impairment and tax	227 379	99 400	24 253	351 032	(184 661)	166 371
Provisions*	–	–	–	–	355	355
Impairment losses	(39 160)	(17 843)	(208)	(57 211)	8 064	(49 147)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(8 434)	1 701	–	(6 733)	(725)	(7 458)
Profit before tax	179 785	83 258	24 045	287 088	(176 967)	110 121
Segment assets	9 450 893	5 368 578	3 358 182	18 177 653	563 761	18 741 414
Segment liabilities	8 060 841	4 942 827	3 735 077	16 738 745	309 423	17 048 168

* The Bank does not allocate these items to the individual segments

7. Cash and cash equivalents

'Cash and cash equivalents' comprise the following balances:

€ '000	2021	2020
Cash in hand	175 674	161 155
Balances at central banks:		
Compulsory minimum reserves	2 109 981	777 270
Current accounts	2	38
Term deposits	96 548	7 621
Loans and advances	213 304	604 335
	2 419 835	1 389 264
Due from other banks:		
Current accounts	17 276	21 210
	2 612 785	1 571 629

At 31 December 2021 the balance of 'Loans and advances' comprised of seven reverse repo trade concluded with Intesa Sanpaolo S.p.A. in the total nominal amount of € 1 652 million (31 December 2020: five reverse repo trade, CZK 15 860 million (€ 604 306 thousand). The repo trades were secured by 1 648 000 bonds of ISP (31 December 2020: 15 573 treasury bills of ČNB).

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

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation. The compliance with the compulsory minimum reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period.

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

€ '000	2021	2020
Financial assets held for trading:		
Trading derivatives	27 158	79 260
Equity instruments	-	6 163
Government debt securities of European Union countries	2 906	–
	30 064	85 423
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	7 316	711
Financial liabilities held for trading:		
Trading derivatives	30 863	87 377

On the line 'Equity instruments' in 'Financial assets held for trading' is recognized the fair value of the Visa Inc. Series C Preferred Stock that were reclassified as at 1 January 2020 from FVOCI (note 10) to FVTPL portfolio.

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and they form the part of the incentive plan introduced by the Parent Company in line with the Capital Directive ‚CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). The Bank did not elect the option to present these at FVOCI.

€ '000	2021 Assets	2020 Assets	2021 Liabilities	2020 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	16 173	71 917	17 744	74 070
Foreign currency instruments:				
Forwards and swaps	5 232	5 616	7 398	11 728
Options	103	194	103	194
	5 335	5 810	7 501	11 922
Equity and commodity instruments:				
Commodity forwards and swaps	5 650	1 533	5 618	1 385
	5 650	1 533	5 618	1 385
	27 158	79 260	30 863	87 377

€ '000	2021 Assets	2020 Assets	2021 Liabilities	2020 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	1 848 175	3 834 656	1 848 175	3 834 656
Options	109 565	116 703	109 565	116 703
	1 957 740	3 951 359	1 957 740	3 951 359
Foreign currency instruments:				
Forwards and swaps	721 750	1 025 828	726 204	1 032 169
Options	5 211	21 859	5 211	21 859
	726 961	1 047 687	731 415	1 054 028
Equity and commodity instruments:				
Commodity forwards and swaps	6 867	37 770	6 867	37 770
	6 867	37 770	6 867	37 770
	2 691 568	5 036 816	2 696 022	5 043 157

9. Derivatives – Hedge accounting

€ '000	2021 Assets	2020 Assets	2021 Liabilities	2020 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	55 574	85 192	31 510	65 407

9.1. Fair value hedges of interest rate, foreign currency and inflation risk as of date of preparation of the financial statements

The Bank used **13 interest rate swaps** to hedge the interest rate risk of a pool of **mortgage loans**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The Bank used **27 interest rate swaps** to hedge the interest rate risk of a pool of **current accounts**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The Bank used **21 interest rate swaps** to hedge the interest rate risk of **10 fixed rate state bonds from the FVOCI portfolio.** The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The Bank used **17 interest rate swaps** to hedge the interest rate risk of **15 fixed rate financial institutions bonds from the FVOCI portfolio**. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The Bank used **9 interest rate swaps** hedge the interest rate risk of **9 corporate loans denominated in EUR**. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

The Bank used **2 cross currency swaps** to hedge the interest rate and foreign currency risk of **2 corporate loans denominated in GBP and USD**. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of both interest rates and foreign exchange rates.

The Bank used **1 interest rate swap** to hedge the interest rate risk of **1 loan received from European Investment Bank ('EIB')**. The changes in fair value of this interest rate swap substantially offset the changes in fair value of this loan in relation to changes of interest rates.

The Bank used **30 interest rate swaps** to hedge the interest rate risk arising from the issuance of **16 fixed rate covered bonds**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

The Bank used **1 interest rate swap** to hedge the interest rate risk arising from the issuance of **1 loan in form of reverse repo deal with INTESA SANPAOLO** . The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

The Bank used **8 interest rate swaps** to hedge the interest rate risk of **8 internal loans to VÚB Branch Prague** The changes in fair value of these interest rate swaps substantially offset the changes in fair value of this loans in relation to changes of interest rates.

2021 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffectiveness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	6 178	1 873	1 138 100	1 138 100	23 164	–
Hedge of corporate loans	7 415	1 981	399 770	399 770	8 427	–
Hedge of loans received from EIB	–	584	50 000	50 000	(1 124)	15
Hedge of covered bonds	29 859	11 409	2 192 400	2 192 400	(44 194)	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	–	7 714	87 606	89 868	5 200	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	5 845	6 972	2 290 000	2 290 000	14 566	(29)
Hedge of current accounts	4 012	977	506 500	506 500	(4 102)	73
Hedge of reverse REPO	2 265	–	1 650 000	1 650 000	(150)	(230)

2020 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	7 712	36 754	1 084 900	1 084 900	(17 430)	–
Hedge of corporate loans	436	2 954	277 418	277 418	(1 829)	339
Hedge of loans received from EIB	533	–	50 000	50 000	1 323	16
Hedge of covered bonds	67 951	–	1 145 400	1 145 400	40 565	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	68	5 838	91 532	86 805	(3 594)	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	979	19 861	2 300 000	2 300 000	(6 468)	240
Hedge of current accounts	7 513	–	112 500	112 500	2 445	35

The amounts relating to items designated as hedged items were as follows:

2021 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Accumulated amount of fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 114 512	–	(23 164)	(113)
Corporate loans	Financial assets at AC: Due from customers	397 119	7 240	(13 627)	131
Loans received from EIB	Financial assets at AC: Due to banks	50 000	(544)	(1 139)	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1 582 705	17 611	(44 194)	40 572
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	1 975 000	1 869	(14 595)	1 352
Current accounts	Financial liabilities at AC: Due to customers	452 500	2 816	(4 175)	–
Reverse REPO	Financial assets at AC: Loans and advances to banks	1 650 248	80	(80)	–

* Interest rate risk hedging of covered bonds is sometimes closed before the original maturity of the interest rate swap. The reason is that the Interest rate risk position of the Bank changed in a way, which required more fixed rate liabilities. And since the originally fixed rate covered bonds were in the past swapped into float rate, these swaps were early terminated in order to achieve the required interest risk position of the Bank.

2020 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Accumulated amount of fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 014 069	–	17 430	(3 108)
Corporate loans	Financial assets at AC: Due from customers	364 223	5 946	5 762	928
Loans received from EIB	Financial assets at AC: Due to banks	50 000	595	1 307	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	733 786	65 807	40 565	45 372
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	2 300 000	19 396	6 708	620
Current accounts	Financial liabilities at AC: Due to customers	112 500	6 990	2 410	–

Maturity of notional values of hedging instruments designated as fair value hedges of interest rate risk and their average interest rates:

€ '000	2021 Less than 1 year	1 – 5 years	More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	28 000	642 100	410 000
	(0,33)%	(0,22)%	0,00%
Hedge of REPO deal	1 650 000	–	–
	(0,54)%	–	–
Hedge of corporate loans	116 509	283 260	–
	0,03%	1,17%	–
Hedge of mortgage loans	–	2 290 000	–
	–	(0,21)%	–
Hedge of loans received from other banks	–	50 000	–
	–	(0,26)%	–
Hedge of current account	340 000	85 500	81 000
	(0,56)%	0,62%	–
Hedge of covered bonds	250 000	824 500	917 900
	(0,57)%	0,82%	0,89%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	89 868	–
	–	0,00%	–

€ '000	2020 Less than 1 year	1 – 5 years	More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	118 900	231 000	577 000
	0,19%	(0,27)%	0,12%
Hedge of corporate loans	–	248 076	29 342
	–	0,20%	0,98%
Hedge of mortgage loans	345 000	1 955 000	–
	(0,09)%	(0,03)%	–
Hedge of loans received from other banks	–	–	50 000
	–	–	(0,26)%
Hedge of current account	–	31 500	81 000
	–	0,0056%	0,67%
Hedge of covered bonds	10 000	465 500	669 900
	0,85%	1,10%	1,17%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	86 805	–
	–	1,75%	–

10. Financial assets at fair value through other comprehensive income

€ '000	2021	2020
Government debt securities of European Union countries	1 347 770	1 271 994
of which Italian government debt securities	*301 022*	*492 007*
Bank debt securities	283 081	304 864
Other debt securities	32 962	33 851
Equity instruments:		
Visa Inc. Series A Preferred Stock	7 462	6 952
Visa Inc. Series C Preferred Stock	–	–
Intesa Sanpaolo S.p.A.	43	326
S.W.I.F.T.	85	80
	7 590	7 358
	1 671 403	1 618 067

At 31 December 2021, the bonds in the total nominal amount of € 1 516 100 thousand were pledged by the Bank to secure collateralized transactions (31 December 2020: € 583 000 thousand). These bonds were pledged in favour of the ECB within the pool of assets which can be immediately used as collateral for received funds needed for liquidity management purposes.

The Visa Inc. Series C Preferred Stock are convertible in shares of Class A Common Stock or Series A Preferred Stock on a conversion rate based on a periodic conservative assessment of the ongoing risk of liability pursuant to covered claims in the Visa Europe territory. These assessments are undertaken by Visa Inc., in consultation with the Litigation Management Committee comprising the former Visa Europe member representative, on predetermined anniversaries of the closing of acquisition of Visa Europe Limited by Visa Inc. On the twelfth anniversary of the Closing, each share of Preferred Stock will be converted into shares of Class A Common Stock or Series A Preferred Stock.

Following the first assessment carried out on the fourth anniversary (as at 21 June 2020), Visa Inc., on 24 September 2020, has issued to each holder, for each share of Series C Preferred stock, whole shares of Class A Common Stock (or Serie A Preferred Stock) equal to the conversion adjustment (divided by 100 in the case of Serie A Preferred Stock; for each Serie A Preferred Stock are recognized number 100 Class A Common Stock) equal to 6.861.

In the case of the VUB bank, 50% of the value of Series C Preferred stock, in number of 5,686, was converted into Serie A Preferred Stock in number of 390 (equal to 39,012 Class A Common Stock).

The Visa Inc. Series C Preferred Stock were reclassified as at 1 January 2020 from FVOCI to FVTPL portfolio (note 8).

11. Financial assets and financial liabilities at amortised cost

11.1. Due from other banks

€ '000	Note	2021	2020
Loans and advances:			
with contractual maturity over 90 days		1 786 002	149 755
Cash collateral		33 471	56 371
Impairment losses	21	(109)	(706)
		1 819 392	205 420

11.2. Due from customers

2021 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
Single resolution fund	-	-	-
State administration	95 147	(676)	94 471
Municipalities	110 267	(1 206)	109 061
	205 414	(1 882)	203 532
Corporate			
Large Corporates	2 555 677	(1 677)	2 554 000
Large Corporates – debt securities	102 402	(97)	102 305
Specialized Lending	870 653	(35 042)	835 611
SME	1 529 971	(45 128)	1 484 843
Other Non-banking Financial Institutions	565 614	(97)	565 517
Other Non-banking Financial Institutions – debt securities	183 154	(65)	183 089
Public Sector Entities	3 438	(1)	3 437
Factoring	148 543	(1 187)	147 356
	5 959 452	(83 294)	5 876 158
Retail			
Small Business	312 662	(18 075)	294 587
Consumer Loans	1 275 947	(136 034)	1 139 913
Mortgages	8 613 915	(47 216)	8 566 699
Credit Cards	92 619	(15 169)	77 450
Overdrafts	67 034	(7 079)	59 955
Flat Owners Associations	38 474	(321)	38 153
	10 400 651	(223 894)	10 176 757
	16 565 517	(309 070)	16 256 447

2020 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
Single resolution fund	5 090	–	5 090
State administration	32 685	(3)	32 682
Municipalities	115 144	(2 672)	112 472
	152 919	(2 675)	150 244
Corporate			
Large Corporates	2 120 564	(5 155)	2 115 409
Large Corporates – debt securities	150 427	(265)	150 162
Specialized Lending	891 694	(33 742)	857 952
SME	1 413 483	(41 072)	1 372 411
Other Non-banking Financial Institutions	431 751	(171)	431 580
Other Non-banking Financial Institutions – debt securities	50 056	(48)	50 008
Public Sector Entities	1 284	(47)	1 237
Factoring	83 887	(1 231)	82 656
	5 143 146	(81 731)	5 061 415
Retail			
Small Business	270 146	(14 112)	256 034
Consumer Loans	1 391 046	(133 946)	1 257 100
Mortgages	7 847 341	(41 648)	7 805 693
Credit Cards	104 092	(17 558)	86 534
Overdrafts	76 581	(6 421)	70 160
Flat Owners Associations	37 176	(219)	36 957
	9 726 382	(213 904)	9 512 478
	15 022 447	(298 310)	14 724 137

At 31 December 2021, the 20 largest corporate customers represented a total carrying amount of € 1 585 500 thousand (31 December 2020: € 1 450 483 thousand), respectively 9,75% (31 December 2020: 10,30%) of the total loan portfolio.

11.3. Due to banks

€ '000	2021	2020
Due to central banks:		
Current accounts	913	1 458
Loans received from central banks	2 490 778	–
	2 491 691	1 458
Due to other banks:		
Current accounts	89 915	27 464
Term deposits	5 862	8 170
Loans received from other banks	348 939	109 215
Revaluation of fair value hedged loans received	(544)	595
Cash collateral received	28 200	23 769
	472 372	169 213
	2 964 063	170 671

At 31 December 2021, 'Loans received from central banks' contains two loans from National Bank of Slovakia in the nominal amount of € 1 000 000 thousand and € 1 500 000 thousand. The interest rate for these loans was (1)% and the maturity is in 2024. The principal and interests are due at maturity of the loans.

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

€ '000	2021	2020
Intesa Sanpaolo S. p. A.	250 712	–
European Investment Bank	91 659	100 733
European Bank for Reconstruction and Development	6 568	7 149
Council of Europe Development Bank	–	1 333
	348 939	109 215

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

2021 € '000	1 January	Cash flow Proceeds	Cash flow Repayments	Non-cash changes Accruals	Non-cash changes Revaluation	Non-cash changes Other	31 December
Loans received from other banks (including revaluation)	109 810	251 526	(11 881)	59	(1 119)	–	348 395

2020 € '000	1 January	Cash flow Proceeds	Cash flow Repayments	Non-cash changes Accruals	Non-cash changes Revaluation	Non-cash changes Other	31 December
Loans received from other banks (including revaluation)	126 561	2 500	(20 550)	(8)	1 307	–	109 810

11.4. Due to customers

€ '000	2021	2020
Current accounts	10 508 477	9 534 207
Term deposits	2 345 852	2 618 892
Government and municipal deposits	772 184	486 233
Savings accounts	212 319	229 480
Other deposits	113 932	109 148
	13 952 764	12 977 960

11.5. Lease liabilities

€ '000	2021	2020
Lease liabilities	20 474	22 858

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

		Cash flow		Non-cash changes			
2021 € '000	1 January	Repayments	New	Accruals	Revaluation	Other	31 December
Lease liabilities	22 858	(7 451)	5 067	–	–	–	20 474

		Cash flow		Non-cash changes			
2020 € '000	1 January	Repayments	New	Accruals	Revaluation	Other	31 December
Lease liabilities	22 058	(8 350)	9 150	–	–	–	22 858

11.6. Subordinated debt

€ '000	2021	2020
Subordinated debt	200 150	200 151

At 31 December 2021, the balance of subordinated debt comprised of one ten-year loan in the nominal amount of € 200,000 thousand (31 December 2020: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. The variable interest rate was 2,697% as at 31 December 2021 (31 December 2020: 2,89%). In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

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

2021 € '000	1 January	Cash flow Proceeds	Repayments	Non-cash changes Accruals	Revaluation	Other	31 December
Subordinated debt	200 151	–	–	(1)	–	–	200 150

2020 € '000	1 January	Cash flow Proceeds	Repayments	Non-cash changes Accruals	Revaluation	Other	31 December
Subordinated debt	200 143	–	–	8	–	–	200 151

11.7. Debt securities in issue

€ '000	2021	2020
Covered bonds	2 584 897	2 577 764
Covered bonds subject to fair value hedges	1 185 975	733 786
	3 770 872	3 311 550
Revaluation of fair value hedged covered bonds	17 611	65 807
Unamortized part of revaluation related to terminated fair value hedges	40 573	45 372
	3 829 056	3 422 729

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the Bank (note 11.2.) and debt securities in FVOCI portfolio (note 10).

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

2021 € '000	1 January	Cash flow Proceeds from issue	Repayments	Non-cash changes Accruals	Revaluation	Other	31 December
Covered bonds	3 422 729	500 000	(47 597)	6 920	(52 996)	–	3 829 056

2020 € '000	1 January	Cash flow Proceeds from issue	Repayments	Non-cash changes Accruals	Revaluation	Other	31 December
Covered bonds	3 120 695	500 000	(235 840)	2 275	35 599	–	3 422 729

12. Fair value changes of the hedged items in portfolio hedge of interest rate risk

€ '000	2021	2020
Financial assets at AC:		
Due from other banks:		
Loans and advances	80	–
Due from customer:		
Retail		
Mortgages	3 221	20 016
Financial liabilities at AC:		
Due to customers	2 816	6 990

13. Investments in subsidiaries, joint ventures and associates

2021 € '000	Share	Cost	Impairment losses (note 21)	Carrying amount
VÚB Leasing, a. s.	100,00%	74 410	(21 381)	53 029
VÚB Operating Leasing, a.s.	100,00%	27	–	27
VÚB Generali d. s. s., a. s.	50,00%	16 597	–	16 597
Slovak Banking Credit Bureau, s. r. o.	33,33%	3	–	3
		91 037	(21 381)	69 656

2020 € '000	Share	Cost	Impairment losses (note 21)	Carrying amount
VÚB Leasing, a. s.	100,00%	74 410	(21 381)	53 029
VÚB Generali d. s. s., a. s.	50,00%	16 597	–	16 597
Slovak Banking Credit Bureau, s. r. o.	33,33%	3	–	3
		91 010	(21 381)	69 629

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

Investments in subsidiaries, joint ventures and associates are tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses were created during 2021 a 2020. In 2020, part of the impairment loss for VÚB Leasing, a. s. in the amount of € 6,000 thousand was released.

The Bank uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to future cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on ISP Group level specifically for the Slovak market.

The following rates are used by the Bank:

€ '000	2021	2020
Pre-tax discount rate – cash flows	9,60%	5,67%
Pre-tax discount rate – terminal value	10,54%	7,65%
Projected growth rate	1,94%	1,82%

The calculation considers the following key assumptions:

- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

14. Property and equipment and Non-current assets classified as held for sale

2021 € '000	Owned	Right-of-use	Total
Buildings and land	76 596	16 718	93 314
Equipment	6 119	-	6 119
Other tangibles	1 185	3 514	4 699
Assets in progress	6 470	-	6 470
	90 370	20 232	110 602

2020 € '000	Owned	Right-of-use	Total
Buildings and land	75 648	18 421	94 069
Equipment	6 419	–	6 419
Other tangibles	1 181	4 309	5 490
Assets in progress	7 186	–	7 186
	90 434	22 730	113 164

2021 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	109 393	53 139	30 286	7 186	200 004
Additions	4 798	–	272	5 805	10 875
Disposals	(5 603)	(8 659)	(3 282)	–	(17 544)
Transfers	4 596	1 546	379	(6 521)	–
Exchange differences	17	10	2	–	29
At 31 December	113 201	46 036	27 657	6 470	193 364
Accumulated depreciation					
At 1 January	(14 975)	(46 720)	(24 796)	–	(86 491)
Depreciation for the period	(9 854)	(1 831)	(1 427)	–	(13 112)
Disposals	5 279	8 642	3 265	–	17 186
Exchange differences	(11)	(8)	–	–	(19)
At 31 December	(19 561)	(39 917)	(22 958)	–	(82 436)
Impairment losses (note 21)					
At 1 January	(349)	–	–	–	(349)
Creation	–	–	–	–	–
Release	23	–	–	–	23
At 30 June	(326)	–	–	–	(326)
Carrying amount					
At 1 January	94 069	6 419	5 490	7 186	113 164
At 31 December	93 314	6 119	4 699	6 470	110 602

2020 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	106 329	55 628	28 292	6 902	197 151
Additions	6 143	–	3 007	5 775	14 925
Disposals	(3 304)	(6 091)	(1 377)	–	(10 772)
Revaluation	(1 271)	–	–	–	(1 271)
Transfers	1 519	3 608	364	(5 491)	–
Exchange differences	(23)	(6)	–	–	(29)
At 31 December	109 393	53 139	30 286	7 186	200 004
Accumulated depreciation					
At 1 January	(11 704)	(50 861)	(25 059)	–	(87 624)
Depreciation for the period	(10 368)	(2 022)	(1 202)	–	(13 592)
Disposals	1 267	6 237	1 385	–	8 889
Revaluation	5 824	–	–	–	5 824
Exchange differences	6	5	1	–	12
At 31 December	(14 975)	(46 720)	(24 796)	–	(86 491)
Impairment losses (note 21)					
At 1 January	(2 328)	–	–	–	(2 328)
Creation	(52)	–	–	–	(52)
Release	2 031	–	–	–	2 031
At 31 December	(349)	–	–	–	(349)
Carrying amount					
At 1 January	92 297	4 767	3 233	6 902	107 199
At 31 December	94 069	6 419	5 490	7 186	113 164

Of which right-of-use assets:

2021 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	31 173	5 835	37 008
Additions	4 798	272	5 070
Disposals	(3 476)	(260)	(3 736)
Exchange differences	11	2	13
At 31 December	32 506	5 849	38 355
Accumulated depreciation			
At 1 January	(12 752)	(1 526)	(14 278)
Depreciation for the period	(6 489)	(1 053)	(7 542)
Disposals	3 458	244	3 702
Exchange differences	(5)	-	(5)
At 31 December	(15 788)	(2 335)	(18 123)
Carrying amount			
At 1 January	18 421	4 309	22 730
At 31 December	16 718	3 514	20 232

2020 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	25 448	2 828	28 276
Additions	6 143	3 007	9 150
Disposals	(400)	–	(400)
Exchange differences	(18)	–	(18)
At 31 December	31 173	5 835	37 008
Accumulated depreciation			
At 1 January	(5 572)	(641)	(6 213)
Depreciation for the period	(7 245)	(885)	(8 130)
Disposals	62	–	62
Exchange differences	3	–	3
At 31 December	(12 752)	(1 526)	(14 278)
Carrying amount			
At 1 January	19 876	2 187	22 063
At 31 December	18 421	4 309	22 730

For 'Buildings and land' the Bank uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The Bank uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs. As at 31 October 2020, the Bank updated the revaluation of buildings and land to their current market value.

In order to optimize costs, the Bank decided to sell part of its own buildings and land during 2020 and 2019, which it did not use or used only part of its premises primarily as its branches. From November 2019 to March 2020, these buildings and land were sold, and approximately 35% of the premises were subsequently rented back by the Bank to continue to use them. The Bank thus entered into sale and leaseback transactions. The buildings sold were excluded from property and equipment and the premises that the Bank began to lease back were falling back to property and equipment as rights of use. At the same time, lease liabilities of the same amount as the rights of use were recognized. The gains from these transactions were € nil thousand, as the selling price corresponded to their fair value, in which these buildings were also recognized in the accounting under the revaluation model. The contracts were concluded under current market conditions. The lease term was agreed in the contracts for an average of four years.

In 2021 the Bank reviewed the carrying amount of its property and equipment. An impairment test was carried out to determine the recoverable amount. The recoverable amount is determined with reference to the fair value less costs to sell or the value in use, if determinable and if it is higher than fair value. For property and equipment other than buildings and land is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances. The Bank measures buildings and land according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement. As a result of the impairment test the Bank recognized an impairment loss in the amount of € nil thousand (31 December 2020: € 349 thousand).

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2021	2020
Cost	105 888	102 888
Accumulated depreciation	(55 409)	(52 980)
Impairment losses	(326)	(350)
	50 153	49 558

The Bank held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2021	2020
Cost	614	1
Accumulated depreciation	(22)	–
Impairment losses	(77)	–
	515	1

At 31 December 2021, the gross book value of fully depreciated tangible assets that are still used by the Bank amounted to € 67 440 thousand (31 December 2020: € 80 129 thousand).

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

At 31 December 2021, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2020: € nil thousand).

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

15. Intangible assets

2021 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	294 222	10 729	55 923	360 874
Additions	-	-	19 066	19 066
Disposals	(1 909)	-	-	(1 909)
Transfers	13 417	-	(13 417)	-
Exchange differences	48	-	3	51
At 31 December	305 778	10 729	61 575	378 082
Accumulated amortisation				
At 1 January	(221 607)	(10 371)	–	(231 978)
Amortization for the year	(17 021)	(103)	–	(17 124)
Disposals	1 908	-	–	1 908
Exchange differences	(40)	-	–	(40)
At 31 December	(236 760)	(10 474)	–	(247 234)
Carrying amount				
At 1 January	72 615	358	55 923	128 896
At 31 December	69 018	255	61 575	130 848

2020 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	275 265	10 931	43 738	329 934
Additions	–	–	31 685	31 685
Disposals	(619)	(102)	–	(721)
Transfers	19 596	(96)	(19 500)	–
Exchange differences	(20)	(4)	–	(24)
At 31 December	294 222	10 729	55 923	360 874
Accumulated amortisation				
At 1 January	(207 556)	(10 332)	–	(217 888)
Amortization for the year	(14 365)	(124)	–	(14 489)
Disposals	312	82	–	394
Exchange differences	2	3	–	5
At 31 December	(221 607)	(10 371)	–	(231 978)
Carrying amount				
At 1 January	67 709	599	43 738	112 046
At 31 December	72 615	358	55 923	128 896

Assets in progress include development of new software applications, mainly the new core banking system € 32 011 thousand (31 December 2020: € 31 216 thousand), that is being developed and the costs for the technical upgrade of software that have not yet been put in use.

At 31 December 2021, the gross book value of fully amortised intangible assets that are still used by the Bank amounted to € 153 348 thousand (31 December 2020: € 162 375 thousand).

At 31 December 2021, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2020: € nil thousand).

16. Goodwill

€ '000	2021	2020
Retail Banking	18 871	18 871

The merger of Consumer Finance Holding, a. s. into the Bank in 2018 led to the recognition of goodwill previously held by Consumer Finance Holding, a. s. The Bank allocated this goodwill to cash generating unit Retail Banking, as Consumer Finance Holding, a. s. was operating in the area of consumer loans.

The Bank identified three cash generating units – Retail Banking, Corporate Banking and Central Treasury, which also representing the operating segment considered for segment reporting (note 6). Each of them constitutes the smallest group of assets generating independent incoming cash flows and also the minimum level set by the Bank for planning and reporting processes.

Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses on goodwill were recognized during 2021 and 2020. The calculation is based on the same procedures as for the impairment testing of the investments in subsidiaries, joint ventures and associates (note 13).

17. Current and deferred income tax assets and liabilities

€ '000	2021	2020
Current income tax assets	–	26 518
Deferred income tax assets	53 880	51 056
Current income tax liabilities	12 018	635

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2019: 21%) as follows:

€ '000	2021	Profit/ (loss) (note 34)	Equity	2020
Financial assets at FVOCI	(1 896)	–	611	(2 507)
Financial assets at AC:				
Due from other banks	22	(96)	–	118
Due from customers	48 528	(601)	–	49 112
Property and equipment	(12 223)	212	22	(12 457)
Other assets	7	–	–	7
Financial liabilities at AC:				
Lease liabilities	4 296	(505)	–	4 801
Provisions	3 909	1 155	–	2 754
Other liabilities	9 797	1 721	–	8 076
Other	1 440	293	(5)	1 152
	53 880	2 179	628	51 056

18. Other assets

€ '000	Note	2021	2020
Operating receivables and advances		11 797	13 865
Prepayments and accrued income		10 471	9 857
Other tax receivables		964	712
Inventories		401	381
Other		104	-
Settlement of operations with financial instruments		7	12
Impairment losses	21	(2 636)	(2 142)
		21 108	22 685

19. Provisions

€ '000	Note	2021	2020
Financial guarantees and commitments	21	20 235	13 904
Restructuring provision		900	591
Litigation	23	462	400
		21 597	14 895

2021 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	591	16	(145)	462
Restructuring provision	32	400	500	–	900
		991	516	(145)	1 362

2020 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	946	(205)	(150)	591
Restructuring provision	32	334	400	(334)	400
		1 280	195	(484)	991

20. Other liabilities

€ '000	2021	2020
Various creditors	43 079	38 110
Settlement with employees	27 231	27 208
Severance and Jubilee benefits	5 009	5 407
Settlement of operations with financial instruments	4 108	1
Accruals and deferred income	1 888	2 211
VAT payable and other tax payables	1 338	1 626
Settlement with shareholders	846	1 404
Share remuneration scheme	622	711
Investment certificates	526	843
Other	1 539	974
	86 186	78 495

At 31 December 2021 and 31 December 2020 there were no overdue balances within 'Other liabilities'.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to yield curve on Slovak government bonds with a fifteen years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the Projected Unit Credit Method. For the calculation the Bank used an average turnover rate which is based on historical data on employees' turnover at the Bank for the last three years. The average age-specific turnover rate is calculated as the ratio of number of terminations and the average number of employees. All employees are covered by the retirement and jubilee employee benefits program.

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

	2021		2020	
	Jubilee benefits	Retirement benefits	Jubilee benefits	Retirement benefits
Discount rate	0,32%	(0,48)%	(0,66)%	(0,11)%
Growth of wages*	–	0,00%	–	0,00%
Future growth of wages*	2%	3%	–	4,50%
Turnover rate (based on age)	4,6% – 42,6%	4,6% – 42,6%	5,1% – 40,9%	5,1% – 40,9%
Retirement age	Based on valid legislation		Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic		Based on mortality tables issued by the Statistical Office of the Slovak Republic	

* Growth of wages and Future growth of wages is not part of calculation for Jubilee benefits.

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

2021 € ’000	1 January	Creation (note 31)	Use	31 December
Social fund	2 646	1 122	(2 271)	1 497

2020 € ’000	1 January	Creation (note 31)	Use	31 December
Social fund	1 999	2 724	(2 076)	2 647

21. Movements in impairment losses and provisions for financial guarantees and commitments

2021 €'000	Note	1 January	Net creation/ (release) (note 33)	Assets written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		306	23	–	–	–	329
Financial assets at AC:	11						
Due from other banks		706	(583)	–	(14)	–	109
Due from customers		298 310	68 450	(51 350)	(1 328)	(5 012)	309 070
Impairment losses according to IFRS 9		299 322	67 890	(51 350)	(1 342)	(5 012)	309 508
Financial guarantees and commitments	19	13 904	4 707	–	1 624	–	20 235
Impairment losses and provisions according to IFRS 9		313 226	72 597	(51 350)	282	(5 012)	329 743
Investments in subsidiaries, joint ventures and associates	13	21 381	–	–	–	–	21 381
Property and equipment and Non–current assets classified as held for sale	14	349	–	(23)	–	–	326
Other assets	18	2 142	493	–	1	–	2 636
Total impairment losses and provisions for financial guarantees and commitments		337 098	73 090	(51 373)	283	(5 012)	354 086

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

2020 €'000	Note	1 January	Net creation/ (release) (note 33)	Assets written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		224	82	–	–	–	306
Financial assets at AC:	11						
Due from other banks		488	218	–	–	–	706
Due from customers		321 122	53 655	(68 030)	(1 571)	(6 866)	298 310
Impairment losses according to IFRS 9		321 834	53 955	(68 030)	(1 571)	(6 866)	299 322
Financial guarantees and commitments	19	9 391	3 256	–	1 257	–	13 904
Impairment losses and provisions according to IFRS 9		331 225	57 211	(68 030)	(314)	(6 866)	313 226
Investments in subsidiaries, joint ventures and associates	13	27 381	(6 000)	–	–	–	21 381
Property and equipment and Non–current assets classified as held for sale	14	2 328	(1 067)	(912)	–	–	349
Other assets	18	3 139	(997)	–	–	–	2 142
Total impairment losses and provisions for financial guarantees and commitments		364 073	49 147	(68 942)	(314)	(6 866)	337 098

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

22. Equity

€ '000	2021	2020
Share capital – authorised, issued and fully paid:		
89 ordinary shares of € 3 319 391,89 each, not traded	295 426	295 426
4 078 108 ordinary shares of € 33,2 each, publicly traded	135 393	135 393
	430 819	430 819
Share premium	13 719	13 719
Reserves	112 200	114 484
Retained earnings (excluding net profit for the year)	1 051 998	1 049 185
	1 608 736	1 608 207

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

	2021	2020
Net profit for the year attributable to shareholders in € '000	100 986	85 039
Divided by the weighted average number of ordinary shares, calculated as follows:		
89 ordinary shares of € 3 319 391,89 each in €	295 425 878	295 425 878
4 078 108 ordinary shares of € 33,2 each in €	135 393 186	135 393 186
	430 819 064	430 819 064
Divided by the value of one ordinary share of € 33,2		
The weighted average number of ordinary shares of € 33,2 each	12 976 478	12 976 478
Basic and diluted earnings per € 33,2 share in €	7,78	6,55

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

The structure of shareholders is as follows:

€ '000	2021	2020
Intesa Sanpaolo Holding International S. A.	100,00%	97,03%
Domestic shareholders	0,00%	2,17%
Foreign shareholders	0,00%	0,80%
	100,00%	100,00%

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

The Bank manages its capital structure and adjust to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue capital securities or other capital instruments, classified as Additional Tier 1, or Tier2. No changes have been made in the objectives, policies and processes from the previous years.

The Bank's regulatory capital position was determined based on the rules for capital adequacy calculation set by the CRR Regulation:

€ '000	2021 (Unaudited)	2020
Tier 1 capital		
Share capital	430 819	430 819
Share premium	13 719	13 719
Retained earnings	1 043 534	1 040 721
Profit or loss eligible	90 440	–
Legal reserve fund	87 495	87 493
Other capital funds	8 464	8 464
Accumulated other comprehensive income	24 707	26 991
(-) Value adjustments due to the requirements for prudent valuation	(48)	(47)
Other transitional adjustments to CET1 Capital	20 674	28 944
CET1 capital elements or deductions – other	(6 400)	(5 090)
Less goodwill and intangible assets	(126 844)	(118 379)
Less IRB shortfall of credit risk adjustments to expected losses	–	(8 416)
(-) Insufficient coverage for non-performing exposures	(95)	
	1 586 465	1 505 219
Tier 2 capital		
Subordinated debt	200 000	200 000
IRB excess of provisions over expected losses eligible	14 502	
Other transitional adjustments to T2 Capital	(5 141)	(7 197)
	209 361	192 803
Total regulatory capital	1 795 826	1 698 022

€ '000	2021	2020
Retained earnings	1 152 984	1 134 224
Net profit for the year	(100 986)	(85 039)
Other capital funds	(8 464)	(8 464)
	1 043 534	1 040 721

€ '000	2021	2020	2021 Required	2020 Required
Tier 1 capital	1 586 465	1 505 219	718 363	698 077
Tier 2 capital	209 361	192 803	209 361	192 803
Total regulatory capital	1 795 826	1 698 022	718 363	698 077
Total Risk Weighted Assets	8 979 534	8 725 964	8 979 534	8 725 964
CET 1 capital ratio	17,67%	17,25%	11,84%	11,84%
Total capital ratio	20,00%	19,46%	15,00%	16,00%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings, accumulated other comprehensive income, foreign currency translation and reserves. The deducted amounts in Tier 1 capital are goodwill, intangible assets and irrevocable payment commitments (contribution to Single Resolution Fund) and IRB shortfall. Certain adjustments are made to IFRSs-components as prescribed by the CRR Regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long-term debt and IRB excess of provisions over expected losses.

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2021 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU ('CRD IV') and in the CRR Regulation of 26 June 2013 (in compliance with their amendments – Regulation (EU) 2019/876 and Directive (EU) 2019/878), which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that the Bank must comply with on sub-consolidated and individual level. Starting from 1 January 2021, the overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 10.5%. This is the result:

– the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.5%, entirely of Common Equity Tier 1 ratio;

– additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an Other Systemically Important Institutions Buffer ('O-SII Buffer') of 1% and Systemic Risk Buffer ('SRB') of 1%.

For the sake of completeness, please note that CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer ('CCyB') starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Slovakia by National Bank of Slovakia in relevant regulation, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the National Bank of Slovakia decided to set the countercyclical ratio (relating to the exposures towards Slovak counterparties). Due to COVID-19 pandemic situation, NBS has decreased countercyclical buffer to 1% since 1 August 2020 (previously 1.5%). On 12 March 2020, ECB announced relaxation of the capital requirements in relation to COVID-19 pandemic, by allowing the banks to fully release the P2CG (1%) and allow banks to operate temporarily below the level of capital defined by the capital conservation buffer (CCB) (2.5%), meaning in total effect of 3.5%. Moreover, requirement on P2R composition based on CRD V rules has been updated to 75% Tier 1, out of which 75% should represent CET 1 (56.25% of P2R). These changes represent from 1 January 2021 capital requirement for CET 1 of 11.84% and capital requirement for Tier 1 of 13.63%.

The Overall Capital Requirement was at VÚB group level, as of 1 January 2021 set at 16% and consists of:

– capital requirement for Pillar 1 (8%),

– capital requirement for Pillar 2 (SREP add on 1,5% and Pillar 2 Capital Guidance 1%),

– capital requirement for a combined buffer (5,5%), consisting of Capital Conservation Buffer of 2,5%, and Other Systemically Important Institutions Buffer of 1% and Systemic Risk Buffer of 1% and a Countercyclical Buffer 1,5%.

Since November 2014, the Bank has been under the supervision of the European Central Bank.

Internally, within its Risk Appetite framework, the Bank has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

Impact of the introduction of IFRS 9 on own funds

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

€ '000	2018	2019	2020	2021	2022
Decreasing factor	95%	85%	70%	50%	25%
Impact to CET 1	39,281	35,146	28,944	20,674	10,337

Furthermore, under paragraph 7 of Article 473 of the CRR Regulation, ISP Group companies adopting the transitional approach shall update calculation of the following components relevant to the determination of supervisory capital requirements, so as to avoid inappropriate benefits:

– Deferred tax assets deducted from CET 1 relating to Standard and Internal ratings-based ('IRB') exposures;
– Determination of Exposure At Default using the scaling factor to assess the Risk Weighted Assets of Standard exposures;
– Tier 2 elements relating to IRB weighted exposures.

The impact on own funds of the first-time adoption of IFRS 9 and the adoption of the "static" approach during the transitional period (2018 – 2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios (with and without applying the transitional provisions for IFRS 9) following:

– the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9,
– the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the aforementioned Regulation, aimed at mitigating the impact of FTA;
– the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
– the reduction of the risk-weighted assets (RWA) on standard exposures as at 1 January 2018, which as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
– the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

Regulation (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) No 2019/876 as regards certain adjustments in response to the COVID-19 pandemic meaning amendments of the transitional arrangements for adoption of IFRS 9 (Art. 473a of CRR) the Bank continues to apply the static approach as defined for the first-time adoption of IFRS 9 in relation to own funds calculation, which is in line with ISP Group approach. Moreover, the Bank has decided not to adopt temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (Art. 468).

The prudential treatment of software assets

The Bank has adopted prudential treatment of software assets based on the Final Report "Draft Regulatory Technical Standards on the prudential treatment of software assets under Article 36 of Regulation (EU) 575/2013 (CRR)", EBA/RTS/2020/07, regarding updated version of the Capital Requirements Regulation 2019/876 and Directive 2019/878 (CRR II/CRD V) published in June 2019 concerning the modified version of article 36(1)b (CRR II) with regard to own funds requirements for institutions. The Bank has adopted the prudential amortization approach for software assets for the calculation of CET1 at individual and consolidated level starting from December 2020 based on EBA/RTS/ 2020/07 methodology, which is in line with ISP Group Approach. The prudential amortization allows the banks not to deduct from CET1 software assets that are prudentially valued (i.e. when the value of software assets is not negatively affected by status of resolution, insolvency or liquidation of the bank). The residual portion of the carrying amount of software is risk-weighted (100%), in accordance with the current CRR provisions. This treatment has also been established by Commission delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items.

23. Financial commitments and contingencies

23.1. Issued guarantees and commitments and undrawn credit facilities

€ '000	2021	2020
Issued guarantees	1 003 796	866 694
Commitments and undrawn credit facilities	4 633 636	4 012 294
of which revocable	*1 743 272*	*913 855*
	5 637 432	4 878 988

Issued guarantees represent irrevocable assurances that the Bank will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Bank recognizes provisions for these instruments. (note 19)

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

23.2. Legal proceedings

the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2021. Pursuant to this review, management has recorded total provisions of € 462 thousand (31 December 2020: € 591 thousand) in respect of such legal proceedings (note 19). The Bank will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 32 516 thousand, as at 31 December 2021 (31 December 2020: € 30 367 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

€ '000	2021	2020
Legal proceedings related to credit contracts	228	584
Legal proceedings related bankruptcy revocations	223	-
Legal proceedings on credit collection	7	7
Legal proceedings related to all other civil disputes	4	-
	462	591

24. Net interest income

€ '000	2021	2020
Interest and similar income		
Financial assets at FVTPL	36	127
Financial assets at FVOCI	691	2 582
Financial assets at AC:		
Due from other banks	4 767	3 799
Due from customers	308 439	322 115
Derivatives – Hedge accounting	(18 387)	(15 475)
Interest income on liabilities	10 803	910
	306 349	314 058
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(627)	(605)
Due to customers and Subordinated debt	(13 671)	(17 475)
Lease liabilities	(219)	(209)
Debt securities in issue	(30 689)	(28 283)
Derivatives – Hedge accounting	18 536	10 584
Interest expense on assets	(9 310)	(516)
	(35 980)	(36 504)
	270 369	277 554

€ '000	2021	2020
Interest and similar income		
Total interest income calculated using the effective interest method	306 313	313 931
Other interest income – interest income on financial assets at FVTPL	36	127
	306 349	314 058

€ '000	2021	2020
Net interest income		
Financial assets at FVOCI	691	2 582
Financial assets at AC	303 896	325 398
	304 587	327 980
Financial liabilities at AC	(34 403)	(45 662)

Interest income on impaired loans and advances to customers for 2021 amounted to € 9 721 thousand (2020: € 10 524 thousand).

25. Net fee and commission income

2021 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38 205	3 626	–	11	41 842
Payments and cash management	14 340	9 214	16	2	23 572
Cards	29 143	267	–	68	29 478
Loans	12 691	7 575	–	341	20 607
Indirect deposits	22 411	42	–	–	22 453
Insurance	13 305	-	–	–	13 305
Trade finance	14	8 126	1 508	–	9 648
Factoring	-	1 630	–	–	1 630
Structured finance	-	1 547	–	–	1 547
Other	539	2 177	1 477	–	4 193
	130 648	34 204	3 001	422	168 275
Fee and commission expense					
Cards	(15 166)	-	–	–	(15 166)
Payments and cash management	(1 871)	(5 609)	(384)	(564)	(8 428)
Current accounts	-	-	–	(737)	(737)
Insurance	(394)	-	–	–	(394)
Factoring	-	(353)	–	–	(353)
Indirect deposits	–	35	–	–	35
Other	(208)	–	(1 312)	(2 326)	(3 846)
	(17 639)	(5 927)	(1 696)	(3 627)	(28 889)
Net fee and commission income under IFRS 15	113 009	28 277	1 305	(3 205)	139 386
Income from guarantees under IFRS 9	–	6 145	–	–	6 145
Total net fee and commission income	113 009	34 422	1 305	(3 205)	145 531

2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38 525	3 174	–	9	41 708
Payments and cash management	14 441	13 148	1 351	11	28 951
Cards	27 714	290	–	39	28 043
Loans	9 837	7 524	–	516	17 877
Indirect deposits	17 740	43	–	–	17 783
Insurance	13 702	3	–	–	13 705
Trade finance	10	635	1 776	–	2 421
Factoring	–	1 193	–	–	1 193
Structured finance	–	951	–	–	951
Other	483	468	235	–	1 186
	122 452	27 429	3 362	575	153 818
Fee and commission expense					
Cards	(15 523)	–	–	–	(15 523)
Payments and cash management	(1 762)	(5 232)	(470)	(493)	(7 957)
Current accounts	–	–	–	(613)	(613)
Insurance	(432)	–	–	–	(432)
Factoring	–	(229)	–	–	(229)
Other	(377)	(2)	(467)	(2 811)	(3 657)
	(18 094)	(5 463)	(937)	(3 917)	(28 411)
Net fee and commission income under IFRS 15	104 358	21 966	2 425	(3 342)	125 407
Income from guarantees under IFRS 9	–	7 186	–	–	7 186
Total net fee and commission income	104 358	29 152	2 425	(3 342)	132 593

26. Net trading result

€ '000	2021	2020
Foreign currency derivatives and transactions	11 770	(2 361)
Customer foreign exchange margins	7 656	6 831
Financial assets measured at FVOCI	6 140	6 754
Interest rate derivatives	306	(3 978)
Non-trading financial assets measured at FVTPL	116	(93)
Dividends from equity shares measured at FVOCI	98	–
Financial assets held for trading – debt securities	62	3 982
Other derivatives	62	177
Dividends from equity shares held in FVTPL	–	63
Equity derivatives	–	–
Net result from hedging transactions	(171)	630
Cross currency swaps	(6 908)	6 641
	19 131	18 646

27. Other operating income

€ '000	2021	2020
Financial revenues	765	1 579
Net profit from sale of fixed assets	95	3
Services	17	–
Other	1 998	636
	2 875	2 218

28. Other operating expenses

€ '000	2021	2020
Contribution to the Single Resolution Fund*	(7 424)	(6 880)
Contribution to the Deposit Protection Fund**	(5 267)	(605)
Costs of product support – credit cards	(1 497)	(1 892)
Court fees and expenses and out-of-court settlements	(1 215)	(1 421)
Net loss from sale of fixed assets	–	(21)
Other damages	(526)	(251)
Other	(6 410)	(4 189)
	(22 339)	(15 257)

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

** The annual contribution for 2020 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2021, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2021 was set at 0.0075% p. q. of the amount of protected deposits.

29. Special levy of selected financial institutions

€ '000	2021	2020
Special levy of selected financial institutions	–	(31 038)

The special levy of selected financial institutions was set to 0.4% p. a. of selected liabilities for the year 2020 (2019: 0.2% p. a.).

As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective. This amendment also covered measures in the area of special levy of selected financial institutions. According to these measures no more special levy payments were required from July 2020 until the end of 2020.

30. Salaries and employee benefits

€ '000	2021	2020
Remuneration	(87 898)	(86 763)
Social security costs	(33 786)	(33 451)
Social fund	(1 122)	(2 724)
Termination benefit	(500)	(66)
Severance and Jubilee benefits	398	226
	(122 908)	(122 778)

At 31 December 2021, the total number of employees of the Bank was 3 334 (31 December 2020: 3 574). The average number of employees of the Bank during the year ended 31 December 2021 was 3 486 (31 December 2020: 3 616).

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

31. Other administrative expenses

€ '000	2021	2020
Third parties' services	(17 680)	(19 211)
Information technologies systems maintenance	(14 152)	(13 263)
Maintenance and repairs	(6 350)	(5 502)
Advertising and sponsorship	(5 064)	(5 008)
Rental of buildings and related expenses	(3 899)	(3 462)
Postage costs	(3 547)	(4 155)
Telephone and telecommunication costs	(3 212)	(2 803)
Energy costs	(2 915)	(2 498)
Forms and office supplies	(2 470)	(2 540)
Electronic data processing system leasing	(1 979)	(1 844)
Cleaning of premises	(1 511)	(1 440)
Archives and documents	(1 300)	(889)
Security	(1 276)	(1 444)
Indirect personnel costs and compensation	(1 271)	(1 407)
Transport	(1 079)	(1 398)
Insurance	(1 037)	(894)
Other rentals	(769)	(779)
Cost of legal services	(692)	(936)
Consultations and other fees*	(548)	(845)
Information and research	(207)	(211)
Other expenses**	(1 796)	(2 833)
Value added tax and other taxes	(149)	(162)
Reinvoicing	2 064	2 037
	(70 839)	(71 487)

* 'Consultations and other fees' includes the fee for the statutory audit and financial statements in amount € 256 thousand (2020: € 256 thousand). There is included fee for audit of the year end group reporting package, ancillary charge, audit of the consolidated financial statements. Other audit-related assurance services and non-audit services performed by the statutory auditor related to limited review of the half-yearly financial statements and reporting packages, limited review of the financial statements and reporting packages as at 31 March and 30 September, audit of the regulatory prudential returns as requested by the Slovak legislation and the Extended auditor's report to the National Bank of Slovakia, Q3 Interim condensed FS ISRE 2410 review, ISRS 4400 - AUP in respect of the Commercial code requirements before the Legal merger amounted to € 127 thousand (2020: € 407 thousand).

** These items includes among other things:

€ '000	2021	2020
Expenses relating to membership fees in various professional organisations & associations	(309)	(1 069)
Expenses relating to ECB supervisory fee	(519)	(522)
	(828)	(1 591)

32. Provisions

€ '000	Note	2021	2020
Net release and use of provisions for litigations	19	129	355
Net release and use of other provisions	19	–	–
		129	355

33. Impairment losses and Net (loss)/gain arising from the derecognition of financial assets at amortised cost

€ '000	Note	2021	2020
Net creation of impairment losses	21	(68 383)	(45 936)
Net (creation)/release of provisions for financial guarantees and commitments	21	(4 707)	(3 211)
		(73 090)	(49 147)
Net (loss)/gain arising from the derecognition of financial assets at AC		8 610	(7 458)

34. Income tax expense

€ '000	Note	2021	2020
Current income tax	17	(31 348)	(14 593)
Deferred income tax	17	2 179	(10 489)
		(29 169)	(25 082)

The movement in deferred taxes in the statement of profit or loss is as follows:

€ '000	2021	2020
Due from other banks	(96)	23
Due from customers	(601)	(7 054)
Property and equipment	212	(4 226)
Lease liabilities	(505)	158
Provisions	1 155	898
Other liabilities	1 721	(639)
Other	293	351
	2 179	(10 489)

The effective tax rate differs from the statutory tax rate in 2021 and in 2020. The reconciliation of the Bank's profit before tax with the actual corporate income tax is as follows:

€ '000	2021	2020
Profit before tax	130 155	110 121
Theoretical tax calculated at the tax rate 21%	(27 332)	(23 125)
Tax impact:		
Non-taxable income	1 797	2 207
Tax non-deductible expenses	(3 727)	(6 153)
Impairment allowances and provisions, net	(2 108)	11 605
Additional tax of prior years	22	876
Creation/(release) of allowances for uncertain realisation of deferred tax receivables	2 179	(10 489)
Income tax expense	(29 169)	(25 082)
Effective tax for the year	22,41%	22,78%

35. Other comprehensive income

€ '000	2021	2020
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation (loss)/gain arising during the year	(34)	3 080
Reclassification adjustment for profit on sale of FVOCI equities within equity	110	(4 470)
	76	(1 390)
Net revaluation gain from property and equipment	(28)	4 553
Reversal of deferred income tax on disposed property and equipment	22	99
	70	3 262
Items that may be reclassified to statement of profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation gain arising during the year	–	–
Change in value of financial assets at FVOCI (debt instruments):		
Revaluation loss arising during the year	17 499	33 305
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(20 573)	(23 849)
	(3 074)	9 456
Exchange difference on translation foreign operation	79	(309)
	(2 995)	9 147
Total other comprehensive income	(2 918)	12 409
Income tax relating to components of other comprehensive income (note 36)	606	(1 711)
Other comprehensive income for the year after tax	(2 312)	10 698

36. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense) /benefit	2021 Net of tax amount	Before tax amount	Tax (expense) /benefit	2020 Net of tax amount
Items that shall not be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (equity instruments)	(28)	6	(22)	4 553	(956)	3 597
Reversal of deferred income tax on disposed property and equipment	22	-	22	99	–	99
Net revaluation gain from property and equipment	76	(39)	37	(1 390)	1 231	(159)
	70	(33)	37	3 262	275	3 537
Items that may be reclassified to statement of profit or loss in the future						
Change in value of cash flow hedges	–	–	–	–	–	–
Change in value of financial assets at FVOCI (debt instruments)	(3 074)	646	(2 428)	9 456	(1 986)	7 470
Exchange differences on translation foreign operations	86	(7)	79	(309)	–	(309)
	(2 988)	639	(2 349)	9 147	(1 986)	7 161
	(2 918)	606	(2 312)	12 409	(1 711)	10 698

37. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates – enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

In 2021, the remuneration and other benefits provided to members of the Management Board were € 3,120 thousand (2020: € 3 102 thousand), of which the severance benefits € 24 thousand (2020: € 79 thousand), and to members of the Supervisory Board € 55 thousand (2020: € 55 thousand).

On 20 July 2020 was completed the merger by incorporation of Banca IMI S.p.A., the part of the ISP Group, into the Parent Company Intesa Sanpaolo S.p.A. From this day all legal relations concerning the merged company will be intended as referred to Intesa Sanpaolo S.p.A.

As at 31 December 2021, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Cash and cash equivalents	–	–	–	–	35 165	388	35 553
Financial assets at FVTPL:							
Financial assets held for trading	–	–	–	–	8 925	7	8 932
Non-trading financial assets at FVTPL	–	–	–	–	622	–	622
Derivatives – Hedge Accounting	–	–	–	–	55 574	–	55 574
Financial assets at FVOCI	–	–	–	–	43	–	43
Financial assets at AC:							
Due from other banks	–	–	–	–	1 649 885	–	1 649 885
Due from customers	312	201 818	3	–	–	19 988	222 121
Property and equipment	–	579	–	–	–	–	579
Other assets	–	4	–	–	1	1 186	1 191
	312	202 401	3	–	1 750 215	21 569	1 974 500
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	–	–	–	–	16 317	–	16 317
Derivatives – Hedge accounting	–	–		–	23 787	–	23 787
Financial liabilities at AC:							
Due to banks	–	–	–	–	322 788	33 161	355 949
Due to customers	854	243	–	230	–	3 423	4 507
Lease liabilities	–	1 341	–	–	–	–	1 341
Subordinated debt	–	–	–	–	–	200 150	200 150
Provisions	–	1	–	–	10	–	11
Other liabilities	622	27	–	–	1 741	–	2 390
	1 476	1 369	–	230	364 643	236 734	604 452

As at 31 December 2020, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Financial assets at FVTPL:							
Financial assets held for trading	–	–	–	–	58 969	15	58 984
Non-trading financial assets at FVTPL	–	–	–	–	711	–	711
Derivatives – Hedge Accounting	–	–	–	–	85 124	–	85 124
Financial assets at FVOCI	–	–	–	–	326	–	326
Financial assets at AC:							
Due from other banks	–	–	–	–	69 198	315	69 513
Due from customers	329	65 467	1	–	–	–	65 797
Property and equipment	–	3 933	–	–	–	–	3 933
Other assets	–	–	–	–	–	1 139	1 139
	329	69 400	1	–	214 328	1 469	285 527
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	–	–	–	–	73 861	–	73 861
Derivatives – Hedge accounting	–	–		–	52 625	–	52 625
Financial liabilities at AC:			–				
Due to banks	–	–	–	–	46 540	2 092	48 632
Due to customers	1 311	243	–	245	–	2 123	3 922
Lease liabilities	–	4 458	–	–	–	–	4 458
Subordinated debt	–	–	–	–	–	200 151	200 151
Provisions	–	32	–	–	21	–	53
Other liabilities	711	295	–	–	2 474	–	3 480
	2 022	5 028	–	245	175 521	204 366	387 182

As at 31 December 2021, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	57	213 180	18	–	201 167	–	414 422
Issued guarantees	–	–	–	–	25 193	117	25 310
Received guarantees	–	–	–	–	6 408	–	6 408
Derivative transactions (notional amount – receivable)	–	–	–	–	9 991 301	6 907	9 998 208
Derivative transactions (notional amount – payable)	–	–	–	–	9 989 521	6 903	9 996 424

As at 31 December 2020, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	56	349 535	20	–	14	–	349 625
Issued guarantees	–	–	–	–	10 360	85	10 445
Received guarantees	–	–	–	–	10 157	–	10 157
Derivative transactions (notional amount – receivable)	–	–	–	–	8 739 712	5 038	8 744 750
Derivative transactions (notional amount – payable)	–	–	–	–	8 741 454	5 028	8 746 482

For the year ended 31 December 2021, the outstanding balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	3	125	–	–	3	97	228
Interest and similar expense	(2)	(67)	–	–	(3 120)	(5 480)	(8 669)
Fee and commission income	-	16	–	1	112	18 146	18 275
Fee and commission expense	-	–	–	–	(559)	(6)	(565)
Dividend income	-	–	3 002	–	–	-	3 002
Net trading result	-	–	–	–	(93 607)	(41)	(93 648)
Other operating income	-	–	–	–	42	35	77
Other operating expenses	-	–	–	–	(514)	–	(514)
Other administrative expenses	-	768	–	–	(8 468)	(2 589)	(10 289)
Depreciation	-	(708)	–	–	–	–	(708)
Impairment losses	-	39	–	–	24	–	63
	1	173	3 002	1	(106 087)	10 162	(92 748)

For the year ended 31 December 2020, the outstanding balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	2	187	–	1	12	19	221
Interest and similar expense	(1)	(132)	–	–	(35)	(5 776)	(5 944)
Fee and commission income	–	14	–	–	310	15 080	15 404
Fee and commission expense	–	–	–	–	(1 133)	(5)	(1 138)
Dividend income	–	–	4 001	–	–	–	4 001
Net trading result	–	–	–	–	(41 125)	(328)	(41 453)
Other operating income	–	–	–	–	279	173	452
Other operating expenses	–	–	–	–	(516)		(516)
Other administrative expenses	–	951	–	–	(11 466)	(387)	(10 902)
Depreciation	–	(952)	–	–	–	–	(952)
Impairment losses	–	6 111	–	–	(18)	2	6 095
	1	6 179	4 001	1	(53 692)	8 778	(34 732)

38. Profit distribution

In December 2021 the Bank transferred dividends from Retained Earnings of previous years that amounted to € 82 487 thousand.

The Management Board will propose the following 2021 profit distribution:

€ '000	
Dividends to shareholders (€ nil per € 33.2 share)	10 554
Retained earnings	90 450
	101 004

39. Events after the end of the reporting period

The Bank´s 100% subsidiary **VÚB Leasing, a.s.** (Business Reg. Nr.: 31318045) ceased its operations as of 31.12.2021 and as of this day the company has been removed from the list of active companies in Business Register of the Slovak Republic. Its operations related to finance lease have been transferred to the Bank and those related to operating lease to the company **VÚB Operating Leasing, a.s.** (Business Reg. Nr.: 54108128), that is also 100% subsidiary of the Bank.

From 31 December 2021, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue by the Management Board on 23 February 2022. These financial statements will be published 25 February 2022 and will be available at the registered office of the Bank.

Alexander Resch
Chairman of the Management Board

Paolo Vivona
Member of the Management Board

Information on Securities issued by the Bank

Debt securities issued by the Bank

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., XXX.	SK4120005547	5.9.2007	5.9.2032	EUR	33,193.92	1,000	5.00%	annually	no
Mortgage bonds VÚB, a.s., 31	SK4120005679	29.11.2007	29.11.2037	EUR	33,193.92	600	4.90%	annually	no
Mortgage bonds VÚB, a.s., 43	SK4120006271	26.9.2008	26.9.2025	EUR	33,193.92	500	5.10%	annually	no
Mortgage bonds VÚB, a.s., 67	SK4120008228	29.11.2011	29.11.2030	EUR	50,000.00	300	5.35%	annually	no
Mortgage bonds VÚB, a.s., 72	SK4120008608	21.6.2012	21.6.2027	EUR	100,000.00	250	4.70%	annually	no
Mortgage bonds VÚB, a.s., 73	SK4120008624	11.7.2012	11.7.2022	EUR	100,000.00	500	4.20%	annually	no
Mortgage bonds VÚB, a.s., 74	SK4120008939	16.1.2013	15.12.2023	EUR	100,000.00	700	3.35%	annually	no
Mortgage bonds VÚB, a.s., 81	SK4120009887	27.3.2014	27.3.2024	EUR	1,000,000.00	38	2.55%	annually	no
Mortgage bonds VÚB, a.s., 85	SK4120010364	14.11.2014	14.11.2029	EUR	100,000.00	500	2.25%	annually	no
Mortgage bonds VÚB, a.s., 87	SK4120010794	9.6.2015	9.6.2025	EUR	100,000.00	1,000	1.25%	annually	no
Mortgage bonds VÚB, a.s., 89	SK4120011065	29.9.2015	29.9.2025	EUR	100,000.00	1,000	1.20%	annually	no
Mortgage bonds VÚB, a.s., 90	SK4120011149	29.10.2015	29.10.2030	EUR	100,000.00	1,000	1.60%	annually	no
Mortgage bonds VÚB, a.s., 91	SK4120011529	21.3.2016	21.3.2023	EUR	100,000.00	1,000	0.60%	annually	no
Mortgage bonds VÚB, a.s., 93	SK4120012469	18.1.2017	18.1.2024	EUR	100,000.00	2,500	0.50%	annually	no
Mortgage bonds VÚB, a.s., 94	SK4120012824	27.4.2017	27.4.2027	EUR	100,000.00	2,500	1.05%	annually	no
Mortgage bonds VÚB, a.s., 95	SK4120013251	26.9.2017	26.9.2022	EUR	100,000.00	2,500	0.375%	annually	no

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Covered bonds VÚB, a.s., 1	SK4120014168	26.6.2018	26.6.2023	EUR	100,000.00	2,500	0.50%	annually	no
Covered bonds VÚB, a.s., 2	SK4120014531	5.10.2018	15.12.2027	EUR	100,000.00	500	1.50%	annually	no
Covered bonds VÚB, a.s., 3	SK4120015108	26.3.2019	26.3.2024	EUR	100,000.00	5,000	0.25%	annually	no
Covered bonds VÚB, a.s., 4	SK4000015475	26.6.2019	26.6.2029	EUR	100,000.00	5,000	0.50%	annually	no
Covered bonds VÚB, a.s., 5	SK4000017455	23.6.2020	23.6.2025	EUR	100,000.00	5,000	0.01%	annually	no
Covered bonds VÚB, a.s., 6	SK4000018693	24.3.2021	24.3.2026	EUR	100,000.00	5,000	0.01%	annually	no

All debt securities issued by VÚB, a.s., are bearer bonds in book entry form. No person took any guarantee for the repayment of the nominal value and/or coupon payment.

As of 31 December 2021 VÚB, a.s., did not issue and did not decide to issue bonds with pre-emption rights or convertible rights associated therewith.

The bonds are transferable to another holder without any restrictions. The rights associated with the bonds are based on the terms and conditions of the bonds and relevant prospectus pursuant to Act No. 530/1990 Coll. on Bonds as amended, Act No 483/2001 Coll. on Banks as amended, Act No 566/2001 Coll. on Securities as amended and in accordance with applicable legislation.

Investment certificates issued by the Bank

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Investment certificates VÚB, a.s., 2022	SK4000015582	27.6.2019	27.6.2022	EUR	1,00	402 750	0,00%	–	no
Investment certificates VÚB, a.s., 2023	SK4000017554	30.6.2020	30.6.2023	EUR	1,00	72 400	0,00%	–	no
Investment certificates VÚB, a.s., 2026	SK4000019402	30.6.2021	30.6.2026	EUR	1,00	51,000	0,00%	-	no

During the accounting year 2020, the company issued the Investment certificates VÚB, a.s., 2023. The reason for issuing investment certificates was to fulfil the obligations arising from the Act on Banks no. 483/2001 Coll. as amended in conjunction with Regulation EU No 2019/876, amending regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and the internal procedure of VÚB, a.s. - Remuneration Policy. Based on these documents, part of the variable component of total compensation, severance payments, retirement allowances and other compensation payable to selected personnel acc. to § 23a par. 1 of the Act on Banks is provided in the form of securities or other financial instruments.

Investment certificates issued by VUB, a.s., are registered securities in book-entry form. No person has taken any guarantee for the repayment of the nominal value and/or coupon payment.

No pre-emption or convertible rights are associated with investment certificates.

Investment certificates are not transferable to another holder. The rights associated with the investment certificates are based on the applicable legislation of the Slovak Republic, in particular on Act No 566/2001 Coll. on Securities as amended and in the relevant issue conditions of the investment certificates.

List of VUB Retail Branches

Name	Postcode	Address
Regional Retail Business Network Bratislava		
Bratislava - Centrum	811 06	Nám. SNP 15
Bratislava - OC Aupark	851 01	Einsteinova 18
Bratislava - Páričkova	821 08	Páričkova 2
Bratislava - Ružinov	827 61	Kaštieľska 2
Bratislava - OC Vivo	831 04	Vajnorská 100
Bratislava - Dúbravka	841 01	Sch. Trnavského 6/A
Bratislava - OC Eurovea	811 09	Pribinova 8
Bratislava - Dolné Hony	821 06	Kazanská 41
Bratislava - OC Centrál	821 08	Metodova 6
Bratislava - OC Avion	821 04	Ivánska cesta 16
Bratislava - Šintavská	851 05	Šintavská 24
Bratislava - Devínska N. Ves	841 07	Eisnerova 48
Bratislava - Vlastenecké nám.	851 01	Vlastenecké nám. 6
Bratislava - Furdekova	851 04	Furdekova 16
Bratislava - OC BORY MALL	841 03	Lamač 6780
Bratislava - Rača	831 06	Detvianska 22
Bratislava - Herlianska	821 03	Komárnická 11
Trnava - Dolné bašty	917 01	Dolné bašty 2
Trnava - OC Arkadia	917 01	Veterná 40/A
Trnava - Hlavná	917 01	Hlavná 31
Dunajská Streda	929 35	Alžbetínske nám. 328
Galanta	924 41	Mierové nám. 2
Pezinok	902 01	Štefánikova 14
Malacky	901 01	Záhorácka 15
Senec	903 01	Nám. 1. mája 25
Šaľa	927 00	Hlavná 5
Šamorín	931 01	Hlavná 64
Sereď	926 00	Cukrovarská 3013/1
Magnifica Centres		
Bratislava – MC Eurovea	811 09	Pribinova 8
Bratislava - MC Centrum	811 06	Nám. SNP 15
Trnava - Magnifica	917 01	Dolné bašty 2
Mortgage Centres		
Bratislava - Centrum	811 06	Nám. SNP 15
Bratislava - OC Aupark	851 01	Einsteinova 18
Bratislava - Páričkova	821 08	Páričkova 2
Trnava - Dolné bašty	917 68	Dolné bašty 2
Regional Retail Business Network West		
Prievidza	971 01	Nám. slobody 10
Prievidza - Bojnická cesta	971 01	Bojnická cesta 15
Nitra - Štefánikova 44	949 31	Štefánikova 44
Nitra - OC Mlyny	949 01	Štefánikova 61
Nitra - OC Centro	949 01	Akademická 1/A
Nové Zámky	940 33	Hlavné nám. 5
Komárno	945 23	Tržničné nám. 1

Levice	934 01	Štúrova 21
Banská Bystrica	975 55	Nám. slobody 1
Banská Bystrica - SC Európa	974 01	Na troskách 26
Zvolen	960 94	Nám. SNP 2093/13
Zvolen - SC Európa	960 01	Nám. SNP 9690/63
Topoľčany - Moyzesova	955 19	Moyzesova 585/2
Topoľčany - Pribinova	955 01	Pribinova 2
Žiar nad Hronom	965 01	Nám. Matice slov. 21
Lučenec	984 35	T. G. Masaryka 24
Rimavská Sobota	979 13	Francisciho 1
Veľký Krtíš	990 20	Novohradská 7
Zlaté Moravce	953 00	Župná 10
Vráble	952 01	Levická 1288/16
Štúrovo	943 01	Hlavná 59
Šurany	942 01	SNP 25
Brezno	977 01	Boženy Němcovej 1/A
Detva	962 11	M. R. Štefánika 65
Fiľakovo	986 01	Biskupická 2
Hnúšťa	981 01	Francisciho 372
Revúca	050 01	Nám. slobody 3
Handlová	972 51	SNP 1
Nová Baňa	968 01	Nám. slobody 11
Želiezovce	937 01	Komenského 8
Banská Štiavnica	969 01	Radničné nám. 15
Krupina	963 01	Svätotrojičné nám. 8
Tornaľa	982 01	Mierová 37
Magnifica Centres		
Nitra - Magnifica	949 31	Štefánikova 44
Banská Bystrica - Magnifica	975 55	Nám. slobody 1
Mortgage Centres		
Nitra	949 31	Štefánikova 44
Banská Bystrica	975 55	Nám. slobody 1
Regional Retail Business Network North		
Piešťany	921 01	Nám. slobody 11
Trenčín - Legionárska	911 01	Legionárska 7158/5
Trenčín - OC Laugarício	911 01	Belá 7271
Považská Bystrica	017 01	Nám. A. Hlinku 23/28
Žilina	010 01	Na bráne 1
Žilina - Nám. A. Hlinku	010 43	Nám. A. Hlinku 1
Žilina - OC Dubeň	010 08	Vysokoškolákov 52
Martin	036 01	M. R. Štefánika 2
Martin - OC Tulip	036 01	Pltníky 2
Čadca	022 24	Fraňa Kráľa 1504
Dolný Kubín	026 01	Radlinského 1712/34
Senica	905 33	Nám. oslobodenia 8
Dubnica nad Váhom	018 41	Nám. Matice slov. 1712/7
Púchov	020 01	Nám. slobody 1657
Nové Mesto nad Váhom	915 01	Hviezdoslavova 19
Hlohovec	920 01	Podzámska 37
Holíč	908 51	Bratislavská 1518/7
Myjava	907 01	Nám. M. R. Štefánika 525/21
Skalica	909 01	Potočná 20
Vrbové	922 03	Nám. slobody 285/9
Bánovce nad Bebravou	957 01	Nám. Ľ. Štúra 5/5
Partizánske	958 01	L. Svobodu 4
Ilava	019 01	Mierové nám. 77
Nová Dubnica	018 51	Mierové nám. 29/34
Bytča	014 01	Sidónie Sakalovej 138/1
Kysucké Nové Mesto	024 01	Nám. slobody 184

Námestovo	029 01	Hviezdoslavovo nám. 200/5
Tvrdošín	027 44	Trojičné nám. 191
Trstená	028 01	Nám. M. R. Štefánika 15
Turzovka	023 54	R. Jašíka 44
Turčianske Teplice	039 01	Hájska 3
Stará Turá	916 01	SNP 275/67

Magnifica Centres

Trenčín - Magnifica	911 01	Legionárska 7158/5
Žilina - Magnifica	010 43	Na bráne 1

Mortgage Centres

Trenčín	911 01	Legionárska 7158/5
Žilina	010 43	Na bráne 1

Regional Retail Business Network East

Prešov	080 01	Masarykova 13
Poprad	058 17	Mnoheľova 2832/9
Poprad - OC Forum	058 01	Nám. sv. Egídia 3290/124
Liptovský Mikuláš	031 31	Štúrova 19
Ružomberok	034 01	Podhora 48
Michalovce	071 80	Nám. slobody 3
Rožňava	048 73	Šafárikova 21
Spišská Nová Ves	052 14	Letná 33
Stará Ľubovňa	064 01	Nám. sv. Mikuláša 27
Vranov nad Topľou	093 01	Nám. slobody 6
Bardejov	085 01	Kellerova 1
Humenné	066 01	Nám. slobody 26/10
Košice - Štúrova	040 01	Štúrova 27/A
Košice - Hlavná 1	042 31	Hlavná 1
Košice - Letná	040 01	Letná 40
Trebišov	075 17	M. R. Štefánika 3197/32
Košice - OC Aupark	040 01	Nám. osloboditeľov 1
Levoča	054 01	Nám. Majstra Pavla 38
Krompachy	053 42	Lorencova 20
Sabinov	083 01	Nám. slobody 90
Lipany	082 71	Nám. sv. Martina 2
Prešov - Hlavná	080 01	Hlavná 61
Prešov - OC MAX	080 01	Vihorlatská 2A
Svidník	089 27	Centrálna 584/5
Stropkov	091 01	Mlynská 692/1
Snina	069 01	Strojárska 2524
Medzilaborce	068 10	Mierová 289/1
Kežmarok	060 01	Hviezdoslavova 5
Spišská Belá	059 01	SNP 2522
Košice - OC Optima	040 11	Moldavská cesta 32
Košice - OC Galéria	040 11	Toryská 5
Moldava nad Bodvou	045 01	Hviezdoslavova 13
Veľké Kapušany	079 01	Sídl. P. O. Hviezdoslava 79

Magnifica Centres

Prešov - Magnifica	081 86	Masarykova 13
Košice - Magnifica	042 31	Štúrova 27/A

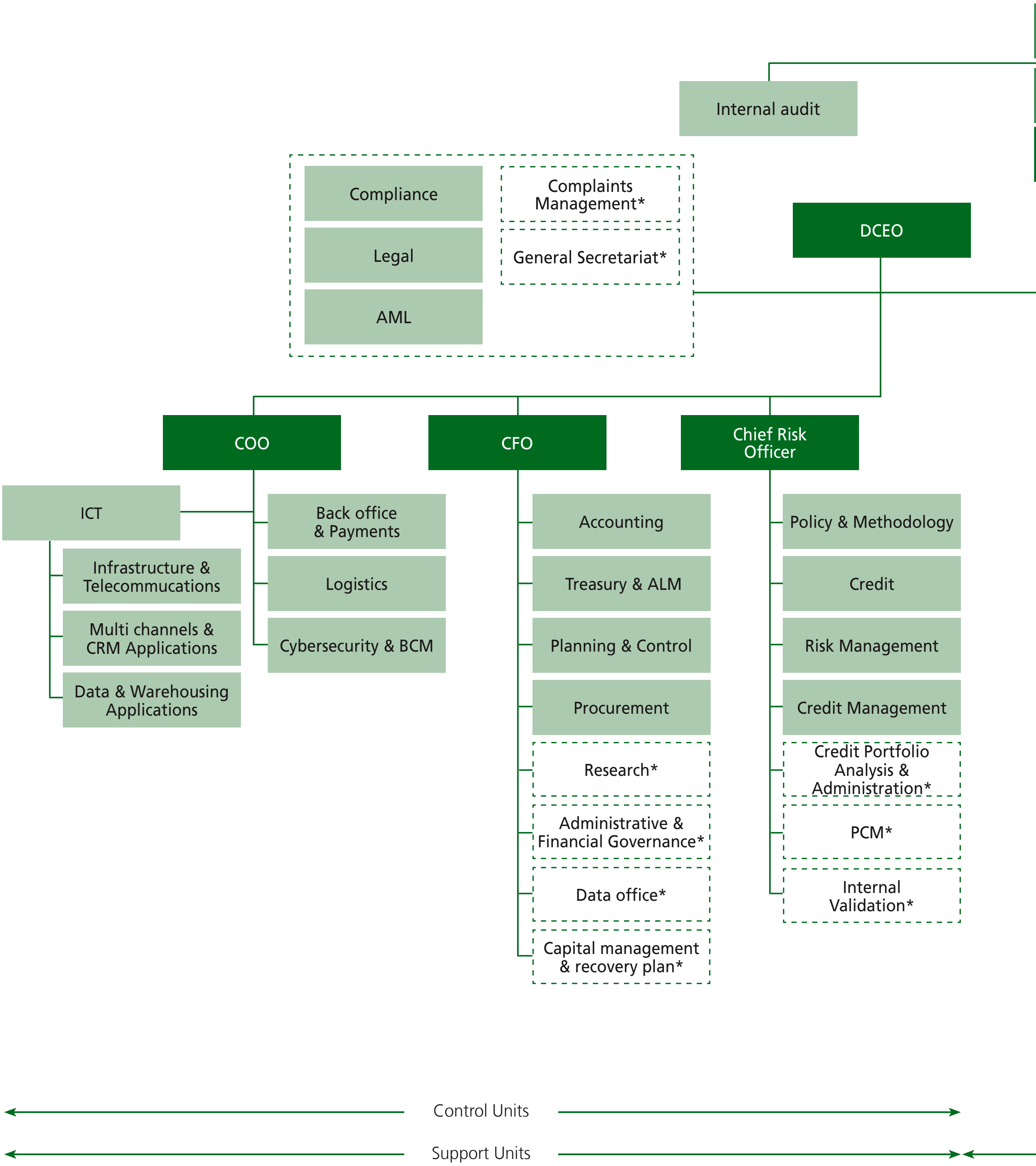
Mortgage Centres

Poprad	058 17	Mnoheľova 2832/9
Prešov	081 86	Masarykova 13
Košice	042 31	Štúrova 27/A

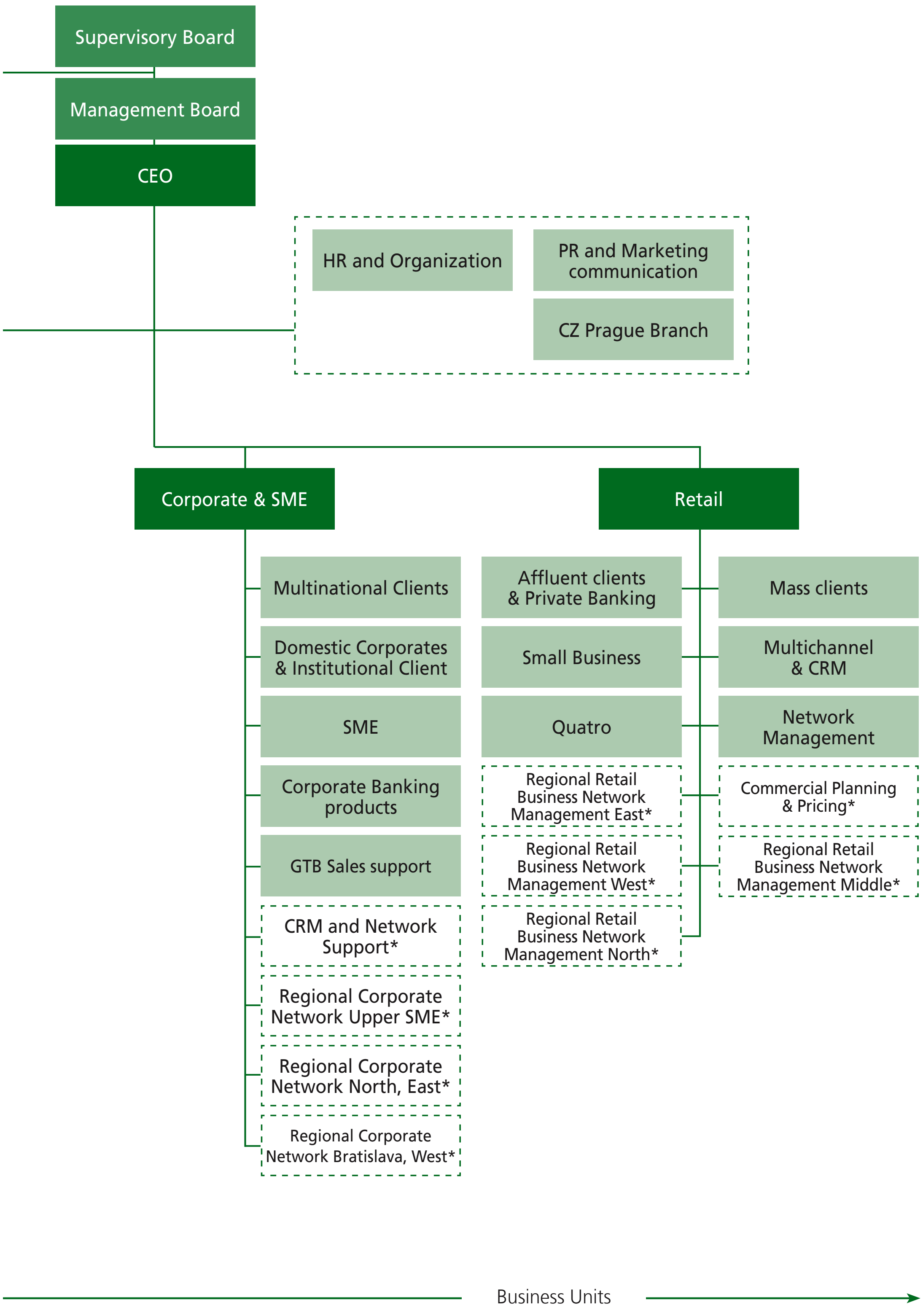
List of VUB Corporate branches

Corporate Business Centre Bratislava		
BRATISLAVA	Mlynské nivy 1	0904 755 337
BRATISLAVA – Avion	Ivanská cesta 16	0904 751 310
Corporate Business Centre Trnava		
TRNAVA	Dolné bašty 2	0904 755 170
SENICA	Nám. oslobodenia 8	0904 756 420
Corporate Business Centre Nitra		
NITRA	Štefánikova 44	0904 751 379
TOPOĽČANY	Moyzesova 585/2	0904 751 379
LEVICE	Štúrova 21	0904 757 796
Corporate Business Centre Nové Zámky		
NOVÉ ZÁMKY	Hlavné námestie 5	0904 750 611
KOMÁRNO	Tržničné nám. 1	0904 750 611
GALANTA	Mierové námestie 2	0904 755 804
DUNAJSKÁ STREDA	Alžbetínske nám. 328	0904 755 804
Corporate Business Centre Trenčín		
TRENČÍN	Legionárska 7158/5	0904 750 356
POVAŽSKÁ BYSTRICA	Nám. A. Hlinku 23/28	0904 750 009
PRIEVIDZA	Námestie slobody 10	0904 750 140
Corporate Business Centre Žilina		
ŽILINA	Na bráne 1	0904 750 823
MARTIN	M.R.Štefánika 2	0904 750 399
ČADCA	Fraňa Kráľa 1504	0904 755 443
DOLNÝ KUBÍN	Radlinského 1712/34	0904 755 762
Corporate Business Centre Banská Bystrica		
ŽIAR NAD HRONOM	Nám. Matice slovenskej 21	0904 751 097
ZVOLEN	Námestie SNP 2093/13	0904 754 085
BANSKÁ BYSTRICA	Námestie slobody 1	0904 754 085
LUČENEC	T.G. Masaryka 24	0904 751 152
RIMAVSKÁ SOBOTA	Francisciho 1	0904 751 152
Corporate Business Centre Poprad		
POPRAD	Mnoheľova 2832/9	0904 750 900
LIPTOVSKÝ MIKULÁŠ	Štúrova 19	0904 750 079
SPIŠSKÁ NOVÁ VES	Letná 33	0904 750 900
Corporate Business Centre Prešov		
PREŠOV	Masarykova 13	0904 750 680
BARDEJOV	Kellerova 1	0904 750 680
VRANOV NAD TOPĽOU	Námestie slobody 6	0904 751 428
HUMENNÉ	Námestie slobody 26/10	0904 751 428
Corporate Business Centre Košice		
KOŠICE	Štúrova 27/A	0904 750 258
MICHALOVCE	Námestie slobody 3	0904 751 307

Organization Chart of VUB as at 31 December 2021



*Department in the direct reporting line to the Chief Executive.


Supervisory Board
Management Board
CEO
HR and Organization
PR and Marketing communication
CZ Prague Branch
Corporate & SME
Retail
Multinational Clients
Domestic Corporates & Institutional Client
SME
Corporate Banking products
GTB Sales support
CRM and Network Support*
Regional Corporate Network Upper SME*
Regional Corporate Network North, East*
Regional Corporate Network Bratislava, West*
Affluent clients & Private Banking
Small Business
Quatro
Regional Retail Business Network Management East*
Regional Retail Business Network Management West*
Regional Retail Business Network Management North*
Mass clients
Multichannel & CRM
Network Management
Commercial Planning & Pricing*
Regional Retail Business Network Management Middle*
Business Units

Rita Koszorús
(1989, Bratislava)
SCHMERZBILD FALL
2021, acrylic and indian ink on canvas, 170 × 155 cm

The competition of Maľba – Cena Nadácie VÚB za maliarske dielo pre mladých umelcov / Painting. Prize of the VUB Foundation for Painting for Young Artists is one of the best known projects of the VUB Foundation and also one of the initiatives with the longest history and tradition. Even after sixteen years of its existence it still adheres to the mission it was created for. The aim of the competition is to present the biggest talents of young professional artists of Slovakia, to enhance and refine the medium of painting and help young artists to enter the artistic scene. Thanks to the international jury, which evaluates the artworks, curators abroad become increasingly aware of the young Slovak painting opening the door to the world to the artists.