



**Interim condensed separate financial statements  
for the nine months ended 30 September 2021**

Prepared in accordance with International Accounting Standard  
*IAS 34 Interim Financial Reporting*

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**Separate statement of financial position as at 30 September 2021**  
(In thousands of euro)

	Note	September 2021	December 2020
<b>Assets</b>			
Cash and cash equivalents	7	2 252 234	1 571 629
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		100 421	85 423
Non-trading financial assets at fair value through profit or loss		7 648	711
Derivatives – Hedge accounting	9	53 561	85 192
Financial assets at fair value through other comprehensive income	10	1 404 933	1 618 067
<i>of which pledged as collateral</i>		1 285 856	634 093
Financial assets at amortised cost:	11		
Due from other banks		1 827 826	205 420
<i>of which pledged as collateral</i>		1 285 856	634 093
Due from customers	11	15 879 760	14 724 137
<i>of which pledged as collateral</i>		73 709	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	9 252	20 016
Investments in subsidiaries, joint ventures and associates	13	69 656	69 629
Property and equipment	14	107 027	113 163
Intangible assets	15	124 752	128 896
Goodwill	16	18 871	18 871
Current income tax assets	17	12 725	26 518
Deferred income tax assets	17	47 416	51 056
Other assets	18	15 034	22 685
Non-current assets classified as held for sale	14	133	1
		<u>21 931 249</u>	<u>18 741 414</u>
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		82 894	87 377
Derivatives – Hedge accounting	9	29 419	65 407
Financial liabilities at amortised cost:	11		
Due to banks		2 721 157	170 671
Due to customers		13 157 932	12 977 960
Lease liabilities		20 392	22 858
Subordinated debt		200 135	200 151
Debt securities in issue		3 842 957	3 422 729
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	4 632	6 990
Current income tax liabilities	17	349	635
Provisions	19	19 840	14 895
Other liabilities	20	82 636	78 495
		<u>20 162 343</u>	<u>17 048 168</u>
<b>Equity</b>			
	22		
Share capital		430 819	430 819
Share premium		13 719	13 719
Legal reserve fund		87 493	87 493
Retained earnings		1 214 280	1 134 224
Equity reserves		22 595	26 991
		<u>1 768 906</u>	<u>1 693 246</u>
		<u>21 931 249</u>	<u>18 741 414</u>

The accompanying notes on pages 8 to 153 form an integral part of these financial statements.

**Separate statement of profit or loss and other comprehensive income  
for the nine months ended 30 September 2021  
(In thousands of euro)**

	Note	September 2021	September 2020
Interest income calculated using the effective interest method		223 147	238 868
Other interest income		33	151
Interest and similar expense		(22 772)	(28 515)
<b>Net interest income</b>	24	200 408	210 504
Fee and commission income		126 338	117 192
Fee and commission expense		(20 972)	(21 108)
<b>Net fee and commission income</b>	25	105 366	96 084
Dividend income		3 002	4 001
Net trading result	26	16 287	9 967
Other operating income	27	2 337	1 700
Other operating expenses	28	(19 028)	(12 499)
Special levy of selected financial institutions	29	-	(31 038)
Salaries and employee benefits	30	(89 243)	(91 028)
Other administrative expenses	31	(51 925)	(54 311)
Amortisation	15	(12 402)	(10 442)
Depreciation	16	(9 957)	(10 064)
<b>Profit before provisions, impairment and tax</b>		144 845	112 874
Net modification losses		(72)	-
Provisions	19, 32	(12)	588
Impairment losses	21, 33	(40 838)	(42 700)
Net loss arising from the derecognition of financial assets at amortised cost	33	(504)	(3 908)
<b>Profit before tax</b>		103 419	66 854
Income tax expense	34	(23 524)	(15 348)
<b>NET PROFIT FOR THE NINE MONTHS</b>		79 895	51 506
<b>Other comprehensive income for the nine months, after tax:</b>	35, 36		
<i>Items that shall not be reclassified to profit or loss in the future:</i>			
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		190	1 016
Reversal of deferred income tax on disposed property and equipment		-	99
		190	1 115
<i>Items that may be reclassified to profit or loss in the future:</i>			
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		(4 669)	4 367
Exchange difference on translation of foreign operations		(26)	(377)
		(4 695)	3 990
<b>Other comprehensive income for the nine months, net of tax</b>		(4 505)	5 105
<b>TOTAL COMPREHENSIVE INCOME FOR THE NINE MONTHS</b>		75 390	56 611
Basic and diluted earnings per € 33.2 share in €		6.16	3.97

The accompanying notes on pages 8 to 153 form an integral part of these financial statements.

**Separate statement of profit or loss and other comprehensive income  
for the three months ended 30 September 2021  
(In thousands of euro)**

	Note	September 2021	September 2020
Interest income calculated using the effective interest method		76 841	78 336
Other interest income		15	1
Interest and similar expense		(8 058)	(8 400)
<b>Net interest income</b>	24	68 798	69 937
Fee and commission income		44 802	40 116
Fee and commission expense		(7 927)	(7 249)
<b>Net fee and commission income</b>	25	36 875	32 867
Net trading result	26	3 215	4 761
Other operating income	27	1 334	375
Other operating expenses	28	(2 190)	(1 724)
Special levy of selected financial institutions	29	-	-
Salaries and employee benefits	30	(30 562)	(31 242)
Other administrative expenses	31	(17 465)	(17 020)
Amortisation	15	(4 400)	(3 586)
Depreciation	16	(3 227)	(3 541)
<b>Profit before provisions, impairment and tax</b>		52 378	50 827
Net modification losses		(26)	-
Provisions	19, 32	(3)	476
Impairment losses	21, 33	(24 590)	(12 001)
Net loss arising from the derecognition of financial assets at amortised cost	33	1 047	(2 226)
<b>Profit before tax</b>		28 806	37 076
Income tax expense	34	(6 576)	(8 622)
<b>NET PROFIT FOR THE THREE MONTHS</b>		22 230	28 454
<b>Other comprehensive income for the three months, after tax:</b>	35, 36		
<i>Items that shall not be reclassified to profit or loss in the future:</i>			
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		(270)	797
<i>Items that may be reclassified to profit or loss in the future:</i>			
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		676	7 559
Exchange difference on translation of foreign operations		(4)	(17)
		672	7 542
<b>Other comprehensive income for the three months, net of tax</b>		402	8 339
<b>TOTAL COMPREHENSIVE INCOME FOR THE THREE MONTHS</b>		22 632	36 793
Basic and diluted earnings per € 33.2 share in €		1.71	2.19

The accompanying notes on pages 8 to 153 form an integral part of these financial statements.

**Separate statement of changes in equity for for the nine months ended 30 September 2021**  
(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Buildings and land	Financial assets at FVOCI	Translation of foreign operation	Total
<b>As at 1 January 2021</b>	430 819	13 719	87 493	1 134 224	17 297	9 673	21	1 693 246
Total comprehensive income for the nine months, net of tax	-	-	-	79 895	-	(4 479)	(26)	75 390
Gain on disposal of property and equipment	-	-	-	1	(1)	-	-	-
Losses on the sale of shares at FVOCI	-	-	-	(110)	-	110	-	-
Exchange difference	-	-	-	1	1	-	-	1
<b>Transactions with owners, recorded directly in equity</b>								
<i>Reversal of dividends distributed but not collected</i>	-	-	-	269	-	-	-	269
<b>As at 30 September 2021</b>	<u>430 819</u>	<u>13 719</u>	<u>87 493</u>	<u>1 214 280</u>	<u>17 296</u>	<u>5 304</u>	<u>(5)</u>	<u>1 768 906</u>
<b>1. január 2020</b>	430 819	13 719	87 493	1 043 673	14 073	6 832	330	1 596 939
Total comprehensive income for the nine months, net of tax	-	-	-	51 506	99	5 383	(377)	56 611
Gain on disposal of property and equipment	-	-	-	472	(472)	-	-	-
Losses on the sale of shares at FVOCI	-	-	-	(254)	-	254	-	-
Exchange difference	-	-	-	374	-	-	-	374
<b>Transactions with owners, recorded directly in equity</b>								
<i>Reversal of dividends distributed but not collected</i>	-	-	-	196	-	-	-	196
<b>As at 30 September 2020</b>	<u>430 819</u>	<u>13 719</u>	<u>87 493</u>	<u>1 095 967</u>	<u>13 700</u>	<u>12 469</u>	<u>(47)</u>	<u>1 654 120</u>

The accompanying notes on pages 8 to 153 form an integral part of these financial statements.

**Separate statement of cash for the nine months ended 30 September 2021**  
(In thousands of euro)

	Note	September 2021	September 2020
<b>Cash flows from operating activities:</b>			
Profit before tax		103 419	66 854
Adjustments for:			
Interest income	24	(223 180)	(239 019)
Interest expense	24	22 772	28 515
Dividend income		(3 002)	(4 001)
Loss/(gain) from sale/revaluation of financial assets at fair value through other comprehensive income		27 677	(25 392)
Loss on sale of intangible assets and property and equipment	28	(32)	124
(Gain)/loss from revaluation of debt securities in issue		(36 753)	35 927
Amortisation	15	12 402	10 442
Depreciation	14	9 957	10 064
Impairment losses and similar charges	32, 33	92 739	60 627
Exchange difference on translation of foreign operations	35, 36	(25)	(3)
Interest received		241 102	232 998
Interest paid		(21 876)	(27 467)
Tax paid		(6 377)	(36 369)
Increase in financial assets at fair value through profit or loss		(21 910)	(139 301)
Decrease/(increase) in derivatives – hedge accounting (assets)		31 631	(18 501)
Financial assets at amortised cost:			
Increase in due from other banks		(1 621 694)	(11 935)
Increase in due from customers		(1 250 789)	(418 909)
Decrease/(increase) in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		10 764	(7 732)
Decrease in other assets		7 962	4 991
(Decrease)/increase in financial liabilities at fair value through profit or loss		(4 483)	31 361
(Decrease)/increase in derivatives – hedge accounting (liabilities)		(35 988)	21 899
Financial liabilities measured at amortised cost:			
Increase/(decrease) in due to banks		2 559 665	(129 727)
Increase in due to customers		180 945	631 624
(Decrease)/increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		(2 358)	2 330
Increase in provisions		1 292	251
Increase/(decrease) in other liabilities		4 410	(13 433)
<i>Net cash from operating activities</i>		<u>78 270</u>	<u>66 218</u>
<b>Cash flows from investing activities:</b>			
Purchase of financial assets at fair value through other comprehensive income		(667 897)	(1 104 185)
Disposal of financial assets at fair value through other comprehensive income		412 985	538 081
Repayments of financial assets at fair value through other comprehensive income		423 000	560 400
Purchase of intangible assets and property and equipment		(9 352)	(21 127)
Disposal of intangible assets and property and equipment		187	646
Dividends received		3 002	4 001
<i>Net cash from/(used in) investing activities</i>		<u>161 925</u>	<u>(22 184)</u>

(Table continues on the next page)

The accompanying notes on pages 8 to 153 form an integral part of these financial statements.

**Separate statement of cash flows for the nine months ended 30 September 2021**  
(In thousands of euro)  
(continued)

	Note	September 2021	September 2020
<b>Cash flows from financing activities:</b>			
Proceeds from issue of debt securities		500 000	500 000
Repayments of debt securities in issue		(47 597)	(234 139)
Proceeds from loans received from other banks		-	2 500
Repayments of loans received from other banks		(6 486)	(10 946)
Repayments of lease liabilities		(5 480)	(8 012)
<i>Net cash from financing activities</i>		<u>440 437</u>	<u>249 403</u>
Net change in cash and cash equivalents		680 605	293 437
Cash and cash equivalents as at the beginning of the period	7	<u>1 571 629</u>	<u>996 438</u>
<b>Cash and cash equivalents as at 30 September</b>	7	<u><u>2 252 234</u></u>	<u><u>1 289 875</u></u>

The accompanying notes on pages 8 to 153 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.

As at 30 September 2021, the Bank had a network of 180 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.

As at 30 September 2021, the members of the Management Board are Alexander Resch (Chairman), Marie Kovářová, Peter Magala, Martin Techman, Roberto Vercelli, Andrej Viceník and Paolo Vivona.

As at 30 September 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 interim separate financial statements of the Bank ('the financial statements') have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting.

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 through 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 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. Basis of preparation (continued)

### 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. Basis of preparation (continued)

### 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 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 Bank has consistently applied the accounting policies as set out in Note 3 to all periods presented in the financial statements.

### **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. Significant accounting policies (continued)

#### 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'),
- 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).

### 3. Significant accounting policies (continued)

#### *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. Significant accounting policies (continued)

#### 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. Significant accounting policies (continued)

#### 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. For floating-rate as well as fixed-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

#### 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 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.



### **3. Significant accounting policies (continued)**

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, 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'.

### 3. Significant accounting policies (continued)

#### *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. Significant accounting policies (continued)**

#### **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.

### 3. Significant accounting policies (continued)

#### *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).

#### **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. Significant accounting policies (continued)

#### 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, 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.

### 3. Significant accounting policies (continued)

#### *Specific policies for hedges affected by IBOR reform*

##### The Phase 1 amendments

If a hedging relationship is directly affected by IBOR reform, then the Bank applies certain exceptions (referred to as 'the Phase 1 amendments') to the general hedge accounting policy. The Bank considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amounts of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument are uncertain.

The Phase 1 amendments to the Bank's policies are as follows.

- For the purpose of evaluating whether the hedging relationship is expected to be highly effective (i.e. prospective effectiveness assessment), the Bank assumes that the benchmark interest rate is not altered as a result of IBOR reform.
- If the Bank concludes that the actual result of a hedging relationship is outside the range of 80 – 125% (i.e. retrospective assessment), then the Bank determines whether the hedging relationship continues to qualify for hedge accounting or whether it needs to be discontinued. This includes, for example, determining that the hedge is expected to be highly effective prospectively and that the effectiveness of the hedging relationship can be reliably measured.
- For a hedge of a non-contractually specified benchmark portion of interest rate risk, the Bank applies the requirement that the designated portion needs to be a separately identifiable component only at the inception of the hedging relationship.
- For a cash flow hedge of a forecast transaction, the Bank assumes that the benchmark interest rate will not be altered as a result of IBOR reform for the purpose of asserting that the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- In determining whether a previously designated forecast transaction is no longer expected to occur, the Bank assumes that the hedged interest rate benchmark cash flows will not be altered as a result of IBOR reform.

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or – except for last item – when the hedging relationship is discontinued, the Bank will cease to apply the respective Phase 1 amendments.

### 3. Significant accounting policies (continued)

The Phase 2 amendments (policy applied from 1 January 2020)

The Bank has early adopted the Phase 2 amendments and retrospectively applied the amendments from 1 January 2020 (see Note 2.1).

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Bank amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- updating the description of the hedging instrument; or
- updating the description of how the entity will assess hedge effectiveness.

The Bank amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by changing the basis for determining the contractual cash flows of the hedging instrument or using another approach that is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

The Bank amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If changes are made in addition to those changes required by IBOR reform described above, then the Bank first considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Bank amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

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. Significant accounting policies (continued)

#### 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:

	<b>Years</b>
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.



### 3. Significant accounting policies (continued)

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:

	<b>Years</b>
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.

### 3. Significant accounting policies (continued)

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:

	<b>Years</b>
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 amount 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.

### 3. Significant accounting policies (continued)

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.

#### 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.

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

Provision for financial guarantees are recognised based on stage of financial instrument (three-stage approach) which affects expected loss calculation for the financial guarantee. Any increase or decrease in the provision relating to financial guarantees is recorded in the statement of profit or loss in 'Impairment losses'. In case when the Bank is called to fulfill 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. Significant accounting policies (continued)**

#### **3.20. Net interest income**

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

Other interest income includes interest received on financial assets at fair value through profit or loss.

#### **3.21. Net fee and commission income**

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 3.21).

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.

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

#### **3.22. 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.

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.

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. Financial and operational risk management (continued)

### 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.



#### 4. Financial and operational risk management (continued)

##### *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.

#### 4. Financial and operational risk management (continued)

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:

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

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:

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

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 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	



#### 4. Financial and operational risk management (continued)

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 30 June 2021 and 30 June 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).

#### 4. Financial and operational risk management (continued)

##### 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:

- $PD_{\text{origination}}$  – 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
- $PD_{\text{reporting}}$  – 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  $PD_{\text{reporting}}/PD_{\text{origination}} - 1$ . 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.

#### 4. Financial and operational risk management (continued)

##### 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.

#### 4. Financial and operational risk management (continued)

##### 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:

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

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.

#### 4. Financial and operational risk management (continued)

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:

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

where:

- EAD<sub>1</sub>, EAD<sub>2</sub>, EAD<sub>3</sub> are exposure at default at the beginning of each residual year;
- PD<sub>1</sub> is probability that exposure enters in default during the first year of residual maturity;
- PD<sub>2</sub> – PD<sub>1</sub> is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- PD<sub>3</sub> – PD<sub>2</sub> is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- LGD<sub>1</sub>, LGD<sub>2</sub>, LGD<sub>3</sub> is percentage of loss in case of default of each residual year;
- EIR is Effective Interest Rate.

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

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

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

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

##### Stage 3

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

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

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

where:

- PCBS is the provision calculated based on scenarios determined by the Bank on NPLs;
- Add-on<sub>Performing</sub> is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, Most-likely and Worst scenarios from scenarios given by EBA coefficients for corresponding segments.

##### 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.

#### 4. Financial and operational risk management (continued)

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 2021, 2022 and 2023 by the satellite model application in 2020 and for the quarters of year 2020 by the satellite model development in 2018. The inputs were updated by Research department in the December 2020 considering NBS scenarios.

	GDP, (constant prices, % change)			Unemployment rate (Labour Force Sample Survey, %)			Consumer prices index (quarterly average, % change)			EURIBOR 3M (end of period)		
	Base scena- rio	Best scena- rio	Worst scena- rio	Base scena- rio	Best scena- rio	Worst scena- rio	Base scena- rio	Best scena- rio	Worst scena- rio	Base scena- rio	Best scena- rio	Worst scena- rio
1Q 2020	3,9	9,0	(8,2)	6,5	5,8	11,7	2,3	4,8	(0,3)	0,08	0,75	(1,1)
2Q 2020	3,9	8,9	(5,1)	6,5	5,7	11,8	2,3	5,1	(0,3)	0,08	1,00	(1,1)
3Q 2020	3,8	8,3	(4,3)	6,5	5,5	11,9	2,3	5,4	(0,3)	0,19	1,25	(1,1)
4Q 2020	3,6	7,0	(2,3)	6,5	5,5	11,9	2,3	4,6	(0,3)	0,34	1,50	(1,1)
1Q 2021	4,6	1,6	(2,0)	7,5	7,8	8,3	0,3	0,4	0,2	(0,54)	(0,54)	(1,03)
2Q 2021	16,0	12,8	9,2	7,7	8,0	8,5	0,5	0,6	0,3	(0,54)	(0,54)	(1,03)
3Q 2021	5,7	2,7	(0,9)	7,6	7,9	8,4	0,6	0,7	0,4	(0,53)	(0,53)	(1,03)
4Q 2021	9,1	6,1	2,5	7,5	7,8	8,3	0,9	1,0	0,7	(0,53)	(0,53)	(1,03)
1Q 2022	6,3	6,0	4,8	7,3	7,6	8,4	1,8	1,7	1,3	(0,53)	(0,53)	(1,02)
2Q 2022	5,5	5,1	4,0	7,2	7,5	8,6	1,9	1,8	1,4	(0,52)	(0,52)	(1,02)
3Q 2022	4,7	4,3	3,2	7,0	7,3	8,5	1,9	1,8	1,4	(0,52)	(0,52)	(1,02)
4Q 2022	4,4	4,0	2,9	6,7	7,0	8,4	1,9	1,8	1,4	(0,52)	(0,52)	(1,02)
1Q 2023	3,7	3,8	4,4	6,4	6,8	8,2	2,0	1,9	1,6	(0,31)	(0,49)	(0,94)
2Q 2023	3,5	3,6	4,2	6,2	6,6	8,0	2,1	2,0	1,7	(0,31)	(0,45)	(0,94)
3Q 2023	3,4	3,5	4,1	6,0	6,4	7,7	2,1	2,0	1,7	(0,31)	(0,44)	(0,94)
4Q 2023	3,8	3,9	4,5	5,8	6,2	7,5	2,1	2,0	1,7	(0,31)	(0,37)	(0,94)

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 range represents the values of the variables under the different scenarios.

#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
<b>Stage 1</b>						
Financial assets at AC:						
Due from other banks	1 827 130	(147)	1 826 983	-	-	-
Due from customers:						
Public administration	172 717	(723)	171 994	-	-	-
Corporate	5 330 307	(27 833)	5 302 474	-	-	-
Retail	9 488 569	(8 452)	9 480 117	-	-	-
	<u>14 991 593</u>	<u>(37 008)</u>	<u>14 954 585</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>16 818 723</u>	<u>(37 155)</u>	<u>16 781 568</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial assets at FVOCI – debt securities	1 397 589	(290)	1 397 299	-	-	-
Financial commitments and contingencies	5 549 931	(6 261)	5 543 670	-	-	-

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
<b>Stage 1</b>						
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	-	-	-
	<u>13 466 086</u>	<u>(34 934)</u>	<u>13 431 152</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>13 672 212</u>	<u>(35 640)</u>	<u>13 636 572</u>	<u>-</u>	<u>-</u>	<u>-</u>
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	-	-	-



#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
<b>Stage 2</b>						
Financial assets at AC:						
Due from other banks:	879	(36)	843	-	-	-
Due from customers:						
Public administration	8 791	(234)	8 557	-	-	-
Corporate	296 044	(11 450)	284 594	-	-	-
Retail	533 086	(29 994)	503 092	-	-	-
	<u>837 921</u>	<u>(41 678)</u>	<u>796 243</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>838 800</u>	<u>(41 714)</u>	<u>797 086</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial commitments and contingencies	175 413	(5 487)	169 926	-	-	-

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
<b>Stage 2</b>						
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	-	-	-
	<u>1 189 942</u>	<u>(50 042)</u>	<u>1 139 900</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1 189 942</u>	<u>(50 042)</u>	<u>1 139 900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial commitments and contingencies	94 192	(2 161)	92 031	-	-	-

#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
<b>Stage 3</b>						
Financial assets at AC:						
Due from customers:						
Corporate	10 702	(3 033)	7 669	67 397	(45 534)	21 863
Retail	260 067	(161 757)	98 310	5 300	(4 210)	1 090
	<u>270 769</u>	<u>(164 790)</u>	<u>105 979</u>	<u>72 697</u>	<u>(49 744)</u>	<u>22 953</u>
	<u>270 769</u>	<u>(164 790)</u>	<u>105 979</u>	<u>72 697</u>	<u>(49 744)</u>	<u>22 953</u>
Financial commitments and contingencies	5 158	(1 259)	3 899	39 926	(5 830)	34 096

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
<b>Stage 3</b>						
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
	<u>307 299</u>	<u>(168 739)</u>	<u>138 560</u>	<u>59 120</u>	<u>(44 595)</u>	<u>14 525</u>
	<u>307 299</u>	<u>(168 739)</u>	<u>138 560</u>	<u>59 120</u>	<u>(44 595)</u>	<u>14 525</u>
Financial commitments and contingencies	8 013	(1 635)	6 378	9 216	(3 085)	6 131

## 4. Financial and operational risk management (continued)

### 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:

<b>Classification category</b>	<b>Description</b>
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.

#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks	Performing	1 828 009	(183)	1 827 826
Due from customers:				
Public administration	Performing	181 508	(957)	180 551
Corporate				
	Performing			
	Past due	5 626 351	(39 283)	5 587 068
	Unlikely to pay	36 930	(18 168)	18 762
	Doubtful	40 810	(30 374)	10 436
		<u>5 704 450</u>	<u>(87 850)</u>	<u>5 616 600</u>
Retail				
	Performing	10 021 655	(38 446)	9 983 209
	Past due	34 570	(16 368)	18 202
	Unlikely to pay	28 585	(15 529)	13 056
	Doubtful	202 212	(134 070)	68 142
		<u>10 287 022</u>	<u>(204 413)</u>	<u>10 082 609</u>
		<u>16 172 980</u>	<u>(293 220)</u>	<u>15 879 760</u>
		<u>18 000 989</u>	<u>(293 403)</u>	<u>17 707 586</u>
Financial assets at FVOCI – debt securities				
	Performing	1 397 589	(290)	1 397 299
Financial commitments and contingencies				
	Performing	5 725 344	(11 748)	5 713 596
	Past due	1 922	(16)	1 906
	Unlikely to pay	39 274	(5 134)	34 140
	Doubtful	3 888	(1 939)	1 949
		<u>5 770 428</u>	<u>(18 837)</u>	<u>5 751 591</u>

#### 4. Financial and operational risk management (continued)

December 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
		<u>5 143 146</u>	<u>(81 731)</u>	<u>5 061 415</u>
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
		<u>9 726 382</u>	<u>(213 904)</u>	<u>9 512 478</u>
		<u>15 022 447</u>	<u>(298 310)</u>	<u>14 724 137</u>
		<u>15 228 573</u>	<u>(299 016)</u>	<u>14 929 557</u>
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
		<u>4 878 988</u>	<u>(13 904)</u>	<u>4 865 084</u>

#### 4. Financial and operational risk management (continued)

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

<b>September 2021</b> <b>€ '000</b>	<b>Gross amount</b>	<b>Impairment losses</b>	<b>Net amount</b>
Financial assets at AC:			
Due from other banks			
No delinquency	1 740 012	(57)	1 739 955
1 – 30 days	87 997	(126)	87 871
	<u>1 828 009</u>	<u>(183)</u>	<u>1 827 826</u>
Due from customers:			
Public administration			
No delinquency	181 508	(957)	180 551
Corporate			
No delinquency	5 648 466	(53 334)	5 595 132
1 – 30 days	13 279	(493)	12 786
31 – 60 days	3 039	(2 130)	909
61 – 90 days	123	(28)	95
91 – 180 days	7 409	(4 971)	2 438
Over 180 days	32 134	(26 894)	5 240
	<u>5 704 450</u>	<u>(87 850)</u>	<u>5 616 600</u>
Retail			
No delinquency	10 007 455	(51 395)	9 956 060
1 – 30 days	56 989	(8 233)	48 756
31 – 60 days	11 990	(2 671)	9 319
61 – 90 days	7 428	(1 798)	5 630
91 – 180 days	21 034	(12 712)	8 322
Over 180 days	182 126	(127 604)	54 522
	<u>10 287 022</u>	<u>(204 413)</u>	<u>10 082 609</u>
	<u>16 172 980</u>	<u>(293 220)</u>	<u>15 879 760</u>
	<u>18 000 989</u>	<u>(293 403)</u>	<u>17 707 586</u>
Financial assets at FVOCI - debt securities			
No delinquency	1 397 589	(290)	1 397 299
Financial commitments and contingencies			
No delinquency	5 770 428	(18 837)	5 751 591



#### 4. Financial and operational risk management (continued)

<b>December 2020</b> <b>€ '000</b>	<b>Gross amount</b>	<b>Impairment losses</b>	<b>Net amount</b>
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
	<u>152 919</u>	<u>(2 675)</u>	<u>150 244</u>
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 180 days	33 199	(27 767)	5 432
	<u>5 143 146</u>	<u>(81 731)</u>	<u>5 061 415</u>
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 180 days	221 169	(136 825)	84 344
	<u>9 726 382</u>	<u>(213 904)</u>	<u>9 512 478</u>
	<u>15 022 447</u>	<u>(298 310)</u>	<u>14 724 137</u>
	<u>15 228 573</u>	<u>(299 016)</u>	<u>14 929 557</u>
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

#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from other banks	1 740 012	(57)	1 739 955	87 997	(126)	87 871	-	-	-
Due from customers:									
Public administration									
Single Resolution Fund	-	-	-	-	-	-	-	-	-
State administration	70 845	(16)	70 829	-	-	-	-	-	-
Municipalities	110 663	(941)	109 722	-	-	-	-	-	-
	181 508	(957)	180 551	-	-	-	-	-	-
Corporate									
Large Corporates	2 372 979	(1 822)	2 371 157	3	-	3	239	(117)	122
Large Corporates – debt securities	100 723	(98)	100 625	-	-	-	-	-	-
Specialized Lending	876 258	(31 273)	844 985	-	-	-	3 920	(3 873)	47
SME	1 486 155	(5 767)	1 480 388	3 314	(69)	3 245	65 260	(43 506)	21 754
Other Non-banking									
Financial Institutions	467 437	(129)	467 308	-	-	-	-	-	-
Other Non-banking									
Financial Institutions - debt securities	181 459	(93)	181 366	-	-	-	-	-	-
Public Sector Entities	2 825	-	2 825	-	-	-	2	(1)	1
Factoring	129 875	(9)	129 866	5 323	(23)	5 300	8 678	(1 070)	7 608
	5 617 711	(39 191)	5 578 520	8 640	(92)	8 548	78 099	(48 567)	29 532

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

September 2021 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	295 935	(4 392)	291 543	3 411	(201)	3 210	15 100	(11 047)	4 053
Consumer Loans	1 125 030	(18 475)	1 106 555	42 089	(5 782)	36 307	141 335	(95 976)	45 359
Mortgages	8 358 837	(6 624)	8 352 213	12 570	(566)	12 004	84 576	(40 056)	44 520
Credit Cards	80 301	(869)	79 432	1 380	(150)	1 230	17 546	(13 614)	3 932
Overdrafts	62 675	(985)	61 690	1 383	(178)	1 205	6 810	(5 274)	1 536
Flat Owners Associations	38 044	(224)	37 820	-	-	-	-	-	-
	<u>9 960 822</u>	<u>(31 569)</u>	<u>9 929 253</u>	<u>60 833</u>	<u>(6 877)</u>	<u>53 956</u>	<u>265 367</u>	<u>(165 967)</u>	<u>99 400</u>
	<u>15 760 041</u>	<u>(71 717)</u>	<u>15 688 324</u>	<u>69 473</u>	<u>(6 969)</u>	<u>62 504</u>	<u>343 466</u>	<u>(214 534)</u>	<u>128 932</u>
	<u>17 500 053</u>	<u>(71 774)</u>	<u>17 428 279</u>	<u>157 470</u>	<u>(7 095)</u>	<u>150 375</u>	<u>343 466</u>	<u>(214 534)</u>	<u>128 932</u>
Financial assets at FVOCI – debt securities	1 397 589	(290)	1 397 299	-	-	-	-	-	-
Financial commitments and contingencies	5 725 344	(11 748)	5 713 596	-	-	-	45 084	(7 089)	37 995

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from 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	114 654	(2 669)	111 985	490	(3)	487	-	-	-
	152 429	(2 672)	149 757	490	(3)	487	-	-	-
Corporate									
Large Corporates	2 116 341	(1 901)	2 114 440	2	-	2	4 221	(3 254)	967
Large Corporates – debt securities	150 427	(265)	150 162	-	-	-	-	-	-
Specialized Lending	886 886	(28 954)	857 932	-	-	-	4 808	(4 788)	20
SME	1 278 610	(4 246)	1 274 364	83 724	(774)	82 950	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	73 778	(9)	73 769	6 514	(26)	6 488	3 595	(1 196)	2 399
	4 989 127	(35 640)	4 953 487	90 240	(800)	89 440	63 779	(45 291)	18 488

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	253 225	(4 172)	249 053	3 301	(212)	3 089	13 620	(9 728)	3 892
Consumer Loans	1 188 072	(25 069)	1 163 003	33 800	(5 004)	28 796	169 174	(103 873)	65 301
Mortgages	7 749 900	(7 951)	7 741 949	7 794	(362)	7 432	89 647	(33 335)	56 312
Credit Cards	79 870	(1 367)	78 503	1 435	(235)	1 200	22 787	(15 956)	6 831
Overdrafts	67 996	(1 106)	66 890	1 173	(164)	1 009	7 412	(5 151)	2 261
Flat Owners Associations	37 176	(219)	36 957	-	-	-	-	-	-
	<u>9 376 239</u>	<u>(39 884)</u>	<u>9 336 355</u>	<u>47 503</u>	<u>(5 977)</u>	<u>41 526</u>	<u>302 640</u>	<u>(168 043)</u>	<u>134 597</u>
	<u>14 517 795</u>	<u>(78 196)</u>	<u>14 439 599</u>	<u>138 233</u>	<u>(6 780)</u>	<u>131 453</u>	<u>366 419</u>	<u>(213 334)</u>	<u>153 085</u>
	<u>14 723 921</u>	<u>(78 902)</u>	<u>14 645 019</u>	<u>138 233</u>	<u>(6 780)</u>	<u>131 453</u>	<u>366 419</u>	<u>(213 334)</u>	<u>153 085</u>
Financial assets at FVOCI – debt securities	1 611 015	(306)	1 610 709	-	-	-	-	-	-
Financial commitments and contingencies	4 861 759	(9 184)	4 852 575	-	-	-	17 229	(4 720)	12 509

#### 4. Financial and operational risk management (continued)

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

<b>September 2021</b> <b>€ '000</b>	<b>Gross amount</b>	<b>Impairment losses</b>	<b>Net amount</b>
Financial assets at AC:			
Due from other banks:			
1 – 30 days	87 997	(126)	87 871
Due from customers:			
Corporate			
1 – 30 days	7 681	(88)	7 593
31 – 60 days	373	(3)	370
61 – 90 days	18	(1)	17
Over 180 days	568	-	568
	<u>8 640</u>	<u>(92)</u>	<u>8 548</u>
Retail			
1 – 30 days	47 397	(4 516)	42 881
31 – 60 days	8 448	(1 418)	7 030
61 – 90 days	4 988	(943)	4 045
	<u>60 833</u>	<u>(6 877)</u>	<u>53 956</u>
	<u>69 473</u>	<u>(6 969)</u>	<u>62 504</u>
	<u>157 470</u>	<u>(7 095)</u>	<u>150 375</u>
<b>December 2020</b> <b>€ '000</b>	<b>Gross amount</b>	<b>Impairment losses</b>	<b>Net amount</b>
Financial assets at AC:			
Due from customers:			
Public administration			
1 – 30 days	490	(3)	487
Corporate			
1 – 30 days	89 149	(797)	88 352
31 – 60 days	181	(1)	180
61 – 90 days	910	(2)	908
	<u>90 240</u>	<u>(800)</u>	<u>89 440</u>
Retail			
1 – 30 days	38 632	(4 321)	34 311
31 – 60 days	543	(100)	443
61 – 90 days	8 328	(1 556)	6 772
	<u>47 503</u>	<u>(5 977)</u>	<u>41 526</u>
	<u>138 233</u>	<u>(6 780)</u>	<u>131 453</u>
	<u>138 233</u>	<u>(6 780)</u>	<u>131 453</u>

#### 4. Financial and operational risk management (continued)

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.

September 2021 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	Net amount
Financial assets at AC:									
Due from other banks	1 827 130	(147)	1 826 983	879	(36)	843	-	-	-
Due from customers:									
Public administration	-	-	-	-	-	-	-	-	-
Single Resolution Fund	70 845	(16)	70 829	-	-	-	-	-	-
State administration	101 872	(707)	101 165	8 791	(234)	8 557	-	-	-
Municipalities	-	-	-	-	-	-	-	-	-
	172 717	(723)	171 994	8 791	(234)	8 557	-	-	-
Corporate									
Large Corporates	2 333 420	(1 470)	2 331 950	39 562	(352)	39 210	239	(117)	122
Large Corporates – debt securities	100 723	(98)	100 625	-	-	-	-	-	-
Specialized Lending	825 572	(23 914)	801 658	50 686	(7 359)	43 327	3 920	(3 873)	47
SME	1 292 794	(2 111)	1 290 683	196 675	(3 725)	192 950	65 260	(43 506)	21 754
Other Non-banking Financial Institutions	467 437	(129)	467 308	-	-	-	-	-	-
Other Non-banking Financial Institutions - debt securities	181 459	(93)	181 366	-	-	-	-	-	-
Public Sector Entities	2 325	-	2 325	500	-	500	2	(1)	1
Factoring	126 577	(19)	126 558	8 621	(13)	8 608	8 678	(1 070)	7 608
	5 330 307	(27 834)	5 302 473	296 044	(11 449)	284 595	78 099	(48 567)	29 532

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#### 4. Financial and operational risk management (continued)

June 2021 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	224 452	(1 021)	223 431	74 894	(3 572)	71 322	15 100	(11 047)	4 053
Consumer Loans	984 171	(5 620)	978 551	182 948	(18 637)	164 311	141 335	(95 976)	45 359
Mortgages	8 126 318	(1 031)	8 125 287	245 089	(6 159)	238 930	84 576	(40 056)	44 520
Credit Cards	71 930	(199)	71 731	9 751	(820)	8 931	17 546	(13 614)	3 932
Overdrafts	43 654	(357)	43 297	20 404	(806)	19 598	6 810	(5 274)	1 536
Flat Owners Associations	38 044	(224)	37 820	-	-	-	-	-	-
	<u>9 488 569</u>	<u>(8 452)</u>	<u>9 480 117</u>	<u>533 086</u>	<u>(29 994)</u>	<u>503 092</u>	<u>265 367</u>	<u>(165 967)</u>	<u>99 400</u>
	<u>14 991 593</u>	<u>(37 009)</u>	<u>14 954 584</u>	<u>837 921</u>	<u>(41 677)</u>	<u>796 244</u>	<u>343 466</u>	<u>(214 534)</u>	<u>128 932</u>
	<u>16 818 723</u>	<u>(37 156)</u>	<u>16 781 567</u>	<u>838 800</u>	<u>(41 713)</u>	<u>797 087</u>	<u>343 466</u>	<u>(214 534)</u>	<u>128 932</u>
Financial assets at FVOCI – debt securities	1 397 589	(290)	1 397 299	-	-	-	-	-	-
Financial commitments and contingencies	5 549 931	(6 261)	5 543 670	175 413	(5 487)	169 926	45 084	(7 089)	37 995



#### 4. Financial and operational risk management (continued)

December 2020 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment 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

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#### 4. Financial and operational risk management (continued)

December 2020 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	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	-	-	-	-	-	-
	<u>8 861 775</u>	<u>(9 549)</u>	<u>8 852 226</u>	<u>561 967</u>	<u>(36 312)</u>	<u>525 655</u>	<u>302 640</u>	<u>(168 043)</u>	<u>134 597</u>
	<u>13 466 086</u>	<u>(34 935)</u>	<u>13 431 151</u>	<u>1 189 942</u>	<u>(50 041)</u>	<u>1 139 901</u>	<u>366 419</u>	<u>(213 334)</u>	<u>153 085</u>
	<u>13 672 212</u>	<u>(35 641)</u>	<u>13 636 571</u>	<u>1 189 942</u>	<u>(50 041)</u>	<u>1 139 901</u>	<u>366 419</u>	<u>(213 334)</u>	<u>153 085</u>
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

#### 4. Financial and operational risk management (continued)

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.

September 2021 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	1 739 133	(21)	1 739 112	879	(36)	843	-	-	-
1 – 30 days	87 997	(126)	87 871	-	-	-	-	-	-
	<u>1 827 130</u>	<u>(147)</u>	<u>1 826 983</u>	<u>879</u>	<u>(36)</u>	<u>843</u>			
Due from customers:									
Public administration									
No delinquency	172 717	(723)	171 994	8 791	(234)	8 557	-	-	-
Corporate									
No delinquency	5 326 142	(27 821)	5 298 321	291 567	(11 370)	280 197	30 757	(14 143)	16 614
1 – 30 days	3 591	(12)	3 579	4 090	(75)	4 015	5 598	(406)	5 192
31 – 60 days	5	-	5	369	(3)	366	2 665	(2 127)	538
61 – 90 days	-	-	-	18	(1)	17	105	(27)	78
91 – 180 days	-	-	-	-	-	-	7 409	(4 971)	2 438
Over 180 days	569	(1)	568	-	-	-	31 565	(26 893)	4 672
	<u>5 330 307</u>	<u>(27 834)</u>	<u>5 302 473</u>	<u>296 044</u>	<u>(11 449)</u>	<u>284 595</u>	<u>78 099</u>	<u>(48 567)</u>	<u>29 532</u>

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

September 2021 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	9 476 475	(8 126)	9 468 349	484 348	(23 445)	460 903	46 632	(19 824)	26 808
1 – 30 days	12 094	(326)	11 768	35 303	(4 189)	31 114	9 592	(3 718)	5 874
31 – 60 days	-	-	-	8 448	(1 418)	7 030	3 542	(1 253)	2 289
61 – 90 days	-	-	-	4 987	(942)	4 045	2 441	(856)	1 585
91 – 180 days	-	-	-	-	-	-	21 034	(12 712)	8 322
Over 180 days	-	-	-	-	-	-	182 126	(127 604)	54 522
	<u>9 488 569</u>	<u>(8 452)</u>	<u>9 480 117</u>	<u>533 086</u>	<u>(29 994)</u>	<u>503 092</u>	<u>265 367</u>	<u>(165 967)</u>	<u>99 400</u>
	<u>14 991 593</u>	<u>(37 009)</u>	<u>14 954 584</u>	<u>837 921</u>	<u>(41 677)</u>	<u>796 244</u>	<u>343 466</u>	<u>(214 534)</u>	<u>128 932</u>
	<u>16 818 723</u>	<u>(37 156)</u>	<u>16 781 567</u>	<u>838 800</u>	<u>(41 713)</u>	<u>797 087</u>	<u>343 466</u>	<u>(214 534)</u>	<u>128 932</u>
Financial assets at FVOCI – debt securities									
No delinquency	1 397 589	(290)	1 397 299	-	-	-	-	-	-
Financial commitments and contingencies									
No delinquency	5 549 931	(6 261)	5 543 670	175 413	(5 487)	169 926	45 084	(7 089)	37 995

**4. Financial and operational risk management (continued)**

<b>December 2020</b> <b>€ '000</b>	<b>Gross amount</b>	<b>Stage 1 Impairment losses</b>	<b>Net amount</b>	<b>Gross amount</b>	<b>Stage 2 Impairment losses</b>	<b>Net amount</b>	<b>Gross amount</b>	<b>Stage 3 Impairment losses</b>	<b>Net amount</b>
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	-	-	-
	<u>126 202</u>	<u>(1 070)</u>	<u>125 132</u>	<u>26 717</u>	<u>(1 605)</u>	<u>25 112</u>	<u>-</u>	<u>-</u>	<u>-</u>
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 180 days	-	-	-	-	-	-	33 199	(27 767)	5 432
	<u>4 478 109</u>	<u>(24 316)</u>	<u>4 453 793</u>	<u>601 258</u>	<u>(12 124)</u>	<u>589 134</u>	<u>63 779</u>	<u>(45 291)</u>	<u>18 488</u>

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#### 4. Financial and operational risk management (continued)

December 2020 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment 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 180 days	-	-	-	-	-	-	221 169	(136 825)	84 344
	<u>8 861 775</u>	<u>(9 549)</u>	<u>8 852 226</u>	<u>561 967</u>	<u>(36 312)</u>	<u>525 655</u>	<u>302 640</u>	<u>(168 043)</u>	<u>134 597</u>
	<u>13 466 086</u>	<u>(34 935)</u>	<u>13 431 151</u>	<u>1 189 942</u>	<u>(50 041)</u>	<u>1 139 901</u>	<u>366 419</u>	<u>(213 334)</u>	<u>153 085</u>
	<u>13 672 212</u>	<u>(35 641)</u>	<u>13 636 571</u>	<u>1 189 942</u>	<u>(50 041)</u>	<u>1 139 901</u>	<u>366 419</u>	<u>(213 334)</u>	<u>153 085</u>
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. Financial and operational risk management (continued)

##### 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.

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

September 2021 € '000	Performing forborne			Non-performing forborne		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	47 530	(3 233)	44 297	35 919	(25 864)	10 055
Retail	90 196	(4 618)	85 578	20 185	(12 634)	7 551
	<u>137 726</u>	<u>(7 851)</u>	<u>129 875</u>	<u>56 104</u>	<u>(38 498)</u>	<u>17 606</u>
Financial commitments and contingencies	1 150	(3)	1 147	4 756	(1 400)	3 356

December 2020 € '000	Performing forborne			Non-performing forborne		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment 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
	<u>82 020</u>	<u>(2 366)</u>	<u>79 654</u>	<u>49 844</u>	<u>(34 026)</u>	<u>15 818</u>
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 € 21 857 thousand (31 December 2020: € 38 112 thousand).

## 4. Financial and operational risk management (continued)

### 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.



#### **4. Financial and operational risk management (continued)**

##### **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.

#### 4. Financial and operational risk management (continued)

##### 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.

<b>September 2021</b> <b>€ '000</b>	<b>Gross amount</b>	<b>Impairment losses/ provisions</b>	<b>Net amount</b>
<b>Slovakia</b>			
Financial assets at AC:			
Due from customers:			
Public administration	181 508	(957)	180 551
Corporate	3 567 767	(84 942)	3 482 825
Retail	10 146 844	(201 834)	9 945 010
	<u>13 896 119</u>	<u>(287 733)</u>	<u>13 608 386</u>
Financial assets at FVOCI - debt securities	486 255	(56)	486 199
Financial commitments and contingencies	3 723 481	(17 380)	3 706 101
<b>Czech republic</b>			
Financial assets at AC:			
Due from other banks			
Due from customers:			
Corporate	856 223	(2 199)	854 024
Retail	20 476	(1 868)	18 608
	876 699	(4 067)	872 632
	<u>1 325 366</u>	<u>(970)</u>	<u>1 324 396</u>
Financial commitments and contingencies			
<b>Other European countries</b>			
Financial assets at AC:			
Due from other banks	1 747 809	(57)	1 747 752
Due from customers:			
Corporate	1 185 278	(677)	1 184 601
Retail	104 721	(660)	104 061
	<u>3 037 808</u>	<u>(1 394)</u>	<u>3 036 414</u>
Financial assets at FVOCI - debt securities	811 306	(217)	811 089
Financial commitments and contingencies	675 869	(474)	675 395

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

September 2021 € '000	Gross amount	Impairment losses/ provisions	Net amount
<b>North America</b>			
Financial assets at AC:			
Due from customers:			
Corporate	8 646	(3)	8 643
Retail	1 648	(2)	1 646
	<u>10 294</u>	<u>(5)</u>	<u>10 289</u>
Financial assets at FVOCI - debt securities	100 028	(17)	100 011
Financial commitments and contingencies	802	-	802
<b>Asia</b>			
Financial assets at AC:			
Due from other banks	4 978	-	4 978
Due from customers:			
Corporate	86 481	(29)	86 452
Retail	10 740	(42)	10 698
	<u>102 199</u>	<u>(71)</u>	<u>102 128</u>
Financial commitments and contingencies	43 849	(13)	43 836
<b>Rest of the World</b>			
Financial assets at AC:			
Due from other banks	75 222	(126)	75 096
Due from customers:			
Corporate	55	-	55
Retail	2 593	(7)	2 586
	<u>77 870</u>	<u>(133)</u>	<u>77 737</u>
Financial commitments and contingencies	78 931	(133)	78 798

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Gross amount	Impairment losses/ provisions	Net amount
<b>Slovakia</b>			
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
	<u>13 082 153</u>	<u>(289 901)</u>	<u>12 792 252</u>
Financial assets at FVOCI - debt securities	714 975	(69)	714 906
Financial commitments and contingencies	3 803 157	(13 169)	3 789 988
<b>Czech republic</b>			
Financial assets at AC:			
Due from customers:			
Corporate	599 239	(2 150)	597 089
Retail	19 608	(1 848)	17 760
	<u>618 847</u>	<u>(3 998)</u>	<u>614 849</u>
Financial commitments and contingencies	610 029	(365)	609 664
<b>Other European countries</b>			
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
	<u>1 268 026</u>	<u>(4 322)</u>	<u>1 263 704</u>
	<u>1 384 512</u>	<u>(4 557)</u>	<u>1 379 955</u>
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)

#### 4. Financial and operational risk management (continued)

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

#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Financial assets at AC:				Financial assets at FVOCI - debt securities	Financial commit- ments and contingencies
	Banks	Public admini- stration	Corporate	Retail*		
Agriculture, forestry and fishing	-	-	183 645	29 551	-	102 086
Mining and quarrying	-	-	49 051	92	-	36 365
Manufacturing	-	-	877 709	33 722	-	791 257
Electricity, gas, steam and air conditioning supply	-	-	632 704	967	-	618 392
Water supply	-	-	69 164	2 524	-	26 974
Construction	-	-	251 788	35 645	-	688 630
Wholesale and retail trade	-	-	986 782	78 242	-	494 953
Transport and storage	-	-	336 088	16 455	-	334 226
Accommodation and food service activities	-	-	36 486	13 090	-	5 563
Information and communication	-	-	124 325	8 012	-	71 162
Financial and insurance activities**	177 560	-	643 725	439	356 049	985 727
Real estate activities	-	-	571 886	54 695	-	207 404
Professional, scientific and technical activities	-	-	194 414	24 876	-	179 258
Administrative and support service activities	-	-	129 208	8 264	-	17 004
Public administration and defense, compulsory social security	-	180 551	833	140	1 041 288	192 147
Education	-	-	496	895	-	795
Human health services and social work activities	-	-	9 664	23 275	-	7 298
Arts, entertainment and recreation	-	-	26 195	1 158	-	878
Other services	-	-	492 437	4 583	-	75 781
Consumer Loans	-	-	-	1 337 247	-	300 337
Mortgage Loans	-	-	-	8 408 737	-	615 354
	<u>177 560</u>	<u>180 551</u>	<u>5 616 600</u>	<u>10 082 609</u>	<u>1 397 337</u>	<u>5 751 591</u>

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Financial assets at AC:				Financial assets at FVOCI - debt securities	Financial commit- ments and contingencies
	Banks	Public admini- stration	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
	<u>205 420</u>	<u>150 244</u>	<u>5 061 415</u>	<u>9 512 478</u>	<u>1 610 709</u>	<u>4 865 084</u>

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

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

#### 4. Financial and operational risk management (continued)

##### 4.1.9. Internal and external ratings

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

<b>Risk Profile</b>	<b>Description</b>
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: <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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).</li> </ul>

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



#### 4. Financial and operational risk management (continued)

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.

<b>Risk Profile</b>	<b>Description</b>
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: <ul style="list-style-type: none"> <li>• 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);</li> <li>• 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).</li> </ul>

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.

#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
<b>Stage 1</b>				
Financial assets at AC:				
Due from other banks				
	Very Low	3 720	-	3 720
	Low	986	-	986
	Lower-Intermediate	138 457	(147)	138 310
	Unrated	1 683 967	-	1 683 967
		<u>1 827 130</u>	<u>(147)</u>	<u>1 826 983</u>
Due from customers:				
Public administration				
	Very Low	71 865	(16)	71 849
	Low	293	-	293
	Intermediate	18 611	(8)	18 603
	Upper-Intermediate	40 016	(24)	39 992
	High	18 160	(35)	18 125
	Unrated	23 772	(640)	23 132
		<u>172 717</u>	<u>(723)</u>	<u>171 994</u>
Corporate				
Large, SME, Other Non-banking				
Financial and Public Corporates and				
Factoring				
	Very Low	559 355	(83)	559 272
	Low	1 783 200	(658)	1 782 542
	Lower-Intermediate	1 060 303	(674)	1 059 629
	Intermediate	559 280	(900)	558 380
	Upper-Intermediate	250 683	(1 093)	249 590
	High	26 042	(427)	25 615
	Unrated	265 871	(85)	265 786
Specialized Lending - SPV, RED				
	Strong	183 864	(1 324)	182 540
	Good	322 489	(4 637)	317 852
	Satisfactory	277 138	(13 840)	263 298
	Weak	42 082	(4 112)	37 970
		<u>5 330 307</u>	<u>(27 833)</u>	<u>5 302 474</u>

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

September 2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
<b>Stage 1</b>				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	21 076	(10)	21 066
	Low	28 382	(35)	28 347
	Lower-Intermediate	53 077	(104)	52 973
	Intermediate	121 819	(552)	121 267
	Upper-Intermediate	37 290	(439)	36 851
	High	853	(105)	748
Mortgages				
	Very Low	7 547 832	(503)	7 547 329
	Lower-Intermediate	560 891	(405)	560 486
	Intermediate	5 541	(28)	5 513
	High	4 192	(92)	4 100
	Unrated	7 861	(2)	7 859
Unsecured Retail				
	Very Low	361 993	(393)	361 600
	Low	110 651	(230)	110 421
	Lower-Intermediate	448 756	(2 034)	446 722
	Intermediate	72 523	(1 237)	71 286
	Upper-Intermediate	28 741	(1 624)	27 117
	High	4 025	(673)	3 352
	Unrated	73 066	14	73 080
		<u>9 488 569</u>	<u>(8 452)</u>	<u>9 480 117</u>
		<u>14 991 593</u>	<u>(37 008)</u>	<u>14 954 585</u>
Financial assets at FVOCI - debt securities				
	Unrated	1 397 589	(290)	1 397 299

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

September 2021 € '000	Risk Profile	Gross amount	Provisions	Net amount
<b>Stage 1</b>				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	7 438	(1)	7 437
	Unrated	207 607	277	207 884
		<u>215 045</u>	<u>276</u>	<u>215 321</u>
Due from customers:				
Public administration				
	Very Low	161 456	(433)	161 023
	Low	952	-	952
	Intermediate	4 954	(1)	4 953
	Upper-Intermediate	20 750	(2)	20 748
	High	2 962	(1)	2 961
	Unrated	58	-	58
		<u>191 132</u>	<u>(437)</u>	<u>190 695</u>
Corporate				
Large, SME, Other Non-banking				
Financial and Public Corporates and				
Factoring				
	Very Low	1 174 941	(85)	1 174 856
	Low	1 412 842	(236)	1 412 606
	Lower-Intermediate	711 313	(234)	711 079
	Intermediate	272 588	(724)	271 864
	Upper-Intermediate	121 743	(529)	121 214
	High	34 499	(375)	34 124
	Unrated	181 224	(235)	180 989
Specialized Lending - SPV, RED				
	Strong	140 641	(755)	139 886
	Good	60 090	(627)	59 463
	Satisfactory	50 704	(1 711)	48 993
	Weak	919	(99)	820
	Unrated	20	-	20
		<u>4 161 524</u>	<u>(5 610)</u>	<u>4 155 914</u>
Retail				
	Very Low	760 795	(98)	760 697
	Low	39 627	(27)	39 600
	Lower-Intermediate	155 395	(209)	155 186
	Intermediate	16 663	(55)	16 608
	Upper-Intermediate	5 267	(57)	5 210
	High	258	(28)	230
	Unrated	4 225	(16)	4 209
		<u>982 230</u>	<u>(490)</u>	<u>981 740</u>
		<u>5 334 886</u>	<u>(6 537)</u>	<u>5 328 349</u>

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
<b>Stage 1</b>				
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
		<u>206 126</u>	<u>(706)</u>	<u>205 420</u>
Due from customers:				
Public administration				
	Very low	1 201	-	1 201
	Low	697	-	697
	Intermediate	18 709	(12)	18 697
	Upper-Intermediate	91 883	(749)	91 134
	High	8 622	(309)	8 313
	Unrated	5 090	-	5 090
		<u>126 202</u>	<u>(1 070)</u>	<u>125 132</u>
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
		<u>4 478 108</u>	<u>(24 315)</u>	<u>4 453 793</u>

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
<b>Stage 1</b>				
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
		<u>8 861 776</u>	<u>(9 549)</u>	<u>8 852 227</u>
		<u>13 466 086</u>	<u>(34 934)</u>	<u>13 431 152</u>
Financial assets at FVOCI - debt securities				
	Unrated	1 611 015	(306)	1 610 709

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
<b>Stage 1</b>				
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				
	Very Low	26	-	26
	Low	1 134	-	1 134
	Intermediate	3 787	(1)	3 786
	Upper - Intermediate	21 461	(14)	21 447
	High	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

#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
<b>Stage 2</b>				
Financial assets at AC:				
Due from other banks	Vyšší – středný	879	(36)	843
Due from customers:				
Public administration	Very Low	344	(8)	336
	Low	1 221	(4)	1 217
	Lower-Intermediate	1 451	(26)	1 425
	Intermediate	4 346	(123)	4 223
	Upper-Intermediate	1 281	(64)	1 217
	Unrated	148	(9)	139
		8 791	(234)	8 557
Corporate				
Large, SME, Other Non-banking				
Financial and Public Corporates and				
Factoring				
	Very Low	447	-	447
	Low	1 030	-	1 030
	Lower-Intermediate	37 556	(173)	37 383
	Intermediate	24 116	(186)	23 930
	Upper-Intermediate	125 203	(2 181)	123 022
	High	48 117	(1 539)	46 578
	Unrated	8 889	(12)	8 877
Specialized Lending - SPV, RED				
	Good	15 934	(677)	15 257
	Satisfactory	11 671	(1 719)	9 952
	Weak	23 081	(4 963)	18 118
		296 044	(11 450)	284 594

(Table continues on the next page)



#### 4. Financial and operational risk management (continued)

September 2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
<b>Stage 2</b>				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	8	-	8
	Low	243	(7)	236
	Lower-Intermediate	4 327	(92)	4 235
	Intermediate	21 852	(511)	21 341
	Upper-Intermediate	41 376	(2 027)	39 349
	High	7 087	(935)	6 152
Mortgages				
	Very Low	32 121	(202)	31 919
	Lower-Intermediate	118 833	(1 636)	117 197
	Intermediate	46 205	(1 190)	45 015
	High	47 931	(3 132)	44 799
Unsecured Retail				
	Very Low	1 413	(8)	1 405
	Low	1 347	(15)	1 332
	Lower-Intermediate	52 835	(1 222)	51 613
	Intermediate	50 928	(2 366)	48 562
	Upper-Intermediate	53 219	(5 006)	48 213
	High	53 361	(11 645)	41 716
		<u>533 086</u>	<u>(29 994)</u>	<u>503 092</u>
		<u>837 921</u>	<u>(41 678)</u>	<u>796 243</u>

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

September 2021  
€ '000

##### Stage 2

Financial commitments  
and contingencies:

Due from customers:

Public administration

Risk profile	Gross amount	Provisions	Net amount
Intermediate	150	(2)	148
Upper-Intermediate	333	(4)	329
High	633	(4)	629
	<u>1 116</u>	<u>(10)</u>	<u>1 106</u>

Corporate

Large, SME, Other Non-banking

Financial and Public Corporates and  
Factoring

Very Low	153	-	153
Low	3 724	(2)	3 722
Lower-Intermediate	7 273	(11)	7 262
Intermediate	93 619	(500)	93 119
Upper-Intermediate	25 731	(326)	25 405
High	4 838	(227)	4 611
Unrated	23 252	(2 858)	20 394

Specialized Lending - SPV, RED

Satisfactory	3 021	(573)	2 448
Weak	4	(1)	3
	<u>161 615</u>	<u>(4 498)</u>	<u>157 117</u>

Retail

Very Low	13	-	13
Low	9	-	9
Lower-Intermediate	5 820	(243)	5 577
Intermediate	2 737	(123)	2 614
Upper-Intermediate	2 401	(176)	2 225
High	1 702	(437)	1 265
	<u>12 682</u>	<u>(979)</u>	<u>11 703</u>
	<u>175 413</u>	<u>(5 487)</u>	<u>169 926</u>

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
<b>Stage 2</b>				
Financial assets at AC:				
Due from customers:				
Public administration				
	Very low	3 487	(10)	3 477
	Upper-Intermediate	6 629	(190)	6 439
	High	16 601	(1 405)	15 196
		<u>26 717</u>	<u>(1 605)</u>	<u>25 112</u>
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
		<u>601 259</u>	<u>(12 125)</u>	<u>589 134</u>

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
<b>Stage 2</b>				
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	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
		<u>561 966</u>	<u>(36 312)</u>	<u>525 654</u>
		<u>1 189 942</u>	<u>(50 042)</u>	<u>1 139 900</u>

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Risk profile	Gross amount	Provisions	Net amount
<b>Stage 2</b>				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	Intermediate	226	(1)	225
	High	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

#### 4. Financial and operational risk management (continued)

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

September 2021 € '000	Risk Profile	Gross amount	Impairment losses/ provisions	Net amount
<b>Stage 3</b>				
Financial assets at AC:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Default	74 180	(44 693)	29 487
Specialized Lending - SPV, RED				
	Default	3 919	(3 874)	45
		<u>78 099</u>	<u>(48 567)</u>	<u>29 532</u>
Retail				
Small Business, Flat Owners Associations				
	Default	15 100	(11 047)	4 053
Mortgages				
	Default	84 576	(40 056)	44 520
Unsecured Retail				
	Default	165 691	(114 864)	50 827
		<u>265 367</u>	<u>(165 967)</u>	<u>99 400</u>
		<u>343 466</u>	<u>(214 534)</u>	<u>128 932</u>
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Default	40 188	(5 959)	34 229
Retail				
	Default	4 896	(1 130)	3 766
		<u>45 084</u>	<u>(7 089)</u>	<u>37 995</u>

#### 4. Financial and operational risk management (continued)

December 2020 € '000	Risk Profile	Gross amount	Impairment losses/ provisions	Net amount
<b>Stage 3</b>				
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
		<u>302 640</u>	<u>(168 043)</u>	<u>134 597</u>
		<u>366 419</u>	<u>(213 334)</u>	<u>153 085</u>
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
		<u>17 229</u>	<u>(4 720)</u>	<u>12 509</u>

#### 4. Financial and operational risk management (continued)

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

June 2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Very Low	3 720	-	3 720
	Low	986	-	986
	Lower-Intermediate	138 457	(147)	138 310
	Upper-Intermediate	879	(36)	843
	Unrated	1 683 967	-	1 683 967
		1 828 009	(183)	1 827 826
Due from customers:				
Public administration				
	Very Low	72 209	(24)	72 185
	Low	1 514	(4)	1 510
	Lower-Intermediate	1 451	(26)	1 425
	Intermediate	22 957	(131)	22 826
	Upper-Intermediate	41 297	(88)	41 209
	High	18 160	(35)	18 125
	Unrated	23 920	(649)	23 271
		181 508	(957)	180 551
Corporate				
Large, SME, Other Non-banking				
Financial and Public Corporates and				
Factoring				
	Very Low	559 802	(83)	559 719
	Low	1 784 230	(658)	1 783 572
	Lower-Intermediate	1 097 859	(847)	1 097 012
	Intermediate	583 396	(1 086)	582 310
	Upper-Intermediate	375 886	(3 274)	372 612
	High	74 159	(1 966)	72 193
	Default	74 180	(44 693)	29 487
	Unrated	274 760	(97)	274 663
Specialized Lending - SPV, RED				
	Strong	183 864	(1 324)	182 540
	Good	338 423	(5 314)	333 109
	Satisfactory	288 809	(15 559)	273 250
	Weak	65 163	(9 075)	56 088
	Default	3 919	(3 874)	45
		5 704 450	(87 850)	5 616 600

(Table continues on the next page)



#### 4. Financial and operational risk management (continued)

September 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	21 084	(10)	21 074
	Low	28 625	(42)	28 583
	Lower-Intermediate	57 404	(196)	57 208
	Intermediate	143 671	(1 063)	142 608
	Upper-Intermediate	78 666	(2 466)	76 200
	High	7 940	(1 040)	6 900
	Default	15 100	(11 047)	4 053
Mortgages				
	Very Low	7 579 953	(705)	7 579 248
	Lower-Intermediate	679 724	(2 041)	677 683
	Intermediate	51 746	(1 218)	50 528
	High	52 123	(3 224)	48 899
	Default	84 576	(40 056)	44 520
	Unrated	7 861	(2)	7 859
Unsecured Retail				
	Very Low	363 406	(401)	363 005
	Low	111 998	(245)	111 753
	Lower-Intermediate	501 591	(3 256)	498 335
	Intermediate	123 451	(3 603)	119 848
	Upper-Intermediate	81 960	(6 630)	75 330
	High	57 386	(12 318)	45 068
	Default	165 691	(114 864)	50 827
	Unrated	73 066	14	73 080
		<u>10 287 022</u>	<u>(204 413)</u>	<u>10 082 609</u>
		<u>16 172 980</u>	<u>(293 220)</u>	<u>15 879 760</u>
Financial assets at FVOCI - debt securities				
	Unrated	1 397 589	(290)	1 397 299

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

September 2021 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	7 438	(1)	7 437
	Lower-Intermediate	207 607	277	207 884
		215 045	276	215 321
Due from customers:				
Public administration				
	Very Low	161 456	(433)	161 023
	Low	1 102	(2)	1 100
	Intermediate	5 287	(5)	5 282
	Upper-Intermediate	21 383	(6)	21 377
	High	2 962	(1)	2 961
	Unrated	58	-	58
		192 248	(447)	191 801
Corporate				
Large, SME, Other Non-banking				
Financial and Public Corporates and Factoring				
	Very Low	1 175 094	(85)	1 175 009
	Low	1 416 566	(238)	1 416 328
	Lower-Intermediate	718 586	(245)	718 341
	Intermediate	366 207	(1 224)	364 983
	Upper-Intermediate	147 474	(855)	146 619
	High	39 337	(602)	38 735
	Default	40 188	(5 959)	34 229
	Unrated	204 476	(3 093)	201 383
Specialized Lending - SPV, RED				
	Strong	140 641	(755)	139 886
	Good	60 090	(627)	59 463
	Satisfactory	53 725	(2 284)	51 441
	Weak	923	(100)	823
	Default	140 641	(755)	139 886
	Unrated	20	-	20
		4 363 327	(16 067)	4 347 260
Retail				
	Very Low	760 808	(98)	760 710
	Low	39 636	(27)	39 609
	Lower-Intermediate	161 215	(452)	160 763
	Intermediate	19 400	(178)	19 222
	Upper-Intermediate	7 668	(233)	7 435
	High	1 960	(465)	1 495
	Default	4 896	(1 130)	3 766
	Unrated	4 225	(16)	4 209
		999 808	(2 599)	997 209
		5 555 383	(19 113)	5 536 270

#### 4. Financial and operational risk management (continued)

December 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
		<u>206 126</u>	<u>(706)</u>	<u>205 420</u>
Due from customers:				
Public administration				
	Very Low	1 735	(1)	1 734
	Low	697	-	697
	Intermediate	21 662	(21)	21 641
	Upper-Intermediate	98 512	(757)	97 573
	High	25 223	(1 714)	23 509
	Unrated	5 090	-	5 090
		<u>152 919</u>	<u>(2 675)</u>	<u>150 244</u>
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
		<u>5 143 146</u>	<u>(81 731)</u>	<u>5 061 415</u>

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

December 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
		<u>9 726 382</u>	<u>(213 904)</u>	<u>9 512 478</u>
		<u>15 022 447</u>	<u>(298 310)</u>	<u>14 724 137</u>
Financial assets at FVOCI - debt securities				
	Unrated	1 611 015	(306)	1 610 709

(Table continues on the next page)

#### 4. Financial and operational risk management (continued)

December 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				
	Very low	26	-	26
	Low	1 134	-	1 134
	Intermediate	4 013	(2)	4 011
	Upper-Intermediate	21 461	(14)	21 447
	High	2 332	(36)	2 296
		28 966	(52)	28 914
Corporate				
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

#### 4. Financial and operational risk management (continued)

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 Aa1 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.

<b>September 2021</b>		<b>Gross</b>	<b>Impairment</b>	<b>Net</b>
<b>€ '000</b>		<b>amount</b>	<b>losses</b>	<b>amount</b>
	<b>External rating</b>			
Financial assets at FVOCI - debt securities				
	Aaa	225 680	(34)	225 646
	Aa1	130 212	(57)	130 155
	Aa2	5 048	(0)	5 048
	A2	427 676	(50)	427 626
	Baa1	169 524	(15)	169 509
	Baa2	67 970	(26)	67 944
	Baa3	371 516	(108)	371 408
		<u>1 397 626</u>	<u>(290)</u>	<u>1 397 336</u>
<b>December 2020</b>				
<b>€ '000</b>				
	<b>External rating</b>	<b>Gross</b>	<b>Impairment</b>	<b>Net</b>
		<b>amount</b>	<b>losses</b>	<b>amount</b>
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
		<u>1 611 015</u>	<u>(306)</u>	<u>1 610 709</u>

#### 4. Financial and operational risk management (continued)

##### 4.1.12. Credit risk of financial derivatives

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

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

- The CVA (negative) takes into account scenarios whereby the counterparty fails before the Bank that has a positive exposure to the counterparty. In these scenarios the Bank suffers a loss equal to the cost of replacing/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	September 2021	December 2020
<b>Financial assets</b>		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	127 038	109 307
Derivatives – Hedge accounting	106 312	127 863
	<u>233 350</u>	<u>237 170</u>

#### 4. Financial and operational risk management (continued)

##### 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.

During the pandemic period, the borrower may 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 are 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.

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 valid until 31 March 2021. Under the specified conditions, the bank will not worsen the creditworthiness of the client in deferred loan repayments approved until 31 March 2021.

Till 30 September 2021 the Bank received 24 866 requests for deferral of repayments of corporate and retail loans, of which 22 709 was granted in the total gross amount of € 1 098 096 thousand. Out of these, expired € 1 078 843 thousand.

September 2021 € '000	Gross amount	Performing Impairment losses	Net amount	Gross amount	Non-performing Impairment losses	Net amount
Financial assets at AC:						
Corporate	1 469	(53)	1 416	-	-	-
Retail	17 694	(545)	17 149	89	(45)	45
	<u>19 163</u>	<u>(598)</u>	<u>18 565</u>	<u>89</u>	<u>(45)</u>	<u>45</u>



#### 4. Financial and operational risk management (continued)

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 30 September 2021 the Bank provided 1 602 newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis to enterprises in the total gross amount of € 235 259 thousand.

<b>September 2021 € '000</b>	<b>Gross amount</b>	<b>Performing Impairment losses</b>	<b>Net amount</b>	<b>Gross amount</b>	<b>Non-performing Impairment losses</b>	<b>Net amount</b>
Financial assets at AC:						
Corporate	178 224	(751)	177 473	2 142	(357)	1 785
Retail	54 851	(582)	54 269	42	(17)	25
	<u>233 075</u>	<u>(1 333)</u>	<u>231 742</u>	<u>2 184</u>	<u>(374)</u>	<u>1 810</u>

## 4. Financial and operational risk management (continued)

### 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. All other financial instruments are part of the banking book.

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

€ '000	September 2021				December 2020			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	71	42	110	12	88	76	277	3
Interest rate risk	55	95	251	35	162	218	489	22
Total VaR	91	110	278	39	164	261	633	30
Total sVaR	396	516	1 466	195	178	503	1 265	135

#### 4. Financial and operational risk management (continued)

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

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 VUB 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.

#### 4. Financial and operational risk management (continued)

##### 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.

As at 30 September 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 € (3 598) thousand (31 December 2020: € (2 523) thousand).

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

	<b>September 2021</b>	<b>December 2020</b>
<b>Financial assets</b>		
Cash and cash equivalents	0,23 %	0.06%
Financial assets at FVTPL	0,07%	0.17%
Financial assets at FVOCI	(0,30) %	(0.07)%
Financial assets at AC:		
Due from other banks	1,24 %	1.68%
Due from customers	1,91 %	2.13%
<b>Financial liabilities</b>		
Financial liabilities at AC:		
Due to banks	0,72 %	0.38%
Due to customers	0,09 %	0.14%
Debt securities in issue	0,37 %	0.55%

## 4. Financial and operational risk management (continued)

### 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.

### 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').

#### Replacement of EONIA

Replacement of EONIA has only limited impact on the Bank as this change affects only a few number of customer (up to fifteen) and the contracts are in the process of amendment to replace EONIA with the new Euro Short-Term Rate ('€STR').

VUB has few interbank derivatives which are linked to EONIA. Majority will mature before end of 2021. For the remaining swaps the Bank acts in accordance with other market participants.

No impact on hedge accounting is expected.

#### Change of EURIBOR calculation

Change of the calculation of EURIBOR by the panel banks has already happened and does not represent any issue for the Bank.

#### Replacement of LIBOR

The Bank has only few loans which are linked to Libor, since most of the Bank's loans are in EUR and thus if floaters then they are linked to Euribor. For loans in USD or GBP, the Bank will wait till a new tenor benchmark in these currencies is created and then the existing contracts with the customers will be amended.

Similar to the loans also in the area of derivatives there are only few interbank hedging derivatives linked to Libor.

Also here we will wait for the definitive approach of the market participants and based on this the contracts will be amended.

## 4. Financial and operational risk management (continued)

### 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.

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 Enterprise 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.

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.

#### 4. Financial and operational risk management (continued)

The liquidity position of the Bank is regularly presented by Enterprise 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:

September 2021 € '000	Less than 12 months	Over 12 months	Total
<b>Assets</b>			
Cash and cash equivalents	2 252 234	-	2 252 234
Financial assets at FVTPL	17 250	90 819	108 069
Derivatives – Hedge accounting	165	53 396	53 561
Financial assets at FVOCI	408 002	996 931	1 404 933
Financial assets at AC:			
Due from other banks	1 705 152	122 674	1 827 826
Due from customers	2 955 310	12 924 449	15 879 760
Fair value changes of the hedged items in portfolio hedge of IRR	-	9 252	9 252
Investments in subsidiaries, joint ventures and associates	-	69 656	69 656
Property and equipment	-	107 027	107 027
Intangible assets	-	124 752	124 752
Goodwill	-	18 871	18 871
Current income tax assets	12 725	-	12 725
Deferred income tax assets	-	47 416	47 416
Other assets	15 034	-	15 034
Non-current assets and disposal groups classified as held for sale	133	-	133
	<u>7 366 005</u>	<u>14 565 244</u>	<u>21 931 249</u>
<b>Liabilities</b>			
Financial liabilities at FVTPL	(18 515)	(64 379)	(82 894)
Derivatives – Hedge accounting	(756)	(28 663)	(29 419)
Financial liabilities measured at AC:			
Due to banks	(127 166)	(2 593 991)	(2 721 157)
Due to customers	(1 887 194)	(11 270 738)	(13 157 932)
Lease liabilities	(6 237)	(14 155)	(20 392)
Subordinated debt	(135)	(200 000)	(200 135)
Debt securities in issue	(104 796)	(3 738 161)	(3 842 957)
Fair value changes of the hedged items in portfolio hedge of IRR	-	(4 632)	(4 632)
Current income tax liabilities	(349)	-	(349)
Provisions	-	(19 840)	(19 840)
Other liabilities	(77 229)	(5 407)	(82 636)
	<u>(2 222 377)</u>	<u>(17 939 966)</u>	<u>(20 162 343)</u>
<b>Net position</b>	<u>5 143 628</u>	<u>(3 374 722)</u>	<u>1 768 906</u>



#### 4. Financial and operational risk management (continued)

December 2020 € '000	Less than 12 months	Over 12 months	Total
<b>Assets</b>			
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 and disposal groups classified as held for sale	1	-	1
	<u>5 080 677</u>	<u>13 660 737</u>	<u>18 741 414</u>
<b>Liabilities</b>			
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)
	<u>(1 863 297)</u>	<u>(15 184 871)</u>	<u>(17 048 168)</u>
<b>Net position</b>	<u>3 217 380</u>	<u>(1 524 134)</u>	<u>1 693 246</u>



## **4. Financial and operational risk management (continued)**

### **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: Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of Anti-Money Laundering Department; permanent invitees without voting rights: Head of Corporate & SME Division, Head of Retail Division, Head of Enterprise Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of 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 and submitted to the relevant Bank's Committee for the annual certification of compliance with the requirements established by the regulation.

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

#### **4.4.4. Policies for hedging and mitigating risk**

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

## 5. Estimated fair value of financial assets and 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.

**5. Estimated fair value of financial assets and financial liabilities (continued)**

## (c) Due from customers

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

## (d) Due to banks and Due to customers

The carrying amounts of due to banks approximates their fair value. The fair value of due to customers is estimated by discounting their future expected cash flows using the risk free interest rate curve.

## (e) Subordinated debt

The fair value of subordinated debt is discounted using the risk free interest rate curve and own credit risk.

## (f) Debt securities in issue

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

**5. Estimated fair value of financial assets and financial liabilities (continued)**

September 2021 € '000	Note	Carrying amount			Fair value			Total fair value
		At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	
<b>Financial assets</b>								
Cash and cash equivalents	7	2 252 234	-	2 252 234	-	2 252 235	-	2 252 235
Financial assets at FVTPL	8	-	108 069	108 069	3 896	104 172	-	108 068
Derivatives – Hedge accounting	9	-	53 561	53 561	-	53 561	-	53 561
Financial assets at FVOCI	10	-	1 404 933	1 404 933	1 339 203	65 730	-	1 404 933
Financial assets at AC:	11							
Due from other banks		1 827 826	-	1 827 826	-	1 827 824	-	1 827 824
Due from customers		15 879 760	-	15 879 760	-	152 015	15 729 027	15 881 042
		<u>19 959 820</u>	<u>1 566 563</u>	<u>21 526 383</u>	<u>1 343 099</u>	<u>4 455 537</u>	<u>15 729 027</u>	<u>21 527 663</u>
<b>Financial liabilities</b>								
Financial liabilities at FVTPL	8	-	82 894	82 894	-	82 894	-	82 894
Derivatives – Hedge accounting	9	-	29 419	29 419	-	29 419	-	29 419
Financial liabilities at AC:	11							
Due to banks		2 721 157	-	2 721 157	-	2 721 157	-	2 721 157
Due to customers		13 157 932	-	13 157 932	-	13 157 933	-	13 157 933
Lease liabilities		20 392	-	20 392	-	20 392	-	20 392
Subordinated debt		200 135	-	200 135	-	200 166	-	200 166
Debt securities in issue		3 842 957	-	3 842 957	-	3 843 004	-	3 843 004
		<u>19 942 573</u>	<u>112 313</u>	<u>20 054 886</u>	<u>-</u>	<u>20 054 965</u>	<u>-</u>	<u>20 054 965</u>

## 5. Estimated fair value of financial assets and liabilities (continued)

December 2020 € '000	Note	Carrying amount			Fair value			Total fair value
		At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	
<b>Financial assets</b>								
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
		<u>16 501 186</u>	<u>1 789 393</u>	<u>18 290 579</u>	<u>896 839</u>	<u>2 766 017</u>	<u>16 699 116</u>	<u>20 361 972</u>
<b>Financial liabilities</b>								
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
		<u>16 794 369</u>	<u>152 784</u>	<u>16 947 153</u>	<u>-</u>	<u>17 049 658</u>	<u>-</u>	<u>17 049 658</u>

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.

## 6. Segment reporting (continued)

September 2021  
€ '000

External revenue:

	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
Interest and similar income	152 037	76 916	(12 191)	216 762	6 418	223 180
Interest and similar expense	(4 145)	(1 431)	(10 189)	(15 765)	(7 007)	(22 772)
Inter-segment revenue	(6 548)	(14 976)	23 282	1 758	(1 758)	-
Net interest income	141 344	60 509	902	202 755	(2 347)	200 408
Net fee and commission income (note 25)	81 695	25 108	1 026	107 829	(2 463)	105 366
Dividend income	-	-	-	-	3 002	3 002
Net trading result	3 458	4 417	8 319	16 194	93	16 287
Other operating income	(1 632)	(42)	-	(1 674)	4 011	2 337
Other operating expense	(12 691)	-	-	(12 691)	(6 337)	(19 028)
Special levy of selected financial institutions*	-	-	-	-	-	-
Salaries and employee benefits	(34 631)	(7 768)	(500)	(42 899)	(46 344)	(89 243)
Other administrative expenses*	-	-	-	-	(51 925)	(51 925)
Amortisation	(1 581)	(89)	-	(1 670)	(10 732)	(12 402)
Depreciation	(637)	(26)	(1)	(664)	(9 293)	(9 957)
<b>Profit before provisions, impairment and tax</b>	<b>175 325</b>	<b>82 109</b>	<b>9 746</b>	<b>267 180</b>	<b>(122 335)</b>	<b>144 845</b>
Net modification gains or losses*	-	-	-	-	(72)	(72)
Provisions*	-	-	-	-	(12)	(12)
Impairment losses	(31 341)	(10 230)	423	(41 148)	310	(40 838)
Net (loss)/gain arising from the derecognition of financial assets at amortised cost	(1 123)	620	-	(503)	(1)	(504)
<b>Profit before tax</b>	<b>142 861</b>	<b>72 499</b>	<b>10 169</b>	<b>225 529</b>	<b>(122 110)</b>	<b>103 419</b>
Segment assets	10 018 446	5 885 631	5 471 421	21 375 498	555 751	21 931 249
Segment liabilities	8 730 156	4 257 195	6 852 180	19 839 531	322 812	20 162 343

\* The Bank does not allocate these items to the individual segments.

## 6. Segment reporting (continued)

September 2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	165 523	76 485	(7 739)	234 269	4 750	239 019
Interest and similar expense	(7 320)	(3 371)	(12 353)	(23 044)	(5 471)	(28 515)
Inter-segment revenue	(14 476)	(17 949)	32 425	-	-	-
Net interest income	143 727	55 165	12 333	211 225	(721)	210 504
Net fee and commission income (note 25)	75 560	20 941	1 963	98 464	(2 380)	96 084
Dividend income	-	-	-	-	4 001	4 001
Net trading result	3 171	4 449	2 272	9 892	75	9 967
Other operating income	-	-	8	8	1 692	1 700
Other operating expense	(10 388)	(5)	-	(10 393)	(2 106)	(12 499)
Special levy of selected financial institutions*	-	-	-	-	(31 038)	(31 038)
Salaries and employee benefits	(37 291)	(7 479)	(505)	(45 275)	(44 732)	(91 028)
Other administrative expenses*	-	-	-	-	(54 311)	(54 311)
Amortisation	(4 423)	(191)	(1)	(4 615)	(5 449)	(10 064)
Depreciation	(1 980)	(35)	(2)	(2 017)	(8 425)	(10 442)
<b>Profit before provisions, impairment and tax</b>	<b>168 376</b>	<b>72 845</b>	<b>16 068</b>	<b>257 289</b>	<b>(143 394)</b>	<b>112 874</b>
Provisions*	-	-	-	-	588	588
Impairment losses	(32 868)	(10 860)	(180)	(43 908)	1 208	(42 700)
Net (loss)/gain arising from the derecognition of financial assets at amortised cost	(5 163)	1 874	-	(3 289)	(619)	(3 908)
<b>Profit before tax</b>	<b>130 345</b>	<b>63 859</b>	<b>15 888</b>	<b>210 092</b>	<b>(142 217)</b>	<b>66 854</b>
<b>December 2020 € '000</b>						
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	September 2021	December 2020
Cash in hand	174 251	161 155
Balances at central banks:		
Compulsory minimum reserves	1 878 440	777 270
Current accounts	2	38
Term deposits	74 525	7 621
Loans and advances	95 138	604 335
	<u>2 048 105</u>	<u>1 389 264</u>
Due from other banks:		
Current accounts	29 878	21 210
	<u>2 252 234</u>	<u>1 571 629</u>

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	September 2021	December 2020
Financial assets held for trading:		
Trading derivatives	82 554	79 260
Equity instruments		6 163
Government debt securities of European Union countries	17 867	-
	<u>100 421</u>	<u>85 423</u>
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	7 648	711
Financial liabilities held for trading:		
Trading derivatives	82 894	87 377

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and Visa Inc. Series C Preferred Stock. The ISP shares 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). As at 1 January 2021, Visa Inc. Series C Preferred Stock were reclassified from 'Financial assets held for trading' to 'Non-trading financial assets at fair value through profit or loss'. The Bank did not elect at initial recognition the option to present these shares at FVOCI.

**8. Financial assets and financial liabilities at fair value through profit or loss (continued)**

€ '000	September 2021 Assets	December 2020 Assets	September 2021 Liabilities	December 2020 Liabilities
<b>Trading derivatives – Fair values</b>				
Interest rate instruments:				
Forwards and swaps	61 832	71 917	63 380	74 070
Foreign currency instruments:				
Forwards and swaps	6 884	5 616	5 768	11 728
Options	166	194	150	194
	<u>7 050</u>	<u>5 810</u>	<u>5 918</u>	<u>11 922</u>
Equity and commodity instruments:				
Commodity forwards and swaps	13 672	1 533	13 596	1 385
	<u>82 554</u>	<u>79 260</u>	<u>82 894</u>	<u>87 377</u>
€ '000	September 2021 Assets	December 2020 Assets	September 2021 Liabilities	December 2020 Liabilities
<b>Trading derivatives – Notional values</b>				
Interest rate instruments:				
Forwards and swaps	6 595 826	3 834 656	6 595 826	3 834 656
Options	111 302	116 703	111 302	116 703
Futures	5 759	-	5 759	-
	<u>6 712 887</u>	<u>3 951 359</u>	<u>6 712 887</u>	<u>3 951 359</u>
Foreign currency instruments:				
Forwards and swaps	512 016	1 025 828	512 735	1 032 169
Options	13 680	21 859	13 666	21 859
	<u>525 696</u>	<u>1 047 687</u>	<u>526 401</u>	<u>1 054 028</u>
Equity and commodity instruments:				
Commodity forwards and swaps	24 016	37 770	24 016	37 770
	<u>7 262 599</u>	<u>5 036 816</u>	<u>7 263 304</u>	<u>5 043 157</u>

## 9. Derivatives – Hedge accounting

€ '000	September 2021 Assets	December 2020 Assets	September 2021 Liabilities	December 2020 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	53 561	85 192	29 419	65 407

### 9.1. Fair value hedges of interest rate, foreign currency and inflation risk

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 **26 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 **13 interest rate swaps** to hedge the interest rate risk of **9 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 **1 interest rate swap** to hedge the inflation and interest rate risk of **1 inflation bond from the FVOCI portfolio**. The changes in fair value of interest rate swap substantially offset the changes in fair value of inflation bond in relation to both changes of interest rates and inflation reference index.

The Bank used **20 interest rate swaps** to hedge the interest rate risk of **19 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** and one cross currency swap to 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 **15 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.

## 9. Derivatives – Hedge accounting (continued)

September 2021  
€ '000

	Assets	Liabilities	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
	Fair values	Fair values	Notional values	Notional values		
<b>Micro hedges</b>						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	2 250	4 507	859 000	859 000	16 933	-
Hedge of corporate loans	4 630	1 713	309 277	309 277	5 551	(42)
Hedge of loans received from EIB	-	200	50 000	50 000	(706)	11
Hedge of covered bonds	39 045	5 253	2 042 400	2 042 400	(30 337)	1
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	-	7 755	87 606	87 842	3 790	-
<b>Macro hedges</b>						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	2 330	9 025	1 975 000	1 975 000	9 152	(90)
Hedge of current accounts	5 221	966	452 500	452 500	(2 343)	15
Hedge of reverse repo deal	85		1 650 000	1 650 000	(88)	(106)

## 9. Derivatives – Hedge accounting (continued)

December 2020  
€ '000

	Assets	Liabilities	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
	Fair values	Fair values	Notional values	Notional values		
<b>Micro hedges</b>						
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)	-
<b>Macro hedges</b>						
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

## 9. Derivatives – Hedge accounting (continued)

The amounts relating to items designated as hedged items were as follows:

September 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 ineffectiveness	Accumulated amount of fair value adjustment after termination of hedging relationship*
<b>Micro hedges</b>					
Debt securities at FVOCI	Financial assets at FVOCI	851 496	-	(16 933)	(119)
Corporate loans	Financial assets at AC:				
	Due from customers	397 119	3 479	(9 383)	807
Loans received from EIB	Financial assets at AC:				
	Due to banks	50 000	(122)	(717)	-
Covered bonds	Financial liabilities at AC:				
	Debt securities in issue	1 436 299	31 467	(30 338)	42 959
<b>Macro hedges</b>					
Mortgage loans	Financial assets at AC:				
	Due from customers	1 975 000	7 222	(9 242)	2 048
Current accounts	Financial liabilities at AC:				
	Due to customers	452 500	4 632	(2 358)	-
Reverse repo deal	Financial assets at AC:				
	Due from banks	1 650 248	(18)	(18)	-

\* 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.

**9. Derivatives – Hedge accounting (continued)**

December 2020 € '000	Line item in SOFP	Carrying amount	Accumu- lated amount of fair value adjust- ments included in carrying amount	Change in fair value used for calculating hedge ineffecti- veness	Accumu- lated amount of fair value adjust- ment after termina- tion of hedging relation- ship*
<b>Micro hedges</b>					
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
<b>Macro hedges</b>					
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	-

\* 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.

## 10. Financial assets at fair value through other comprehensive income

€ '000	September 2021	December 2020
Government debt securities of European Union countries <i>of which Italian government debt securities</i>	1 041 297 371 300	1 271 994 492 007
Bank debt securities	322 732	304 864
Other debt securities	33 270	33 851
Equity instruments:		
Visa Inc. Series A Preferred Stock	7 503	6 952
Intesa Sanpaolo S.p.A.	46	326
S.W.I.F.T.	85	80
	<u>7 634</u>	<u>7 358</u>
	<u>1 404 933</u>	<u>1 618 067</u>

As at 30 June 2021, the bonds in the total nominal amount of € 1 193 849 thousand were pledged by the Bank to secure collateralized transactions (31 December 2020: € 583 000 thousand). These bonds were pledged in favor of the ECB within the pool of assets which can be immediately used as collateral for received funds needed for liquidity management purposes.



## 11. Financial assets and financial liabilities at amortised cost

### 11.1. Due from other banks

€ '000	Note	September 2021	December 2020
Term deposits		240	-
Loans and advances		1 794 160	149 755
Cash collateral		33 609	56 371
Impairment losses	21	(183)	(706)
		<u>1 827 826</u>	<u>205 420</u>

### 11.2. Due from customers

June 2021 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
<b>Public Administration</b>			
State administration	70 845	(16)	70 829
Municipalities	110 663	(941)	109 722
	<u>181 508</u>	<u>(957)</u>	<u>180 551</u>
<b>Corporate</b>			
Large Corporates	2 373 221	(1 939)	2 371 282
Large Corporates – debt securities	100 723	(98)	100 625
Specialized Lending	880 178	(35 146)	845 032
SME	1 554 729	(49 342)	1 505 387
Other Non-banking Financial Institutions	467 437	(129)	467 308
Other Non-banking Financial Institutions - Debt securities	181 459	(93)	181 366
Public Sector Entities	2 827	(1)	2 826
Factoring	143 876	(1 102)	142 774
	<u>5 704 450</u>	<u>(87 850)</u>	<u>5 616 600</u>
<b>Retail</b>			
Small Business	314 446	(15 640)	298 806
Consumer Loans	1 308 454	(120 233)	1 188 221
Mortgages	8 455 983	(47 246)	8 408 737
Credit Cards	99 227	(14 633)	84 594
Overdrafts	70 868	(6 437)	64 431
Flat Owners Associations	38 044	(224)	37 820
	<u>10 287 022</u>	<u>(204 413)</u>	<u>10 082 609</u>
	<u>16 172 980</u>	<u>(293 220)</u>	<u>15 879 760</u>

## 11. Financial assets and financial liabilities at amortised cost (continued)

December 2020 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
<b>Public Administration</b>			
Single Resolution Fund	5 090	-	5 090
State administration	32 685	(3)	32 682
Municipalities	115 144	(2 672)	112 472
	<u>152 919</u>	<u>(2 675)</u>	<u>150 244</u>
<b>Corporate</b>			
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
	<u>5 143 146</u>	<u>(81 731)</u>	<u>5 061 415</u>
<b>Retail</b>			
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
	<u>9 726 382</u>	<u>(213 904)</u>	<u>9 512 478</u>
	<u>15 022 447</u>	<u>(298 310)</u>	<u>14 724 137</u>

### 11.3. Due to banks

€ '000	September 2021	December 2020
Due to central banks:		
Current accounts	1 064	1 458
Loans received from central banks	2 497 167	-
	<u>2 498 231</u>	<u>1 458</u>
Due to other banks:		
Current accounts	88 356	27 464
Term deposits	7 193	8 170
Loans received from other banks	102 549	109 215
Revaluation of fair value hedged loans received	(122)	595
Cash collateral received	24 950	23 769
	<u>222 926</u>	<u>169 213</u>
	<u>2 721 157</u>	<u>170 671</u>

## 11. Financial assets and financial liabilities at amortised cost (continued)

### 11.4. Due to customers

€ '000	September 2021	December 2020
Current accounts	10 027 330	9 534 207
Term deposits	1 947 670	2 618 892
Government and municipal deposits	795 493	486 233
Savings accounts	216 835	229 480
Other deposits	170 604	109 148
	<u>13 157 932</u>	<u>12 977 960</u>

### 11.5. Lease liabilities

€ '000	September 2021	December 2020
Lease liabilities	20 392	22 858

### 11.6. Subordinated debt

€ '000	September 2021	December 2020
Subordinated debt	200 135	200 151

As at 30 June 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. 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.

### 11.7. Debt securities in issue

€ '000	September 2021	December 2020
Covered bonds	2 582 555	2 577 764
Covered bonds subject to fair value hedges	1 185 975	733 786
	<u>3 768 530</u>	<u>3 311 550</u>
Revaluation of fair value hedged covered bonds	31 467	65 807
Unamortized part of revaluation related to terminated fair value hedges	42 960	45 372
	<u>3 842 957</u>	<u>3 422 729</u>

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).

## 11. Financial assets and financial liabilities at amortised cost (continued)

Name	Interest rate (%)	Currency	Number in circulation as at 31 September 2021	Nominal value in original currency per piece	Issue date	Maturity date	September 2021 € '000	December 2020 € '000
Mortgage bonds VÚB, a. s. 20.	4,300	EUR	-	331,939	9.3.2006	9.3.2021	-	17 176
Mortgage bonds VÚB, a. s. 30.	5,000	EUR	1 000	33 194	5.9.2007	5.9.2032	33 112	33 513
Mortgage bonds VÚB, a. s. 31.	4,900	EUR	600	33 194	29.11.2007	29.11.2037	20 509	19 766
Mortgage bonds VÚB, a. s. 43.	5,100	EUR	500	33 194	26.9.2008	26.9.2025	16 220	16 359
Mortgage bonds VÚB, a. s. 67.	5,350	EUR	300	50 000	29.11.2011	29.11.2030	15 673	15 071
Mortgage bonds VÚB, a. s. 72.	4,700	EUR	250	100 000	21.6.2012	21.6.2027	25 231	25 512
Mortgage bonds VÚB, a. s. 73.	4,200	EUR	500	100 000	11.7.2012	11.7.2022	50 431	50 924
Mortgage bonds VÚB, a. s. 74.	3,350	EUR	700	100 000	16.1.2013	15.12.2023	71 556	72 107
Mortgage bonds VÚB, a. s. 80.	1,850	EUR	-	1,000,000	27.3.2014	27.3.2021	-	31 457
Mortgage bonds VÚB, a. s. 81.	2,550	EUR	38	1 000 000	27.3.2014	27.3.2024	38 823	39 163
Mortgage bonds VÚB, a. s. 85.	2,250	EUR	500	100 000	14.11.2014	14.11.2029	50 596	49 717
Mortgage bonds VÚB, a. s. 87.	1,250	EUR	1 000	100 000	9.6.2015	9.6.2025	98 996	99 030
Mortgage bonds VÚB, a. s. 89.	1,200	EUR	1 000	100 000	29.9.2015	29.9.2025	99 506	99 713
Mortgage bonds VÚB, a. s. 90.	1,600	EUR	1 000	100 000	29.10.2015	29.10.2030	99 876	98 544
Mortgage bonds VÚB, a. s. 91.	0,600	EUR	1 000	100 000	21.3.2016	21.3.2023	100 174	100 251
Mortgage bonds VÚB, a. s. 93.	0,500	EUR	2 500	100 000	18.1.2017	18.1.2024	249 708	249 639
Mortgage bonds VÚB, a. s. 94.	1,050	EUR	2 500	100 000	27.4.2017	27.4.2027	248 760	249 099
Mortgage bonds VÚB, a. s. 95.	0,375	EUR	2 500	100 000	26.9.2017	26.9.2022	249 622	249 562
Covered bonds VÚB, a. s. 1	0,500	EUR	2 500	100 000	26.6.2018	26.6.2023	250 323	250 066
Covered bonds VÚB, a. s. 2	1,500	EUR	500	100 000	5.10.2018	15.12.2027	50 528	49 958
Covered bonds VÚB, a. s. 3	0,250	EUR	5 000	100 000	26.3.2019	26.3.2024	498 448	498 105
Covered bonds VÚB, a. s. 4	0,500	EUR	5 000	100 000	26.6.2019	26.6.2029	496 801	497 081
Covered bonds VÚB, a. s. 5	0,010	EUR	5 000	100 000	23.6.2020	23.6.2025	499 774	499 739
Covered bonds VÚB, a. s. 6	0,010	EUR	5 000	100 000	24.3.2021	24.3.2026	504 266	-
							<b>3 768 933</b>	<b>3 311 550</b>

## 12. Fair value changes of the hedged items in portfolio hedge of interest rate risk

€ '000	September 2021	December 2020
Financial assets at AC:		
Úvery poskytnuté ostatným bankám:	(18)	-
Due from customers:		
Retail		
Mortgages	9 270	20 016
	<u>9 252</u>	<u>20 016</u>
Financial liabilities at AC:		
Due to customers	4 632	6 990

## 13. Investments in subsidiaries, joint ventures and associates

September 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
		<u>91 010</u>	<u>(21 381)</u>	<u>69 656</u>

  

December 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
		<u>91 010</u>	<u>(21 381)</u>	<u>69 629</u>

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

#### 14. Property and equipment and Non-current assets classified as held for sale

##### September 2021 € '000

Buildings and land  
Equipment  
Other tangibles  
Assets in progress

Owned	Right-of-use	Total
76 638	16 389	93 027
5 858	-	5 858
1 190	3 782	4 972
3 303	-	3 303
<u>86 989</u>	<u>20 171</u>	<u>107 160</u>

##### December 2020 € '000

Buildings and land  
Equipment  
Other tangibles  
Assets in progress

Owned	Right-of-use	Total
75 648	18 421	94 069
6 419	-	6 419
1 181	4 309	5 490
7 186	-	7 186
<u>90 434</u>	<u>22 730</u>	<u>113 164</u>

##### 2021 € '000

##### Cost or fair value

As at 1 January  
Additions  
Disposals  
Transfers  
Exchange differences

Buildings and land	Equipment	Other tangibles	Assets in progress	Total
109 393	53 139	30 286	7 186	200 004
2 892	-	280	971	4 143
(8 027)	(1 750)	(1 633)	-	(11 410)
3 735	835	284	(4 854)	-
9	5	1	-	15
<u>108 002</u>	<u>52 229</u>	<u>29 218</u>	<u>3 303</u>	<u>192 752</u>

##### Accumulated depreciation

As at 1 January  
Depreciation for the period  
Disposals  
Exchange differences

(14 975)	(46 720)	(24 796)	-	(86 491)
(7 509)	(1 382)	(1 066)	-	(9 957)
7 841	1 736	1 617	-	11 194
(6)	(5)	(1)	-	(12)
<u>(14 649)</u>	<u>(46 371)</u>	<u>(24 246)</u>	<u>-</u>	<u>(85 266)</u>

##### Impairment losses (note 21)

As at 1 January  
Release  
As at 31 September

(349)	-	-	-	(349)
23	-	-	-	23
<u>(326)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(326)</u>

##### Carrying amount

As at 1 January  
As at 30 September

<u>94 069</u>	<u>6 419</u>	<u>5 490</u>	<u>7 186</u>	<u>113 164</u>
<u>93 027</u>	<u>5 858</u>	<u>4 972</u>	<u>3 303</u>	<u>107 160</u>

## 15. Intangible assets

2021 € '000	Software	Other intangible assets	Assets in progress	Total
<b>Cost</b>				
As at 1 January	294 222	10 729	55 923	360 874
Additions	-	-	8 302	8 302
Disposals	(10)	-	-	(10)
Transfers	10 907	-	(10 907)	-
Exchange differences	(25)	-	-	(25)
As at 31 September	305 094	10 729	53 318	369 141
<b>Accumulated amortisation</b>				
As at 1 January	(221 607)	(10 371)	-	(231 978)
Amortization for the period	(12 320)	(82)	-	(12 402)
Disposals	10	-	-	10
Exchange differences	(19)	-	-	(19)
As at 30 September	(233 936)	(10 453)	-	(244 389)
<b>Carrying amount</b>				
<b>As at 1 January</b>	<b>72 615</b>	<b>358</b>	<b>55 923</b>	<b>128 896</b>
<b>As at 30 September</b>	<b>71 158</b>	<b>276</b>	<b>53 318</b>	<b>124 752</b>

## 16. Goodwill

€ '000	September 2021	December 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.

## 17. Current and deferred income tax assets and liabilities

€ '000	September 2021	December 2020
Current income tax assets	12 725	26 518
Deferred income tax assets	47 416	51 056
Current income tax liabilities	349	635

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2020: 21%) as follows:

€ '000	September 2021	Profit/ (loss) (note 34)	Equity	Exchange differences	December 2020
Financial assets at FVOCI	(1 240)	-	1 267	-	(2 507)
Financial assets at AC:					
Due from other banks	38	(80)	-	-	118
Due from customers	44 572	(4 540)	-	-	49 112
Property and equipment	(12 165)	292	-	-	(12 457)
Other assets	7	-	-	-	7
Financial liabilities at AC:					
Lease liabilities	4 672	(129)	-	-	4 801
Provisions	3 443	689	-	-	2 754
Other liabilities	6 660	(1 416)	-	-	8 076
Other	1 429	267	3	7	1 152
	<u>47 416</u>	<u>(4 917)</u>	<u>1 270</u>	<u>7</u>	<u>51 056</u>

## 18. Other assets

€ '000	Note	September 2021	December 2020
Operating receivables and advances		12 187	13 865
Prepayments and accrued income		3 682	9 857
Inventories		614	381
Other tax receivables		376	712
Settlement of operations with financial instruments		8	12
Impairment losses	21	(1 833)	(2 142)
		<u>15 034</u>	<u>22 685</u>



## 19. Provisions

€ '000	Note	September 2021	December 2020
Financial guarantees and commitments	21	18 837	13 904
Restructuring provision		603	591
Litigation	23	400	400
		<u>19 840</u>	<u>14 895</u>

2021 € '000	Note	1 January	Net creation	Use	30 September
Litigation	23, 32	591	13	(1)	603
Restructuring provision	32	400	-	-	400
		<u>991</u>	<u>13</u>	<u>(1)</u>	<u>1 003</u>

## 20. Other liabilities

€ '000	September 2021	December 2020
Various creditors	38 903	38 110
Settlement with employees	27 460	27 208
Severance and Jubilee benefits	5 407	5 407
Settlement of operations with financial instruments	4 887	1
Accruals and deferred income	1 661	2 211
VAT payable and other tax payables	1 111	1 626
Settlement with shareholders	862	1 404
Share remuneration scheme	933	711
Investment certificates	544	843
Other	868	974
	<u>82 636</u>	<u>78 495</u>

At 30 June 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:

	Jubilee benefits	Retirement benefits
Discount rate	(0,66)%	(0,11)%
Growth of wages*	-	0,00%
Future growth of wages*	-	4,50%
Turnover rate (based on age)	5,1% – 40,9%	5,1% – 40,9%
Retirement age	Based on valid legislation	
Mortality	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.

## 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*	30 September
Financial assets at FVOCI		306	(16)	-	-	-	290
Financial assets at AC:	11		-				
Due from other banks		706	(523)	-	-	-	183
Due from customers		298 310	38 035	(37 905)	(1 169)	(4 051)	293 220
Impairment losses according to IFRS 9		299 322	37 496	(37 905)	(1 169)	(4 051)	293 693
Financial guarantees and commitments	19	13 904	3 653	-	1 280	-	18 837
Impairment losses and provisions according to IFRS 9		313 226	41 149	(37 905)	111	4 051	312 530
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	(311)	-	2	-	1 833
Total impairment losses and provisions for financial guarantees and commitments		<u>337 098</u>	<u>40 838</u>	<u>(37 928)</u>	<u>113</u>	<u>(4 051)</u>	<u>336 070</u>

\* 'Other' represents:

- the interest portion (unwinding of interest).

## 22. Equity

€ '000	September 2021	December 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
	<u>430 819</u>	<u>430 819</u>
Share premium	13 719	13 719
Reserves	110 088	114 484
Retained earnings (excluding net profit for the period)	1 134 385	1 049 185
	<u>1 689 011</u>	<u>1 608 207</u>

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.

	September 2021	September 2020
Net profit for the period attributable to shareholders in € '000	79 895	51 506
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
	<u>430 819 064</u>	<u>430 819 064</u>
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 €	<u>6,16</u>	<u>3,97</u>

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	September 2021	December 2020
Intesa Sanpaolo Holding International S. A.	100,00%	97.03%
Domestic shareholders	0,00%	2.17%
Foreign shareholders	0,00%	0.80%
	<u>100,00 %</u>	<u>100.00%</u>

## 22. Equity (continued)

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

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

The Bank's regulatory capital position was determined based on the rules for capital adequacy calculation set by the CRR Regulation:

€ '000	September 2021	December 2020
<b>Tier 1 capital</b>		
Share capital	430 819	430 819
Share premium	13 719	13 719
Retained earnings*	1 125 921	1 040 721
Legal reserve fund	87 493	87 493
Other capital funds	8 464	8 464
Accumulated other comprehensive income	22 594	26 991
(-) Value adjustments due to the requirements for prudent valuation	(44)	(47)
Other transitional adjustments to CET1 Capital	20 674	28 944
CET1 capital elements or deductions – other	(6 401)	(5 090)
Less goodwill and intangible assets	(118 031)	(118 379)
Less IRB shortfall of credit risk adjustments to expected losses	(1 349)	(8 416)
(-) Insufficient coverage for non-performing exposures	(107)	-
	<u>1 583 752</u>	<u>1 505 219</u>
<b>Tier 2 capital</b>		
IRB excess of provisions over expected losses eligible	7 629	-
Subordinated debt	200 000	200 000
Other transitional adjustments to T2 Capital	(5 141)	(7 197)
	<u>202 489</u>	<u>192 803</u>
<b>Total regulatory capital</b>	<u>1 786 241</u>	<u>1 698 022</u>

\* Excluding net profit for the period, profit in approval and other capital funds.

€ '000	September 2021	December 2020
Retained earnings	1 214 280	1 134 224
Profit in approval	-	-
Net profit for the period/year	(79 895)	(85 039)
Other capital funds	(8 464)	(8 464)
	<u>1 125 921</u>	<u>1 040 721</u>

€ '000	September 2021	December 2020	September 2021 Required	December 2020 Required
Tier 1 capital	1 583 752	1 505 219	713 033	698 077
Tier 2 capital	202 489	192 803	202 489	192 803
<b>Total regulatory capital</b>	1 786 241	1 698 022	713 033	698 077
<b>Total Risk Weighted Assets</b>	8 912 916	8 725 964	8 912 916	8 725 964
CET 1 capital ratio	17,77%	17.25%	11,84%	11.84%
Total capital ratio	20,04%	19.46%	15,00%	16.00%

## 22. Equity (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, accumulated other comprehensive income, foreign currency translation and reserves. The 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-based results and reserves, as prescribed by the CRR Regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and IRB excess of provisions over expected losses.

Own Funds, risk-weighted assets and the capital ratios as at 30 June 2021 and 31 December 2020 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, 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 2020, 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) for period starting 1 August 2017 at 0.5%, since 1 August 2018 at 1.25%, since 1 August 2019 at 1.5%. Due to COVID-19 pandemic situation, since 1 August 2020 NBS decreased countercyclical buffer to 1% (bringing the total CET1 capital requirement to 13% since 1 January 2020 including Pillar 2 Capital Guidance buffer of 1%). On 12 June 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 31 June 2020 capital requirement for CET 1 of 12.34% and capital requirement for Tier 1 of 14.13% and from 1 August 2020 (reduction of the countercyclical buffer to 1%) it represents capital requirement for CET 1 of 11.84% and capital requirement for Tier 1 of 13.63%.

The Overall Capital Requirement was at the Bank level, as of 1 January 2020 set at 16.5% and from 1 August 2020 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 (6%), 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%.

The CounterCyclical Buffer requirement has been reduced to 1% since 1 August 2020 and the Overall Capital Requirement has similarly been reduced to 16%.

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.

## 22. Equity (continued)

### *Impact of the introduction of IFRS 9 on own funds*

In December 2017, the European Parliament and the European Council issued Regulation (EU) No 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 will be 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 2019, 70% in 2020, 50% in 2021 and 25% in 2022) to set the amount to be included in CET 1. The static transitional approach is not applicable to the changes in valuation reserves deriving from re-classification of financial instruments during FTA (impact resulting from classification and measurement).

€ '000	2018	2019	2020	2021	2022
Decreasing factor	95%	85%	70%	50%	25%
Impact to CET 1	39 281	35 146	28 944	20 674	10 337

Furthermore, under paragraph 7 of Article 473 of the CRR Regulation, 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 in line with static transitional approach.

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) No 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) No 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	September 2021	December 2020
Issued guarantees	906 885	866 694
Commitments and undrawn credit facilities	4 863 543	4 012 294
<i>of which revocable</i>	<u>1 851 714</u>	<u>913 855</u>
	<u>5 770 428</u>	<u>4 878 988</u>

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

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 30 September 2021. Pursuant to this review, management has recorded total provisions of € 603 thousand as at 30 September 2021 (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 € 32 338 thousand, as at 30 September 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.



## 24. Net interest income

€ '000	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
<b>Interest and similar income</b>				
Financial assets at FVTPL	33	15	151	1
Financial assets at FVOCI	(275)	(176)	2 204	801
Financial assets at AC:				
Due from other banks	2 908	939	2 791	851
Due from customers	230 559	77 509	244 032	80 088
Derivatives - Hedge accounting	(13 622)	(4 399)	(10 943)	(3 529)
Interest income on liabilities	3 577	2 968	784	125
	<u>223 180</u>	<u>76 856</u>	<u>239 019</u>	<u>78 337</u>
<b>Interest and similar expense</b>				
Financial liabilities at AC:				
Due to banks	(335)	(136)	(477)	(143)
Due to customers and Subordinated debt <i>of which lease liabilities</i>	(9 614) (169)	(3 264) (53)	(14 055) (153)	(3 819) (70)
Debt securities in issue	(16 667)	(5 231)	(22 165)	(7 099)
Derivatives - Hedge accounting	7 315	2 263	8 556	2 758
Interest expense on assets	(3 471)	(1 690)	(374)	(97)
	<u>(22 772)</u>	<u>(8 058)</u>	<u>(28 515)</u>	<u>(8 400)</u>
	<u>200 408</u>	<u>68 798</u>	<u>210 504</u>	<u>69 937</u>

€ '000	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
<b>Interest and similar income</b>				
Total interest income calculated using the effective interest method	223 147	76 841	238 868	78 336
Other interest income - interest income on financial assets at FVTPL	33	15	151	1
	<u>223 180</u>	<u>76 856</u>	<u>239 019</u>	<u>78 337</u>

€ '000	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
<b>Net interest income</b>				
Financial assets at FVOCI	(275)	(176)	2 204	801
Financial assets at AC	229 996	76 758	246 449	80 842
	<u>229 721</u>	<u>76 582</u>	<u>248 653</u>	<u>81 643</u>
Financial liabilities at AC	(23 039)	(5 663)	(35 913)	(10 936)



## 25. Net fee and commission income

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

<b>Current accounts</b>	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.
<b>Cards</b>	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.
<b>Payments and cash management</b>	Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.
<b>Loans</b>	<p>Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration.</p> <p>They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.</p>
<b>Indirect deposits</b>	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 VUB 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.
<b>Insurance</b>	<p>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.</p> <p>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.</p>
<b>Trade finance, Structured finance</b>	<p>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.</p> <p>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.</p>
<b>Factoring</b>	<p>Services related to factoring include:</p> <ul style="list-style-type: none"> <li>• Facility commitment, where fee is recognised on a straight-line basis over the commitment period;</li> <li>• Invoice processing fee, where fixed amount for each processed invoice is charged;</li> <li>• Factoring fee, where fee represent a percentage on a total receivable amount factored.</li> </ul>

## 25. Net fee and commission income (continued)

Revenue recognition under IFRS 15:

<b>Current accounts</b>	Revenue from account service and servicing fees is recognised over time as the services are provided.
<b>Cards</b>	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.
<b>Payments and cash management</b>	Revenue related to transactions is recognised at the point in time when the transaction takes place.
<b>Loans</b>	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.
<b>Indirect deposits</b>	Revenue related to transactions is recognised at the point in time when the transaction takes place.
<b>Insurance</b>	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.
<b>Trade finance, Structured finance</b>	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.
<b>Factoring</b>	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.

**25. Net fee and commission income (continued)**

September 2021  
9 months  
€ '000

	Retail Banking	Corporate Banking	Central Treasury	Other	Total
<b>Fee and commission income</b>					
Current accounts	28 285	2 682	-	8	30 975
Payments and cash management	10 626	11 040	12	1	21 679
Cards	20 547	152	-	48	20 747
Indirect deposits	16 034	32	-	-	16 066
Loans	8 779	5 687	-	285	14 751
Insurance	9 791	-	-	-	9 791
Trade finance	21	1 467	1 293	-	2 781
Factoring	-	1 144	-	-	1 144
Structured finance	-	1 131	-	-	1 131
Other	399	1 475	885	5	2 764
	<u>94 482</u>	<u>24 810</u>	<u>2 190</u>	<u>347</u>	<u>121 829</u>
<b>Fee and commission expense</b>					
Cards	(10 967)	-	-	-	(10 967)
Payments and cash management	(1 362)	(3 969)	-	(416)	(5 747)
Current accounts	-	-	(367)	(537)	(904)
Insurance	(306)	-	-	-	(306)
Factoring	-	(242)	-	-	(242)
Indirect deposits	-	-	-	-	-
Other	(152)	-	(797)	(1 857)	(2 806)
	<u>(12 787)</u>	<u>(4 211)</u>	<u>(1 164)</u>	<u>(2 810)</u>	<u>(20 972)</u>
<b>Net fee and commission income under IFRS 15</b>	<u>81 695</u>	<u>20 599</u>	<u>1 026</u>	<u>(2 463)</u>	<u>100 857</u>
Income from guarantees under IFRS 9	-	4 509	-	-	4 509
<b>Total net fee and commission income</b>	<u>81 695</u>	<u>25 108</u>	<u>1 026</u>	<u>(2 463)</u>	<u>105 366</u>

**25. Net fee and commission income (continued)**

<b>September 2020 9 months € '000</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Central Treasury</b>	<b>Other</b>	<b>Total</b>
<b>Fee and commission income</b>					
Current accounts	28 940	2 286	-	6	31 232
Payments and cash management	10 753	9 463	1 365	11	21 592
Cards	20 068	237	-	30	20 335
Loans	7 104	5 636	-	336	13 076
Indirect deposits	12 568	33	-	-	12 601
Insurance	9 241	2	-	-	9 243
Trade finance	7	386	1 279	-	1 672
Factoring	-	851	-	-	851
Structured finance	-	618	-	-	618
Other	409	312	179	-	900
	<u>89 090</u>	<u>19 824</u>	<u>2 823</u>	<u>383</u>	<u>112 120</u>
<b>Fee and commission expense</b>					
Cards	(11 545)	-	-	-	(11 545)
Payments and cash management	(1 337)	(3 786)	(320)	(369)	(5 812)
Current accounts	-	-	-	(393)	(393)
Insurance	(329)	-	-	-	(329)
Factoring	-	(167)	-	-	(167)
Other	(319)	(2)	(540)	(2 001)	(2 862)
	<u>(13 530)</u>	<u>(3 955)</u>	<u>(860)</u>	<u>(2 763)</u>	<u>(21 108)</u>
<b>Net fee and commission income under IFRS 15</b>	<u>75 560</u>	<u>15 869</u>	<u>1 963</u>	<u>(2 380)</u>	<u>91 012</u>
Income from guarantees under IFRS 9	<u>-</u>	<u>5 072</u>	<u>-</u>	<u>-</u>	<u>5 072</u>
<b>Total net fee and commission income</b>	<u><u>75 560</u></u>	<u><u>20 941</u></u>	<u><u>1 963</u></u>	<u><u>(2 380)</u></u>	<u><u>96 084</u></u>

**25. Net fee and commission income (continued)**

<b>September 2021</b> <b>3 months</b> <b>€ '000</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Central Treasury</b>	<b>Other</b>	<b>Total</b>
<b>Fee and commission income</b>					
Current accounts	9 967	902	-	2	10 871
Payments and cash management	3 874	7 009	(368)	-	10 515
Cards	7 657	48	-	19	7 724
Indirect deposits	5 792	11	-	-	5 803
Loans	3 204	1 970	-	105	5 279
Insurance	3 380	-	-	-	3 380
Factoring	-	424	-	-	424
Structured finance	-	253	-	-	253
Trade finance	15	(2 585)	424	-	(2 146)
Other	71	717	600	(152)	1 236
	33 960	8 749	656	(26)	43 339
<b>Fee and commission expense</b>					
Cards	(4 119)	-	-	-	(4 119)
Payments and cash management	(587)	(1 616)	271	(142)	(2 074)
Current accounts	-	-	(367)	(190)	(557)
Factoring	-	(97)	-	-	(97)
Insurance	(93)	-	-	-	(93)
Indirect deposits	-	-	-	-	-
Other	(64)	2	(549)	(375)	(986)
	(4 863)	(1 712)	(645)	(707)	(7 927)
<b>Net fee and commission income under IFRS 15</b>	29 097	7 037	11	(733)	35 412
Income from guarantees under IFRS 9	-	1 463	-	-	1 463
<b>Total net fee and commission income</b>	29 097	8 500	11	(733)	36 875
<b>September 2020</b> <b>3 months</b> <b>€ '000</b>					
	<b>Retailoví klienti</b>	<b>Korporátni klienti</b>	<b>Treasury</b>	<b>Ostatné</b>	<b>Celkom</b>
<b>Fee and commission income</b>					
Current accounts	9 610	805	-	2	10 417
Payments and cash management	3 976	3 531	172	1	7 680
Cards	7 105	84	-	10	7 199
Indirect deposits	4 414	11	-	-	4 425
Loans	2 223	1 740	-	46	4 009
Insurance	3 310	-	-	-	3 310
Trade finance	2	1 922	483	-	2 407
Factoring	-	286	-	-	286
Structured finance	-	166	-	-	166
Other	71	72	74	-	217
	30 711	8 617	729	59	40 116
<b>Fee and commission expense</b>					
Cards	(3 958)	-	-	-	(3 958)
Payments and cash management	(522)	(1 428)	(99)	(123)	(2 172)
Current accounts	-	-	-	(152)	(152)
Insurance	(107)	-	-	-	(107)
Factoring	-	(48)	-	-	(48)
Other	(145)	(2)	226	(891)	(812)
	(4 732)	(1 478)	127	(1 166)	(7 249)
<b>Net fee and commission income</b>	25 979	7 139	856	(1 107)	32 867

## 26. Net trading result

€ '000	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
Foreign currency derivatives and transactions	8 981	3 050	(1 613)	88
Financial assets measured at FVOCI	6 139	-	3 548	3 278
Customer foreign exchange margins	5 632	2 147	5 049	1 899
Interest rate derivatives	241	(492)	(3 590)	(2 096)
Financial assets held for trading - debt securities	193	(207)	1 808	139
Non-trading financial assets measured at FVTPL	174	39	(209)	(37)
Other derivatives	64	(6)	206	11
Dividends from equity shares measured at FVOCI	40	13	54	18
Dividends from equity shares measured at FVTPL	9	(10)	-	-
Net result from hedging transactions	(211)	(85)	646	(263)
Cross currency swaps	(4 975)	(1 234)	4 068	1 724
	<u>16 287</u>	<u>3 215</u>	<u>9 967</u>	<u>4 761</u>

## 27. Other operating income

€ '000	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
Financial revenues	614	174	1 278	166
Net profit from sale of fixed assets	32	32	-	-
Services	-	-	1	(2)
Other	1 691	1 128	421	211
	<u>2 337</u>	<u>1 334</u>	<u>1 700</u>	<u>375</u>

## 28. Other operating expenses

€ '000	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
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	(1 094)	(394)	(1 549)	(362)
Court fees and expenses and out-of-court settlements	(872)	(265)	(1 089)	(413)
Other damages	(201)	(33)	(61)	(49)
Net loss from sale of fixed assets	-	10	(14)	(14)
Other	(4 170)	(1 508)	(2 301)	(886)
	<u>(19 028)</u>	<u>(2 190)</u>	<u>(12 499)</u>	<u>(1 724)</u>

\* 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 2021 was determined by the Deposit Protection Fund under the valid methodology. As at 30 June 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	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
Special levy of selected financial institutions	-	-	(31 038)	-

From 1 January 2021, the Bank's obligation to pay the special levy of selected financial institutions ceases on the basis of Act no. 353/2020 Coll.

The special levy of selected financial institutions was set to 0.4% p. a. of selected liabilities for the year 2020. 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	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
Remuneration	(63 878)	(21 758)	(64 478)	(22 082)
Social security costs	(24 501)	(8 559)	(25 534)	(8 922)
Social fund	(864)	(245)	(866)	(238)
Termination benefit	-	-	(150)	-
	<u>(89 243)</u>	<u>(30 562)</u>	<u>(91 028)</u>	<u>(31 242)</u>

As at 30 September 2021, the total number of employees of the Bank was 3 361 (31 December 2020: 3 574). The average number of employees of the Bank during the period ended 30 September 2021 was 3 444 (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 period when salaries are earned by employees. No further liabilities are arising to the Bank from the payment of pensions to employees in the future.

**31. Other administrative expenses**

€ '000	<b>September 2021 9 months</b>	<b>September 2021 3 months</b>	<b>September 2020 9 months</b>	<b>September 2020 3 months</b>
Third parties' services	(13 443)	(4 361)	(14 406)	(5 024)
Information technologies systems maintenance	(10 298)	(3 483)	(10 082)	(3 090)
Maintenance and repairs	(4 660)	(1 954)	(4 250)	(1 301)
Advertising and sponsorship	(3 706)	(1 219)	(4 216)	(1 289)
Rental of buildings and related expenses	(2 880)	(1 044)	(2 681)	(881)
Postage costs	(2 751)	(855)	(3 175)	(913)
Telephone and telecommunication costs	(2 385)	(796)	(2 100)	(701)
Energy costs	(1 815)	(703)	(1 920)	(534)
Forms and office supplies	(1 776)	(586)	(1 895)	(564)
Electronic data processing system leasing	(1 407)	(431)	(1 379)	(463)
Cleaning of premises	(1 175)	(390)	(1 194)	(289)
Transport	(1 027)	(324)	(1 112)	(411)
Security	(951)	(291)	(1 065)	(373)
Insurance	(782)	(241)	(660)	(213)
Archives and documents	(755)	(268)	(760)	(187)
Indirect personnel costs and compensation	(703)	(265)	(829)	(334)
Other rentals	(613)	(197)	(631)	(167)
Cost of legal services	(550)	(99)	(590)	(222)
Consultations and other fees*	(465)	(131)	(537)	(213)
Information and research	(141)	(35)	(117)	(32)
Other expenses	(1 434)	(499)	(2 384)	(292)
Value added tax and other taxes	(149)	-	(156)	(130)
Reinvoicing	1 941	707	1 828	603
	<u>(51 925)</u>	<u>(17 465)</u>	<u>(54 311)</u>	<u>(17 020)</u>



### 32. Provisions

€ '000	Note	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
Net (creation)/release and use of provisions for litigations	19	(12)	(3)	588	476

### 33. Impairment losses and Net loss arising from the derecognition of financial assets at amortised cost

€ '000	Note	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
Net creation of impairment losses	21	(37 185)	(20 966)	(38 963)	(8 671)
Net creation of provisions for financial guarantees and commitments	21	(3 653)	(3 624)	(3 737)	(3 330)
		<u>(40 838)</u>	<u>(24 590)</u>	<u>(42 700)</u>	<u>(12 001)</u>
Net (loss)/profit arising from the derecognition of financial assets at AC		(504)	1 047	(3 908)	(2 226)

### 34. Income tax expense

€ '000	Note	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
Current income tax	17	(18 607)	(8 371)	(8 986)	(6 980)
Deferred income tax	17	(4 917)	1 795	(6 362)	(1 642)
		<u>(23 524)</u>	<u>(6 576)</u>	<u>(15 348)</u>	<u>(8 622)</u>

### 35. Other comprehensive income

€ '000	September 2021 9 months	September 2021 3 months	September 2020 9 months	September 2020 3 months
<b>Items that shall not be reclassified to statement of profit or loss in the future</b>				
Change in value of financial assets at FVOCI (equity instruments):				
Revaluation gains/(losses) arising during the period	160	(342)	835	1 008
Reclassification adjustment for profit on sale of FVOCI equities within equity	110	-	614	-
	<u>270</u>	<u>(342)</u>	<u>1 449</u>	<u>1 008</u>
Reversal of deferred income tax on disposed property and equipment	-	-	99	-
	<u>270</u>	<u>(342)</u>	<u>1 548</u>	<u>1 008</u>
<b>Items that may be reclassified to statement of profit or loss in the future</b>				
Change in value of financial assets at FVOCI (debt instruments):				
Gains arising during the period	14 662	7 706	16 176	19 947
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(20 573)	(6 850)	(10 648)	(10 378)
	<u>(5 911)</u>	<u>856</u>	<u>5 528</u>	<u>9 569</u>
Exchange difference on translation foreign operation	(26)	(4)	(377)	(17)
	<u>(5 937)</u>	<u>852</u>	<u>5 151</u>	<u>9 552</u>
<b>Total other comprehensive income</b>	<u>(5 667)</u>	<u>510</u>	<u>6 699</u>	<u>10 560</u>
Income tax relating to components of other comprehensive income (note 36)	1 162	(108)	(1 594)	(2 221)
<b>Other comprehensive income for the period after tax</b>	<u>(4 505)</u>	<u>402</u>	<u>5 105</u>	<u>8 339</u>

**36. Income tax effects relating to other comprehensive income**

€ '000	September 2021			September 2020		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
<b>Items that shall not be reclassified to statement of profit or loss in the future</b>						
Change in value of financial assets at FVOCI (equity instruments)	270	(80)	190	1 449	(433)	1 016
Reversal of deferred income tax on disposed property and equipment	-	-	-	99	-	99
	<u>270</u>	<u>(80)</u>	<u>190</u>	<u>1 548</u>	<u>(433)</u>	<u>1 115</u>
<b>Items that may be reclassified to statement of profit or loss in the future</b>						
Change in value of financial assets at FVOCI (debt instruments)	(5 911)	1 242	(4 669)	5 528	(1 161)	4 367
Exchange differences on translation foreign operations	(26)	-	(26)	(377)	-	(377)
	<u>(5 937)</u>	<u>1 242</u>	<u>(4 695)</u>	<u>5 151</u>	<u>(1 161)</u>	<u>3 990</u>
	<u>(5 667)</u>	<u>1 162</u>	<u>(4 505)</u>	<u>6 699</u>	<u>(1 594)</u>	<u>5 105</u>

### 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.

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.

### 37. Related parties (continued)

As at 30 September 2021, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	21 037	279	21 316
Financial assets at FVTPL:							
Financial assets held for trading	-	-	-	-	53 916	-	53 916
Non-trading financial assets at FVTPL	-	-	-	-	933	-	933
Derivatives - Hedge accounting	-	-	-	-	53 561	-	53 561
Financial assets at FVOCI	-	-	-	-	46	-	46
Financial assets at AC:							
Due from other banks	-	-	-	-	1 686 125	239	1 686 364
Due from customers	329	133 844	-	-	-	19 987	154 160
Property and equipment	-	933	-	-	-	-	933
Other assets	-	378	-	-	3	1 192	1 573
	<u>329</u>	<u>135 155</u>	<u>-</u>	<u>-</u>	<u>1 815 621</u>	<u>21 697</u>	<u>1 972 802</u>
<b>Liabilities</b>							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	-	-	-	-	61 304	1	61 305
Derivatives - Hedge accounting	-	-	-	-	21 649	-	21 649
Financial liabilities at AC:							
Due to banks	-	-	-	-	95 307	15 522	110 829
Due to customers	912	1 526	-	257	-	2 379	5 074
Lease liabilities	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	200 135	200 135
Provisions	-	7	-	-	15	-	22
Other liabilities	933	139	-	-	189	-	1 261
	<u>1 845</u>	<u>1 672</u>	<u>-</u>	<u>257</u>	<u>178 464</u>	<u>218 037</u>	<u>400 275</u>

### 37. Related parties (continued)

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
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	11 941	315	12 256
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	-	-	-	-	57 257	-	57 257
Due from customers	329	65 467	1	-	-	-	65 797
Property and equipment	-	3 933	-	-	-	-	3 933
Other assets	-	-	-	-	-	1 139	1 139
	<u>329</u>	<u>69 400</u>	<u>1</u>	<u>-</u>	<u>214 328</u>	<u>1 469</u>	<u>285 527</u>
<b>Liabilities</b>							
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
	<u>2 022</u>	<u>5 028</u>	<u>-</u>	<u>245</u>	<u>175 521</u>	<u>204 366</u>	<u>387 182</u>

### 37. Related parties (continued)

As at 30 September 2021, the outstanding off-balance sheet balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	54	281 178	21	-	193 029	-	474 282
Issued guarantees	-	-	-	-	2 926	116	3 042
Received guarantees	-	-	-	-	8 139	-	8 139
Derivative transactions (notional amount – receivable)	-	-	-	-	13 756 818	1 832	13 758 650
Derivative transactions (notional amount – payable)	-	-	-	-	13 754 735	1 834	13 756 569

As at 31 December 2020, the outstanding off-balance sheet balances with related parties comprised:

€ '000	Key management personnel ('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

### 37. Related parties (continued)

For the nine months ended 30 September 2021, the outstanding balances with related parties comprised:

€ '000	KMP	Sub- sidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
<b>Income and expense items</b>							
Interest and similar income	2	88	-	-	2	50	142
Interest and similar expense	(2)	(53)	-	-	(6)	(4 090)	(4 151)
Fee and commission income	-	13	-	1	115	13 074	13 203
Fee and commission expense	-	-	-	-	(413)	(4)	(417)
Dividend income	-	-	3 002	-	-	-	3 002
Net trading result	-	-	-	-	(201)	(31)	(232)
Other operating income	-	-	-	-	4	14	18
Other operating expenses	-	-	-	-	(328)	-	(328)
Other administrative expenses	-	540	-	-	(6 655)	(1 255)	(7 370)
Depreciation	-	(536)	-	-	-	-	(536)
Impairment losses	-	23	-	-	18	-	41
	-	75	3 002	1	(7 464)	7 758	3 372



### 37. Related parties (continued)

For the nine months ended 30 September 2020, the outstanding balances with related parties comprised:

€ '000	KMP	Sub- sidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
<b>Income and expense items</b>							
Interest and similar income	2	169	-	1	12	11	195
Interest and similar expense	(1)	(64)	-	-	(34)	(4 322)	(4 421)
Fee and commission income	-	10	-	-	244	10 817	11 071
Fee and commission expense	-	-	-	-	(1 004)	(3)	(1 007)
Dividend income	-	-	4 001	-	-	-	4 001
Net trading result	-	-	-	-	(6 759)	(566)	(7 325)
Other operating income	-	14	-	-	-	106	120
Other operating expenses	-	-	-	-	(283)	-	(283)
Other administrative expenses	-	538	-	-	(8 892)	(275)	(8 629)
Depreciation	-	(546)	-	-	-	-	(546)
Impairment losses	-	147	-	-	(7)	2	142
	<u>1</u>	<u>268</u>	<u>4 001</u>	<u>1</u>	<u>(16 723)</u>	<u>5 770</u>	<u>(6 682)</u>

### 38. Profit distribution

On 15 December 2020, the ECB adopted recommendation which recommended that until 30 September 2021 significant credit institutions exercise extreme prudence when deciding on or paying out dividends or performing share buy-backs aimed at remunerating shareholders.

Based on this guideline, on 19 April 2021, the Bank's shareholders approved the following profit distribution for 2020:

€ '000

Dividends to shareholders (€ nil per € 33.2 share)	-
Retained earnings	<u>85 039</u>
	<u>85 039</u>

### 39. Events after the end of the reporting period

The Bank very carefully monitors the actual situation around COVID-19 pandemic and assesses its potential impact on operations, disclosures, financial position and performance of the Bank. The Bank strives to be prudent, taking into account all available information.

From 30 September 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 on 29 October 2021.



Peter Magala  
Member of the Management Board



Roberto Vercelli  
Member of the Management Board