VÚB BANKA

Consolidated Annual Report 2020

VUB, a bank of INTESA SANPAOLO

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Address by the Chairman of the VUB Supervisory Board

Dear Shareholders, Clients and Business Partners, Employees

VUB had in 2020 a good year, considering the unexpected and unprecedented situation caused by the global pandemic of the new coronavirus that thwarted all previous plans. Economies, including the Slovak, collapsed amidst quarantines and lockdowns needed to safeguard public health. Volumes and intensity of financial activities inevitably suffered as a result.

VUB Group has nonetheless confirmed that its compass is set right, both in the good times and bad. From the very beginning of the corona crisis, VUB thus stood by its clients and communities, helping them to overcome the public health crisis and subsequent economic shocks caused by the virus. VUB's help ranged from direct donations of healthcare material and devices to critically strained hospitals to the postponement of debt service payments to households and companies most hit by the loss of income. VUB was the first bank on the market to engage in such activities and thus confirmed its strong corporate and social responsibility. I am very proud of VUB in this respect and, on behalf of the Supervisory Board, I would like to thank the management and employees for their humanity.

Commenting on the commercial and financial results of the Group in such relentless times may seem inappropriate. Yet, VUB stood tall in this respect too, having maintained and even slightly increased its shares of the deposit and loan markets in Slovakia. The Group also delivered a positive financial result, albeit inevitably smaller than a year ago. On behalf of the Supervisory Board, I would like to thank the management and employees for these achievements as well.

Going forward, the operating environment will remain extremely challenging. The pandemic, now in its second and third wave, is still raging on, and will continue constrain economic activities for months and even quarters yet to come. A broader vaccination of population may bring some kind of normalcy and start of the recovery in the second half of the year. Yet, in many sectors, especially those requiring close social contacts, a complete recovery may never arrive. At the same time, the adverse impact of the crisis on the banking sector will now intensify as some clients with postponed debt payments may not be able to resume servicing their debt. In addition to the rising risks costs, banks will have to continue grapple with persistently low interest rates. Thankfully, at least, Slovak banks will no longer have to grapple with the bank levy, which is now finally suspended.

Clearly, the year 2021 will be challenging and in some areas even more challenging than 2020. Knowing VUB's resilience and solidity I nonetheless remain confident that together with further support of Intesa Sanpaolo, the Group will continue deliver the best possible performance for all stakeholders.

Ignacio Jaquotot,
Chairman of the Supervisory Board

Address by the Chairman of the VUB Management Board

Dear Shareholders, Clients and Business Partners,

the year 2020 has been unexpectedly tough, overwhelmed by the unprecedented public health crisis caused by the global pandemic of the new coronavirus. Many sectors of the economy were shut for a substantial part of the year, resulting in a severe contraction of GDP, comparable only to the great financial crisis of 2007 – 2008. Correspondingly severe increases in unemployment and bankruptcies have only been averted by the massive fiscal and monetary support. This helped to alleviate the negative impact on the banking sector, allowing it to continue supply loans and preserve reasonable quality of assets. On the other hand, however, it also has led to further decline of interest rates and thus intensified pressure on margins and profitability of the banking industry.

Against this backdrop, I am pleased with the performance of VUB in 2020. Our outmost priority early in the crisis was to stand by our customers and help them through this difficult period by alleviating their financial stress as much as possible. I believe that we succeeded in this mission and maintained our mutually trusted relationship, judging for example by the continued increase of volumes of loans and primary deposits and increasing shares of the core markets. Our mutually trusted relationship also has been confirmed by surveys, in which clients especially appreciated our availability, security and assistance, particularly in the area of electronic services, which dramatically increased in the times of corona-induced social distancing. Alongside improved commercial results, I am pleased with the operational efficiency and the quality of our loan portfolio. These developments enabled us to deliver the best possible financial performance.

Reviewing in detail our results on the commercial front, I would like to concentrate first on the mortgage market. Mortgages namely account for more than half of VUB's loan portfolio and hook to them also a significant share of retail deposits and transactional business. In 2020, we have continued to systematically grow both the client base of this key product and even more so the volume. The later increased over a year ago by 12.7%, exceeding even previous year's 11% growth. Importantly we have been successful to outgrow the market and increase our share of mortgage-type loans to 24.1% at the end of December 2020 from 23.7% in December 2019.

Continued growth of mortgages may seem at odds with the plunging economy, rising unemployment and uncertainty about many jobs in the post-covid world. And indeed, some factors underpinning the strong growth of mortgages in 2020 are prone to payback. These will include the loan moratorium, which allowed tens of thousands of indebted households to postpone debt payments and thus bridge the uncertain corona times. Deferred debt service though will resume from early 2021 and thus curtail spending power of households in general. Some households may even find themselves unable to sustain their debts outside the moratorium. Banks, according to the central bank view, though should be capable of managing this issue. Other factors that supported demand for mortgages and residential housing in 2020 though will probably prevail also in the year(s) ahead. For example, demand for bigger housing due to the necessity for more space to effectively work from home. Or low interest rates, which indeed will most likely remain low for even longer to enable governments to finance the huge fiscal costs brought about by the pandemic. In any case, we will continue to systematically care for this segment, and hopefully grow our portfolio with comparable success to this past year.

Opportunities for retail loan growth outside mortgages, however, have been very limited. In fact, due to tightened regulation, consumer loan market has been stagnating or even decreasing even before the latest crisis. And the corona pandemic has hit consumer loans especially hard. Not only has it crippled demand for consumer goods and services generally, it also impacted disproportionately lower-paid mass client segments, which use this product relatively more than a general population. As a result, the overall consumer loan market shrank over a year ago by significant 8.1%. Yet, even in this shrinking market, we continued to stand by our clients and tried to sustain credit extended to them. Our share of consumer loans thus stood at 22.6% in December 2020, little changed from 22.7% in December a year ago. Outweighed by the increased share of the mortgages, our share of the overall retail loan market improved by December 2020 to 22.6% from 22.3% in December 2019, resp.

In the corporate loan market, we have seen our share to ease, to 18.3% in December 2020 from 19.3% in December 2019, resp. This decline is mainly driven by decision to step back from some transactions with no adequate risk – return profile, primarily in the nonresident and financial sectors. We have concentrated instead on growing volumes of loans to domestic non-financial companies, especially to small and medium-sized enterprises, whom we extended loans worth 8.7% more than a year ago. As a result, the overall VUB lending to resident nonfinancial companies maintained its 5.1% y/y growth from a year ago, which enabled us to increase our share of this core corporate market by four tenths over previous year, to new high of 16.8% by December 2020.

Our relationships with corporate clients extend beyond banking products and involve also leasing and factoring services. Both have been severely impacted by the pandemic-related shutdowns of key sectors and decline of investment activities, especially in the area of international business and transport services. Demand on the leasing market thus fell markedly, resulting in new production and the balance sheet of our leasing subsidiary, VUB Leasing, to decline over a year ago. Similarly to leasing, also factoring business in 2020 suffered a dramatic decline, especially during its first half. Being a market leader, VUB Factoring suffered the highest decrease of purchased receivables over a year ago in absolute terms and the second highest in relative terms, by 16.9%, in the first nine months of the year. It nonetheless maintained its leadership through September accounting for 32% of the market comprising of the banks and factoring companies within the Association of Factoring Companies.

Turning to the deposit market, I am pleased to say that we have followed up on the positive trend of previous year and grew volumes of primary deposits at a significant pace of 12.8%. In fact, we have outgrown the market yet again and our share of total bank deposits increased from 18.9% in December 2019 to 19.2% by December 2020. We focused primarily on growing household deposits and I am pleased to say that we succeeded, increasing their volume by 11.0%, faster than a year ago and also faster than the market. As result, our share of total household bank deposits in Slovakia increased to 16.1% by December 2020, from 15.7% in December 2019. Clearly though, we must continue in this direction so that our share of the household deposit base is more aligned with our share of the household loan market, now nearly 23%. This is important to fund our growth aspirations in the mortgage market and comply with regulatory-prescribed funding profile in the future. In this respect, I would like to thank also our ALM unit that in 2020 successfully placed another €500 million benchmark issue of covered bonds on international markets.

We also grew the volume of corporate deposits, by 41.6%. We have been particularly successful in collecting funds of liquidity-rich companies, especially the big ones, who deposited with us 66.5% more money than a year ago. Yet, also SMEs have increased their deposit balances with VUB significantly, by 19.4% over a year ago. This exceptionally strong growth has translated into a dramatic increase in our share of total nonfinancial deposit market, by nearly 6 percentage points, to 25.9% in December 2020. Such strong growth, clearly, has been exceptional and probably temporary, with payback likely once the economic and investment activity recovers, consuming necessary liquidity.

The review of our standing in deposits clearly would not be complete without evaluating alternative products in which households store their savings and financial wealth. For our group of particular interest are markets of mutual funds and pension markets, in which we are active. Let me start with mutual funds asset management, in which we operate with the strong support from Eurizon Capital ('Eurizon'), the leading European asset management company of Intesa Sanpaolo. In fact, on March 28, 2020 VUB Asset Management was rebranded to Eurizon Asset Management Slovakia. This step could be considered as a completion of a long-time coordination process and opportunity to leverage on Eurizon best expertise even more. Besides, we continued to enlarge product portfolio by launching a new Eurizon SK fund, MIX 15, a flexible mutual fund with investment advisory provided by Eurizon. We also brought in five new Eurizon Capital LUX funds, ranging from bond solutions to more dynamic equity funds focused on China, US or investments within state-of-the-art innovation companies throughout the world. All those decisions focus not only on financial returns to our clients but they reflect also our strong belief in principles of accountability and an active approach to environmental, social and governance issues. Eurizon Asset Management Slovakia managed to keep assets under management above € 1.6 bn and also managed to keep its client base of around 140 ths clients. Significant success was achieved in sales of Eurizon Capital LUX funds, which recorded positive net inflow exceeding € 140 million in 2020 and became the best performing foreign Asset management company in Slovakia in terms of net sales. Aggregate AUM market share of SK and LUX funds reached level about 19%.

In the pension market, in which we are active together with our joint venture partner Generali Slovensko, we have been successful in continued grow of the client base and funds. VUB Generali namely has accumulated total volume of funds under management of € 1.86 billion in 2020, which represents 12.4% growth compared to prior period. Its market share increased by 0.24 percentage point, to 18.04%. Importantly, the number of clients in our pension saving schemes increased by more than 15 thousand, one of the most from among all players on the market.

Despite the strong overall commercial performance, our financial results have been weaker than a year ago. They nonetheless need to be assessed taking into consideration the adverse impact of the pandemic. In particular, our revenue side has declined, however relatively mildly, considering the steep plunge of interest rates and margins. Indeed, our net interest income fell by 13.3% over a year ago even as we grew consolidated loans volume by solid 6.0% over a year ago. We compensated partially for the lost interest income by other revenue drivers, that is, fee and trading income, both of which have increased sizably over year ago. We tried to defend the Group’s profitability also by measures in cost management, thanks to our fit for future program via review of resource allocation. Savings also have been achieved by lower headcount and lower bonuses. Importantly, thanks to all these measures, we have managed to keep operational efficiency under control. Adjusted for the bank levy, the cost-to-income ratio reached 52.8%. Our operating margin (profit before provisions, impairment and tax) in absolute terms amounted to € 175.2 million, which was 7.2% below previous year. The net financial result had been negatively affected by the increase in provisions due to the pandemic and crisis impacts arising in 2020. Adjusted for impairments, provisions, and taxes, the Group thus booked net profit of € 82.7 million, down 31.1% compared to prior period.

Looking ahead, the operating environment for banking industry in Slovakia will remain very challenging. Macroeconomic situation will remain severed by the pandemic, which unfortunately has even gained strength as the opening of 2021. The healthcare system faces unprecedented stress under the inflow of critically ill patients, which necessitated a hard lockdown being imposed in the whole country. Situation is similarly grave in most of Europe. The expected post-pandemic recovery in Slovakia as well in the Eurozone as a whole will thus be slower to come and probably also less powerful than expected only a few weeks ago. Unemployment will increase and bankruptcies become much more frequent than in 2020, when insolvent debtors were shielded by government support. Bank asset quality will inevitably worsen and adequacy of level of provisions set aside last year will soon be tested as loan moratoria gradually expire. At the same time, interest rates will remain low and margins continue to narrow.

Clearly, we have to brace for tough times. I would nonetheless like to end the speech on a positive note and extend my big thank you to all our employees for their commitment, hard work, and results of this past year. I also would like to thank VUB clients and business partners for the trust they hold in the Bank, and the shareholders for their support. I wish all of us the best in the very challenging year 2021.

Alexander Resch,
CEO and Chairman of the Management Board

VUB Management Board Report on the business activities of the Company

Development of the External Environment

External environment

The world economy experienced its first deep recession in decades in 2020 as a result of a new coronavirus pandemic. Even during the Financial Crisis of 2009, global GDP did not decline significantly - the International Monetary Fund data speak of only minus 0.08%. Over the past year, the decline in the global economy is estimated at 3.5%. Economic performance in the pandemic has declined as countries have introduced restrictive measures to slow the spread of the virus and consumers have reduced their purchases of goods and services.

The pandemic has hit Europe even harder than other regions of the world. First Italy, later Spain, Belgium, France and the United Kingdom and other countries were almost paralyzed by the new disease, which has translated in the fall of demand from these countries for goods and services from abroad, including Slovakia. After the first wave of the virus spread in the spring, the second wave came in the autumn, and this time it did not spare Central and Eastern Europe in any way. However, measures against the coronavirus were generally not as destructive to the economy as they were in the spring. Although many service sectors where people meet, such as accommodation, gastronomy and culture, were again severely or completely paralyzed, the industrial production continued at almost full capacity thanks to the growing demand from Asia and the USA.

In the first three quarters, the euro area economy contracted by an average of 7.4% on year-on-year basis, and a slightly lower decline can be expected for the whole of 2020. After a very bad first quarter, Slovakia did slightly better than the monetary union average, the annual decline in GDP may reach just under 6%. This also thanks to the fact that in the second half of the year the country registered large foreign trade surpluses as the economy was restarted by a revitalized industry, including important car production, and exports of these products abroad. At the same time, Slovak households did not reduce their consumption as significantly as in other countries. However, the economic downturn, high uncertainty about the future and the change of governments after February elections caused a large drop in production of construction. On the contrary, retail trade, backed by relatively strong consumption, records only a very slight decline in sales in the outgoing year.

However, both the euro area as well as Slovakia have experienced the deepest recession since their inception in the 1990s. However, the marked recovery in the summer (third) quarter gives hope for the future: when the serious health problems of the population disappear, the economy might perhaps be able to return to pre-crisis performance rather quickly.

The labor market was less affected by the record recession than initially expected thanks to the unprecedented subsidization of the tens of thousands of jobs by the *Kurzarbeit* scheme known from Germany, Austria and Denmark. Thus, despite the large economic downturn, the unemployment rate measured by the survey of statisticians rose compared to the same period of the previous year only by 1.3 percentage points to 7.2% in the third quarter. Compared to the crisis in 2009, the increase in unemployment in 2020 was thus half as severe. Together with the second wave of coronavirus spread and the delayed impact of GDP on the labor market, however, the unemployment rate is likely to rise still in 2021. Wage growth has also slowed significantly, reaching perhaps plus three percent over the past year. Nevertheless, this still outperforms the growth in consumer prices (+2.0% in 2020).

Financial sector

The corona crisis of 2020 also hit the financial sector hard, but so far only in its market value (decline in stock prices due to longer expectations of low interest rates and margins) and profitability. Rather surprisingly, there has been no major reassessment of ratings across the sector or a halt to the growth of loans or deposits in the past year.

Banks in Slovakia have created a large volume of loan-loss provisions in the first half of the year already, which will help them cope with the expected increase in non-performing loans. This growth has not yet taken place in 2020: mainly due to agreed installment deferrals, but also thanks to government support measures subsidizing jobs and commercial rents. In the segment of loans to companies, the scheme of state guarantees for new loans helped, even though it was fully operable only after a rather long delay.

Despite a record economic downturn, deposits and loans continued to grow, albeit at a slower pace than in the past. The year-on-year growth rate of loans decreased to 5.1% at the end of 2020. As in the past, loans to households continued to grow faster than loans to companies - despite the tightening of credit standards by the central bank as well as commercial banks themselves.

Historically low interest rates backed up mortgage lending, which also continued to grow rapidly, partly due to the continued rapid increase in real estate prices. However, consumer credit has shrunk dramatically, by 8.1% over a year ago. Due to a smaller volume of new investments, corporate loans slowed down more significantly - especially in the segment over 5 years. On the contrary, short-term loans of up to one year offset this decrease.

Despite the decline in total incomes in the economy in terms of gross domestic product (GDP), households paradoxically did not have less money in their hands and accounts. Most of the economic downturn was absorbed by the corporate and the public sectors. In the first three quarters of 2020, gross disposable income of households even increased by 1.6% in current prices compared to the same period of the previous year. Slovak households also increased their savings rate, although not as significantly as expected at the beginning of the crisis or as it happened in other countries. Overall, the volume of household deposits in banks even grew slightly faster than in the previous year (by 8.2% vs. 7% in 2019, resp). Corporate deposits grew even more sharply as, faced with subdued economic and investment activity, companies temporarily set aside excess liquidity in banks. Overall, primary deposits exceeded loan growth, which stabilized the liquidity situation in the banking sector and, after years of growth, the loan-to-deposit ratio thus declined slightly.

The already mentioned profitability of banks suffered the most in the crisis year of 2020. Total after-tax profit fell amounted €465 million, which is almost 28% (€177 million) less than in 2019. Neither higher income from fees nor cuts in costs were able to compensate banks for this negative development. In addition to the significant creation of loan-loss provisions, a large, doubled bank levy (0.4% of liabilities net of equity) also contributed to the decline in profits in the first half of the year. The new government together with the parliament, however, first suspended it with effect from July and then abolished it completely from January 2021, which helped to stabilize the industry.

Outlook for 2021

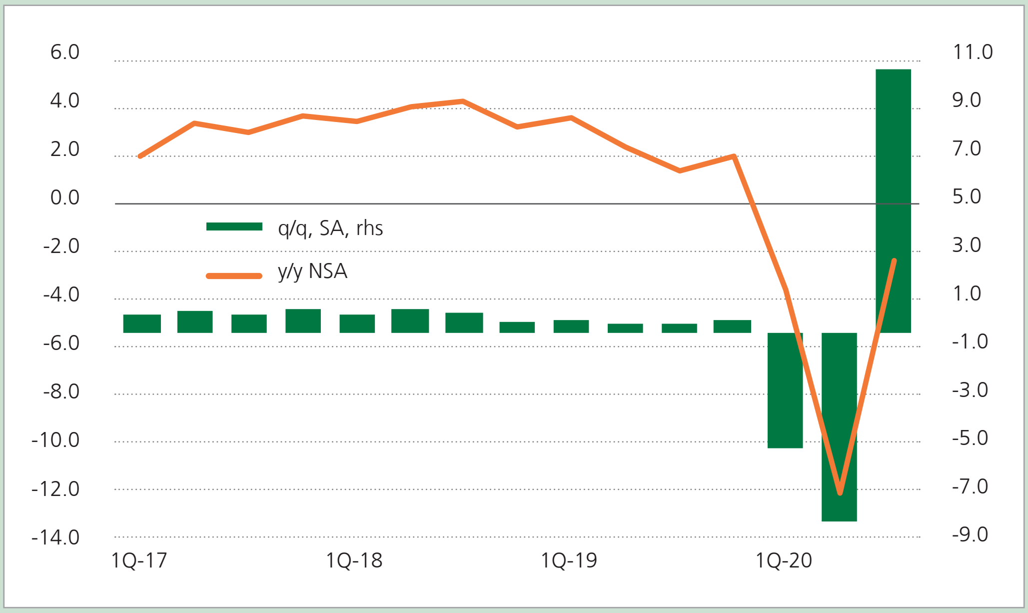
For 2021, together with the vaccination of the populations around the world, which should allow the easing of restrictive measures, we expect a gradual recovery of the economy, although probably only with the arrival of the warm months. At the end of the year, Slovak GDP in real prices could theoretically approach its pre-crisis maximum, and for a year as a whole post growth by around 4.2%. Our colleagues with Intesa Sanpaolo see it similarly and expect growth of 4.5% for the entire Eurozone after a decline of 7.1% this year.

However, several service sectors, including culture, tourism, education and sport, are likely to wait until 2022 for a real return to normal. We do not expect a significant recovery in the labor market this year either. Only the phasing out of the government support measures will show how many of the existing jobs will survive in the new, post-crisis normal. In addition, the ongoing recession in early 2021 will also expand the ranks of the unemployed.

The risks to the macroeconomic outlook for this 2021 remain skewed to the downside. For example, if a sufficiently large part of the population is not vaccinated, or a new strain of the virus is resistant to new vaccines, the waves of SARS-CoV-2 spread may continue throughout 2021 - with similar negative effects on the economy as before. The longer the crisis lasts, furthermore, the worse its long-term consequences in the form of bankruptcies, long-term unemployment, loss of investment and the quality of human capital. If, for example, Slovak households responded to the negative development and uncertainty this year by increasing their savings rate, domestic demand could suffer. On the other hand, foreign demand could continue to be supported by the relatively good economic situation in East Asia and the United States.

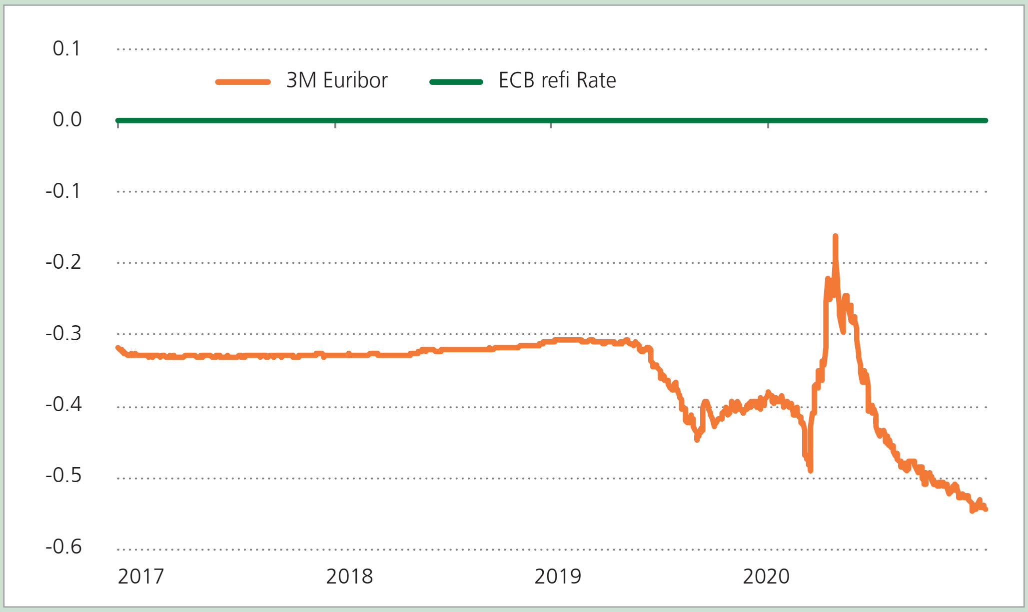
Both short-term and long-term interest rates are expected to remain close to their historical lows during 2021, together with the accommodative policy of the European Central Bank. With the gradual recovery of the economy, long-term government bond yields may be the first to begin to rise. However, the German 10-year bond yields will most probably remain negative even at the end of the year, whereas the Slovak ones may slowly increase to somewhere around zero. The situation will be somewhat better in the USA, where 10-year yields have already exceeded +1.0% at the beginning of the year. However, even in the United States, we do not expect a change in the current monetary policy stance – be it interest rates or quantitative easing.

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



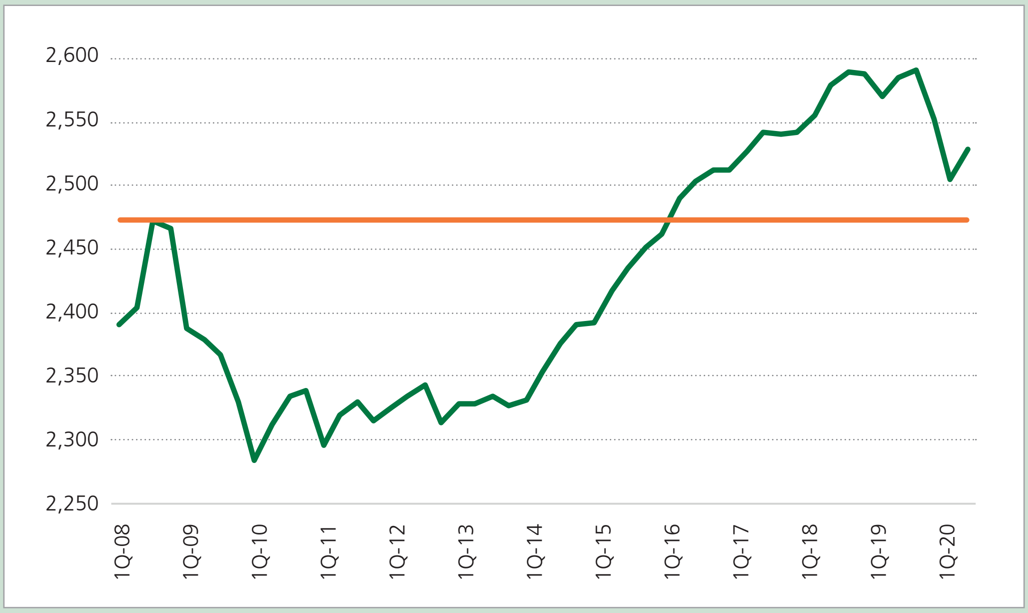
Source: Eurostat, VUB

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



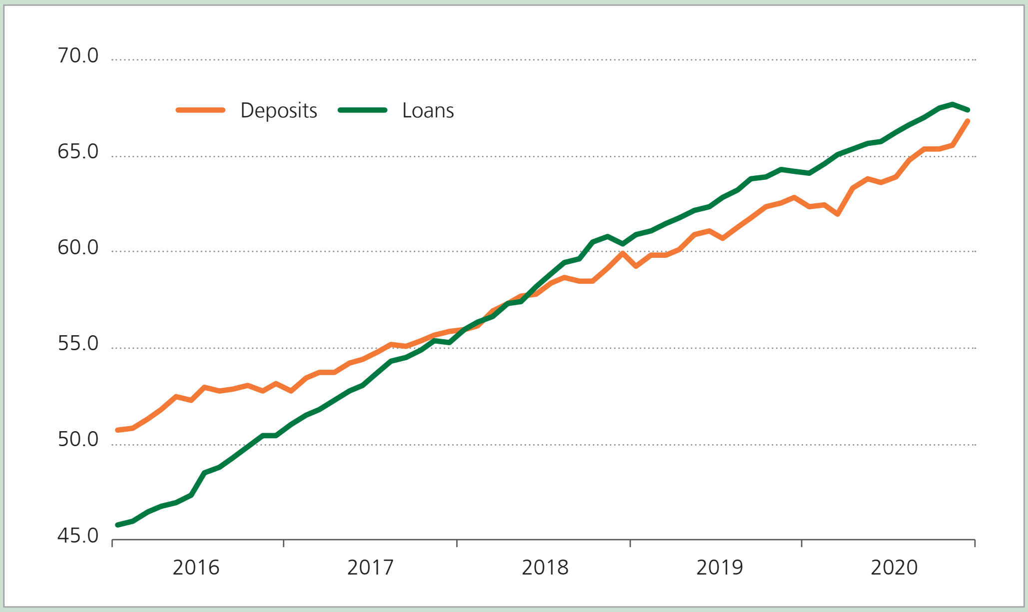
Source: Bloomberg, VUB
Note: For non-trading intervals carry over last value

Employment: number of employees in thousands



Source: Macrobond, VUB

Development of bank volumes (€ bn)



Source: National Bank of Slovakia, VUB

VUB's 2020 Commercial Performance

As described on previous pages, in 2020 we have experienced significant GDP fall compared to previous year connected with strong impact of global pandemic such as lockdowns and closed companies and vendors and major deterioration in economic sentiment.

Thanks to our agile response to the banking and macroeconomic environment, we have achieved a very satisfactory performance in the commercial area. Moreover, VÚB bank has the strongest and most sophisticated COVID response of all banks in Slovakia. This includes any possible help to clients by postponements and guaranties, digital channels development, active participation in government's help programs, help to hospitals via VUB Nadacia and protection of health of both clients and employees.

In retail lending, we managed to offset the impact of the pandemic, fierce competition and rigid regulations (not able to react to recession trend) and our market share increased by 36 bps thanks to favourable development in mortgage loans. In corporate lending, our market position went down slightly due to public sector from 19.3% in December 2019 to 18.3% in December 2020. On the deposit front, we retained great y/y increase on current accounts (18.9% in December 2020). The banking environment of historically lowest interest rates and the uncertainty of clients influenced the decreased demand for term deposits in both VUB and whole market.

Deposits

The volume of clients' deposits (Due to customers including lease liabilities) in VUB Group at the end of 2020 amounted to more than € 13.0 billion, 8.8% up against the previous year predominantly due to retail deposits. On retail market, current accounts rose again in this year, while term deposits kept its deteriorating trend. Customers' assets under management posted increase versus previous year (by 5.5% over the year incl. Eurizon), yet below the market growth (6.3%). Market share in mutual funds thus weakened by 14 bps in 2020. The market share of total deposits received from retail clients incl. mutual funds amounted to 16.4%, which means y/y increase (from 16.1% in December 2019). In corporate segment, VUB recorded good year resulting into increase over the year, increasing the market share by 0.5%.

Electronic Banking

The 2020 was the greatest challenge and at the same time the greatest opportunity for the area of electronic banking and digital channels, as it was essential for the banks to adapt to hard reality of social distancing and lockdowns. VUB did a great job in responding to the new needs connected to the pandemic.

In 2020, two important milestones were breached in terms of online banking. First was reaching half a million active clients in mobile and internet banking clients (logging more than once a month) and second was that 900 thousand clients already have an access to our online banking (Nonstop banking services).

We have introduced variety of improvements in Mobile banking app such as direct call option to call centre (already authorized) or PDF invoice and QR code share directly in the app. In terms of mobile banking itself, we have expanded the possibility to contact personal advisor for upper mass. With respect to GooglePay and ApplePay, all our retail cards (credit and debit) are now compatible. Also the possibilities of virtual branch has extended substantially bringing improvements such as easy contacting of branch employees directly via mobile/internet banking and introducing several improvements making the user experience much easier for client (send missing documents via mobile and internet banking, apply for refinance loan). We have also improved and personalized push notifications and focused greatly on 3D secure improvements.

Bank Cards

During the year, we continued with support of Apple Pay and Google Pay adding more cards into those platforms. After summer, we became first on the Slovak market with in-app provisioning for all of our retail cards via our Mobile banking app.

Global pandemic had and still has impact upon payment cards too. We can see it directly in year-to-year comparison with 2019. Number of cash withdrawals dropped by 22.6% and volumes dropped by 12.3%. Average withdrawal amount was severely increased by € 25 (previous year it was + € 7). In card payments, we managed to grow slightly despite pandemic with 2% increase in number of transactions and 7% increase in volumes.

As part of anti-Covid-19 activities we changed default delivery method for all cards (new, reissued and renewals) from "to branch" to client address. By this, we ensured that our customer would be still able to get their cards even if particular bank branch is closed. We also increased stock of no-name cards on our branches as precaution if for some reason production or delivery of new cards would not be possible. Also limit for contactless payments without PIN was increased from € 20 to € 50 (nationwide).

In the last quarter of the year, our effort was focused on changes in 3D Secure authentication as a legal requirement of EU PSD2 regulation. Cooperating with our Electronic banking, we launched authentication of card internet payments via biometry in our mobile banking app and so making card payments on internet easier and more secure than before.

In 2020, we also continued our support of charity Dobrý Anjel (Good Angel) with our co-branded card Maestro Good Angel. At the end of year, we had almost 64,000 of those cards issued. Total amount of support of charity Dobrý Anjel in 2020 generated by POS transaction done by Maestro Good Angel cards was € 350,000.

ATMs and EFT POS

VUB ranks 2nd (21.2%) in the Slovak market share also in 2020 with its 598 ATMs. The focus during the last year was on renewal of ATMs, renewed were more than 180 ATMs. At the end of 2020, we had together 90 ATM with cash-in module, that means increase by 10 ATM during year. Due to very hard situation related to pandemic, the cash volume withdrawn from ATMs decreased y/y by 10% (nr. of transaction decrease by 20%), the volume of cash inserted through ATM increased by up to 35%.

During year 2020, we have installed more than 2,100 new POS terminals including virtual terminals used in e-commerce and un-attended terminals used at different kinds of vending machines or at self-service fuel stations. Due to Covid-19 regulations – the limit for contactless payments without PIN (up to € 50) was set up for all POS terminals.

EU PSD2 regulation (Strong Customer Authentication) has also impact on our acquirer business. All our e-commerce merchants were successfully migrated to the newest 3D Secure VISA and Mastercard platform. We have started development of several improvements (for example push payments functionality) that will lead to improved position of VUB on the market as an acquirer.

Contact center

In 2020, a merge of CFH and VUB call centre was concluded, which resulted in several advantages when serving customers. The unified Call Centre serviced approximately 504 thousand calls and 158 thousand processed e-mails. Our clients communicated with VUB Bank also through Facebook (550 posts), chats (10 thousand chats) and specialized web pages (VÚB Otvorene – 445 posts). We also continued in creation of a virtual branch, where now 7 virtual private bankers provide care for almost 7 thousand clients. These clients have at their disposal their personal assistant taking care of their financial needs via phone. To their satisfaction contribute new options of more requests available conveniently from home. The aim is to continue in increasing the number of virtual private bankers.

In 2020, we have also, in regards to pandemic, introduced and implemented an option to work from home not only for the call centre operators, but also for the branch employees. Thanks to above mentioned, we have significantly increased the possibilities of servicing our clients without the need of branch visit.

Loans

Individuals – Mortgage and Consumer Loans

In 2020, the substantial demand for mortgage loans continued, in spite of the difficult pandemic environment. In VUB we recorded considerable increase in line with the market growth rate. Total mortgages of VUB (including ‚American mortgages') grew by 13.8% over the year. With a market share 24.1% the Bank increased already strong position on the mortgage loan market. Consumer loans decreased, predominantly due to significant deterioration of private consumption as a result of economic uncertainty related to pandemic. On group level, consumer loans decreased by 11.2% year over year.

Corporate Financing

In 2020, VUB bank was outperformed by the rest of the market in corporate loans segment. While corporate loans grew by 2.8% on the market, VUB decreased by 2.3% on the bank level and 1.7 % on Group level. This was however predominantly caused by our loans to public sector, as loans to the core resident nonfinancial corporations increased by 5.1% on individual level and VUB's market share in these loans to went up by 0.4% over the year reaching 16.8%. Real estate finance increased by 6%, project finance loans decreased by 16%, while trade finance loans grew by 4%. VUB Leasing, VUB's subsidiary, recorded slight decrease 2.7% of its assets predominantly due to the unproductivity of automotive industry.

Review of VUB's Economic and Financial Position

As described on previous pages, in 2020 we have experienced a serious crises triggered by the global pandemic with more than 6% fall of GDP. This, together with the impacts of the pandemic such as lockdown, health protection measures and closed education facilities made this year a very difficult not only for banks, but for all companies and mainly people around the country.

On the revenue side, VUB recorded significant deterioration, mainly due to significant drop out of interest revenues, which was partially compensated by the year-over-year increase of trading income. On the expenditure side, on the other hand we have recorded decrease thanks to structural savings in the administrative costs.

VUB Group achieved profit before provisions, impairment and tax of € 175.2 million and kept its profit before tax on satisfactory level € 109.1 million. Cost-income ratio of VUB Group (excl. bank levy) amounted to 52.83%, which was up by 148 basis points.

With regard to business development, VUB Group delivered very good development with respect to loan portfolio, which grew by 6.0%, resulting into stable market share at 21.1%. Total assets of the whole VUB Group increased by 9.0% % as well. Nevertheless, this increase did not negatively affect our portfolio quality as NPL ratio remained at very prudent levels. Moreover, VUB remained outperforming the market in terms of loan quality. Indeed, NPLs from banking operations on the group-level in VUB at end-2020 amounted to a mere 2.63% of the total gross loan volume, compared to market's 2.7%.

At the same time, VUB Group was able to increase its primary deposits with by 8.8%, keeping sound liquidity position which is represented by the prudent loan to deposit ratio (including debt securities in issue) of 92.8%.

To bolster stability of business growth onwards, capital of the group increased to one of the highest capital adequacy on the Slovak market with the ratio amounting to 18.79% high above the minimum requirements set by the central bank. This gives us a solid base for continued business growth.

The operating costs related to research and development activities, incurred by the Bank in 2020, are approximately in the amount of €1.65 mil.

The impact of the COVID-19 pandemic

The year 2020 was significantly affected by the worst global pandemic in a century, which resulted also in a material impact on the fair value of financial instruments.

During 2020, there were significant shifts in the fair value of trading derivatives on both the assets and liabilities sides. In the derivative transactions with clients, the Bank has back-to-back closed positions, therefore the effects on the Bank's performance are offset. For the part of foreign currency instruments, the Bank has open positions, the impact of which is mainly due to the weakening of local currencies, especially the Czech crown. During 2020, there were the significant changes in the fair value of hedging derivatives, which were substantially offset the changes in fair value of hedged items.

The first quarter of 2020 was characterized by higher instability, distrust and worries on global markets and economics affected by unexpected COVID-19 crisis. Situation resulted in decrease of FVOCI and FVPTL equity portfolios revaluation and decrease of FVOCI, FVTPL and HFT bond portfolios revaluation (influenced by rising of credit spreads on government, bank and corporate bonds reflecting current unpredictable events).

After the peak of COVID-19 crisis during March and April 2020 second quarter of the year was characterized by gradually but prudent improving of market sentiment. A series of post COVID-19 recovery plans have helped to improve the situation on markets (Pandemic Emergency Purchase Programme, US coronavirus bail-out package, quantitative easing, etc.). Despite improving sentiment on global markets, concerns still remained about a possible second wave of COVID-19 disease.

The third and the fourth quarter of 2020 was characterized by stabilized situation and low volatility. Yields were locked in narrow stable range and hunting for yields and spread compression persisted. FVOCI, FVTPL and HFT bond portfolios revaluation has increased and portfolios recorded another positive profit or loss (spreads on European government, bank and corporate bonds have decreased). The positive atmosphere was affected by rapid development of multiple COVID-19 vaccines.

To summarize year-long situation FVOCI and FVTPL equity portfolio revaluation has decreased (ISP equity price failed to reach its price level from the period before pandemic crisis during a year and market price equity has changed from € 2.3485 € to € 1.9198). FVOCI, FVTPL and HFT bond portfolios revaluation has increased and portfolios recorded during a year positive profit or loss.

The significant decline in estimates of the fair value of financial assets and financial liabilities measured at amortized cost in the first quarter of 2020 was caused by an increase in the credit spreads in Slovakia as a result of the effects of the crisis related to the COVID-19 pandemic. By the end of the year, the credit spreads gradually decresed.

Information on the Expected Economic and Financial Situation for 2021

Banking industry, together with the whole macroeconomic environment, has never been more challenging. The impact of global pandemic on both personal and professional lives was beyond imagination. We are aware of our responsibility and we support our employees as well our clients.

We continued to provide finance and support equally to both retail and corporate (including the public administration) clients. Either by redistributing funds relatively quickly through the "Anticorona" program, or via supporting thousands of clients by allowing them to postpone their payments, which proved to be one of the most effective support measures. At the same time, we have introduced hygiene standards, such as the obligation to wear a mask or other face protection for both clients and employees, and social distancing. We equipped the branches with disinfectants and protective glass. We also organized flu vaccination in our branch network and headquarters. These are only few of the many quick response measures adopted almost immediately. VÚB is confident to say that this experience will allow it to efficiently react to any obstacles that this crisis can bring in the 2021 or following years.

Our mission is to support the region consistently, therefore we supported local NGOs (such as "Who will help Slovakia") and also hospitals, when they needed it most, either by providing equipment or resources for necessary appliances, followed by free accounts for medical personnel most exposed to the health risk. Despite the difficult times, we still believe in supporting the culture and art via our VÚB Foundation. The role of a reliable member of the community is equally important to us, and we will continue in this path by helping where it's necessary.

Macroeconomic point of view

As mentioned in the previous pages, from the macroeconomic point of view, after strong deterioration of the real economy in 2020, we expect recovery in 2021. While in 2020 GDP fell by more than 6% followed by deterioration in labour market (after a long period of generous development), in 2021 we expect the GDP growth by 4% and unemployment rate declining again. However, interest–rate wise, we still cannot expect any significant improvements in 2021.

The mid-term business plan of VÚB is still based on 3 main pillars: (i) customer experience, (ii) employees engagement and (ii) growth of profitability and efficiency. At the same time, our aim is to keep our strong market position in both retail and corporate segment. On top of that, our HUB initiative connecting VÚB Bank with Hungarian CIB Bank is expected to bring even more synergy in terms of regional cooperation.

New challenges

As the whole year 2020 and probably a significant part of 2021 will bring us new challenges related to the world pandemic, the most important priority nowadays is the health protection of both our customers and employees. This goes hand in hand with speeding up the process of minimising the administration and necessity of branch visits.

In line with this trend, we will lay strong emphasis on digitalisation and remote working. Focusing on the first, we are constantly developing tools of modern banking with the aim to make everyday finance task as easy and comfortable as possible, and most importantly, from the safety and comfort of people's homes. In this regard, we aim to increase efficiency in the already existing digital tools and introduce further improvements such as: (i) new tools allowing non-clients to apply for account or some kind of loans via Mobil banking, using face biometrics as a security basis; (ii) further development of online branch; (iii) full integration of Payme service, and (iv) other improvements based on user feedback of both Mobile and Internet banking. In order to improve the synergy within the Intesa SanPaolo group, we will also launch Digical solution to simplify banking not only for our corporate clients.

In 2020, due to pandemic, we were forced to keep all our employees whose presence at work was not an absolute necessity at home. We used this experience to create our new concept of smart work which aligns two intentions: to enhance flexibility of our employees, and at the same time, to provide our customers with service when and where they need it.

Another crucial field of our interest is our environment. In 2020, VÚB launched project "Green bank", which will continue in 2021 with even stronger focus on green initiatives, sustainability and circular economy. This includes both our behaviour as a company and its employees, supporting the green projects of our clients, and even award those with extraordinary benefits for the environment. More initiatives are introduced in our "Manifesto" (https://www.vub.sk/zelenabanka/manifest/).

Conclusion

Even in 2021, we continue with the set support in almost all areas: mitigating the effects of the corona crisis on clients and companies, promoting meaningful solutions, and helping exactly where it is most needed. We are ready to respond quickly and flexibly to the situations that have arisen, and thus make a significant contribution to overall stabilization.

Registered Share Capital and the Structure of VUB Shareholders

Registered Share Capital of VÚB, a.s.

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

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

Shareholders' rights

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

Structure of VUB Shareholders

Information regarding VUB shareholders is published quarterly within 30 days of the end of the relevant quarter. Below is the status as of 31 December 2020.

Structure by Owner Type	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Other legal entities	5,895	1.38
Individuals	6,890	1.59
Total Registered Share Capital of VÚB, a.s.	430,819	100.00

Structure by Nationality	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Domestic shareholders	9,356	2.17
Other foreign shareholders	3,429	0.80
Total Registered Share Capital of VÚB, a.s.	430,819	100.00

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

There were 27,409 shareholders as at 31 December 2020. Foreign VUB shareholders come from the following countries with the following stake in the bank's registered capital (in %): Luxembourg (97.64%), Czech Republic (0.19%), Germany, Austria, United Kingdom, U.S.A., Romania, Cyprus, Canada, Sweden, Belgium, France, Switzerland, and Serbia.

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

Further, the company during the accounting year 2020 held in its assets the shares of the parent company (Art. 22, sec. 3 of the Act no. 431/2002 Coll. on Accounting as amended), Intesa Sanpaolo S.p.A. (ISP), registered office Piazza San Carlo 156, Turin, Italy, ISIN IT0000072618, book-entered registered ordinary shares, with a nominal value of € 0.52 each, in a total number of 539,975 shares. This represents 0.065% of the nominal value of the Bank's registered capital. These shares have been acquired by the Bank in order to adopt and implement ISP Group Remuneration Policies in line with the Capital Directive ‚CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). In 2020, the Bank transferred 47,871 shares in accordance with ISP Group Remuneration Policies.

Subsidiaries of VÚB, a.s.

VÚB Leasing, a.s.

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

Statement on Compliance with the Corporate Governance Code for Slovakia

A. Company Organization

The structure of VÚB, a.s. bodies:

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

General Meeting

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

The Ordinary General Meeting of the company was held on 24 April 2020. The shareholders at this meeting approved the 2019 Annual Report of VÚB, a.s., the 2019 Statutory Separate Financial Statements and the 2019 Consolidated Financial Statements, both statements were prepared in accordance with IFRS as amended by the EU, as submitted by the Management Board of the Bank. The General Meeting also decided on distributing the profit earned in 2019 in the amount of € 114,087,731.24 to the retained earnings in the amount of € 114,087,731.24.

The General Meeting approved the amendments to the Articles of Association of VÚB, a.s. as proposed and approved by the external auditor KPMG Slovensko spol. s r.o. for the bank for 2020 and Ernst & Young Slovakia spol. s r.o. for 2021.

The General Meeting approved the VÚB, a.s. Remuneration and Incentive Policy, the VÚB significant business transaction and remuneration of VÚB, a.s. Supervisory Board Members for 2019 as proposed.

The Extraordinary General Meeting of VÚB a.s., which took place on 18 December 2020 approved that the shares of VÚB, a.s. admitted to trading at the Main Listed Market operated by the stock exchange Burza cenných papierov v Bratislave, a.s., cease to be listed and traded at the stock exchange.

The General Meeting approved that the mandatory public offer pursuant to the relevant provisions of the Securities Act shall be conducted by the majority shareholder VUB, a.s. instead of VUB, a.s.

The General Meeting also approved that VUB, a.s. ceases to be a public joint-stock company after making a mandatory public and termination of trading with the Share issue at the Main Listed Market operated by the stock exchange Burza cenných papierov v Bratislave, a.s.

VUB Supervisory Board and Management Board in general

1. Supervisory Board members are elected by the General Meeting. The VUB, a.s. Management Board is elected by the Supervisory Board.
2. All relevant information is available to all members of the Management Board and Supervisory Board in time. In the course of the financial year 2020, the VUB, a.s. Management Board held 24 meetings and 15 via per rollam. The VUB, a.s. Supervisory Board held 8 meetings and 7 via per rollam during the 2020 financial year. Documents with detailed information are distributed sufficiently in advance – in the case of the Management Board no less than 3 working days, in the case of the Supervisory Board no less than 10 days prior to the meeting, ensuring the ability of members of the Supervisory and Management Boards to decide on individual matters competently.
3. None of the Supervisory Board members is a member of the VUB, a.s. Management Board nor holds any other top managerial position in the Bank. With the exception of members of the Supervisory Board elected by VUB employees, a Supervisory Board member may not be an employee of VUB.

Supervisory Board

Members of the Supervisory Board in 2020

Ignacio Jaquotot	Chairman of the Supervisory Board
Elena Kohútiková	Vice Chairwoman of the Supervisory Board
Marco Fabris	Member of the Supervisory Board
Paolo Sarcinelli	Member of the Supervisory Board (until 24 April 2020)
Luca Leoncini Bartoli	Member of the Supervisory Board (since 8 December 2020)*
Christian Schaack	Member of the Supervisory Board
Peter Gutten	Member of the Supervisory Board, employee representative
Róbert Szabo	Member of the Supervisory Board, employee representative

* As of 1 October 2020, the submission of paper proposals for entry in the Commercial Register was excluded and an exclusively electronic form of the submission of proposals for entry in the Commercial Register was introduced via a dedicated service at www.slovensko.sk. Due to this fact, a member of the VUB, a.s. Supervisory Board Mr. Luca Leoncini Bartoli is not yet registered in the Commercial Register of OS BA I for technical reasons.

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

a) reviews the annual report, the ordinary, extraordinary, individual and consolidated accounts and recommends the annual report, the ordinary, extraordinary, individual and consolidated accounts to the General Meeting for approval;
b) approves the proposed distribution of current and/or past profits;
c) approves rules for the creation and use of other funds created by VÚB, a.s.;
d) approves the draft plan for the settlement of unsettled loss and/or unsettled losses from past years;
e) approves proposed changes to the internal audit and internal control system;
f) approves the annual audit plan and the annual report on the results of the activities of the Internal Audit and Control Unit;
g) reviews and approves the following matters before their submission to the General Meeting by the Management Board:
   i. proposals for changes to the Articles of Association; and
   ii. proposals for an increase or decrease in the registered share capital of VÚB, a.s. and/or for the issue of preference or convertible bonds, according to the relevant provisions of the Commercial Code;
h) elects members of VÚB, a.s., Management Board and approves agreements on the performance of function with the members of the Management Board;
i) approves any proposal for an increase or decrease in the registered capital of VÚB, a.s.;
j) approves any substantial change in the nature of the business of VÚB, a.s. or the way in which the business of VÚB, a.s. is carried out, if it is not already approved in the printed forecasts for the business and financial conditions in any relevant year;
k) approves remuneration policies for rewarding the managers who are directly under the responsibility of the Management Board and the Supervisory Board;
l) decides on other issues falling within the authority of the Supervisory Board under the cogent provisions of legal regulations and the Articles of Association;
m) approves the Bank Remuneration Policies for the period stipulated in Section 201d of the Commercial Code subject to paragraph (o) below;
n) approves changes to the Bank Remuneration Policies to the extent that the Bank Remuneration Policies;
   – apply to the rules on remuneration of members of the bodies of VÚB, a.s. pursuant to Section 187(1) (i) in connection with Section 201a(2) of the Commercial Code;
   – regulate powers of the Management Board and the Supervisory Board in relation to the rules on remuneration of VÚB, a.s.;
o) approves the remuneration for the Members of the Supervisory Board;
p) approves major business transactions pursuant to Article 220ga of the Commercial Code.

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

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

Committees of the Supervisory Board:

Audit Committee

The Audit Committee was comprised of three members (including the Chairwoman) as of 31 December 2020. The Audit Committee held eight meetings (from which four per rollam) during the 2020 financial year. The issues discussed at the meetings mainly related to: preparation of the financial statements and observation of the special regulations; efficiency of internal control and risk management system at the Bank; compliance with regulatory requirements; the audit of the separate financial statements and the audit of the consolidated financial statements. Further, the Audit Committee examines and monitors the independence of the auditor, especially services provided by the auditor according to a special regulation, recommends the appointment of an auditor for carrying out the audit of the Bank, and sets a date for an auditor to submit a statutory declaration about his independence. The Audit Committee regularly invited an external auditor to attend its meetings.

The Internal Audit and Control Department, the authorities and duties of which are defined by the Supervisory Board, excluding those defined by law, performs the control function in the Bank. The Head of the Internal Audit and Control Department may be appointed to/removed from the position upon a recommendation and prior consent issued by the Supervisory Board. Furthermore, the Supervisory Board also defines the remuneration and compensation scheme for this position. In 2020, the Chairwoman of the Audit Committee (being also Vice Chairwoman of the Supervisory Board) and the Head of the Internal Audit and Control Department participated in the meetings of the Supervisory Board. The Chairwoman of the Audit Committee regularly informed the Supervisory Board of the most important issues discussed at the Audit Committee Meetings.

Members of the Audit Committee in 2020:

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

Remuneration Committee

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

Risk Committee

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

Management Board

Management Board Members in 2020

Alexander Resch	Chairman of the Management Board and Chief Executive Officer
Roberto Vercelli	Member of the Management Board and Deputy Chief Executive Officer
Antonio Bergalio	Member of the Management Board and Chief Financial Officer (until 30 June 2020)
Paolo Vivona	Member of the Management Board and Chief Financial Officer (since 24 October 2020)*
Andrej Viceník	Member of the Management Board and Head of Corporate and SME Division
Peter Magala	Member of the Management Board and Head of Risk Management Division
Martin Techman	Member of the Management Board and Head of Retail Division
Marie Kovářová	Member of the Management Board and Chief Operating Officer (since 3 April 2020)

* As of 1 October 2020, the submission of paper proposals for entry in the Commercial Register was excluded and an exclusively electronic form of the submission of proposals for entry in the Commercial Register was introduced via a dedicated service at www.slovensko.sk. Due to this fact, a member of the VUB, a.s. Management Board Mr. Paolo Vivona is not yet registered in the Commercial Register of OS BA I for technical reasons.

Alexander Resch – Chairman of the Management Board and CEO

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

Roberto Vercelli – Member of the Management Board and Deputy CEO

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

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

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

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

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

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

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

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

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

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

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

Competencies of the Management Board

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

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

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

Committees of the Management Board

The Credit Committee

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

The Credit Risk Governance Committee

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

The Assets and Liabilities Committee

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

The Operational Risk Committee

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

Change Management Committee

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

Internal Control Coordination Committee

The aim of the Internal Control Coordination Committee is to strengthen coordination and the tools for cooperation between the departments regarding the internal control system and to enable the integration of the risk management process.

Technical Committee for Financial Products

The committee is a permanent advisory committee which, in the framework of VÚB, a. s. management of financial products offered to retail clients, supports the Assets and Liabilities Committee, and is in charge of the definition, analysis and assessment of financial product features. The committee monitors the performance of the financial products in line with the instructions of Intesa SanPaolo SpA (mother company), the Bank's internal regulations, applicable laws, and rules and regulations established by the competent authorities. Technical Committee for Financial Products was abolished from the beginning of September 2020 and his competences went partially to the The Assets and Liabilities Committee and The Credit Risk Governance Committee.

The Problem Asset Committee

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

The Crisis Committee

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

B. Relations between the Company and its Shareholders

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

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

C. The Company's Approach to Shareholders

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

D. Disclosure of Information and Transparency

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

Non-financial statement

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

Basic indicators

Selected Indicators (in € thousand)

	Separate financial statements prepared in accordance with IFRS as adopted by the EU			Consolidated financial statements prepared in accordance with IFRS as adopted by the EU		
	2020	2019	2018	2020	2019	2018
Loans and advances to customers	14,724,137	14,078,141	13,327,533	15,239,856	14,377,014	13,617,247
Due to customers (including lease liabilities)	13,000,818	11,927,060	11,055,766	13,005,382	11,951,017	11,130,637
Equity	1,693,246	1,596,939	1,608,688	1,706,939	1,612,997	1,613,953
Balance sheet total	18,741,414	17,361,197	16,369,271	19,228,219	17,640,496	16,659,935
Profit before provisions, impairment and tax	166,371	181,767	253,374	175,221	188,809	260,234
Profit before tax	110,121	146,905	200,308	109,141	154,170	204,153
Income tax expense	(25,082)	(32,818)	(44,022)	(26,447)	(34,099)	(43,835)
Net profit for the year	85,039	114,087	156,286	82,694	120,071	160,318

Commercial indicators	2020	2019	2018
ATMs	598	601	592
EFT POS Terminals	11,287	10,596	10,379
Payment cards	1,004,785	1,035,378	1,136,405
of which credit cards	108,072	253,647	233,378
Mortgage loans (gross, € thousand, VUB Bank)	7,847,341	6,897,623	6,172,729
Consumer loans (gross, € thousand, VUB Bank)	1,391,046	1,560,744	1,589,367
Number of employees (VUB Group)	3,655	3,742	3,809
Number of branches in Slovakia (VUB Bank)	197	203	212

Key ratios of VUB Group	2020	2019	2018
Return on assets	0.43%	0.68%	0.96%
Cost-Income Ratio (without bank levy)	52.83%	51.35%	42.52%
Tier 1 capital ratio	16.66%	15.26%	14.89%
Total capital ratio	18.79%	17.38%	17.18%

Rating (status as at 31 December 2020)	
Moody's	
Long-term deposits	A2
Short-term deposits	P-1
Baseline credit assessment	baa2

Negative outlook

Consolidated financial statements

Consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditors' Report for the year ended 31 December 2020

Contents

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Všeobecná úverová banka, a. s. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2020: € 15,239,856 thousand; impairment loss recognised in 2020: € 62,305 thousand; total impairment loss as at 31 December 2020: € 331,219 thousand.

Refer to Note 3 (Significant accounting policies) and Notes 11.2, 21 and 33 (Due from customers, Movements in impairment losses and Impairment losses and Net loss arising from the derecognition of financial assets measured at amortised cost).

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within financial assets at amortized cost at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment from the Management Board over the amount of any such impairment. Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below EUR 500 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. For non-performing exposures equal to or exceeding EUR 500 thousand (EUR 100 thousand for the subsidiary), the impairment assessment is based on the Group's knowledge and understanding of each individual borrower's circumstances and often on estimation of the realizable amount of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows valuation. For the above reasons, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19	Our audit procedures in this area included, among others: • Updating our understanding of the Group's ECL impairment methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. We also challenged the Management Board on whether the level of methodology sophistication is appropriate based on our assessment of the entity-level and portfolio-level factors, including inspecting and assessing the internal validation reports; • Obtaining an understanding of the Group's retrospective review of its ECL estimates and its response to the results of the review, and performing our own independent back-test; • Making relevant inquiries of the Group's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Group's IT control environment for data security and access, assisted by our own IT specialists; • Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans and advances, including, but not limited

global pandemic on multiple sectors of the economy, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.	to, the controls relating to the identification of loss events / default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and the overall ECL estimate; • Assessing whether the definition of default and the staging criteria of the Standard were consistently applied. Also assessing whether the definition of default applied for each segment/portfolio is appropriate based on the requirements of IFRS 9 (e.g. taking into account the 90-day presumption of default); • Evaluating whether in its loan staging and ECL measurement the Group appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic; • For collective impairment allowance: – Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Group's ECL assessment. Assessing the information by means of comparison to the economic projections published by the National bank of Slovakia and corroborating inquiries of the Management Board; – Challenging the collective LGD, EAD and PD parameters used by the Group, by reference to historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances; • For impairment allowances calculated individually, for a risk-based sample of loans: – Critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 3 as at 31 December 2020; – For the exposures with triggers for classification in Stage 3 and with exposure of EUR 500

thousand or more (EUR 100 thousand or more for the subsidiary), challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period by reference to the original effective interest rate inspection, assessment of collateral values and reasonableness of the cash flow realization periods, and also performing respective independent estimates, where relevant.

- For loan and advances exposures in totality:

– Critically assessing the overall reasonableness of the impairment allowances, including the loans provision coverage, by benchmarking them against publicly available industry data;

– Examining whether the Group's loan impairment and credit risk-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on other information in the consolidated Annual Report

The Management Board is responsible for the other information. The other information comprises the information included in the consolidated Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting") but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information in the consolidated Annual Report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the consolidated Annual Report that we have obtained prior to the date of the auditors' report on the audit of the consolidated financial statements, and, in doing so, consider whether the other information is materially inconsistent with the audited consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With respect to the consolidated Annual Report, we are required by the Act on Accounting to express an opinion on whether the other information given in the consolidated Annual Report is consistent with the consolidated financial statements prepared for the same financial year, and whether it contains information required by the Act on Accounting.

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

- the other information given in the consolidated Annual Report for the year ended 31 December 2020 is consistent with the consolidated financial statements prepared for the same financial year; and
- the consolidated Annual Report contains information required by the Act on Accounting.

In addition to this, in light of the knowledge of the Group and its environment obtained in the course of the audit of the consolidated financial statements, we are required by the Act on Accounting to report if we have identified material misstatements in the other information in the consolidated Annual Report. We have nothing to report in this respect.

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

Appointment and approval of an auditor

We have been appointed as a statutory auditor by the Management Board of the Bank on 24 July 2020 on the basis of approval by the General Meeting of the Bank on 24 April 2020. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is nine years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

3 March 2021
Bratislava, Slovak Republic

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

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

Responsible auditor:
Ing. Mgr. Peter Špeťko, PhD., FCCA
License UDVA No. 994

Consolidated statement of financial position as at 31 December 2020

(In thousands of euro)

	Note	2020	2019
Assets			
Cash and cash equivalents	7	1,571,642	996,446
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		85,423	23,454
Non-trading financial assets at fair value through profit or loss		711	584
Derivatives – Hedge accounting	9	85,192	82,501
Financial assets at fair value through other comprehensive income	10	1,618,067	1,574,549
of which pledged as collateral		*634,093*	*773,472*
Financial assets at amortised cost:	11		
Due from other banks		205,420	180,491
Due from customers		15,239,856	14,377,014
of which pledged as collateral		–	*190,060*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	20,016	13,840
Investments in joint ventures and associates	13	11,058	11,635
Property and equipment	14	124,862	120,150
Intangible assets	15	129,527	112,583
Goodwill	16	29,305	29,305
Current income tax assets	17	26,518	28,342
Deferred income tax assets	17	54,802	66,118
Other assets	18	25,819	22,839
Non-current assets classified as held for sale	14	1	645
		19,228,219	17,640,496
Liabilities			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		87,377	24,750
Derivatives – Hedge accounting	9	65,407	59,833
Financial liabilities at amortised cost:	11		
Due to banks		629,800	551,967
Due to customers		12,986,820	11,930,949
Lease liabilities		18,562	20,068
Subordinated debt		200,151	200,143
Debt securities in issue		3,422,729	3,120,695
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	6,990	4,580
Current income tax liabilities	17	3,411	–
Provisions	19	18,036	13,625
Other liabilities	20	81,997	100,889
		17,521,280	16,027,499
Equity	22		
Share capital		430,819	430,819
Share premium		13,719	13,719
Legal reserve fund		89,350	88,986
Retained earnings		1,145,632	1,057,794
Equity reserves		27,419	21,679
		1,706,939	1,612,997
		19,228,219	17,640,496

The accompanying notes on pages 48 to 236 form an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 (In thousands of euro)

	Note	2020	2019
Interest income calculated using the effective interest method		326,535	381,148
Other interest income		6,183	6,775
Interest and similar expense		(37,899)	(47,751)
Net interest income	24	294,819	340,172
Fee and commission income		163,149	157,796
Fee and commission expense		(28,514)	(30,116)
Net fee and commission income	25	134,635	127,680
Net trading result	26	18,644	(7,513)
Other operating income	27	7,593	8,591
Other operating expenses	28	(18,461)	(19,835)
Special levy of selected financial institutions	29	(31,038)	(29,695)
Salaries and employee benefits	30	(126,630)	(125,349)
Other administrative expenses	31	(73,837)	(78,302)
Amortisation	15	(14,591)	(12,654)
Depreciation	14	(15,913)	(14,286)
Profit before provisions, impairment and tax		175,221	188,809
Provisions	19, 32	218	4,927
Impairment losses	21, 33	(62,305)	(39,051)
Net loss arising from the derecognition of financial assets at amortised cost	33	(7,436)	(4,883)
		105,698	149,802
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method		3,443	4,368
Profit before tax		109,141	154,170
Income tax expense	34	(26,447)	(34,099)
NET PROFIT FOR THE YEAR		82,694	120,071
Other comprehensive income for the year, after tax:	35, 36		
Items that shall not be reclassified to profit or loss in the future:			
Net revaluation gain from property and equipment		3,597	10
Reversal of deferred income tax on disposed property and equipment		99	2,101
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		(159)	2,676
		3,537	4,787
Items that may be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		7,454	(1,329)
Change in value of cash flow hedges		–	6
Exchange difference on translation of foreign operations		(309)	343
		7,145	(980)
Other comprehensive income for the year, net of tax		10,682	3,807
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		93,376	123,878

The accompanying notes on pages 48 to 236 form an integral part of these financial statements.

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

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2020	430,819	13,719	88,986	1,057,794	14,073	7,276	–	330	1,612,997
Total comprehensive income for the year, net of tax	–	–	–	82,694	3,696	7,295	–	(309)	93,376
Reclassification of Visa Inc. Series C Preferred Stock	–	–	–	4,724	–	(4,724)	–	–	–
Gain on disposal of property and equipment	–	–	–	472	(472)	–	–	–	–
Losses on the sale of shares at FVOCI	–	–	–	(254)	–	254	–	–	–
Transfers	–	–	364	(364)	–	–	–	–	–
Exchange difference	–	–	–	370	–	–	–	–	370
Transactions with owners, recorded directly in equity									
Reversal of dividends distributed but not collected	*–*	*–*	*–*	*196*	*–*	*–*	*–*	*–*	*196*
At 31 December 2020	430,819	13,719	89,350	1,145,632	17,297	10,101	–	21	1,706,939

(Table continues on the next page)

The accompanying notes on pages 48 to 236 form an integral part of these financial statements.

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

(In thousands of euro)

(continued)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2019	430,819	13,719	88,986	1,052,943	21,967	5,569	(6)	(44)	1,613,953
Total comprehensive income for the year, net of tax	–	–	–	120,071	2,111	1,347	6	343	123,878
Gain on disposal of property and equipment	–	–	–	10,005	(10,005)	–	–	–	–
Losses on the sale of shares at FVOCI	–	–	–	(360)	–	360	–	–	–
Transfers	–	–	–	(31)	–	–	–	31	–
Transactions with owners, recorded directly in equity									
Dividends to shareholders	–	–	–	*(125,049)*	–	–	–	–	*(125,049)*
Reversal of dividends distributed but not collected	–	–	–	*215*	–	–	–	–	*215*
	–	–	–	(124,834)	–	–	–	–	(124,834)
At 31 December 2019	430,819	13,719	88,986	1,057,794	14,073	7,276	–	330	1,612,997

The accompanying notes on pages 48 to 236 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2020

(In thousands of euro)

	Note	2020	2019
Cash flows from operating activities:			
Profit before tax		109,141	154,170
Adjustments for:			
Interest income	24	(332,718)	(387,923)
Interest expense	24	37,899	47,751
Gain from sale/revaluation of financial assets at fair value through other comprehensive income		(11,401)	(26,474)
Gain on sale of intangible assets and property and equipment	28	2,878	(838)
Loss from revaluation of debt securities in issue		35,599	51,065
Amortisation	15	14,591	12,654
Depreciation	14	15,913	14,286
Impairment losses and similar charges	32, 33	91,242	72,961
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method and related items		577	(2,877)
Exchange difference on translation of foreign operations	35, 36	61	343
Interest received		288,147	394,894
Interest paid		(34,742)	(51,832)
Tax paid		(9,896)	(65,270)
(Increase)/decrease in financial assets at fair value through profit or loss		(62,122)	15,976
Increase in derivatives – hedge accounting (assets)		(2,691)	(55,736)
Financial assets at amortised cost:			
Increase in due from other banks		(25,675)	(76,267)
Increase in due from customers		(937,024)	(838,332)
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		(6,176)	(4,657)
Increase in other assets		(2,005)	(132)
Increase/(decrease) in financial liabilities at fair value through profit or loss		62,627	(14,585)
Increase in derivatives – hedge accounting (liabilities)		5,574	44,607
Financial liabilities measured at amortised cost:			
Decrease in due to banks		(120,779)	(616,601)
Increase in due to customers		1,056,413	799,966
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		2,410	3,081
Increase/(decrease) in provisions		1,105	(5,843)
(Decrease)/increase in other liabilities		(18,696)	1,715
Net cash from/(used in) operating activities		160,252	(533,898)
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(1,511,287)	(1,516,232)
Disposal of financial assets at fair value through other comprehensive income		758,638	400,943
Repayments of financial assets at fair value through other comprehensive income		757,370	311,355
Purchase of intangible assets and property and equipment		(43,684)	(43,467)
Disposal of intangible assets and property and equipment		3,287	21,816
Net cash used in investing activities		(35,676)	(825,585)

(Table continues on the next page)

The accompanying notes on pages 48 to 236 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2020
(In thousands of euro)

(continued)

	Note	2020	2019
Cash flows from financing activities:			
Proceeds from issue of debt securities		500,000	1,000,000
Repayments of debt securities in issue		(235,840)	(258,035)
Proceeds from loans received from other banks		302,500	269,868
Repayments of loans received from other banks		(105,304)	(293,873)
Repayments of lease liabilities		(10,736)	(6,116)
Dividends paid		–	(125,049)
Net cash from financing activities		450,620	586,795
Net change in cash and cash equivalents		575,196	(772,688)
Cash and cash equivalents at the beginning of the year	7	996,446	1,769,134
Cash and cash equivalents at 31 December	7	1,571,642	996,446

The accompanying notes on pages 48 to 236 form an integral part of these financial statements.

1.Basis of preparation

1.1. Reporting entity - general information

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

At 31 December 2020, the VUB Group had a network of 197 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2019: 203). The VUB Group also has one branch in the Czech Republic (31 December 2019: 1).

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

At 31 December 2020, the members of the Management Board are Alexander Resch (Chairman), Marie Kovářová (from 3 April 2020), Peter Magala, Martin Techman, Roberto Vercelli, Andrej Viceník and Paolo Vivona (from 24 October 2020). Another member of the Management Board was Antonio Bergalio (until 30 June 2020).

At 31 December 2020, the members of the Supervisory Board are Ignacio Jaquotot (Chairman), Elena Kohútiková (Vice Chairman), Marco Fabris, Peter Gutten, Luca Leoncini Bartoli (from 8 December 2020), Christian Schaack and Róbert Szabo. Another member of the Supervisory Board was Paolo Sarcinelli (until 24 April 2020).

1.2. The VUB Group

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

	Share December 2020	Share December 2019	Principal business activity
Subsidiaries			
VÚB Leasing, a. s. ('VÚB Leasing')	100%	100%	Finance and operating leasing
Joint ventures			
VÚB Generali d. s. s., a. s. ('VÚB Generali')	50%	50%	Pension fund administration
Associates			
Slovak Banking Credit Bureau, s. r. o. ('SBCB')	33.33%	33.33%	Credit database administration

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

1.3. Basis of accounting

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

The consolidated financial statements of the VUB Group for the year ended 31 December 2019 were authorised for issue by the Management Board on 21 February 2020.

The separate financial statements of the Bank for the year ended 31 December 2020 were issued on 3 March 2021 and are available at the registered office of the Bank.

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

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

1.4. Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Joint ventures

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

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

1.5. Functional and presentation currency

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

Negative balances are presented in brackets.

1.6. Use of judgements and estimates

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

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

1.6.1. Judgements

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

- Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ('SPPI') on the principal amount outstanding. (note 3.4.2)

- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL. (note 4.1.2)

- Valuation of lease liabilities (note 11.5) and right-of-use assets (note 14)

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

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

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

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

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

1.6.2. Assumptions and estimation uncertainties

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

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

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

– Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information. (note 4.1.2)
  The Bank reviews its loans and advances at each reporting date to assess whether any individually assessed impairment loss should be recorded in the statement of profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment loss required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the individually assessed impairment losses.

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

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

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

2. Changes in accounting policies

A number of the new standards are also effective from 1 January 2020 but they do not have a material effect on the financial statements.

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

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

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

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

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

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

In accordance with exceptions provided in the Phase 2 amendments, the VUB Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2019. There is no impact on opening equity balances as a result of retrospective application.

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

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

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

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

(Effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not authorised for issue at 28 May 2020.)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

The practical expedient will only apply if:
- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

This practical expedient is not available for lessors.

The VUB Group expects that the amendments, when initially applied, will not have a material impact on the financial statements of the VUB Group because the VUB Group is in no need to renegotiate rent agreements.

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted.)

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the VUB Group's right to defer settlement at the end of the reporting period. The VUB Group's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the VUB Group will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

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

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets Onerous Contracts – Cost of Fulfilling a Contract

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.)

In determining costs of fulfilling a contract, the amendments require the Bank to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Bank shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The VUB Group shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

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

Annual Improvements to IFRS Standards 2018-2020

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.)

Amendment to IFRS 9 Financial Instruments

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

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

3. Significant accounting policies

3.1. Foreign currency transactions

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

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

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

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

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

– qualifying cash flow hedges to the extent that the hedge is effective; and
– equity 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 VUB Group in the management of its short-term commitments.

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

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

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

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

3.4.2. Classification

On initial recognition, a financial asset is classified as measured at:
- Amortised cost ('AC'),
- Fair value through other comprehensive income ('FVOCI'), or
- Fair value through profit or loss ('FVTPL').

A financial asset is measured at AC, if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

The VUB Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

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

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

Assessment of whether contractual cash flows are SPPI

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

In assessing whether the contractual cash flows are SPPI, the VUB Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the VUB Group considers:
– Contingent events that would change the amount and timing of cash flows;
– Leverage features;
– Prepayment and extension terms;
– Terms that limit the VUB Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
– Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

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

Reclassifications

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

3.4.3. Subsequent measurement

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

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

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

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

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

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

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

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

3.4.5. Modifications

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

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

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the VUB Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. 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 VUB Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

3.4.7. Fair value measurement

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

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

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

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

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

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

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

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

3.5.2. Financial assets at fair value through profit or loss

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

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

3.6. Financial assets at fair value through other comprehensive income

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

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

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

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

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

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

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

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

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

3.7. Financial assets and financial liabilities at amortised costs

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

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

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

Due from other banks

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

Due from customers

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

Impairment

The detailed description of policy is in the note 4.1.2.

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

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

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

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

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

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

3.8. Repurchase and reverse repurchase agreements

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

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

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

3.9. Derivatives – Hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

When the hedged cash flow affects profit or loss, the gain or loss on the hedging instrument is reclassified from other comprehensive income to profit or loss as a reclassification adjustment in 'Net trading result'.

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

Fair value hedges

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

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

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

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments

If a hedging relationship is directly affected by IBOR reform, then the VUB Group applies certain exceptions (referred to as 'the Phase 1 amendments') to the general hedge accounting policy. The VUB Group 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 VUB Group'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 VUB Group assumes that the benchmark interest rate is not altered as a result of IBOR reform.
– If the VUB Group concludes that the actual result of a hedging relationship is outside the range of 80 – 125% (i.e. retrospective assessment), then the VUB Group 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 VUB Group 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 not 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 VUB Group 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 VUB Group will cease to apply the respective Phase 1 amendments.

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

The VUB Group 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 VUB Group 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 VUB Group 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 VUB Group 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 VUB Group 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 VUB Group amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

Policies specific to non-contractually specified risk portions

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

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

Policies specific to cash flow hedges

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

3.10. Investments in joint ventures and associates

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

Free Cash Flow to Equity model

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

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

3.12. Property and equipment

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

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

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

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

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

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

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

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

Property and equipment contains also right-of-use assets. (note 3.16)

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7 – 10

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

3.14. Goodwill

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

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

3.15. Non-current assets held for sale

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

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

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

The VUB Group is a party to lease contracts for:
- Buildings and land (branch and office premises and lands under ATMs),
- Other tangible assets (motor vehicles).

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

Leases in which the VUB Group is a lessee

The VUB Group applies a single accounting model, requiring lessees to recognise assets and liabilities for all leases. However, the VUB Group applies exemptions regarding:
- Leases with a lease term of 12 months or less and containing no purchase options;
- Leases where the underlying asset has a low value ('small-ticket' leases).

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

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

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

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

	Years
Buildings	2 – 6
Other tangibles	2 – 5

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:
- Fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

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

The lease term determined by the VUB Group comprises:
– Non-cancellable period of lease contracts,
– Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option,
– Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the VUB Group measures the lease liability by:
– Increasing the carrying amount to reflect interest on the lease liability,
– Reducing the carrying amount to reflect lease payments made, and
– Re-measuring the carrying amount to reflect any reassessment or lease modifications.

Leases in which the VUB Group is a lessor

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

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.

3.18. Provisions

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

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

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

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

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

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

3.19. Provisions for employee benefits

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

3.20. 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.

3.21. 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 and finance leases.

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

3.23. 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.

3.24. Dividend income

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

3.25. Special levy of selected financial institutions

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

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

Subsequently this special levy was cancelled in full effectively from 1 January 2021. (note 38)

3.26. Current and deferred income tax

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

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

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

4. Financial and operational risk management

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

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

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

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

4.1. Credit risk

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

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

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

4.1.1. Management of credit risk

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

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

4.1.2. Impairment losses

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

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

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

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

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

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

Inputs, assumptions and techniques used for estimating impairment

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

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

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

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

For LGD models of the portfolios where the VUB Group uses internal models, the modelling approach consists of the following steps:
- Calculation of nominal LGD;
- Incorporation of forward looking information using coefficients calculated based on Path-generator issued by the European Banking Authority ('EBA');
- Obtaining the final LGD values by discounting the recovery rates using effective interest rate and average time to recovery.

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

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

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

Days past due ('DPD') methodology

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

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

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

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

The calculation of days past due starts at the moment when the obligor-level overdue exposure breaches both absolute and relative thresholds. Materiality threshold is composed of both an absolute and a relative component according to the Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing the Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due.

The absolute threshold is exceeded when:

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

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

The relative threshold is exceeded when:

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

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

Staging methodology

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

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

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

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

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

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

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

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

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

Stage 2 criterion: Forborne performing exposures

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

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

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

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

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

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

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

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

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

Stage 3 criterion

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

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

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

Staging criteria for debt securities

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

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

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

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

Staging criteria for Low Default Portfolio and Intragroup exposures

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

Intragroup exposures are exposures with the following parties:
– Parent Company;
– Bank's own subsidiaries;
– Other ISP Group subsidiaries.

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

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

Expected credit loss calculation

Stage 1

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

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

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

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

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

where n is the number of months to maturity.

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

Stage 2

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

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

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

For exposures with remaining maturity greater than one year:

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

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

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

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

where:
- EAD1, EAD2, EAD3 are exposure at default at the beginning of each residual year;
- PD_1 is probability that exposure enters in default during the first year of residual maturity;
- $PD_2 - PD_1$ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- $PD_3 - PD_2$ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;

– LGD_1, LGD_2, LGD_3 is percentage of loss in case of default of each residual year;
– EIR is Effective Interest Rate.

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

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

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

Stage 3

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

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

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

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

Incorporation of forward-looking information

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

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

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

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

The VUB Group identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The economic scenarios used the following ranges of the inputs for the quarters of years 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 scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario
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.

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

		Portfolio assessed			Individually assessed	
2020 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 1						
Financial assets at AC:						
Due from other banks	206,126	(706)	205,420	–	–	–
Due from customers:						
Public administration	126,926	(1,075)	125,851	–	–	–
Corporate	4,676,062	(26,135)	4,649,927	–	–	–
Retail	9,140,921	(13,313)	9,127,608	–	–	–
	13,943,909	(40,523)	13,903,386	–	–	–
	14,150,035	(41,229)	14,108,806	–	–	–
Financial assets at FVOCI – debt securities	1,611,015	(306)	1,610,709	–	–	–
Financial commitments and contingencies	4,420,551	(7,001)	4,413,550	–	–	–

2019 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	180,136	(482)	179,654	–	–	–
Due from customers:						
Public administration	117,047	(1,072)	115,975	–	–	–
Corporate	4,926,378	(19,792)	4,906,586	–	–	–
Retail	8,200,873	(14,550)	8,186,323	–	–	–
	13,244,298	(35,414)	13,208,884	–	–	–
	13,424,434	(35,896)	13,388,538	–	–	–
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–
Financial commitments and contingencies	3,743,616	(4,232)	3,739,384	–	–	–

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

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

2019 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	843	(6)	837	–	–	–
Due from customers:						
Public administration	18,503	(1,182)	17,321	–	–	–
Corporate	423,806	(15,378)	408,428	–	–	–
Retail	593,725	(45,260)	548,465	–	–	–
	1,036,034	(61,820)	974,214	–	–	–
	1,036,877	(61,826)	975,051	–	–	–
Financial commitments and contingencies	134,792	(1,710)	133,082	–	–	–

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

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

	Portfolio assessed			Individually assessed		
2019 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 3						
Financial assets at AC:						
Due from customers:						
Public administration	50	(8)	42	–	–	–
Corporate	22,131	(8,005)	14,126	87,868	(55,043)	32,825
Retail	329,295	(183,675)	145,620	6,086	(4,783)	1,303
	351,476	(191,688)	159,788	93,954	(59,826)	34,128
Financial commitments and contingencies	4,363	(1,055)	3,308	18,284	(2,373)	15,911

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

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

(Table continues on the next page)

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

2019 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	134	587	(381)	–	–	–	(116)	–	224
Financial assets at AC:									
Due from other banks	656	1,655	35	–	–	–	(1,864)	–	482
Due from customers	48,302	33,333	(68,511)	58,610	(26,734)	(2,626)	(6,960)	–	35,414
	48,958	34,988	(68,476)	58,610	(26,734)	(2,626)	(8,824)	–	35,896
Financial commitments and contingencies	6,993	6,169	(10,772)	6,638	(1,768)	(742)	(2,286)	–	4,232
Stage 2									
Financial assets at AC:									
Due from other banks	98	–	(92)	–	–	–	–	–	6
Due from customers	69,584	–	64,139	51,247	34,328	(35,151)	(19,833)	–	61,820
	69,682	–	64,047	51,247	34,328	(35,151)	(19,833)	–	61,826
Financial commitments and contingencies	3,664	–	2,011	(5,110)	2,368	(402)	(821)	–	1,710
Stage 3									
Financial assets at AC:	287,026	–	33,821	(7,363)	(7,594)	37,777	(1,757)	(90,396)	251,514
Due from customers									
Financial commitments and contingencies	3,723	–	3,554	(1,528)	(600)	1,144	(2,865)	–	3,428

(Table continues on the next page)

2019 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	134	587	(381)	–	–	–	(116)	–	224
Financial assets at AC:	–	–	–	–	–	–	–	–	–
Due from other banks	754	1,655	(57)	–	–	–	(1,864)	–	488
Due from customers	404,912	33,333	29,449	–	–	–	(28,550)	(90,396)	348,748
	405,666	34,988	29,392	–	–	–	(30,414)	(90,396)	349,236
Financial commitments and contingencies	14,380	6,169	(5,207)	–	–	–	(5,972)	–	9,370

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

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

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

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

(Table continues on the next page)

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

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

2019 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	741,114	1,549,860	–	–	–	(327,493)	(400,943)	1,562,538
Financial assets at AC:								
Due from other banks	100,678	9,897,008	–	(135)	–	(9,817,415)	–	180,136
Due from customers	12,609,943	6,187,496	1,319,459	(2,341,297)	(51,443)	(4,479,860)	–	13,244,298
	12,710,621	16,084,504	1,319,459	(2,341,432)	(51,443)	(14,297,275)	–	13,424,434
Financial commitments and contingencies	3,712,199	3,133,250	237,277	(260,288)	(14,068)	(3,064,754)	–	3,743,616
Stage 2								
Financial assets at AC:								
Due from other banks	2,530	–	–	135	–	(1,822)	–	843
Due from customers	956,903	–	(1,299,466)	2,360,303	(166,684)	(815,022)	–	1,036,034
	959,433	–	(1,299,466)	2,360,438	(166,684)	(816,844)	–	1,036,877
Financial commitments and contingencies	206,588	–	(233,454)	262,226	(6,582)	(93,986)	–	134,792
Stage 3								
Financial assets at AC:								
Due from customers	455,313	–	(19,993)	(19,006)	218,127	(75,556)	(113,455)	445,430
Financial commitments and contingencies	19,792	–	(3,823)	(1,938)	20,650	(12,034)	–	22,647

(Table continues on the next page)

2019 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	741,114	1,549,860	–	–	–	(327,493)	(400,943)	1,562,538
Financial assets at AC:								
Due from other banks	103,208	9,897,008	–	–	–	(9,819,237)	–	180,979
Due from customers	14,022,159	6,187,496	–	–	–	(5,370,438)	(113,455)	14,725,762
	14,125,367	16,084,504	–	–	–	(15,189,675)	(113,455)	14,906,741
Financial commitments and contingencies	3,938,579	3,133,250	–	–	–	(3,170,774)	–	3,901,055

4.1.3. Non-performing loan classification

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

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

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

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

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

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

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

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

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

2019 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	180,979	(488)	180,491
Due from customers:				
Public administration				
	Performing	135,550	(2,254)	133,296
	Past due	50	(8)	42
		135,600	(2,262)	133,338
Corporate				
	Performing	5,350,184	(35,170)	5,315,014
	Past due	9,830	(2,047)	7,783
	Unlikely to pay	51,231	(19,997)	31,234
	Doubtful	48,938	(41,004)	7,934
		5,460,183	(98,218)	5,361,965
Retail				
	Performing	8,794,598	(59,810)	8,734,788
	Past due	33,423	(14,406)	19,017
	Unlikely to pay	51,879	(24,426)	27,453
	Doubtful	250,079	(149,626)	100,453
		9,129,979	(248,268)	8,881,711
		14,725,762	(348,748)	14,377,014
		14,906,741	(349,236)	14,557,505
Financial assets at FVOCI – debt securities				
	Performing	1,562,762	(224)	1,562,538
Financial commitments and contingencies				
	Performing	3,878,409	(5,942)	3,872,467
	Past due	326	(92)	234
	Unlikely to pay	18,506	(2,182)	16,324
	Doubtful	3,814	(1,154)	2,660
		3,901,055	(9,370)	3,891,685

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

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

2019 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	180,979	(488)	180,491
Due from customers:			
Public administration			
No delinquency	134,925	(2,253)	132,672
1 – 30 days	625	(1)	624
91 – 180 days	50	(8)	42
	135,600	(2,262)	133,338
Corporate			
No delinquency	5,325,375	(47,287)	5,278,088
1 – 30 days	55,212	(709)	54,503
31 – 60 days	18,986	(9,442)	9,544
61 – 90 days	4,785	(1,820)	2,965
91 – 180 days	13,050	(3,073)	9,977
Over 181 days	42,775	(35,887)	6,888
	5,460,183	(98,218)	5,361,965
Retail			
No delinquency	8,735,988	(57,026)	8,678,962
1 – 30 days	83,516	(13,482)	70,034
31 – 60 days	16,164	(3,718)	12,446
61 – 90 days	15,184	(3,961)	11,223
91 – 180 days	43,840	(21,027)	22,813
Over 181 days	235,287	(149,054)	86,233
	9,129,979	(248,268)	8,881,711
	14,725,762	(348,748)	14,377,014
	14,906,741	(349,236)	14,557,505
Financial assets at FVOCI – debt securities			
No delinquency	1,562,762	(224)	1,562,538
Financial commitments and contingencies			
No delinquency	3,901,055	(9,370)	3,891,685

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

	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
2020 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Financial assets at AC:									
Due from other banks	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	114,761	(2,670)	112,091	490	(3)	487	–	–	–
Municipalities – Leasing	617	(4)	613	–	–	–	–	–	–
	153,153	(2,677)	150,476	490	(3)	487	–	–	–
Corporate									
Large Corporates	2,119,577	(1,922)	2,117,655	2	–	2	4,321	(3,354)	967
Large Corporates – debt securities	150,427	(265)	150,162	–	–	–	–	–	–
Specialized Lending	888,114	(28,963)	859,151	20	–	20	4,808	(4,788)	20
SME	1,383,183	(5,236)	1,377,947	86,259	(916)	85,343	55,273	(37,994)	17,279
Other Non-banking Financial Institutions	366,323	(158)	366,165	9	–	9	5	(4)	1
Other Non-banking Financial Institutions – debt securities	50,056	(48)	50,008	–	–	–	–	–	–
Public Sector Entities	1,469	(48)	1,421	–	–	–	5	(1)	4
Leasing	157,391	(1,227)	156,164	6,350	(149)	6,201	8,162	(4,652)	3,510
Factoring	73,778	(9)	73,769	6,514	(26)	6,488	3,595	(1,196)	2,399
	5,190,318	(37,876)	5,152,442	99,154	(1,091)	98,063	76,169	(51,989)	24,180

(Table continues on the next page)

	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
2020 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	384,503	(6,878)	377,625	11,591	(774)	10,817	22,113	(13,694)	8,419
Small Business – Leasing	52,177	(458)	51,719	4,311	(64)	4,247	11,711	(7,117)	4,594
Consumer Loans	1,278,061	(26,680)	1,251,381	37,436	(5,368)	32,068	180,385	(110,680)	69,705
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
Leasing	4,252	(18)	4,234	29	–	29	32	(6)	26
Flat Owners Associations	37,176	(219)	36,957	–	–	–	–	–	–
	9,653,935	(44,677)	9,609,258	63,769	(6,967)	56,802	334,087	(185,939)	148,148
	14,997,406	(85,230)	14,912,176	163,413	(8,061)	155,352	410,256	(237,928)	172,328
	15,203,532	(85,936)	15,117,596	163,413	(8,061)	155,352	410,256	(237,928)	172,328
Financial assets at FVOCI – debt securities	1,611,015	(306)	1,610,709	–	–	–	–	–	–
Financial commitments and contingencies	4,514,793	(9,164)	4,505,629	–	–	–	17,839	(4,769)	13,070

2019 € '000	Neither past due nor impaired Gross amount	Impairment losses	Net amount	Past due but not individually impaired Gross amount	Impairment losses	Net amount	Impaired (non-performing) Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from other banks	180,979	(488)	180,491	–	–	–	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	3,876	–	3,876	–	–	–	–	–	–
Municipalities	130,361	(2,250)	128,111	625	(1)	624	50	(8)	42
Municipalities – Leasing	688	(3)	685	–	–	–	–	–	–
	134,925	(2,253)	132,672	625	(1)	624	50	(8)	42
Corporate									
Large Corporates	2,213,903	(2,235)	2,211,668	3	–	3	7,069	(2,974)	4,095
Large Corporates – debt securities	124,322	(118)	124,204	–	–	–	–	–	–
Specialized Lending	855,516	(25,068)	830,448	1,880	(20)	1,860	14,586	(13,348)	1,238
SME	1,416,704	(5,214)	1,411,490	26,198	(773)	25,425	58,748	(34,041)	24,707
Other Non-banking Financial Institutions	366,028	(262)	365,766	–	–	–	1	(1)	–
Other Non-banking Financial Institutions – debt securities	25,063	(28)	25,035	–	–	–	–	–	–
Public Sector Entities	1,337	(37)	1,300	–	–	–	7	(1)	6
Leasing	207,299	(1,128)	206,171	23,510	(240)	23,270	24,942	(11,496)	13,446
Factoring	79,202	(9)	79,193	9,219	(37)	9,182	4,646	(1,188)	3,458
	5,289,374	(34,099)	5,255,275	60,810	(1,070)	59,740	109,999	(63,049)	46,950

(Table continues on the next page)

2019 € '000	Neither past due nor impaired Gross amount	Impairment losses	Net amount	Past due but not individually impaired Gross amount	Impair-ment losses	Net amount	Impaired (non-performing) Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	254,810	(3,686)	251,124	3,558	(259)	3,299	13,897	(9,097)	4,800
Small Business – Leasing	9,181	(30)	9,151	1,637	(167)	1,470	574	(124)	450
Consumer Loans	1,408,033	(27,964)	1,380,069	72,987	(12,980)	60,007	204,288	(126,054)	78,234
Mortgages	6,801,375	(8,796)	6,792,579	14,060	(897)	13,163	82,188	(29,147)	53,041
Credit Cards	119,008	(2,552)	116,456	4,256	(892)	3,364	26,809	(18,984)	7,825
Overdrafts	63,369	(1,012)	62,357	1,944	(315)	1,629	7,570	(5,024)	2,546
Leasing	4,133	(14)	4,119	109	–	109	55	(27)	28
Flat Owners Associations	36,138	(247)	35,891	–	–	–	–	–	–
	8,696,047	(44,301)	8,651,746	98,551	(15,510)	83,041	335,381	(188,457)	146,924
	14,120,346	(80,653)	14,039,693	159,986	(16,581)	143,405	445,430	(251,514)	193,916
	14,301,325	(81,141)	14,220,184	159,986	(16,581)	143,405	445,430	(251,514)	193,916
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies	3,878,408	(5,942)	3,872,466	–	–	–	22,647	(3,428)	19,219

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

2020 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from customers:			
Public administration			
1 – 30 days	490	(3)	487
Corporate			
1 – 30 days	95,095	(845)	94,250
31 – 60 days	181	(2)	179
61 – 90 days	3,878	(244)	3,634
	99,154	(1,091)	98,063
Retail			
1 – 30 days	51,544	(4,857)	46,687
31 – 60 days	558	(102)	456
61 – 90 days	11,667	(2,008)	9,659
	63,769	(6,967)	56,802
	163,413	(8,061)	155,352
	163,413	(8,061)	155,352

2019 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from customers:			
Public administration			
1 – 30 days	625	(1)	624
Corporate			
1 – 30 days	54,198	(573)	53,625
31 – 60 days	3,494	(249)	3,245
61 – 90 days	3,118	(248)	2,870
	60,810	(1,070)	59,740
Retail			
1 – 30 days	74,024	(9,849)	64,175
31 – 60 days	12,580	(2,648)	9,932
61 – 90 days	11,947	(3,013)	8,934
	98,551	(15,510)	83,041
	159,986	(16,581)	143,405
	159,986	(16,581)	143,405

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

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

(Table continues on the next page)

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

2019 € '000	Stage 1 Gross amount	Stage 1 Impairment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impairment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks	180,136	(482)	179,654	843	(6)	837	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	3,876	–	3,876	–	–	–	–	–	–
Municipalities	112,483	(1,069)	111,414	18,503	(1,182)	17,321	50	(8)	42
Municipalities – Leasing	688	(3)	685	–	–	–	–	–	–
	117,047	(1,072)	115,975	18,503	(1,182)	17,321	50	(8)	42
Corporate									
Large Corporates	2,137,087	(1,959)	2,135,128	76,819	(276)	76,543	7,069	(2,974)	4,095
Large Corporates – debt securities	124,322	(118)	124,204	–	–	–	–	–	–
Specialized Lending	770,728	(13,890)	756,838	86,668	(11,198)	75,470	14,586	(13,348)	1,238
SME	1,189,329	(2,352)	1,186,977	253,573	(3,636)	249,937	58,748	(34,040)	24,708
Other Non-banking Financial Institutions	366,028	(262)	365,766	–	–	–	1	(1)	–
Other Non-banking Financial Institutions – debt securities	25,063	(28)	25,035	–	–	–	–	–	–
Public Sector Entities	1,337	(37)	1,300	–	–	–	7	(1)	6
Leasing	226,484	(1,105)	225,379	4,325	(263)	4,062	24,942	(11,496)	13,446
Factoring	86,000	(41)	85,959	2,421	(5)	2,416	4,646	(1,188)	3,458
	4,926,378	(19,792)	4,906,586	423,806	(15,378)	408,428	109,999	(63,048)	46,951

(Table continues on the next page)

2019 € '000	Gross amount	Impairment losses	Stage 1 Net amount	Gross amount	Impairment losses	Stage 2 Net amount	Gross amount	Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	195,650	(939)	194,711	62,718	(3,006)	59,712	13,897	(9,097)	4,800
Small Business – Leasing	9,360	(31)	9,329	1,458	(166)	1,292	574	(124)	450
Consumer Loans	1,240,293	(11,130)	1,229,163	240,727	(29,814)	210,913	204,288	(126,054)	78,234
Mortgages	6,562,236	(939)	6,561,297	253,199	(8,753)	244,446	82,188	(29,148)	53,040
Credit Cards	107,211	(928)	106,283	16,053	(2,516)	13,537	26,809	(18,984)	7,825
Overdrafts	45,743	(322)	45,421	19,570	(1,005)	18,565	7,570	(5,024)	2,546
Leasing	4,242	(14)	4,228	–	–	–	55	(27)	28
Flat Owners Associations	36,138	(247)	35,891	–	–	–	–	–	–
	8,200,873	(14,550)	8,186,323	593,725	(45,260)	548,465	335,381	(188,458)	146,923
	13,244,298	(35,414)	13,208,884	1,036,034	(61,820)	974,214	445,430	(251,514)	193,916
	13,424,434	(35,896)	13,388,538	1,036,877	(61,826)	975,051	445,430	(251,514)	193,916
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies	3,743,616	(4,232)	3,739,384	134,792	(1,710)	133,082	22,647	(3,428)	19,219

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.

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

(Table continues on the next page)

2020 € '000	Stage 1 Gross amount	Impair-ment losses	Net amount	Stage 2 Gross amount	Impair-ment losses	Net amount	Stage 3 Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	9,120,501	(12,832)	9,107,669	533,434	(31,844)	501,590	50,251	(16,252)	33,999
1 – 30 days	20,420	(481)	19,939	31,124	(4,377)	26,747	10,693	(3,842)	6,851
31 – 60 days	–	–	–	558	(102)	456	488	(310)	178
61 – 90 days	–	–	–	11,667	(2,008)	9,659	6,809	(2,829)	3,980
91 – 180 days	–	–	–	–	–	–	27,052	(13,547)	13,505
Over 181 days	–	–	–	–	–	–	238,794	(149,159)	89,635
	9,140,921	(13,313)	9,127,608	576,783	(38,331)	538,452	334,087	(185,939)	148,148
	13,943,909	(40,524)	13,903,385	1,216,910	(52,767)	1,164,143	410,256	(237,928)	172,328
	14,150,035	(41,230)	14,108,805	1,216,910	(52,767)	1,164,143	410,256	(237,928)	172,328
Financial assets at FVOCI – debt securities									
No delinquency	1,611,015	(306)	1,610,709	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	4,420,551	(7,001)	4,413,550	94,242	(2,163)	92,079	17,839	(4,769)	13,070

2019 € '000	Gross amount	Impairment losses	Stage 1 Net amount	Gross amount	Impairment losses	Stage 2 Net amount	Gross amount	Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	180,136	(482)	179,654	843	(6)	837	–	–	–
Due from customers:									
Public administration									
No delinquency	116,422	(1,071)	115,351	18,503	(1,182)	17,321	–	–	–
1 – 30 days	625	(1)	624	–	–	–	–	–	–
Over 181 days	–	–	–	–	–	–	50	(8)	42
	117,047	(1,072)	115,975	18,503	(1,182)	17,321	50	(8)	42
Corporate									
No delinquency	4,878,241	(19,503)	4,858,738	411,134	(14,596)	396,538	36,000	(13,188)	22,812
1 – 30 days	48,132	(289)	47,843	6,065	(285)	5,780	1,015	(135)	880
31 – 60 days	5	–	5	3,489	(249)	3,240	15,492	(9,193)	6,299
61 – 90 days	–	–	–	3,118	(248)	2,870	1,667	(1,572)	95
91 – 180 days	–	–	–	–	–	–	13,050	(3,073)	9,977
Over 181 days	–	–	–	–	–	–	42,775	(35,887)	6,888
	4,926,378	(19,792)	4,906,586	423,806	(15,378)	408,428	109,999	(63,048)	46,951

(Table continues on the next page)

2019 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	8,181,111	(13,795)	8,167,316	514,935	(30,505)	484,430	39,942	(12,726)	27,216
1 – 30 days	19,762	(755)	19,007	54,263	(9,094)	45,169	9,491	(3,633)	5,858
31 – 60 days	–	–	–	12,580	(2,648)	9,932	3,584	(1,070)	2,514
61 – 90 days	–	–	–	11,947	(3,013)	8,934	3,260	(962)	2,298
91 – 180 days	–	–	–	–	–	–	43,817	(21,013)	22,804
Over 181 days	–	–	–	–	–	–	235,287	(149,054)	86,233
	8,200,873	(14,550)	8,186,323	593,725	(45,260)	548,465	335,381	(188,458)	146,923
	13,244,298	(35,414)	13,208,884	1,036,034	(61,820)	974,214	445,430	(251,514)	193,916
	13,424,434	(35,896)	13,388,538	1,036,877	(61,826)	975,051	445,430	(251,514)	193,916
Financial assets at FVOCI – debt securities									
No delinquency	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	3,743,616	(4,232)	3,739,384	134,792	(1,710)	133,082	22,647	(3,428)	19,219

4.1.4. Loans with renegotiated terms and forbearance policy

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

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

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

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

	Performing forborne			Non-performing forborne		
2019 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Financial assets at AC:						
Corporate	53,011	(4,280)	48,731	50,316	(35,608)	14,708
Retail	47,307	(2,249)	45,058	19,897	(10,954)	8,943
	100,318	(6,529)	93,789	70,213	(46,562)	23,651
Financial commitments and contingencies	1,038	(4)	1,034	1,822	(271)	1,551

4.1.5. Write-off Policy

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

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

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

The amount of loans written off during the year that are still subject to enforcement activity is € 39,210 thousand (31 December 2019: € 60,119 thousand).

4.1.6. Collateral Policy

The VUB Group's collateral policy is an integral and indispensable part of the credit risk management and credit risk mitigation for VUB Bank. Collateral is used primarily to provide the VUB Group with the means for repayment of an exposure in the event of the default of the borrower. The principal objective of the policy is to clearly set up rules for a common and standard set of collateral types used by the VUB Group in its lending activities. The rules, as the minimum, describe and state:
- Conditions for legal enforceability;
- Conditions for the process of valuation and the maximum values accepted by the VUB Group at the origination for specific types of collaterals; and
- Conditions for the process of revaluation.

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

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

The VUB Group mainly uses the following means of enforcement of collateral:
- Voluntary auction,
- Foreclosure procedure,
- Realization of the collateral for the receivable in a bankruptcy procedure,
- Sale of receivables including collateral.

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

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

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

€ '000	2020 Clients	2020 Banks	2019 Clients	2019 Banks
Property	8,881,184	–	7,959,284	–
of which covering mortgages:	7,888,727	–	7,002,416	–
LTV* lower than 60%	2,294,528	–	2,011,790	–
LTV higher than 60% and lower than 80%	4,019,497	–	3,244,878	–
LTV higher than 80% and lower than 100%	1,568,727	–	1,741,780	–
LTV higher than 100%	5,976	–	3,969	–
Debt securities	34,899	–	25,631	–
Other	1,016,856	85,591	1,008,977	85,186
	9,932,939	85,591	8,993,892	85,186

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

€ '000	2020 Clients	2020 Banks	2019 Clients	2019 Banks
Property	151,975	–	147,431	–
of which covering mortgages:	122,190	–	113,185	–
LTV* lower than 60%	56,125	–	49,450	–
LTV higher than 60% and lower than 80%	53,404	–	47,240	–
LTV higher than 80% and lower than 100%	10,784	–	14,421	–
LTV higher than 100%	1,877	–	2,075	–
Other	17,555	–	13,385	–
	169,530	–	160,816	–

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

4.1.7. Offsetting financial assets and financial liabilities

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

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

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

The VUB Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:
- Derivatives,
- Sale and repurchase, and reverse sale and repurchase agreements.

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

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

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

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

					Related amounts not offset in SOFP		
2019 € '000	**Note**	**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrument and non-cash collateral**	**Cash collateral received**	**Net amount**
Types of financial assets							
Reverse repo transactions	7	78,749	–	78,749	(78,749)	–	–
Derivative financial instruments	8, 9	92,086		92,086		(22,239)	69,847

					Related amounts not offset in SOFP		
2019 € '000		**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrument and non-cash collateral**	**Cash collateral pledged**	**Net amount**
Types of financial liabilities							
Derivative financial instruments	8, 9	80,972	–	80,972	–	(65,060)	15,912

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

				2020			2019
€ '000	**Note**	**Total carrying amount presented in SOFP**	**In scope of off-setting disclosure**	**Not in scope of off-setting disclosure**	**Total carrying amount presented in SOFP**	**In scope of off-setting disclosure**	**Not in scope of off-setting disclosure**
Financial assets							
Cash and cash equivalents	7	1,571,642	604,335	967,307	996,446	78,749	917,697
Financial assets at FVTPL:	8						
Financial assets held for trading		79,260	62,970	16,290	21,251	9,585	11,666
Derivatives – Hedge accounting	9	85,192	85,192	–	82,501	82,501	–
Financial liabilities							
Financial liabilities at FVTPL:	8						
Financial liabilities held for trading		87,377	76,267	11,110	24,750	21,139	3,611
Derivatives – Hedge accounting	9	65,407	65,407	–	59,833	59,833	–

4.1.8. Concentrations of credit risk

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

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

(Table continues on the next page)

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

2019 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	131,724	(2,262)	129,462
Corporate	3,606,167	(91,205)	3,514,962
Retail	9,039,712	(245,854)	8,793,858
	12,777,603	(339,321)	12,438,282
Financial assets at FVOCI – debt securities	612,767	(52)	612,715
Financial commitments and contingencies	3,188,709	(8,835)	3,179,874
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	685,372	(2,346)	683,026
Retail	22,212	(1,771)	20,441
	707,584	(4,117)	703,467
Financial commitments and contingencies	25,229	(18)	25,211
Other European countries			
Financial assets at AC:			
Due from other banks	121,832	(131)	121,701
Due from customers:			
Public administration	3,876	–	3,876
Corporate	1,122,789	(4,646)	1,118,143
Retail	59,394	(571)	58,823
	1,186,059	(5,217)	1,180,842
	1,307,891	(5,348)	1,302,543
Financial assets at FVOCI – debt securities	850,633	(154)	850,479
Financial commitments and contingencies	637,455	(480)	636,975

(Table continues on the next page)

2019 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	8,925	(4)	8,921
Retail	1,375	(2)	1,373
	10,300	(6)	10,294
Financial assets at FVOCI – debt securities	99,361	(17)	99,344
Financial commitments and contingencies	329	–	329
Asia			
Financial assets at AC:			
Due from other banks	991	–	991
Due from customers:			
Corporate	36,613	(17)	36,596
Retail	5,182	(55)	5,127
	41,795	(72)	41,723
	42,786	(72)	42,714
Financial commitments and contingencies	44,722	(27)	44,695
Rest of the World			
Financial assets at AC:			
Due from other banks	58,156	(357)	57,799
Due from customers:			
Corporate	317	–	317
Retail	2,104	(15)	2,089
	2,421	(15)	2,406
	60,577	(372)	60,205
Financial commitments and contingencies	4,611	(10)	4,601

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

€ '000	Gross amount	Impairment losses	2020 Net amount	Gross amount	Impairment losses	2019 Net amount
Europe						
Slovakia	714,976	(69)	714,907	612,767	(52)	612,715
Italy	492,112	(105)	492,007	489,947	(117)	489,830
Spain	118,596	(11)	118,585	199,284	(17)	199,267
Poland	68,943	(28)	68,915	51,710	(11)	51,699
Great Britain	34,308	(11)	34,297	47,685	(4)	47,681
France	33,857	(6)	33,851	56,607	(5)	56,602
Estonia	22,874	(45)	22,829	–	–	–
Hungary	19,054	(7)	19,047	–	–	–
Austria	5,193	–	5,193	5,400	–	5,400
	1,509,913	(282)	1,509,631	1,463,400	(206)	1,463,194
North America						
Canada	101,102	(24)	101,078	99,361	(17)	99,344

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

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

2019 € '000	Financial assets at AC:				Financial assets at FVOCI – debt securities	Financial commit-ments and contin-gencies
	Banks	Public admini-stration	Corporate	Retail*		
Agriculture, forestry and fishing	–	–	199,842	25,711	–	66,249
Mining and quarrying	–	–	50,749	543	–	37,413
Manufacturing	–	–	792,579	30,988	–	700,300
Electricity, gas, steam and air conditioning supply	–	–	705,724	1,398	–	407,179
Water supply	–	–	100,638	2,667	–	13,742
Construction	–	–	224,236	31,295	–	421,308
Wholesale and retail trade	–	–	911,751	72,445	–	390,648
Transport and storage	–	1,746	377,475	16,360	–	229,113
Accommodation and food service activities	–	–	27,086	13,130	–	3,672
Information and communication	–	–	124,747	5,498	–	54,453
Financial and insurance activities**	180,491	–	503,867	506	388,411	245,050
Real estate activities	–	–	509,851	50,298	–	55,239
Professional, scientific and technical activities	–	–	173,654	20,665	–	168,448
Administrative and support service activities	–	–	217,762	5,444	–	27,456
Public administration and defense, compulsory social security	–	131,586	402	151	1,174,127	9,528
Education	–	1	1,084	1,188	–	216
Human health services and social work activities	–	–	46,402	15,961	–	14,072
Arts, entertainment and recreation	–	–	25,217	2,240	–	2,353
Other services	–	5	368,899	130,239	–	68,902
Consumer Loans	–	–	–	1,596,201	–	338,579
Mortgage Loans	–	–	–	6,858,783	–	637,765
	180,491	133,338	5,361,965	8,881,711	1,562,538	3,891,685

* 'Retail' includes Small Business and Flat Owners Associations.
** 'Financial and insurance activities' involves financial services, leasing and insurance.

4.1.9. Internal and external ratings

The public administration exposures are classified to the following risk profiles based on assigned internal ratings.
- Risk-free
- Almost risk-free
- Very low risk
- Low risk
- Medium risk
- Higher risk
- High risk
- Default

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

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

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

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

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

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

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

Capital requirement calculation

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

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

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

(Table continues on the next page)

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

(Table continues on the next page)

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

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	990	–	990
	Low	50,351	(50)	50,301
	Lower – Intermediate	126,920	(394)	126,526
	Upper – Intermediate	1,875	(38)	1,837
		180,136	(482)	179,654
Due from customers:				
Public administration				
	Risk-free	784	–	784
	Almost risk-free	3,021	(1)	3,020
	Very low risk	805	–	805
	Low risk	26,894	(21)	26,873
	Medium risk	71,107	(832)	70,275
	Higher risk	4,046	(25)	4,021
	High risk	5,674	(189)	5,485
	Unrated	4,716	(4)	4,712
		117,047	(1,072)	115,975
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	851,483	(100)	851,383
	Low	1,488,746	(774)	1,487,972
	Lower – Intermediate	216,095	(301)	215,794
	Intermediate	925,957	(1,648)	924,309
	Upper – Intermediate	204,905	(918)	203,987
	High	8,980	(181)	8,799
	Unrated	459,484	(1,979)	457,505
Specialized Lending – SPV, RED				
	Strong	262,763	(1,468)	261,295
	Good	297,234	(3,459)	293,775
	Satisfactory	193,450	(6,925)	186,525
	Weak	17,281	(2,039)	15,242
		4,926,378	(19,792)	4,906,586

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	15,966	(7)	15,959
	Low	21,601	(26)	21,575
	Lower – Intermediate	42,264	(117)	42,147
	Intermediate	99,997	(538)	99,459
	Upper – Intermediate	32,077	(405)	31,672
	High	208	(25)	183
	Unrated	33,277	(113)	33,164
Mortgages				
	Very Low	5,987,671	(357)	5,987,314
	Low	279,305	(105)	279,200
	Lower – Intermediate	277,961	(331)	277,630
	Intermediate	15,895	(110)	15,785
	High	1,405	(38)	1,367
Unsecured Retail				
	Very Low	338,726	(416)	338,310
	Low	129,407	(301)	129,106
	Lower – Intermediate	704,248	(3,945)	700,303
	Intermediate	140,634	(2,612)	138,022
	Upper – Intermediate	67,416	(3,533)	63,883
	High	10,214	(1,537)	8,677
	Unrated	2,601	(34)	2,567
		8,200,873	(14,550)	8,186,323
		13,244,298	(35,414)	13,208,884
Financial assets at FVOCI – debt securities				
	Unrated	1,562,762	(224)	1,562,538

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	1,142	–	1,142
	Lower – Intermediate	45,128	(43)	45,085
		46,270	(43)	46,227
Due from customers:				
Public administration				
	Risk-free	578	–	578
	Very low risk	89	–	89
	Low risk	3,852	(2)	3,850
	Medium risk	3,167	(2)	3,165
	Higher risk	978	(3)	975
	High risk	702	(12)	690
		9,366	(19)	9,347
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	768,472	(54)	768,418
	Low	1,141,758	(338)	1,141,420
	Lower – Intermediate	224,554	(133)	224,421
	Intermediate	278,434	(273)	278,161
	Upper – Intermediate	84,262	(331)	83,931
	High	8,744	(152)	8,592
	Unrated	2,497	(24)	2,473
Specialized Lending – SPV, RED				
	Strong	13,147	(56)	13,091
	Good	96,645	(837)	95,808
	Satisfactory	42,444	(1,291)	41,153
	Weak	25	(2)	23
		2,660,982	(3,492)	2,657,490
Retail				
	Very Low	614,417	(79)	614,338
	Low	167,532	(18)	167,514
	Lower – Intermediate	209,683	(271)	209,412
	Intermediate	27,382	(156)	27,226
	Upper – Intermediate	7,068	(94)	6,974
	High	916	(61)	855
		1,026,998	(678)	1,026,320
		3,697,346	(4,189)	3,693,157

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

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

(Table continues on the next page)

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

(Table continues on the next page)

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

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks				
	Upper – Intermediate	843	(6)	837
Due from customers:				
Public administration				
	Medium risk	371	(4)	367
	Higher risk	7,897	(322)	7,575
	High risk	10,235	(856)	9,379
		18,503	(1,182)	17,321
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Low	293	–	293
	Lower – Intermediate	1,213	(5)	1,208
	Intermediate	76,109	(175)	75,934
	Upper – Intermediate	201,043	(2,325)	198,718
	High	49,583	(1,263)	48,320
	Unrated	8,897	(413)	8,484
Specialized Lending – SPV, RED				
	Strong	4,612	(308)	4,304
	Good	35,344	(4,285)	31,059
	Satisfactory	32,066	(1,999)	30,067
	Weak	14,646	(4,605)	10,041
		423,806	(15,378)	408,428

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Low	351	–	351
	Lower – Intermediate	2,690	(49)	2,641
	Intermediate	17,482	(404)	17,078
	Upper – Intermediate	35,383	(1,648)	33,735
	High	6,603	(891)	5,712
	Unrated	1,667	(180)	1,487
Mortgages				
	Very Low	17,753	(83)	17,670
	Low	6,484	(48)	6,436
	Lower – Intermediate	111,162	(1,821)	109,341
	Intermediate	55,614	(1,633)	53,981
	High	62,185	(5,167)	57,018
Unsecured Retail				
	Very Low	982	(5)	977
	Low	498	(7)	491
	Lower – Intermediate	61,503	(1,463)	60,040
	Intermediate	57,357	(2,963)	54,394
	Upper – Intermediate	66,899	(6,677)	60,222
	High	89,112	(22,221)	66,891
		593,725	(45,260)	548,465
		1,036,034	(61,820)	974,214

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	High risk	47	(3)	44
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates Factoring and Leasing				
	Low	407	–	407
	Lower – Intermediate	275	–	275
	Intermediate	75,561	(114)	75,447
	Upper – Intermediate	21,844	(216)	21,628
	High	13,588	(175)	13,413
Specialized Lending – SPV, RED				
	Strong	8	–	8
	Satisfactory	1,560	(102)	1,458
		113,243	(607)	112,636
Retail				
	Low	87	(3)	84
	Lower – Intermediate	6,722	(97)	6,625
	Intermediate	3,799	(84)	3,715
	Upper – Intermediate	8,033	(372)	7,661
	High	2,861	(544)	2,317
		21,502	(1,100)	20,402
		134,792	(1,710)	133,082

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

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

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Public administration				
	Default	50	(8)	42
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Default	62,707	(34,254)	28,453
Specialized Lending – SPV, RED				
	Default	14,586	(13,348)	1,238
		77,293	(47,602)	29,691
Retail				
Small Business, Flat Owners Associations				
	Default	13,628	(9,018)	4,610
Mortgages				
	Default	82,188	(29,147)	53,041
Unsecured Retail				
	Default	230,250	(144,811)	85,439
		326,066	(182,976)	143,090
		403,409	(230,586)	172,823
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Default	18,415	(2,439)	15,976
Retail				
	Default	4,232	(989)	3,243
		22,647	(3,428)	19,219

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

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

(Table continues on the next page)

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

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	6,073	(1)	6,072
	Lower – Intermediate	46,412	(64)	46,348
		52,485	(65)	52,420
Due from customers:				
Public administration				
	Risk-free	6	–	6
	Almost risk-free	20	–	20
	Very low risk	1,134	–	1,134
	Low risk	4,013	(2)	4,011
	Medium risk	19,885	(10)	19,875
	Higher risk	1,576	(4)	1,572
	High risk	2,332	(36)	2,296
		28,966	(52)	28,914
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	834,827	(88)	834,739
	Low	1,535,063	(683)	1,534,380
	Lower – Intermediate	352,189	(227)	351,962
	Intermediate	382,330	(1,051)	381,279
	Upper – Intermediate	114,153	(863)	113,290
	High	20,005	(480)	19,525
	Default	12,042	(3,199)	8,843
	Unrated	5,809	(64)	5,745
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
		3,517,064	(11,136)	3,505,928
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
		4,480,147	(13,868)	4,466,279

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Very Low	990	–	990
	Low	50,351	(50)	50,301
	Lower – Intermediate	126,920	(394)	126,526
	Upper – Intermediate	2,718	(44)	2,674
		180,979	(488)	180,491
Due from customers:				
Public administration				
	Risk-free	784	–	784
	Almost risk-free	3,021	(1)	3,020
	Very low risk	805	–	805
	Low risk	26,894	(21)	26,873
	Medium risk	71,478	(836)	70,642
	Higher risk	11,943	(347)	11,596
	High risk	15,909	(1,045)	14,864
	Default	50	(8)	42
	Unrated	4,716	(4)	4,712
		135,600	(2,262)	133,338
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	851,483	(100)	851,383
	Low	1,489,039	(774)	1,488,265
	Lower – Intermediate	217,308	(306)	217,002
	Intermediate	1,002,066	(1,823)	1,000,243
	Upper – Intermediate	405,948	(3,243)	402,705
	High	58,563	(1,444)	57,119
	Default	95,413	(49,700)	45,713
	Unrated	468,381	(2,392)	465,989
Specialized Lending – SPV, RED				
	Strong	267,375	(1,776)	265,599
	Good	332,578	(7,744)	324,834
	Satisfactory	225,516	(8,924)	216,592
	Weak	31,927	(6,644)	25,283
	Default	14,586	(13,348)	1,238
		5,460,183	(98,218)	5,361,965

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	15,966	(7)	15,959
	Low	21,952	(26)	21,926
	Lower – Intermediate	44,954	(166)	44,788
	Intermediate	117,479	(942)	116,537
	Upper – Intermediate	67,460	(2,053)	65,407
	High	6,811	(916)	5,895
	Default	14,526	(9,248)	5,278
	Unrated	34,944	(293)	34,651
Mortgages				
	Very Low	6,005,424	(440)	6,004,984
	Low	285,789	(153)	285,636
	Lower – Intermediate	389,123	(2,152)	386,971
	Intermediate	71,509	(1,743)	69,766
	High	63,590	(5,205)	58,385
	Default	82,188	(29,147)	53,041
	Unrated	1,491	–	1,491
Unsecured Retail				
	Very Low	339,708	(421)	339,287
	Low	129,905	(308)	129,597
	Lower – Intermediate	765,751	(5,408)	760,343
	Intermediate	197,991	(5,575)	192,416
	Upper – Intermediate	134,315	(10,210)	124,105
	High	99,326	(23,758)	75,568
	Default	238,667	(150,063)	88,604
	Unrated	2,601	(34)	2,567
		9,129,979	(248,268)	8,881,711
		14,725,762	(348,748)	14,377,014
Financial assets at FVOCI – debt securities				
	Unrated	1,562,762	(224)	1,562,538

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	1,142	–	1,142
	Lower – Intermediate	45,128	(43)	45,085
		46,270	(43)	46,227
Due from customers:				
Public administration				
	Risk-free	578	–	578
	Very low risk	89	–	89
	Low risk	3,852	(2)	3,850
	Medium risk	3,167	(2)	3,165
	Higher risk	978	(3)	975
	High risk	749	(15)	734
		9,413	(22)	9,391
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	768,472	(54)	768,418
	Low	1,142,165	(338)	1,141,827
	Lower – Intermediate	224,829	(133)	224,696
	Intermediate	353,995	(387)	353,608
	Upper – Intermediate	106,106	(547)	105,559
	High	22,332	(327)	22,005
	Default	18,415	(2,439)	15,976
	Unrated	2,497	(24)	2,473
Specialized Lending – SPV, RED				
	Strong	13,155	(56)	13,099
	Good	96,645	(837)	95,808
	Satisfactory	44,004	(1,393)	42,611
	Weak	25	(2)	23
		2,792,640	(6,538)	2,786,102
Retail				
	Very Low	614,417	(79)	614,338
	Low	167,619	(21)	167,598
	Lower – Intermediate	216,405	(368)	216,037
	Intermediate	31,181	(240)	30,941
	Upper – Intermediate	15,101	(466)	14,635
	High	3,777	(605)	3,172
	Default	4,232	(989)	3,243
		1,052,732	(2,767)	1,049,965
		3,854,785	(9,327)	3,845,458

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 2019: Aa1 to Caa1). The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on Moody's ratings.

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

2019 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aaa	268,633	(34)	268,599
	Aa1	34,409	(6)	34,403
	Aa3	51,710	(11)	51,699
	A2	508,674	(41)	508,633
	Baa1	209,389	(15)	209,374
	Baa3	489,947	(117)	489,830
		1,562,762	(224)	1,562,538

4.1.10. Sensitivity analysis of impairment losses

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

2020 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	706	636	(70)	(9.92)%
Due from customers:				
Public administration	2,680	2,408	(272)	(10.15)%
Corporate				
Large Corporates	5,276	5,084	(192)	(3.64)%
Large Corporates – debt securities	265	238	(27)	(10.19)%
Specialized Lending	33,751	30,854	(2,897)	(8.58)%
SME	44,146	43,531	(615)	(1.39)%
Other Non-banking Financial Institutions	162	145	(17)	(10.49)%
Other Non-banking Financial Institutions – debt securities	48	43	(5)	(10.42)%
Public Sector Entities	49	43	(6)	(12.24)%
Leasing	6,028	5,890	(138)	(2.29)%
Factoring	1,231	1,228	(3)	(0.24)%
	90,956	87,056	(3,900)	(4.29)%
Retail				
Small Business	21,346	20,581	(765)	(3.58)%
Small Business – Leasing	7,639	7,586	(53)	(0.69)%
Consumer Loans	142,728	139,523	(3,205)	(2.25)%
Mortgages	41,648	40,817	(831)	(2.00)%
Credit Cards	17,558	17,398	(160)	(0.91)%
Overdrafts	6,421	6,294	(127)	(1.98)%
Leasing	24	22	(2)	(8.33)%
Flat Owners Associations	219	197	(22)	(10.05)%
	237,583	232,418	(5,165)	(2.17)%
	331,219	321,882	(9,337)	(2.82)%
	331,925	322,518	(9,407)	(2.83)%
Financial assets at FVOCI – debt securities	306	275	(31)	(10.13)%

2019 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	488	439	(49)	(10.04%)
Due from customers:				
Public administration	2,262	2,037	(225)	(9.95%)
Corporate				
Large Corporates	5,209	4,986	(223)	(4.28%)
Large Corporates – debt securities	118	106	(12)	(10.17%)
Specialized Lending	38,436	35,927	(2,509)	(6.53%)
SME	40,028	39,430	(598)	(1.49%)
Other Non-banking Financial Institutions	263	223	(40)	(15.21%)
Other Non-banking Financial Institutions – debt securities	28	25	(3)	(10.71%)
Public Sector Entities	38	34	(4)	(10.53%)
Leasing	12,864	12,727	(137)	(1.06%)
Factoring	1,234	1,230	(4)	(0.32%)
	98,218	94,688	(3,530)	(3.59%)
Retail				
Small Business	13,042	12,648	(394)	(3.02%)
Small Business – Leasing	321	301	(20)	(6.23%)
Consumer Loans	166,998	162,904	(4,094)	(2.45%)
Mortgages	38,840	37,871	(969)	(2.49%)
Credit Cards	22,428	22,084	(344)	(1.53%)
Overdrafts	6,351	6,218	(133)	(2.09%)
Leasing	41	40	(1)	(2.44%)
Flat Owners Associations	247	222	(25)	(10.12%)
	248,268	242,288	(5,980)	(2.41%)
	348,748	339,013	(9,735)	(2.79%)
	349,236	339,452	(9,784)	(2.80%)
Financial assets at FVOCI – debt securities	224	202	(22)	(9.82%)

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

2020 € '000	Base scenario	Increase PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	706	777	71	10.06%
Due from customers:				
Public administration	2,680	2,943	263	9.81%
Corporate				
Large Corporates	5,276	5,468	192	3.64%
Large Corporates – debt securities	265	291	26	9.81%
Specialized Lending	33,751	36,647	2,896	8.58%
SME	44,146	44,761	615	1.39%
Other Non-banking Financial Institutions	162	180	18	11.11%
Other Non-banking Financial Institutions – debt securities	48	53	5	10.42%
Public Sector Entities	49	54	5	10.20%
Leasing	6,028	6,165	137	2.27%
Factoring	1,231	1,235	4	0.32%
	90,956	94,854	3,898	4.29%
Retail				
Small Business	21,346	22,112	766	3.59%
Small Business – Leasing	7,639	7,691	52	0.68%
Consumer Loans	142,728	145,933	3,205	2.25%
Mortgages	41,648	42,480	832	2.00%
Credit Cards	17,558	17,718	160	0.91%
Overdrafts	6,421	6,548	127	1.98%
Leasing	24	26	2	8.33%
Flat Owners Associations	219	241	22	10.05%
	237,583	242,749	5,166	2.17%
	331,219	340,546	9,327	2.82%
	331,925	341,323	9,398	2.83%
Financial assets at FVOCI – debt securities	306	336	30	9.80%

2019 € '000	Base scenario	Increase PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	488	537	49	10.04%
Due from customers:				
Public administration	2,262	2,487	225	9.95%
Corporate				
Large Corporates	5,209	5,432	223	4.28%
Large Corporates – debt securities	118	130	12	10.17%
Specialized Lending	38,436	40,945	2,509	6.53%
SME	40,028	40,626	598	1.49%
Other Non-banking Financial Institutions	263	303	40	15.21%
Other Non-banking Financial Institutions – debt securities	28	31	3	10.71%
Public Sector Entities	38	42	4	10.53%
Leasing	12,864	13,001	137	1.06%
Factoring	1,234	1,238	4	0.32%
	98,218	101,748	3,530	3.59%
Retail				
Small Business	13,042	13,436	394	3.02%
Small Business – Leasing	321	341	20	6.23%
Consumer Loans	166,998	171,092	4,094	2.45%
Mortgages	38,840	39,809	969	2.49%
Credit Cards	22,428	22,772	344	1.53%
Overdrafts	6,351	6,484	133	2.09%
Leasing	41	42	1	2.44%
Flat Owners Associations	247	272	25	10.12%
	248,268	254,248	5,980	2.41%
	348,748	358,483	9,735	2.79%
	349,236	359,020	9,784	2.80%
Financial assets at FVOCI – debt securities	224	246	22	9.82%

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

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

Based on the data related to the COVID moratoria available from the end of 2020, the VUB Group has performed the analysis focused on the payment discipline of clients who used this option. Observed payment discipline (measured by First Payment Defaults and Early Past Dues) indicates that the development in individual product portfolios is in line with the expectations and does not show any material worsening. Consequently, the VUB Group does not expect that the reasonably possible worsening of the macroeconomic indicators could have a material impact on the individual portfolios.

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

2020 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	1,033	159	1,192
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	1,042	160	1,202
		Absolute change	9	1	10
		Relative change	0.94%	0.91%	0.93%
UR stress 10%	UR increase by 15 bps				
		ECL	1,043	161	1,204
		Absolute change	10	2	12
		Relative change	1.04%	1.02%	1.04%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	1,053	162	1,215
		Absolute change	20	3	23
		Relative change	1.98%	1.93%	1.97%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	1,061	163	1,224
		Absolute change	28	4	32
		Relative change	2.71%	2.65%	2.70%
UR stress 30%	UR increase by 45 bps				
		ECL	1,067	164	1,231
		Absolute change	34	5	39
		Relative change	3.34%	3.26%	3.62%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	1,097	169	1,266
		Absolute change	64	10	74
		Relative change	6.17%	6.01%	6.15%

2019 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	939	327	1,266
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	943	328	1,271
		Absolute change	4	1	5
		Relative change	0.30%	0.26%	0.29%
UR stress 10%	UR increase by 15 bps				
		ECL	953	331	1,284
		Absolute change	14	4	18
		Relative change	1.38%	1.23%	1.34%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	956	332	1,288
		Absolute change	17	5	22
		Relative change	1.69%	1.50%	1.64%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	949	330	1,279
		Absolute change	10	3	13
		Relative change	0.86%	0.77%	0.84%
UR stress 30%	UR increase by 45 bps				
		ECL	980	339	1,319
		Absolute change	41	12	53
		Relative change	4.16%	3.69%	4.04%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	988	342	1,330
		Absolute change	49	15	64
		Relative change	5.04%	4.47%	4.90%

2020 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	7,280	238	7,518
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 bps				
		ECL	7,314	239	7,553
		Absolute change	34	1	35
		Relative change	0.48%	0.28%	0.47%
UR stress 10%	UR increase by 15 bps				
		ECL	7,319	239	7,558
		Absolute change	39	1	40
		Relative change	0.55%	0.32%	0.54%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	7,352	240	7,592
		Absolute change	72	2	74
		Relative change	1.01%	0.59%	0.99%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	7,380	240	7,620
		Absolute change	100	2	102
		Relative change	1.39%	0.81%	1.37%
UR stress 30%	UR increase by 45 bps				
		ECL	7,401	240	7,641
		Absolute change	121	2	123
		Relative change	1.71%	0.85%	1.68%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	7,502	242	7,744
		Absolute change	222	4	226
		Relative change	3.08%	1.80%	3.04%

2019 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	8,753	298	9,051
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 bps				
		ECL	8,779	299	9,078
		Absolute change	26	1	27
		Relative change	0.31%	0.15%	0.30%
UR stress 10%	UR increase by 15 bps				
		ECL	8,802	299	9,101
		Absolute change	49	1	50
		Relative change	0.57%	0.29%	0.56%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	8,829	299	9,128
		Absolute change	76	1	77
		Relative change	0.88%	0.44%	0.86%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	8,832	299	9,131
		Absolute change	79	1	80
		Relative change	0.91%	0.45%	0.89%
UR stress 30%	UR increase by 45 bps				
		ECL	8,902	301	9,202
		Absolute change	149	3	152
		Relative change	1.71%	0.85%	1.68%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	8,980	302	9,282
		Absolute change	227	4	231
		Relative change	2.60%	1.30%	2.56%

4.1.12. Credit risk of financial derivatives

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

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

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

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

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

€ '000	2020	2019
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	109,307	40,070
Derivatives – Hedge accounting	127,863	137,860
	237,170	177,930

4.1.13. The impact of the COVID-19 pandemic

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

The VUB Group updated its IFRS 9 PD and LGD models by the new economic predictions, the last update is from December 2020 and it is linked to NBS economic forecast. The outcome is creation of additional ECL in amount of € 10 million. The part of the additional ECL was created in the form of post-model adjustments. The total post-model adjustments at 31 December 2020 increased the ECL by € 5 million in segment of specialized lending. Another important factor is the deterioration of credit quality as indicated by rating downgrade, i.e. some portion of portfolios has been re-classified to stage 2, with additional impact on level of ECL in the amount of € 2 million, mainly in segments of consumer loans, small business and in the VÚB Leasing. The main drivers for stage 2 reclassification are: significant rating downgrade, 30 days past due, forbearance flag and monitoring of client in proactive credit risk regime. Finally, the migration to stage 3 was observed mainly for clients without legal moratorium, driven dominantly by consumer loans.

During the pandemic period, the borrower may request the Bank to defer payments for a period not exceeding nine months. The Bank is obliged to allow deferral of instalments 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 fulfilment. Deferral of repayments does not affect the flag of default and does not worsen the credit quality of the borrower. The debtor does not lose the obligation to pay interest for the period of deferred payments and interest is accrued even during the duration of deferred payments.

Till 31 December 2020 the VUB Group received 29,613 requests for deferral of repayments of corporate and retail loans, of which 28,087 was granted in the total gross amount of € 1,437,236 thousand. Out of these, expired € 959,091 thousand.

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

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

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

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

Till 31 December 2020 the Bank provided 935 newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis to enterprises in the total gross amount of € 130,171 thousand.

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

4.2. Market risk

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

4.2.1. Management of market risk

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

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. 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 risk monitoring and reporting.

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

4.2.2. Exposure to market risk – trading portfolios

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

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

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

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

				2020				2019
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	88	76	277	3	31	49	133	5
Interest rate risk	162	218	489	22	98	570	1,956	71
Total VaŔ	164	261	633	30	101	573	1,966	80
Total sVaR	178	503	1,265	135	184	1,534	3,073	184

Although VaR is a popular and widely used risk management tool, there are known limitations, among which the following are the most important ones:
- VaR does not measure the worst case loss, since a 99% confidence interval means that in 1% of cases the loss is expected to be greater than the VaR amount;
- VaR calculated using a one day holding period assumes hedge or disposal of a position within one day, which might not be realistic in the case of a longer illiquid situation on the market.

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

4.2.3. Exposure to interest rate risk

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

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

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

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

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

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

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

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

Contractual

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

Behavioural

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

At 31 December 2020, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 44,546 thousand (31 December 2019: € 32,545 thousand).

At 31 December 2020, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (48,402) thousand (31 December 2019: € (44,375) thousand).

At 31 December 2020, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (23,704) thousand (31 December 2019: € (19,725) thousand).

At 31 December 2020, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € 8,657 thousand (31 December 2019: € 7,898 thousand).

At 31 December 2020, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2,523) thousand (31 December 2019: € (1,274) thousand).

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

	2020	2019
Financial assets		
Cash and cash equivalents	0.06%	1.32%
Financial assets at FVTPL	0.17%	1.10%
Financial assets at FVOCI	(0.07)%	0.47%
Financial assets at AC:		
Due from other banks	1.68%	2.42%
Due from customers	2.17%	2.49%
Financial liabilities		
Financial liabilities at AC:		
Due to banks	0.30%	0.34%
Due to customers	0.14%	0.19%
Debt securities in issue	0.55%	0.79%

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

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

2019 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	996,446	–	–	–	–	–	996,446
Financial assets at FVTPL (excluding Trading derivatives)	584	–	–	–	–	–	584
Financial assets at FVOCI	101,868	269,588	173,469	342,332	675,280	12,012	1,574,549
Financial assets at AC:							
Due from other banks	8,983	82,253	2,668	–	64,434	22,153	180,491
Due from customers	2,002,245	1,586,533	1,881,905	7,700,792	989,288	216,251	14,377,014
	3,110,126	1,938,374	2,058,042	8,043,124	1,729,002	250,416	17,129,084
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(51,249)	(34,961)	(171,234)	(242,420)	(50,047)	(2,056)	(551,967)
Due to customers	(5,931,587)	(1,410,448)	(2,218,765)	(2,105,677)	(264,472)	–	(11,930,949)
Lease liabilities	(590)	(1,165)	(4,381)	(13,837)	(95)	–	(20,068)
Subordinated debt	–	(200,143)	–	–	–	–	(200,143)
Debt securities in issue	(21,165)	(31,794)	(216,630)	(1,556,317)	(1,294,789)	–	(3,120,695)
	(6,004,591)	(1,678,511)	(2,611,010)	(3,918,251)	(1,609,403)	(2,056)	(15,823,822)
Net position of financial instruments	(2,894,465)	259,863	(552,968)	4,124,873	119,599	248,360	1,305,262
Cumulative net position of financial instruments	(2,894,465)	(2,634,602)	(3,187,570)	937,303	1,056,902	1,305,262	–
Cash inflow from derivatives	2,399,133	2,369,212	1,971,202	1,764,051	1,677,643	–	10,181,241
Cash outflow from derivatives	(2,076,929)	(1,127,853)	(1,704,183)	(4,332,493)	(944,445)	–	(10,185,903)
Net position from derivatives	322,204	1,241,359	267,019	(2,568,442)	733,198	–	(4,662)
Total net position	(2,572,261)	1,501,222	(285,949)	1,556,431	852,797	248,360	1,300,600
Cumulative total net position	(2,572,261)	(1,071,039)	(1,356,988)	199,443	1,052,240	1,300,600	–

4.2.4. Currency denominations of assets and liabilities

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

2020 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	939,596	2,499	624,558	4,989	1,571,642
Financial assets at FVTPL	77,179	8,518	437	–	86,134
Derivatives – Hedge accounting	84,688	68	436	–	85,192
Financial assets at FVOCI	1,611,115	6,952	–	–	1,618,067
Financial assets at AC:					
Due from other banks	196,994	8,426	–	–	205,420
Due from customers	14,592,850	214,683	357,296	75,027	15,239,856
Fair value changes of the hedged items in portfolio hedge of IRR	20,016	–	–	–	20,016
	17,522,438	241,146	982,727	80,016	18,826,327
Financial liabilities					
Financial liabilities at FVTPL	82,680	3,091	1,559	47	87,377
Derivatives – Hedge accounting	59,502	3,545	67	2,293	65,407
Financial liabilities at AC:					
Due to banks	598,454	9,137	22,143	66	629,800
Due to customers	12,297,888	231,786	382,865	74,281	12,986,820
Lease liabilities	18,562	–	–	–	18,562
Subordinated debt	200,151	–	–	–	200,151
Debt securities in issue	3,422,729	–	–	–	3,422,729
Fair value changes of the hedged items in portfolio hedge of IRR	6,990	–	–	–	6,990
	16,686,956	247,559	406,634	76,687	17,417,836
Net position	835,482	(6,413)	576,093	3,329	1,408,491

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

2019 € '000	EUR	USD	CZK	Other	Total
Receivables	846,188	174,006	31,500	68,701	1,120,395
Payables	(257,380)	(177,452)	(601,231)	(85,848)	(1,121,911)
Net position from derivatives	588,808	(3,446)	(569,731)	(17,147)	(1,516)

2019 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	849,199	1,436	140,244	5,567	996,446
Financial assets at FVTPL	21,575	1,259	1,200	4	24,038
Derivatives – Hedge accounting	79,985	–	2,516	–	82,501
Financial assets at FVOCI	1,563,409	11,140	–	–	1,574,549
Financial assets at AC:					
Due from other banks	162,992	13,721	–	3,778	180,491
Due from customers	13,691,567	223,105	374,008	88,334	14,377,014
Fair value changes of the hedged items in portfolio hedge of IRR	13,840	–	–	–	13,840
	16,382,567	250,661	517,968	97,683	17,248,879
Financial liabilities					
Financial liabilities at FVTPL	21,850	760	2,131	9	24,750
Derivatives – Hedge accounting	50,996	5,794	–	3,043	59,833
Financial liabilities at AC:					
Due to banks	534,737	11,470	5,760	–	551,967
Due to customers	11,360,047	187,822	308,349	74,731	11,930,949
Lease liabilities	20,068	–	–	–	20,068
Subordinated debt	200,143	–	–	–	200,143
Debt securities in issue	3,120,695	–	–	–	3,120,695
Fair value changes of the hedged items in portfolio hedge of IRR	4,580	–	–	–	4,580
	15,313,116	205,846	316,240	77,783	15,912,985
Net position	1,069,451	44,815	201,728	19,900	1,335,894

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

2019 € '000	EUR	USD	CZK	Other	Total
Receivables	399,537	36,896	60,017	70,510	566,960
Payables	(142,749)	(88,137)	(240,619)	(100,045)	(571,550)
Net position from derivatives	256,788	(51,241)	(180,602)	(29,535)	(4,590)

4.2.5. Interest rate benchmark reform

The Interbank offered rate ('IBOR') replacement represents one of the major undertakings for the financial services industry. For the VUB Group the impact is not expected to be material and can be split into three main categories:
- Replacement of Euro OverNight Index Average ('EONIA');
- Change of Euro Interbank Offered Rate ('EURIBOR') calculation;
- Replacement of London Interbank Offered Rate ('LIBOR').

Replacement of EONIA

Replacement of EONIA has only limited impact on the VUB Group 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 VUB Group 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 VUB Group.

Replacement of LIBOR

The VUB Group has only few loans which are linked to Libor, since most of the VUB Group'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.

	Financial assets at AC		Financial liabilities at AC			Derivatives
2020 **€ '000**	**Number of contracts**	**Net amount**	**Number of contracts**	**Net amount**	**Number of contracts**	**Notional amount**
Referenced to:						
EONIA	–	–	4	15,141	7	683,100
EURIBOR	5,180	2,863,896	–	–	223	8,477,301
LIBOR	32	113,674	–	–	5	117,602
Of which: USD	30	113,674	–	–	5	117,602
Of which: GBP	2	–	–	–	–	–

	Financial assets at AC		Financial liabilities at AC			Derivatives
2019 **€ '000**	**Number of contracts**	**Net amount**	**Number of contracts**	**Net amount**	**Number of contracts**	**Notional amount**
Referenced to:						
EONIA	–	–	4	17,049	8	142,800
EURIBOR	5,143	2,935,808	–	–	223	8,726,620
LIBOR	32	103,218	–	–	5	97,727
Of which: USD	29	103,218	–	–	5	97,727
Of which: GBP	3	–	–	–	–	–

4.3. Liquidity risk

Liquidity risk is defined as the risk that the VUB Group is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the VUB Group is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit.

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

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

The VUB Group is regularly stress testing its liquidity position in order to simulate potential stress scenarios. The level of unencumbered highly liquid assets are kept at levels that should support the VUB Group also in case of these extraordinary events. The VUB Group is also able to seek short term funding from the parent company or interbank market in order to support its liquidity position. There are no specific lines of credit for liquidity stress situations.

The departments of the VUB Group responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department. These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process. ALM Department is responsible for liquidity management and the 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 VUB Group incorporates a set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.

Together with the Short term and Structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the VUB Group to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

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

The liquidity position of the VUB Group is regularly presented by Enterprise Risk Management Department and discussed during the ALCO meetings

The table below shows an analysis of assets and liabilities (discounted cash flow basis) according to when they are expected to be recovered or settled:

2020 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and cash equivalents	1,571,642	–	1,571,642
Financial assets at FVTPL	5,791	80,343	86,134
Derivatives – Hedge accounting	100	85,092	85,192
Financial assets at FVOCI	743,755	874,312	1,618,067
Financial assets at AC:			
Due from other banks	77,254	128,166	205,420
Due from customers	2,758,041	12,481,815	15,239,856
Fair value changes of the hedged items in portfolio hedge of IRR	–	20,016	20,016
Investments in subsidiaries, joint ventures and associates	–	11,058	11,058
Property and equipment	–	124,862	124,862
Intangible assets	–	129,527	129,527
Goodwill	–	29,305	29,305
Current income tax assets	26,518	–	26,518
Deferred income tax assets	–	54,802	54,802
Other assets	25,819	–	25,819
Non-current assets and disposal groups classified as held for sale	1	–	1
	5,208,921	14,019,298	19,228,219
Liabilities			
Financial liabilities at FVTPL	(12,068)	(75,309)	(87,377)
Derivatives – Hedge accounting	(7,607)	(57,800)	(65,407)
Financial liabilities measured at AC:			
Due to banks	(170,207)	(459,593)	(629,800)
Due to customers	(1,588,769)	(11,398,051)	(12,986,820)
Lease liabilities	(5,734)	(12,828)	(18,562)
Subordinated debt	(151)	(200,000)	(200,151)
Debt securities in issue	(108,020)	(3,314,709)	(3,422,729)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(6,990)	(6,990)
Provisions	–	(18,036)	(18,036)
Other liabilities	(76,590)	(5,407)	(81,997)
	(1,972,557)	(15,548,723)	(17,521,280)
Net position	3,236,364	(1,529,425)	1,706,939

2019 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	996,446	–	996,446
Financial assets at FVTPL	2,058	21,980	24,038
Derivatives – Hedge accounting	252	82,249	82,501
Financial assets at FVOCI	544,623	1,029,926	1,574,549
Financial assets at AC:			
Due from other banks	53,795	126,696	180,491
Due from customers	2,647,812	11,729,202	14,377,014
Fair value changes of the hedged items in portfolio hedge of IRR	–	13,840	13,840
Investments in subsidiaries, joint ventures and associates	–	11,635	11,635
Property and equipment	–	120,150	120,150
Intangible assets	–	112,583	112,583
Goodwill	–	29,305	29,305
Current income tax assets	28,342	–	28,342
Deferred income tax assets	–	66,118	66,118
Other assets	22,839	–	22,839
Non-current assets classified as held for sale	645	–	645
	4,296,812	13,343,684	17,640,496
Liabilities			
Financial liabilities at FVTPL	(3,611)	(21,139)	(24,750)
Derivatives – Hedge accounting	(472)	(59,361)	(59,833)
Financial liabilities measured at AC:			
Due to banks	(177,025)	(374,942)	(551,967)
Due to customers	(1,891,157)	(10,039,792)	(11,930,949)
Lease liabilities	(6,136)	(13,932)	(20,068)
Subordinated debt	(143)	(200,000)	(200,143)
Debt securities in issue	(270,232)	(2,850,463)	(3,120,695)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(4,580)	(4,580)
Provisions	–	(13,625)	(13,625)
Other liabilities	(95,256)	(5,633)	(100,889)
	(2,444,032)	(13,583,467)	(16,027,499)
Net position	1,852,780	(239,783)	1,612,997

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

2020 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	1,571,642	–	–	–	–	–	1,571,642
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	6,874	6,874
Financial assets at FVOCI	808	546	743,051	249,248	592,786	7,358	1,593,797
Financial assets at AC:							
Due from other banks	61,870	8,125	8,440	115,581	20,463	–	214,479
Due from customers	1,106,650	525,493	1,298,081	5,336,725	8,409,895	279,338	16,956,182
	2,740,970	534,164	2,049,572	5,701,554	9,023,144	293,570	20,342,974
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(57,687)	(24,922)	(88,147)	(400,984)	(70,730)	–	(642,470)
Due to customers	(11,209,031)	(1,157,722)	(489,642)	(131,468)	–	–	(12,987,863)
Lease liabilities	(552)	(1,102)	(4,089)	(10,987)	(1,944)	–	(18,674)
Subordinated debt	–	(1,344)	(4,081)	(20,814)	(207,368)	–	(233,607)
Debt securities in issue	(3,607)	(51,710)	(21,238)	(2,314,597)	(1,102,794)	–	(3,493,946)
	(11,270,877)	(1,236,800)	(607,197)	(2,878,850)	(1,382,836)	–	(17,376,560)
Net position of financial instruments	(8,529,907)	(702,636)	1,442,375	2,822,704	7,640,308	293,570	2,966,414
Cash inflows from derivatives	773,460	31,953	196,150	191,708	121,634	–	1,314,905
Cash outflows from derivatives	(776,379)	(31,709)	(206,497)	(195,545)	(81,652)	–	(1,291,782)
Net position from derivatives	(2,919)	244	(10,347)	(3,837)	39,982	–	23,123
Net position from financial commitments and contingencies	(4,878,988)	–	–	–	–	–	(4,878,988)

2019 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	996,446	–	–	–	–	–	996,446
Financial assets at FVTPL (excluding Trading derivatives)	28	–	–	83	2,110	584	2,805
Financial assets at FVOCI	1,938	250,499	295,890	361,495	664,498	12,012	1,586,332
Financial assets at AC:							
Due from other banks	44,455	1,475	8,789	55,818	80,894	–	191,431
Due from customers	1,012,094	365,066	1,528,147	5,358,209	8,175,574	239,121	16,678,211
	2,054,961	617,040	1,832,826	5,775,605	8,923,076	251,717	19,455,225
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(64,431)	(4,732)	(127,888)	(307,206)	(76,922)	–	(581,179)
Due to customers	(9,463,544)	(837,356)	(1,474,648)	(160,733)	–	–	(11,936,281)
Lease liabilities	(590)	(1,167)	(4,394)	(13,974)	(96)	–	(20,221)
Subordinated debt	–	(1,440)	(4,364)	(23,416)	(215,894)	–	(245,114)
Debt securities in issue	(3,602)	(13,553)	(249,575)	(1,657,456)	(1,335,905)	–	(3,260,091)
	(9,532,167)	(858,248)	(1,860,869)	(2,162,785)	(1,628,817)	–	(16,042,886)
Net position of financial instruments	(7,477,206)	(241,208)	(28,043)	3,612,820	7,294,259	251,717	3,412,339
Cash inflows from derivatives	250,632	100,688	95,759	99,980	159,783	–	706,842
Cash outflows from derivatives	(252,501)	(101,273)	(96,212)	(117,533)	(112,768)	–	(680,287)
Net position from derivatives	(1,869)	(585)	(453)	(17,553)	47,015	–	26,555
Net position from financial commitments and contingencies	(3,901,055)	–	–	–	–	–	(3,901,055)

* The high negative liquidity gap in the first bucket is caused by a huge volume of deposits on demand (without contractual maturity) which are presented under 'Due to customers'. For the purpose of internal liquidity management monitoring the behavioural profile of on-demand deposits is taken into account based on a statistical model using internal historical data. According to when they are expected to be settled such deposits are then placed into later buckets (see the previous table).

4.4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, information and communication technology risk and financial reporting risk; strategic and reputational risk are not included. Operational risk can arise from legal and regulatory requirements, non-compliance with generally accepted standards of corporate behaviour and from all of the VUB Group's operations.

4.4.1. Operational risk management strategies and processes

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

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

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: 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 VUB Group has had a centralised function within the Risk Management Division for the management of the VUB Group's operational risks. This function is responsible, in coordination with the Parent Company, for the definition, implementation and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to senior Management. In compliance with current requirements, the individual organisational units participate in the process and each of them is responsible for the identification, assessment, management and mitigation of its operational risks. Specific offices and departments have been identified within these organisational units to be responsible for Operational Risk Management. These functions are responsible for the collection and structured census of information relating to operational events, scenario analyses and evaluation of the level of risk associated with the business environment, including information and communication technology risk. The Risk Management Division carries out second level monitoring of these activities.

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

In February 2010 upon a VUB Group request, the Bank as part of the VUB Group received, from the relevant Supervisory authorities an approval for usage and thus adopted the Advanced Measurement Approach ('AMA'), for Operational Risk management and measurement. In June 2013, the Bank as part of the VUB Group received an approval for usage and thus adopted the AMA for the subsidiary VUB Leasing, a. s.. Part of this decision has been an approval of the insurance effect inclusion, as well as approval of a new allocation mechanism, which led to fulfilment of a regulatory condition for the approval of diversification usage.

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

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

4.4.4. Policies for hedging and mitigating risk

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

5. Estimated fair value of financial assets and financial liabilities

See accounting policy in note 3.4.7.

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

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the VUB Group as at the measurement date;
Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and
Level 3: inputs unobservable for the asset or liability.

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

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

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

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

(a) Cash and cash equivalents

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

(b) Due from other banks

The fair value of due from other banks balances with maturities more than one year is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. For maturities up to one year and not significant balances, the carrying amounts of amounts due from other banks approximates their fair value. Impairment losses are taken into consideration when calculating fair values.

(c) Due from customers

The fair value of loans and advances to customers is estimated using discounted cash flow analyses, based upon the risk free interest rate curve and risk reflecting credit-worthiness of the counterparty. 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 VUB Group is based on quoted market prices. Where no market prices are available, the fair value was calculated by discounting future cash flows using the risk free interest rate curve adjusted by credit spreads reflecting the credit quality of VUB as the issuer.

2020 € '000	Note	At amortised cost	At fair value	Total carrying amount (Carrying amount)	Level 1	Level 2	Level 3	Total fair value (Fair value)
Financial assets								
Cash and cash equivalents	7	1,571,642	–	1,571,642	–	1,571,642	–	1,571,642
Financial assets at FVTPL	8	–	86,134	86,134	711	85,423	–	86,134
Derivatives – Hedge accounting	9	–	85,192	85,192	–	85,192	–	85,192
Financial assets at FVOCI	10	–	1,618,067	1,618,067	896,128	721,938	–	1,618,066
Financial assets at AC:	11							
Due from other banks		205,420	–	205,420	–	205,420	–	205,420
Due from customers		15,239,856	–	15,239,856	–	96,415	17,270,273	17,366,688
		17,016,918	1,875,527	18,892,445	897,550	2,851,453	17,270,273	21,019,276
Financial liabilities								
Financial liabilities at FVTPL	8	–	87,377	87,377	–	87,377	–	87,377
Derivatives – Hedge accounting	9	–	65,407	65,407	–	65,407	–	65,407
Financial liabilities at AC:	11							
Due to banks		629,800	–	629,800	–	629,800	–	629,800
Due to customers		12,986,820	–	12,986,820	–	12,996,977	–	12,996,977
Lease liabilities		18,562		18,562	–	18,562	–	18,562
Subordinated debt		200,151	–	200,151	–	233,805	–	233,805
Debt securities in issue		3,422,729	–	3,422,729	–	3,488,512	–	3,488,512
		17,258,062	152,784	17,410,846	–	17,520,440	–	17,520,440

2019 € '000	Note	At amortised cost	At fair value	Carrying amount Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash and cash equivalents	7	996,446	–	996,446	–	996,446	–	996,446
Financial assets at FVTPL	8	–	24,038	24,038	584	23,454	–	24,038
Derivatives – Hedge accounting	9	–	82,501	82,501	–	82,501	–	82,501
Financial assets at FVOCI	10	–	1,574,549	1,574,549	950,619	623,930	–	1,574,549
Financial assets at AC:	11							
Due from other banks		180,491	–	180,491	–	180,491	–	180,491
Due from customers		14,377,014	–	14,377,014	–	75,252	14,854,717	14,929,969
		15,553,951	1,681,088	17,235,039	951,203	1,982,074	14,854,717	17,787,994
Financial liabilities								
Financial liabilities at FVTPL	8	–	24,750	24,750	–	24,750	–	24,750
Derivatives – Hedge accounting	9	–	59,833	59,833	–	59,833	–	59,833
Financial liabilities at AC:	11							
Due to banks		551,967	–	551,967	–	555,542	–	555,542
Due to customers		11,928,949	–	11,929,949	–	11,936,029	–	11,936,029
Lease liabilities		22,068	–	22,068	–	22,068	–	22,068
Subordinated debt		200,143	–	200,143	–	192,743	–	192,743
Debt securities in issue		3,120,695	–	3,120,695	–	3,164,185	–	3,164,185
		15,823,822	84,583	15,908,405	–	15,955,150	–	15,955,150

There were no transfers of financial instruments among the levels during 2020 and 2019.

6. Segment reporting

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

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

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

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

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

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

Corporate Banking comprises SME, the Corporate Customer Desk ('CCD'), Municipalities and Public Sector Entities. SME includes complex loan structures, deposits and other transactions and balances with SME (company revenue up to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes complex loan structures, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

Central Treasury undertakes the VUB Group's funding, issues of debt securities as well as trading book.

The VUB Group reported within Other a Central Governance Centre that manages the VUB Group's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio. Unclassified items are also reported within this column.

2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	218,177	119,959	(11,509)	326,627	6,091	332,718
Interest and similar expense	(9,168)	(3,986)	(17,675)	(30,829)	(7,070)	(37,899)
Inter-segment revenue	(18,721)	(23,336)	41,869	(188)	188	–
Net interest income	190,288	92,637	12,685	295,610	(791)	294,819
Net fee and commission income (note 25)	104,460	31,079	2,439	137,978	(3,343)	134,635
Dividend income	–	–	–	–	–	–
Net trading result	4,201	5,983	8,415	18,599	45	18,644
Other operating income	356	6,758	(1,712)	5,402	2,191	7,593
Other operating expense	(11,507)	(3,114)	–	(14,621)	(3,840)	(18,461)
Special levy of selected financial institutions*	–	–	–	–	(31,038)	(31,038)
Salaries and employee benefit	(50,707)	(13,946)	(676)	(65,329)	(61,301)	(126,630)
Other administrative expenses*	–	2,154	(1,572)	582	(74,419)	(73,837)
Amortisation	(5,977)	(356)	(2)	(6,335)	(8,256)	(14,591)
Depreciation	(2,864)	(2,298)	89	(5,073)	(10,840)	(15,913)
Profit before provisions, impairment and tax	228,250	118,897	19,666	366,813	(191,592)	175,221
Provisions*	–	(137)	–	(137)	355	218
Impairment losses	(39,512)	(24,648)	(208)	(64,368)	2,063	(62,305)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(8,433)	1,723	–	(6,710)	(726)	(7,436)
Profit before tax	180,305	95,835	19,458	295,598	(189,900)	105,698
Segment assets	9,753,639	5,666,640	3,284,621	18,704,900	523,319	19,228,219
Segment liabilities	8,060,841	4,874,949	4,259,883	17,195,673	325,607	17,521,280

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

2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	244,596	121,484	11,951	378,031	9,892	387,923
Interest and similar expense	(12,512)	(6,245)	(20,186)	(38,943)	(8,808)	(47,751)
Inter-segment revenue	(23,936)	(25,170)	49,400	294	(294)	–
Net interest income	208,148	90,069	41,165	339,382	790	340,172
Net fee and commission income (note 26)	101,442	28,524	1,087	131,053	(3,373)	127,680
Dividend income	–	–	–	–	–	–
Net trading result	4,675	5,581	(17,311)	(7,055)	(458)	(7,513)
Other operating income	356	5,065	7	5,428	3,163	8,591
Other operating expense	(11,726)	(3,100)	–	(14,826)	(5,009)	(19,835)
Special levy of selected financial institutions*	–	–	–	–	(29,695)	(29,695)
Salaries and employee benefits	(51,660)	(13,886)	(693)	(66,239)	(59,110)	(125,349)
Other administrative expenses*	–	–	–	–	(78,302)	(78,302)
Amortisation	(4,752)	(500)	(7)	(5,259)	(7,395)	(12,654)
Depreciation	(3,018)	(2,436)	(3)	(5,457)	(8,829)	(14,286)
Profit before provisions, impairment and tax	243,465	109,317	24,245	377,027	(188,218)	188,809
Provisions*	–	(141)	–	(141)	5,068	4,927
Impairment losses	(34,534)	(4,855)	211	(39,178)	127	(39,051)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(5,438)	575	–	(4,863)	(20)	(4,883)
Profit before tax	203,493	104,896	24,456	332,845	(183,043)	149,802
Segment assets	8,820,626	5,684,316	2,571,592	17,076,534	563,962	17,640,496
Segment liabilities	7,325,048	4,429,522	4,184,034	15,938,604	88,895	16,027,499

* 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	2020	2019
Cash in hand	161,161	161,622
Balances at central banks:		
Compulsory minimum reserves	777,270	690,985
Current accounts	38	4
Term deposits	7,621	47,227
Loans and advances	604,335	78,749
	1,389,264	816,965
Due from other banks:		
Current accounts	21,217	17,859
	1,571,642	996,446

At 31 December 2020 the balance of 'Loans and advances' comprised of five reverse repo trade concluded with ČNB in the total nominal amount of CZK 15,860 million (€ 604,306 thousand) (31 December 2019: one reverse repo trade, CZK 2,000 million (€ 78,709 thousand)). The repo trades were secured by 15,573 treasury bill of ČNB (31 December 2019: 1,986 treasury bills of ČNB).

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

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation. The compliance with the compulsory minimum reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period.

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

€ '000	2020	2019
Financial assets held for trading:		
Trading derivatives	79,260	21,251
Equity instruments	6,163	–
Government debt securities of European Union countries	–	2,203
	85,423	23,454
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	711	584
Financial liabilities held for trading:		
Trading derivatives	87,377	24,750

On the line 'Equity instruments' in 'Financial assets held for trading' is recognized the fair value of the Visa Inc. Series C Preferred Stock that were reclassified as at 1 January 2020 from FVOCI (note 10) to FVTPL portfolio.

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and they form the part of the incentive plan introduced by the Parent Company in line with the Capital Directive ‚CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). The VUB Group did not elect the option to present these at FVOCI.

€ '000	2020 Assets	2019 Assets	2020 Liabilities	2019 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	71,917	17,919	74,070	19,318
Foreign currency instruments:				
Forwards and swaps	5,616	2,614	11,728	4,781
Options	194	93	194	95
	5,810	2,707	11,922	4,876
Equity and commodity instruments:				
Equity options	–	229	–	229
Commodity forwards and swaps	1,533	396	1,385	327
	1,533	625	1,385	556
	79,260	21,251	87,377	24,750

€ '000	2020 Assets	2019 Assets	2020 Liabilities	2019 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	3,834,656	1,764,501	3,834,656	1,764,501
Options	116,703	184,435	116,703	184,435
Futures	–	12,072	–	12,072
	3,951,359	1,961,008	3,951,359	1,961,008
Foreign currency instruments:				
Forwards and swaps	1,025,828	473,297	1,032,169	475,958
Options	21,859	17,872	21,859	17,872
	1,047,687	491,169	1,054,028	493,830
Equity and commodity instruments:				
Equity options	–	2,100	–	2,100
Commodity forwards and swaps	37,770	26,284	37,770	26,284
	37,770	28,384	37,770	28,384
	5,036,816	2,480,561	5,043,157	2,483,222

9. Derivatives – Hedge accounting

€ '000	2020 Assets	2019 Assets	2020 Liabilities	2019 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	85,192	82,501	65,407	59,833

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

The VUB Group used twenty two interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The VUB Group used twenty five interest rate swaps to hedge the interest rate risk of a pool of current accounts. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The VUB Group used twenty one interest rate swaps to hedge the interest rate risk of nine fixed rate state bonds from the FVOCI portfolio. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used one interest rate swap to hedge the inflation and interest rate risk of one 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 VUB Group used eighteen interest rate swaps to hedge the interest rate risk of fifteen fixed rate bank bonds from the FVOCI portfolio. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used thirteen interest rate swaps and one cross currency swap to hedge the interest rate risk of fourteen corporate loans. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

The VUB Group used two cross currency swaps to hedge the interest rate and foreign currency risk of two corporate loans denominated in GBP and USD. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of both interest rates and foreign exchange rates.

The VUB Group used one interest rate swap to hedge the interest rate risk of one 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 VUB Group used twenty six interest rate swaps to hedge the interest rate risk arising from the issuance of fourteen fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

In 2020, the VUB Group recognised a net gain of € 15,013 thousand (2019: net gain of € 41,789 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 14,383 thousand (2019: net loss of € 41,920 thousand). Both items are disclosed within 'Net trading result' on the line 'Net result from hedging transactions'.

2020 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffectiv-ness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	7,712	36,754	1,084,900	1,084,900	(17,430)	–
Hedge of corporate loans	436	2,954	277,418	277,418	(1,829)	339
Hedge of loans received from EIB	533	–	50,000	50,000	1,323	16
Hedge of covered bonds	67,951	–	1,145,400	1,145,400	40,565	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	68	5,838	91,532	86,805	(3,594)	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	979	19,861	2,300,000	2,300,000	(6,468)	240
Hedge of current accounts	7,513	–	112,500	112,500	2,445	35

2019 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffectiv-ness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	2,981	24,234	960,900	960,900	(5,836)	–
Hedge of corporate loans	2,524	2,906	401,123	401,123	4,159	18
Hedge of loans received from EIB	444	802	59,000	59,000	(817)	(105)
Hedge of covered bonds	67,486	5,300	2,568,200	2,568,200	53,077	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	–	8,837	92,460	94,474	(6,319)	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of corporate loans	–	–	–	–	(189)	5
Hedge of mortgage loans	3,526	16,894	2,740,000	2,740,000	(5,467)	(149)
Hedge of TLTROs	–	–	–	–	–	(18)
Hedge of current accounts	5,540	860	612,500	612,500	3,181	118

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

2020 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Accumulated amount of fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1,014,069	–	17,430	(3,108)
Corporate loans	Financial assets at AC: Due from customers	364,223	5,946	5,762	928
Loans received from EIB	Financial assets at AC: Due to banks	50,000	595	1,307	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	733,786	65,807	40,565	45,372
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	2,300,000	19,396	6,708	620
Current accounts	Financial liabilities at AC: Due to customers	112,500	6,990	2,410	–

* Interest rate risk hedging of covered bonds is sometimes closed before the original maturity of the interest rate swap. The reason is that the Interest rate risk position of the VUB Group changed in a way, which required more fixed rate liabilities. And since the originally fixed rate covered bonds were in the past swapped into float rate, these swaps were early terminated in order to achieve the required interest risk position of the VUB Group.

2019 € '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
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	987,302	–	5,836	–
Corporate loans	Financial assets at AC: Due from customers	495,597	184	2,178	1,131
Loans received from EIB	Financial assets at AC: Due to banks	50,000	712	(712)	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1,334,575	57,211	53,077	18,369
Macro hedges					
Corporate loans	Financial assets at AC: Due from customers	–	–	194	–
Mortgage loans	Financial assets at AC: Due from customers	2,740,000	12,688	5,318	1,152
TLTROs	Financial liabilities at AC: Due to banks	–	–	18	–
Current accounts	Financial liabilities at AC: Due to customers	612,500	4,580	3,063	–

Maturity of notional values of hedging instruments designated as fair value hedges of interest rate risk and their average interest rates:

€ '000	Less than 1 year	2020 1 – 5 years	More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	118,900	231,000	577,000
	0.19%	(0.27)%	0.12%
Hedge of corporate loans	–	248,076	29,342
	–	0.20%	0.98%
Hedge of mortgage loans	345,000	1,955,000	–
	(0.09)%	(0.03)%	–
Hedge of loans received from other banks	–	–	50,000
	–	–	(0.26)%
Hedge of current account	–	31,500	81,000
	–	0.0056%	0.67%
Hedge of covered bonds	10,000	465,500	669,900
	0.85%	1.10%	1.17%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	86,805	–
	–	1.75%	–

€ '000	Less than 1 year	2019 1 – 5 years	More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	–	324,400	636,500
	–	0.06%	0.12%
Hedge of corporate loans	150,000	251,123	–
	(0.30)%	0.19%	–
Hedge of mortgage loans	640,000	2,100,000	–
	(0.25)%	(0.03)%	–
Hedge of loans received from other banks	–	–	50,000
	–	–	0.32%
Hedge of current account	500,000	–	112,500
	(0.62)%	–	0.64%
Hedge of covered bonds	150,000	509,000	1,109,200
	(0.15)%	0.72%	1.11%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	4,628	89,846
	–	0.00%	2.63%

10. Financial assets at fair value through other comprehensive income

€ ’000	2020	2019
Government debt securities of European Union countries	1,271,994	1,174,127
of which Italian government debt securities	*492,007*	*489,830*
Bank debt securities	304,864	357,806
Other debt securities	33,851	30,605
Equity instruments:		
Visa Inc. Series A Preferred Stock	6,952	–
Visa Inc. Series C Preferred Stock	–	11,139
Intesa Sanpaolo S.p.A.	326	797
S.W.I.F.T.	80	75
	7,358	12,011
	1,618,067	1,574,549

At 31 December 2020, the bonds in the total nominal amount of € 583,000 thousand were pledged by the Bank to secure collateralized transactions (31 December 2019: € 725,500 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.

The Visa Inc. Series C Preferred Stock are convertible in shares of Class A Common Stock or Series A Preferred Stock on a conversion rate based on a periodic conservative assessment of the ongoing risk of liability pursuant to covered claims in the Visa Europe territory. These assessments are undertaken by Visa Inc., in consultation with the Litigation Management Committee comprising the former Visa Europe member representative, on predetermined anniversaries of the closing of acquisition of Visa Europe Limited by Visa Inc. On the twelfth anniversary of the Closing, each share of Preferred Stock will be converted into shares of Class A Common Stock or Series A Preferred Stock.

Following the first assessment carried out on the fourth anniversary (as at 21 June 2020), Visa Inc., on 24 September 2020, has issued to each holder, for each share of Series C Preferred stock, whole shares of Class A Common Stock (or Serie A Preferred Stock) equal to the conversion adjustment (divided by 100 in the case of Serie A Preferred Stock; for each Serie A Preferred Stock are recognized number 100 Class A Common Stock) equal to 6.861.

In the case of the VUB bank, 50% of the value of Series C Preferred stock, in number of 5,686, was converted into Serie A Preferred Stock in number of 390 (equal to 39,012 Class A Common Stock).

The Visa Inc. Series C Preferred Stock were reclassified as at 1 January 2020 from FVOCI to FVTPL portfolio (note 8).

11. Financial assets and financial liabilities at amortised cost

11.1.Due from other banks

€ '000	Note	2020	2019
Loans and advances:			
with contractual maturity over 90 days		149,755	136,788
Cash collateral		56,371	44,191
Impairment losses	21	(706)	(488)
		205,420	180,491

11.2. Due from customers

2020 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
Single resolution fund	5,090	–	5,090
State administration	32,685	(3)	32,682
Municipalities	115,251	(2,673)	112,578
Municipalities – Leasing	617	(4)	613
	153,643	(2,680)	150,963
Corporate			
Large Corporates	2,123,900	(5,276)	2,118,624
Large Corporates – debt securities	150,427	(265)	150,162
Specialized Lending	892,942	(33,751)	859,191
SME	1,524,715	(44,146)	1,480,569
Other Non-banking Financial Institutions	366,337	(162)	366,175
Other Non-banking Financial Institutions – debt securities	50,056	(48)	50,008
Public Sector Entities	1,474	(49)	1,425
Leasing	171,903	(6,028)	165,875
Factoring	83,887	(1,231)	82,656
	5,365,641	(90,956)	5,274,685
Retail			
Small Business	418,207	(21,346)	396,861
Small Business – Leasing	68,199	(7,639)	60,560
Consumer Loans	1,495,882	(142,728)	1,353,154
Mortgages	7,847,341	(41,648)	7,805,693
Credit Cards	104,092	(17,558)	86,534
Overdrafts	76,581	(6,421)	70,160
Leasing	4,313	(24)	4,289
Flat Owners Associations	37,176	(219)	36,957
	10,051,791	(237,583)	9,814,208
	15,571,075	(331,219)	15,239,856

2019 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
Single resolution fund	3,876	–	3,876
Municipalities	131,036	(2,259)	128,777
Municipalities – Leasing	688	(3)	685
	135,600	(2,262)	133,338
Corporate			
Large Corporates	2,220,975	(5,209)	2,215,766
Large Corporates – debt securities	124,322	(118)	124,204
Specialized Lending	871,982	(38,436)	833,546
SME	1,501,650	(40,028)	1,461,622
Other Non-banking Financial Institutions	366,029	(263)	365,766
Other Non-banking Financial Institutions – debt securities	25,063	(28)	25,035
Public Sector Entities	1,344	(38)	1,306
Leasing	255,751	(12,864)	242,887
Factoring	93,067	(1,234)	91,833
	5,460,183	(98,218)	5,361,965
Retail			
Small Business	272,265	(13,042)	259,223
Small Business – Leasing	11,392	(321)	11,071
Consumer Loans	1,685,308	(166,998)	1,518,310
Mortgages	6,897,623	(38,840)	6,858,783
Credit Cards	150,073	(22,428)	127,645
Overdrafts	72,883	(6,351)	66,532
Leasing	4,297	(41)	4,256
Flat Owners Associations	36,138	(247)	35,891
	9,129,979	(248,268)	8,881,711
	14,725,762	(348,748)	14,377,014

At 31 December 2020, the 20 largest corporate customers represented a total balance of € 1,482,594 thousand (31 December 2019: € 1,448,591 thousand), respectively 10.31% (31 December 2019: 10.08%) of the total loan portfolio.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

€ '000	2020	2019
Up to one year	91,170	100,582
one to two years	69,071	70,291
two to three years	43,183	53,302
three to four years	24,859	30,622
four to five years	14,856	15,660
Over five years	14,502	15,074
	257,641	285,531
Unearned future finance income on finance leases	(12,610)	(13,403)
Impairment losses	(13,694)	(13,229)
	231,337	258,899

11.3. Due to banks

€ '000	2020	2019
Due to central banks:		
Current accounts	1,458	920
Loans received from central banks	–	148,219
	1,458	149,139
Due to other banks:		
Current accounts	27,464	22,811
Term deposits	8,170	5,019
Loans received from other banks	568,344	353,471
Revaluation of fair value hedged loans received	595	(712)
Cash collateral received	23,769	22,239
	628,342	402,828
	629,800	551,967

At 31 December 2019, 'Loans received from central banks' contains two loans from National Bank of Slovakia in the nominal amount of € 100,000 thousand and € 50,000 thousand. The interest rate for these loans was (0.4)% and the maturity was in 2020 and 2021. The loan repayable in 2021 was repaid early in 2020. The principal and interests are due at maturity of the loans.

The breakdown of 'Loans received from other banks' according to the counterparty is presented below:

€ '000	2020	2019
Intesa Sanpaolo S. p. A.	420,898	170,204
European Investment Bank	138,964	170,175
European Bank for Reconstruction and Development	7,149	9,655
Council of Europe Development Bank	1,333	3,437
	568,344	353,471

Intesa Sanpaolo S. p. A.

At 31 December 2020, there were six loan arrangements concluded with the Parent Company (31 December 2019: four loan arrangements) in the nominal amount of € 100,000 thousand, € 100,000 thousand, € 100,000 thousand, € 50,000 thousand, € 50,000 thousand and € 20,000 thousand (31 December 2019: € 50,000 thousand, € 50,000 thousand, € 50,000 thousand and € 20,000 thousand) maturing since 2021 to 2024 (31 December 2019: 2020 to 2022) and with the fixed interest rate in the range of 0.13% and 0.52% (31 December 2019: 0.16% and 0.42%). The principal is payable at maturity of the loan and the interest is payable on an annual basis.

European Investment Bank

Loans from the European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2020, the balance comprised of ten loans in the nominal amount of € 42,105 thousand, € 7,270 thousand, € 4,155 thousand, € 1,162 thousand, € 1,156 thousand, € 952 thousand with variable interest rates and € 50,000 thousand, € 14 985 thousand, € 14 985 thousand and € 2,143 thousand with fixed interest rate. The interest rates were between 0.00% and 1.73% (31 December 2019: thirteen loans in the nominal amount of € 47,368 thousand, € 9,087 thousand, € 5,817 thousand, € 4,375 thousand, € 1,904 thousand, € 1,541 thousand, € 1,495 thousand with variable interest rates and € 50,000 thousand, € 14,985 thousand, € 14,985 thousand, € 9,990 thousand, € 4,995 thousand and € 3,571 thousand with fixed interest rate between 0.00% and 1.73%) and with maturity between 2021 and 2028 (31 December 2019: 2020 and 2028). The principal of the loans is payable on an annual or semi-annual basis and the interest is payable semi-annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

European Bank for Reconstruction and Development ('EBRD')

Loans received from the EBRD represented funds granted to support energy savings in large corporations. At 31 December 2020, there were five loan arrangements concluded in the nominal amount of € 2,500 thousand, € 2,500 thousand, € 714 thousand, € 714 thousand and € 714 thousand (31 December 2019: five loan arrangements in the nominal amount of € 2,500 thousand, € 2,143 thousand, € 2,143 thousand, € 2,143 thousand and € 714 thousand). The maturity of the loans is between 2021 and 2025 (31 December 2019: 2020 and 2024). At 31 December 2020 the variable interest rates was 0.20% (31 December 2019: 0.20% and 0.35%). The frequency of the repayment of both the interest and the principal is semi-annual.

Council of Europe Development Bank

At 31 December 2020, loans from the Council of Europe Development Bank comprised of one loan in the nominal amount of € 1,333 thousand (31 December 2019: three loans in the nominal amount of € 2,000 thousand, € 1,000 thousand and € 437 thousand). The purpose of these loans is to fund SME projects and development of municipalities in the Slovak republic. The interest rates of this loan is linked to 3M Euribor and was 0.00% at 31 December 2020 (31 December 2019: 0.00% and 0.39%). The maturity of the loan is in 2022 (31 December 2019: 2020 and 2022). The interest is payable quarterly and the principal is payable on an annual basis.

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

			Cash flow		Non-cash changes		
2020 € '000	**1 January**	**Proceeds**	**Repayments**	**Accruals**	**Revaluation**	**Other**	**31 December**
Loans received from other banks (including revaluation)	352,759	302,500	(105,304)	17,677	1,307	–	568,939

			Cash flow		Non-cash changes		
2019 € '000	**1 January**	**Proceeds**	**Repayments**	**Accruals**	**Revaluation**	**Other**	**31 December**
Loans received from other banks (including revaluation)	301,765	269,868	(293,873)	75,711	(712)	–	352,759

11.4. Due to customers

€ '000	2020	2019
Current accounts	9,533,964	8,016,211
Term deposits	2,618,892	2,633,491
Government and municipal deposits	486,233	904,185
Savings accounts	229,480	245,816
Loans received	9,103	26,188
Other deposits	109,148	105,058
	12,986,820	11,930,949

11.4. Lease liabilities

€ '000	2020	2019
Lease liabilities	18,562	20,068

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

		Cash flow			Non-cash changes		
2020 € '000	1 January	Repayments	New	Accruals	Revaluation	Other	31 December
Lease liabilities	20,068	(10,736)	9,230	–	–	–	18,562

		Cash flow			Non-cash changes		
2019 € '000	1 January	Repayments	New	Accruals	Revaluation	Other	31 December
Lease liabilities	14,584	(6,116)	11,965	(365)	–	–	20,068

11.6. Subordinated debt

€ '000	2020	2019
Subordinated debt	200,151	200,143

At 31 December 2020, the balance of subordinated debt comprised of one ten-year loan in the nominal amount of € 200,000 thousand (31 December 2019: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. The variable interest rate was 2.89% as at 31 December 2020 (31 December 2019: 2.89%). In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

		Cash flow		Non-cash changes			
2020 € '000	**1 January**	**Proceeds**	**Repayments**	**Accruals**	**Revaluation**	**Other**	**31 December**
Subordinated debt	200,143	–	–	8	–	–	200,151

		Cash flow		Non-cash changes			
2019 € '000	**1 January**	**Proceeds**	**Repayments**	**Accruals**	**Revaluation**	**Other**	**31 December**
Subordinated debt	200,181	–	–	(38)	–	–	200,143

11.7. Debt securities in issue

€ '000	**2020**	**2019**
Covered bonds	2,577,764	1,710,540
Covered bonds subject to fair value hedges	733,786	1,334,575
	3,311,550	3,045,115
Revaluation of fair value hedged covered bonds	65,807	57,211
Unamortized part of revaluation related to terminated fair value hedges	45,372	18,369
	3,422,729	3,120,695

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the VUB Group (note 11.2.).

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

		Cash flow		Non-cash changes			
2020 € '000	**1 January**	**Proceeds from issue**	**Repayments**	**Accruals**	**Revaluation**	**Other**	**31 December**
Covered bonds	3,120,695	500,000	(235,840)	2,275	35,599	–	3,422,729

		Cash flow		Non-cash changes			
2019 € '000	**1 January**	**Proceeds from issue**	**Repayments**	**Accruals**	**Revaluation**	**Other**	**31 December**
Covered bonds	2,332,253	1,000,000	(258,035)	(4,582)	51,059	–	3,120,695

Name	Interest rate (%)	Currency	Number in circulation as at 31 December 2020	Nominal value in original currency per piece	Issue date	Maturity date	2020 € '000	2019 € '000
Mortgage bonds VÚB, a. s. XX.	4.300	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a. s. XXX.	5.000	EUR	1,000	33,194	5.9.2007	5.9.2032	33,513	33,494
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,766	19,752
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	–	33,194	31.3.2008	31.3.2020	–	19,239
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,359	16,262
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,512	25,496
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	50,924	50,881
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	72,107	72,061
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	–	10,000	3.3.2014	3.3.2020	–	9,213
Mortgage bonds VÚB, a. s. 79.	2.000	EUR	–	1,000	24.3.2014	24.9.2020	–	10,154
Mortgage bonds VÚB, a. s. 80.	1.850	EUR	31	1,000,000	27.3.2014	27.3.2021	31,457	31,539
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	39,163	39,294
Mortgage bonds VÚB, a. s. 82.	1.650	EUR	–	1,000	16.6.2014	16.12.2020	–	1,716
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,717	49,676
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	–	100,000	27.4.2015	27.4.2020	–	100,083
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	99,030	98,655
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	–	100,000	11.9.2015	11.9.2020	–	96,673
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,713	99,584
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,544	98,368
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	100,251	100,160
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	249,639	249,142
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	249,099	248,662
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	249,562	249,178
Covered bonds VÚB, a. s. 1	0.500	EUR	2,500	100,000	26.6.2018	26.6.2023	250,066	249,836
Covered bonds VÚB, a. s. 2	1.500	EUR	500	100,000	5.10.2018	15.12.2027	49,958	49,945
Covered bonds VÚB, a. s. 3	0.250	EUR	5,000	100,000	26.3.2019	26.3.2024	498,105	497,215
Covered bonds VÚB, a. s. 4	0.500	EUR	5,000	100,000	26.6.2019	26.6.2029	497,081	496,590
Covered bonds VÚB, a. s. 5	0.010	EUR	5,000	100,000	23.6.2020	23.6.2025	499,739	–
							3,311,550	3,045,115

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

€ '000	2020	2019
Financial assets at AC:		
Due from customers:		
Retail		
Mortgages	20,016	13,840
Financial liabilities at AC:		
Due to customers	6,990	4,580

13. Investments in joint ventures and associates

2020 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50.00%	16,597	(5,619)	10,978
SBCB	33.33%	3	77	80
		16,600	(5,542)	11,058

2019 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50.00%	16,597	(5,045)	11,552
SBCB	33.33%	3	80	83
		16,600	(4,965)	11,635

SBCB is associates of the VUB Group for which equity method of consolidation is used.

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

VÚB Generali and SBCB are incorporated in the Slovak Republic.

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

€ '000	2020 VÚB Generali	2020 SBCB	2019 VÚB Generali	2019 SBCB
Net profit for the year*	6,884	4	8,726	17
Other comprehensive income	(31)	–	1,019	–
Total comprehensive income for the year	6,853	4	9,745	17
Assets**	23,275	268	25,321	269
Liabilities	(1,320)	(26)	(2,217)	(21)
Equity	21,995	242	23,104	248
VUB Group's interest on equity at 1 January	11,552	83	8,680	77
Share of profit	3,443	(3)	4,363	6
Share of other comprehensive income	(16)	–	509	–
Dividends received during the year	(4,001)	–	(2,000)	–
VUB Group's interest on equity at 31 December	10,978	80	11,552	83
Carrying amount at 31 December	10,978	80	11,552	83
** includes: Interest income*	399	–	401	–
Depreciation and amortization	(166)	–	(160)	–
Income tax expense	(1,836)	–	(2,328)	–
*** includes: Cash and cash equivalents*	4	5	7	3

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

2020 € '000	Owned and used	Owned and leased	Right-of-use	Total
Buildings and land	75,649	–	18,480	94,129
Equipment	6,443	153	–	6,596
Other tangibles	1,703	14,469	22	16,194
Assets in progress	7,185	759	–	7,944
	89,136	15,380	20,347	124,863

December 2019 € '000	Owned and used	Owned and leased	Right-of-use	Total
Buildings and land	72,424	–	20,101	92,525
Equipment	4,773	265	–	5,038
Other tangibles	1,618	14,588	–	16,206
Assets in progress	6,155	871	–	7,026
	84,970	15,724	20,101	120,795

2020 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	106,640	56,006	47,910	7,026	217,582
Additions	6,050	–	38	11,109	17,197
Disposals	(3,356)	(6,097)	(5,665)	–	(15,118)
Revaluation	(1,271)	–	–	–	(1,271)
Transfers	1,519	3,631	5,041	(10,191)	—
Exchange differences	(24)	(6)	(1)	–	(31)
At 31 December	109,558	53,534	47,323	7,944	218,359
Accumulated depreciation					
At 1 January	(11,787)	(50,968)	(31,379)	–	(94,134)
Depreciation for the period	(10,386)	(2,139)	(3,388)	–	(15,913)
Disposals	1,263	6,243	3,879	–	11,385
Revaluation	5,824	–	–	–	5,824
Transfers	–	(79)	79	–	–
Exchange differences	6	5	1	–	12
At 31 December	(15,080)	(46,938)	(30,808)	–	(92,826)
Impairment losses (note 21)					
At 1 January	(2,328)	–	(325)	–	(2,653)
Creation	(52)	–	(119)	–	(171)
Release	2,031	–	123	–	2,154
At 30 June	(349)	–	(321)	–	(670)
Carrying amount					
At 1 January	92,525	5,038	16,206	7,026	120,795
At 31 December	94,129	6,596	16,194	7,944	124,863

2019 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 31 December 2018	103,400	56,940	50,704	5,388	216,432
Impact of adopting IFRS 16	14,570	–	–	–	14,570
At 1 January	117,970	56,940	50,704	5,388	231,002
Additions	11,314	2	–	11,817	23,133
Revaluation	2	–	–	–	2
Disposals	(24,940)	(3,165)	(8,457)	–	(36,562)
Transfers	2,288	2,229	5,662	(10,179)	–
Exchange differences	6	–	1	–	7
At 31 December	106,640	56,006	47,910	7,026	217,582
Accumulated depreciation					
At 1 January	(4,355)	(51,924)	(34,331)	–	(90,610)
Depreciation for the year	(8,731)	(2,202)	(3,353)	–	(14,286)
Revaluation	11	–	–	–	11
Disposals	1,290	3,159	6,305	–	10,754
Exchange differences	(2)	(1)	–	–	(3)
At 31 December	(11,787)	(50,968)	(31,379)	–	(94,134)
Impairment losses (note 21)					
At 1 January	(7,090)	–	(127)	–	(7,217)
Creation	–	–	(226)	–	(226)
Release	4,762	–	28	–	4,790
At 31 December	(2,328)	–	(325)	–	(2,653)
Carrying amount					
At 31 December 2018	91,955	5,016	16,246	5,388	118,605
Impact of adopting IFRS 16	14,570	–	–	–	14,570
At 1 January	106,525	5,016	16,246	5,388	133,175
At 31 December	92,525	5,038	16,206	7,026	120,795

Of which owned and leased property and equipment:

2020 € '000	Equipment	Other tangibles	Assets in progress	Total
Cost				
At 1 January	284	21,331	124	21,739
Additions	–	–	5,123	5,123
Disposals	(7)	(4,134)	–	(4,141)
Transfers	–	4,488	(4,488)	–
At 31 December	277	21,685	759	22,721
Accumulated depreciation				
At 1 January	(19)	(6,418)	–	(6,437)
Depreciation for the year	(112)	(2,886)	–	(2,998)
Disposals	6	2,409	–	2,415
At 31 December	(125)	(6,895)	–	(7,020)
Impairment losses				
At 1 January	–	(325)	–	(325)
Creation	–	(119)	–	(119)
Release	–	123	–	123
At 31 December	–	(321)	–	(321)
Carrying amount				
At 1 January	265	14,588	124	14,977
At 31 December	153	14,469	759	15,380

2019 € '000	Equipment	Other tangibles	Assets in progress	Total
Cost				
At 1 January	–	21,717	106	21,823
Additions	–	–	4,917	4,917
Disposals	–	(5,001)	–	(5,001)
Transfers	284	4,615	(4,899)	–
At 31 December	284	21,331	124	21,739
Accumulated depreciation				
At 1 January	–	(6,503)	–	(6,503)
Depreciation for the year	(19)	(2,915)	–	(2,934)
Disposals	–	3,000	–	3,000
At 31 December	(19)	(6,418)	–	(6,437)
Impairment losses				
At 1 January	–	(127)	–	(127)
Creation	–	(226)	–	(226)
Release	–	28	–	28
At 31 December	–	(325)	–	(325)
Carrying amount				
At 1 January	–	15,087	106	15,193
At 31 December	265	14,588	124	14,799

Of which right-of-use assets:

2020 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	25,760	–	25,760
Additions	6,050	38	6,088
Disposals	(452)	–	(452)
Exchange differences	(20)	(1)	(21)
At 31 December	31,338	37	31,375
Accumulated depreciation			
At 1 January	(5,659)	–	(5,659)
Depreciation for the period	(7,264)	(15)	(7,279)
Disposals	62	–	62
Exchange differences	3	–	3
At 31 December	(12,858)	(15)	(12,873)
Carrying amount			
At 1 January	20,101	–	20,101
At 31 December	18,480	22	18,502

2019 € '000	Buildings and land
Cost	
At 1 January	14,570
Additions	11,314
Disposals	(129)
Exchange differences	5
At 31 December	25,760
Accumulated depreciation	
At 1 January	–
Depreciation for the period	(5,689)
Disposals	31
Exchange differences	(1)
At 31 December	(5,659)
Carrying amount	
At 1 January	14,570
At 31 December	20,101

For 'Buildings and land' the VUB Group uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The VUB Group uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs. As at 31 October 2020, the VUB Group updated the revaluation of buildings and land to their current market value. The impact on equity was in the amount of € 3,597 thousand and on the profit of € 1,066 thousand due to the release of the previously created impairment.

In order to optimize costs, the VUB Group decided to sell part of its own buildings and land during 2020 and 2019, which it did not use or used only part of its premises primarily as its branches. From November 2019 to March 2020, these buildings and land were sold, and approximately 35% of the premises were subsequently rented back by the VUB Group to continue to use them. The VUB Group thus entered into sale and leaseback transactions. The buildings sold were excluded from property and equipment and the premises that the VUB Group began to lease back were falling back to property and equipment as rights of use. At the same time, lease liabilities of the same amount as the rights of use were recognized. The gains from these transactions were € nill thousand, as the selling price corresponded to their fair value, in which these buildings were also recognized in the accounting under the revaluation model. The contracts were concluded under current market conditions. The lease term was agreed in the contracts for an average of four years.

In 2020 the VUB Group reviewed the carrying amount of its property and equipment. An impairment test was carried out to determine the recoverable amount. The recoverable amount is determined with reference to the fair value less costs to sell or the value in use, if determinable and if it is higher than fair value. For property and equipment other than buildings and land is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances. The VUB Group measures buildings and land according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement. As a result of the impairment test the VUB Group recognized an impairment loss in the amount of € 670 thousand (31 December 2019: € 2,653 thousand).

For 'Buildings and land' the VUB Group uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The VUB Group uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs.

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2020	2019
Cost	102,888	105,661
Accumulated depreciation	(52,980)	(52,622)
Impairment losses	(350)	(2,328)
	49,558	50,711

The VUB Group held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2020	2019
Cost	1	1,585
Accumulated depreciation	–	(28)
Impairment losses	–	(912)
	1	645

At 31 December 2020, the gross book value of fully depreciated tangible assets that are still used by the VUB Group amounted to € 80,394 thousand (31 December 2019: € 81,923 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

At 31 December 2020, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2019: € nil thousand).

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

15. Intangible assets

2020 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	276,790	10,931	43,738	331,459
Additions	–	–	31,881	31,881
Disposals	(619)	(102)	–	(721)
Transfers	19,792	(96)	(19,696)	–
Exchange differences	(20)	(4)	–	(24)
At 31 December	295,943	10,729	55,923	362,595
Accumulated amortisation				
At 1 January	(208,544)	(10,332)	–	(218,876)
Amortization for the period	(14,467)	(124)	–	(14,591)
Disposals	312	82	–	394
Exchange differences	2	3	–	5
At 31 December	(222,697)	(10,371)	–	(233,068)
Carrying amount				
At 1 January	68,246	599	43,738	112,583
At 31 December	73,246	358	55,923	129,527

2019 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	251,907	10,833	36,357	299,097
Additions	63	95	32,212	32,370
Disposals	(18)	–	–	(18)
Transfers	24,831	–	(24,831)	–
Exchange differences	7	3	–	10
At 31 December	276,790	10,931	43,738	331,459
Accumulated amortisation				
At 1 January	(196,308)	(9,926)	–	(206,234)
Amortization for the period	(12,249)	(405)	–	(12,654)
Disposals	18	–	–	18
Exchange differences	(5)	(1)	–	(6)
At 31 December	(208,544)	(10,332)	–	(218,876)
Carrying amount				
At 1 January	55,599	907	36,357	92,863
At 31 December	68,246	599	43,738	112,583

Assets in progress include development of new software applications, mainly the new core banking system (€ 31,216 thousand), that is being developed and the costs for the technical upgrade of software that have not yet been put in use.

At 31 December 2020, the gross book value of fully amortised intangible assets that are still used by the VUB Group amounted to € 162,487 thousand (31 December 2019: € 147,486 thousand).

At 31 December 2020, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2019: € 1,442 thousand).

16. Goodwill

€ '000	2020	2019
Retail Banking	18,871	18,871
VÚB Leasing, a. s.	10,434	10,434
	29,305	29,305

Goodwill related to Consumer Finance Holding, a. s. arose in 2005 on the acquisition of Consumer Finance Holding, a. s. and in 2018 was merged into the Bank. The VUB Group allocated this goodwill to cash generating unit Retail Banking, as Consumer Finance Holding, a. s. was operating in the area of consumer loans.

Goodwill related to VÚB Leasing includes both goodwill related to purchase of the the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million) from 2007 and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million) from 2010.

The VUB Group identified four cash generating units – Retail Banking, Corporate Banking, VÚB Leasing, a. s. and Central Treasury, which also representing the operating segment considered for segment reporting (note 6). VÚB Leasing, a. s. is part of the operating segment Corporate Banking. Each of them constitutes the smallest group of assets generating independent incoming cash flows and also the minimum level set by the Bank for planning and reporting processes.

Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses on goodwill were recognized during 2020 and 2019.

The VUB Group uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on ISP Group level specifically for the Slovak market.

The following rates are used by the VUB Group:

€ '000	2020	2019
Pre-tax discount rate – cash flows	5.67%	6.81%
Pre-tax discount rate – terminal value	7.65%	7.95%
Projected growth rate	1.82%	4.42%

The calculation considers the following key assumptions:
- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

2020 € '000			Change in value in use
	Sensitivity to growth rate	Sensitivity to discount rate for cash flows	Sensitivity to terminal value cash flows
	- 10 bps	+ 10 bps	- 10%
VÚB Leasing, a. s.	(1.84)%	(0.35)%	(8.22)%
VÚB Generali d. s. s., a. s.	(1.82)%	(0.39)%	(8.15)%

17.Current and deferred income tax assets and liabilities

€ '000	2020	2019
Current income tax assets	26,518	28,342
Deferred income tax assets	54,802	66,118
Current income tax liabilities	3,411	–

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2019: 21%) as follows:

€ '000	2020	Profit/ (loss) (note 34)	Equity	2019
Financial assets at FVOCI	(2,507)	–	(738)	(1,769)
Financial assets at AC:				
Due from other banks	118	23	–	95
Due from customers	53,224	(5,656)	–	58,880
Property and equipment	(14,167)	(4,721)	(857)	(8,589)
Other assets	7	–	–	7
Financial liabilities at AC:				
Lease liabilities	4,460	196	–	4,264
Provisions	2,754	898	–	1,856
Other liabilities	8,403	(646)	–	9,049
Other	2,510	202	(17)	2,325
	54,802	(9,704)	(1,612)	66,118

18. Other assets

€ '000	Note	2020	2019
Operating receivables and advances		16,643	15,279
Prepayments and accrued income		10,196	8,959
Inventories		1,213	1,303
Other tax receivables		712	731
Receivables from termination of leasing		64	27
Settlement of operations with financial instruments		12	25
Other		382	893
Impairment losses	21	(3,403)	(4,378)
		25,819	22,839

19. Provisions

€ '000	Note	2020	2019
Financial guarantees and commitments	21	13,933	9,370
Litigation	23	3,702	3,920
Restructuring provision		400	334
Other provisions		1	1
		18,036	13,625

2020 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	3,920	(68)	(150)	3,702
Restructuring provision	32	334	400	(334)	400
Other provisions	32	1	–	–	1
		4,255	332	(484)	4,103

2019 € '000	Note	1 January	Net creation/ release*	Use	31 December
Litigation	23, 32	9,408	(4,917)	(571)	3,920
Restructuring provision	32	924	–	(590)	334
Other provisions	32	11	–	(10)	1
		10,343	(4,917)	(1,171)	4,255

* On the basis of success in litigation and mainly as a result of an independent assessment, based on which management revised the expected probability of success, the provision was released for € 4,917 thousand.

20. Other liabilities

€ '000	2020	2019
Various creditors	40,435	53,321
Settlement with employees	28,524	32,024
Severance and Jubilee benefits	5,407	5,633
Accruals and deferred income	2,211	2,673
VAT payable and other tax payables	1,710	3,333
Settlement with shareholders	1,404	1,753
Investment certificates	843	641
Share remuneration scheme	711	584
Settlement of operations with financial instruments	1	5
Other	751	922
	81,997	100,889

At 31 December 2020 and 31 December 2019 there were no overdue balances within 'Other liabilities'.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to yield curve on Slovak government bonds with a fifteen years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the Projected Unit Credit Method. For the calculation the VUB Group used an average turnover rate which is based on historical data on employees' turnover at the VUB Group for the last three years. The average age-specific turnover rate is calculated as the ratio of number of terminations and the average number of employees. All employees of the VUB Group are covered by the retirement and jubilee employee benefits program.

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

		2020		2019
	Jubilee benefits	Retirement benefits	Jubilee benefits	Retirement benefits
Discount rate	(0.66)%	(0.11)%	(0.28)%	0.55%
Growth of wages*	–	0.00%	–	3.00%
Future growth of wages*	–	4.50%	–	4.50%
Turnover rate (based on age)	5.1% – 40.9%	5.1% – 40.9%	5.9% – 41.3%	5.9% – 41.3%
Retirement age	Based on valid legislation		Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic		Based on mortality tables issued by the Statistical Office of the Slovak Republic	

* Growth of wages and Future growth of wages is not part of calculation for Jubilee benefits.

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

2020 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	2,039	2,746	(2,112)	2,673

2019 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	2,801	1,197	(1,959)	2,039

21. Movements in impairment losses and provisions for financial guarantees and commitments

2020 € '000	Note	1 January	Net creation/ (release) (note 33)	Assets written-off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		224	82	–	–	–	306
Financial assets at AC:	11						
Due from other banks		488	218	–	–	–	706
Due from customers		348,748	60,745	(69,837)	(1,571)	(6,866)	331,219
Impairment losses according to IFRS 9		349,460	61,045	(69,837)	(1,571)	(6,866)	332,231
Financial guarantees and commitments	19	9,370	3,306	–	1,257	–	13,933
Impairment losses and provisions according to IFRS 9		358,830	64,351	(69,837)	(314)	(6,866)	346,164
Property and equipment and Non–current assets classified as held for sale	14	2,653	(1,071)	(912)	–	–	670
Other assets	18	4,378	(975)	–	–	–	3,403
Total impairment losses and provisions for financial guarantees and commitments		365,861	62,305	(70,749)	(314)	(6,866)	350,237

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

2019 € '000	Note	1 January	Net creation/ (release) (note 33)	Assets written-off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		134	90	–	–	–	224
Financial assets at AC:	11						
Due from other banks		754	(369)	–	103	–	488
Due from customers		404,912	43,347	(90,396)	(126)	(8,989)	348,748
Impairment losses according to IFRS 9		405,800	43,068	(90,396)	(23)	(8,989)	349,460
Financial guarantees and commitments	19	14,380	(5,255)	–	254	–	9,370
Impairment losses and provisions according to IFRS 9		420,180	37,813	(90,396)	222	(8,989)	358,830
Property and equipment and Non-current assets classified as held for sale	14	7,217	198	(4,762)	–	–	2,653
Other assets	18	3,338	1,040	–	–	–	4,378
Total impairment losses and provisions for financial guarantees and commitments		430,735	39,051	(95,158)	222	(8,989)	365,861

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

22. Equity

€ '000	2020	2019
Share capital – authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,719	13,719
Reserves	116,769	110,665
Retained earnings (excluding net profit for the period)	1,062,938	937,723
	1,624,245	1,492,926

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

€ '000	2020	2019
Net profit for the period attributable to shareholders in € '000	82,694	120,071

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	2020	2019
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.17%	2.16%
Foreign shareholders	0.80%	0.81%
	100.00%	100.00%

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

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

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

€ '000	2020	2019
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings*	1,054,474	929,259
Legal reserve fund	89,350	88,986
Other capital funds	8,464	8,464
Accumulated other comprehensive income	27,419	21,679
(-) Value adjustments due to the requirements for prudent valuation	(47)	(57)
Other transitional adjustments to CET1 Capital	31,413	38,102
CET1 capital elements or deductions — other	(5,090)	(3,876)
Less goodwill and intangible assets	(129,041)	(141,888)
Less IRB shortfall of credit risk adjustments to expected losses	(8,416)	(8,958)
	1,513,064	1,376,249
Tier 2 capital		
Subordinated debt	200,000	200,000
Other transitional adjustments to T2 Capital	(7,197)	(8,739)
	192,803	191,261
Total regulatory capital	1,705,867	1,567,510

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

€ '000	2020	2019
Retained earnings	1,145,632	1,057,794
Net profit for the period/year	(82,694)	(120,071)
Other capital funds	(8,464)	(8,464)
	1,054,474	929,259

€ '000	2020	2019	2020 Required	2019 Required
Tier 1 capital	1,513,064	1,376,249	726,425	721,529
Tier 2 capital	192,803	191,261	192,803	191,261
Total regulatory capital	1,705,867	1,567,510	726,425	721,529
Total Risk Weighted Assets	9,080,316	9,019,114	9,080,316	9,019,114
CET 1 capital ratio	16.66%	15.26%	11.84%	13.00%
Total capital ratio	18.79%	17.38%	16.00%	15.50%

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 31 December 2020 and 31 December 2019 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 March 2020, ECB announced relaxation of the capital requirements in relation to COVID-19 pandemic, by allowing the banks to fully release the P2CG (1%) and allow banks to operate temporarily below the level of capital defined by the capital conservation buffer (CCB) (2.5%), meaning in total effect of 3.5%. Moreover, requirement on P2R composition based on CRD V rules has been updated to 75% Tier 1, out of which 75% should represent CET 1 (56.25% of P2R). These changes represent from 31 March 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 VÚB group level, as of 1 January 2020 set at 16.5% and from 1 August 2020 at 16% and cosists 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 Counter-Cyclical 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 VUB Group has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) 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 VUB Group. It refers only to the impact of FTA resulting from the comparison of IAS 39 impairments as at 31 December 2017 and IFRS 9 impairments as at 1 January 2018 – including both performing loans classified in Stages 1 and 2 and adjustments to non-performing loans (Stage 3) – to which is applied a decreasing factor (95% for 2018, 85% in 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.

Regulation (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) No 2019/876 as regards certain adjustments in response to the COVID-19 pandemic meaning amendments of the transitional arrangements for adoption of IFRS 9 (Art. 473a of CRR) the Bank continues to apply the static approach as defined for the first-time adoption of IFRS 9 in relation to own funds calculation, which is in line with ISP Group approach. Moreover, the Bank has decided not to adopt temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (Art. 468).

The prudential treatment of software assets

The VUB Group has adopted prudential treatment of software assets based on the Final Report "Draft Regulatory Technical Standards on the prudential treatment of software assets under Article 36 of Regulation (EU) 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	2020	2019
Issued guarantees	866,694	762,567
Commitments and undrawn credit facilities	3,665,938	3,138,488
of which revocable	*567,499*	*464,586*
	4,532,632	3,901,055

Issued guarantees represent irrevocable assurances that the VUB Group will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the VUB Group recognizes provisions for these instruments. (note 19)

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

23.2. Operating leasing

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

€ '000	2020	2019
Up to one year	3,387	2,997
One to two years	2,102	1,986
Two to three years	1,213	857
Three to four years	460	260
Four to five years	41	80
	7,203	6,180

23.3. Legal proceedings

In the normal course of business, the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2020. Pursuant to this review, management has recorded total provisions of € 3,702 thousand (31 December 2019: € 3,920 thousand) in respect of such legal proceedings (note 19). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 30,367 thousand, as at 31 December 2020 (31 December 2019: € 30,902 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the VUB Group.

€ '000	2020	2019
Legal proceedings related to leasing contracts	3,111	2,974
Legal proceedings related to credit contracts	584	344
Legal proceedings on credit collection	7	602
	3,702	3,920

24. Net interest income

€ '000	2020	2019
Interest and similar income		
Financial assets at FVTPL	127	199
Financial assets at FVOCI	2,582	7,430
Financial assets at AC:		
Due from other banks	3,799	19,428
Due from customers	340,775	371,673
Derivatives – Hedge accounting	(15,475)	(13,250)
Interest income on liabilities	910	2,443
	332,718	387,923
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(2,005)	(1,891)
Due to customers and Subordinated debt	(17,601)	(22,641)
Lease liabilities	(78)	(69)
Debt securities in issue	(28,283)	(32,556)
Derivatives – Hedge accounting	10,584	10,546
Interest expense on assets	(516)	(1,140)
	(37,899)	(47,751)
	294,819	340,172

€ '000	2020	2019
Interest and similar income		
Total interest income calculated using the effective interest method	326,535	381,148
Other interest income – interest income on finance leases	6,056	6,576
Other interest income – interest income on financial assets at FVTPL	127	199
	332,718	387,923

€ '000	2020	2019
Net interest income		
Financial assets at FVOCI	2,582	7,430
Financial assets at AC	338,002	383,386
	340,584	390,816
Financial liabilities at AC	(47,057)	(54,713)

Interest income on impaired loans and advances to customers for 2020 amounted to € 11,716 thousand (2019: € 9,335 thousand).

25. Net fee and commission income

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

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

Revenue recognition under IFRS 15:

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

2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38,525	3,174	–	9	41,708
Payments and cash management	14,441	13,148	1,351	11	28,951
Cards	27,714	290	–	39	28,043
Loans	9,837	7,524	–	516	17,877
Indirect deposits	17,740	43	–	–	17,783
Insurance	13,702	3	–	–	13,705
Trade finance	10	635	1,776	–	2,421
Factoring	–	1,193	–	–	1,193
Structured finance	–	951	–	–	951
Other	585	2,395	249	102	3,331
	122,554	29,356	3,376	677	155,963
Fee and commission expense					
Cards	(15,523)	–	–	–	(15,523)
Payments and cash management	(1,762)	(5,232)	(470)	(493)	(7,957)
Current accounts	–	–	–	(613)	(613)
Insurance	(432)	–	–	–	(432)
Factoring	–	(229)	–	–	(229)
Other	(377)	(2)	(467)	(2,914)	(3,760)
	(18,094)	(5,463)	(937)	(4,020)	(28,514)
Net fee and commission income under IFRS 15	104,460	23,893	2,439	(3,343)	127,449
Income from guarantees under IFRS 9	–	7,186	–	–	7,186
Total net fee and commission income	104,460	31,079	2,439	(3,343)	134,635

2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38,894	3,340	–	8	42,242
Cards	40,400	347	–	1	40,748
Payments and cash management	9,887	6,649	347	5	16,888
Indirect deposits	8,241	7,247	–	671	16,159
Loans	16,025	–	–	–	16,025
Insurance	11,782	1	–	25	11,808
Trade finance	18	466	1,174	–	1,658
Factoring	–	1,466	–	–	1,466
Structured finance	–	1,127	–	–	1,127
Other	482	1,964	218	827	3,491
	125,729	22,607	1,739	1,537	151,612
Fee and commission expense					
Cards	(23,753)	–	–	–	(23,753)
Payments and cash management	(31)	(8)	(562)	(443)	(1,044)
Current accounts	–	–	–	(589)	(589)
Insurance	(402)	–	–	–	(402)
Factoring	–	(247)	–	–	(247)
Indirect deposits	(7)	(10)	–	–	(17)
Other	(94)	(2)	(90)	(3,878)	(4,064)
	(24,287)	(267)	(652)	(4,910)	(30,116)
Net fee and commission income under IFRS 15	101,442	22,340	1,087	(3,373)	121,496
Income from guarantees under IFRS 9	–	6,184	–	–	6,184
Total net fee and commission income	101,442	28,524	1,087	(3,373)	127,680

26. Net trading result

€ '000	2020	2019
Customer foreign exchange margins	6,831	6,805
Financial assets measured at FVOCI	6,754	2,005
Cross currency swaps	6,641	(6,131)
Financial assets held for trading – debt securities	3,982	1,044
Net result from hedging transactions	630	(132)
Other derivatives	177	141
Dividends from equity shares held in FVTPL	63	154
Dividends from equity shares measured at FVOCI	–	37
Equity derivatives	–	(2)
Non-trading financial assets measured at FVTPL	(93)	211
Foreign currency derivatives and transactions	(2,363)	(13,071)
Interest rate derivatives	(3,978)	1,426
	18,644	(7,513)

27. Other operating income

€ '000	2020	2019
Income from operating leasing	4,498	4,927
Financial revenues	1,579	1,763
Net profit from sale of fixed assets	696	838
Services	7	16
Other	813	1,047
	7,593	8,591

28. Other operating expenses

€ '000	2020	2019
Contribution to the Single Resolution Fund*	(6,880)	(5,701)
Costs of product support – credit cards	(1,892)	(2,560)
Court fees and expenses and out-of-court settlements	(1,421)	(2,137)
Contribution to the Deposit Protection Fund**	(605)	(547)
Other damages	(267)	(335)
Other	(7,396)	(8,555)
	(18,461)	(19,835)

* Starting from 1 January 2015 the new Bank Recovery and Resolution Directive No 2014/59/EU ('BRRD') is effective for all EU member states. The Directive was implemented to Slovak legislation by Act No 371/2014 on Resolution. The Directive sets an obligation for banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of a bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023.
** The annual contribution for 2020 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2020, the VUB Group expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2020 was set at 0.0075% p. q. of the amount of protected deposits.

29. Special levy of selected financial institutions

€ '000	2020	2019
Special levy of selected financial institutions	(31,038)	(29,695)

The special levy of selected financial institutions was set to 0.4% p. a. of selected liabilities for the year 2020 (2019: 0.2% p. a.).

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

30. Salaries and employee benefits

€ '000	2020	2019
Remuneration	(89,530)	(89,439)
Social security costs	(34,514)	(35,081)
Social fund	(2,746)	(1,197)
Termination benefit	(66)	590
Severance and Jubilee benefits	226	(222)
	(126,630)	(125,349)

At 31 December 2020, the total number of employees of the VUB Group was 3,655 (31 December 2019: 3,742). The average number of employees of the VUB Group during the year ended as at 31 December 2020 was 3,699 (31 December 2019: 3,772).

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

31. Other administrative expenses

€ '000	2020	2019
Third parties' services	(18,693)	(16,116)
Information technologies systems maintenance	(13,747)	(15,135)
Maintenance and repairs	(5,561)	(5,603)
Advertising and sponsorship	(5,060)	(7,128)
Postage costs	(4,223)	(4,224)
Rental of buildings and related expenses**	(3,728)	(3,575)
Telephone and telecommunication costs	(2,818)	(2,973)
Forms and office supplies	(2,552)	(2,861)
Energy costs	(2,500)	(3,816)
Electronic data processing system leasing**	(1,844)	(1,577)
Cleaning of premises	(1,451)	(1,884)
Security	(1,444)	(1,484)
Transport	(1,443)	(1,641)
Indirect personnel costs and compensation	(1,423)	(2,732)
Insurance	(989)	(1,059)
Cost of legal services	(936)	(1,583)
Consultations and other fees*	(919)	(1,065)
Archives and documents	(894)	(1,032)
Other rentals	(779)	(82)
Information and research	(211)	(237)
Other expenses**	(2,940)	(2,858)
Value added tax and other taxes	(207)	(309)
Reinvoicing	525	672
	(73,837)	(78,302)

* 'Consultations and other fees' includes the fee for the statutory audit of € 256 thousand (2019: € 256 thousand). Other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the Bank's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h – 71k of the Act No. 566/2001 Coll on securities, assurance work and audit of the Bank as a payment service provider in accordance with regulatory technical standards on strong customer authentication and secure communication under PSD2 amounted to € 407 thousand (2019: € 453 thousand).
** These items includes among other things:

€ '000	2020	2019
Expenses relating to short-term leases	(513)	(304)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	(1,345)	(1,643)
	(1,858)	(1,947)

32. Provisions

€ '000	Note	2020	2019
Net release and use of provisions for litigations	19	218	4,917
Net release and use of provisions for other provisions	19	–	10
		218	4,927

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

€ '000	Note	2020	2019
Net creation of impairment losses	21	(59,043)	(44,306)
Net (creation)/release of provisions for financial guarantees and commitments	21	(3,262)	5,255
		(62,305)	(39,051)
Net loss arising from the derecognition of financial assets at AC		(7,436)	(4,883)

34. Income tax expense

€ '000	Note	2020	2019
Current income tax	17	(16,743)	(26,534)
Deferred income tax	17	(9,704)	(7,565)
		(26,447)	(34,099)

The movement in deferred taxes in the statement of profit or loss is as follows:

€ '000	2020	2019
Due from other banks	23	(64)
Due from customers	(5,656)	(20,056)
Property and equipment	(4,721)	(2,137)
Lease liabilities	196	1,201
Provisions	898	1,240
Other liabilities	(646)	(736)
Other	202	12,987
	(9,704)	(7,565)

The effective tax rate differs from the statutory tax rate in 2020 and in 2019. The reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

€ '000	2020	2019
Profit before tax	109,141	154,170
Theoretical tax calculated at the tax rate 21%	(22,930)	(32,376)
Tax impact:		
Non-taxable income	2,371	4,384
Tax non-deductible expenses	(7,390)	(9,999)
Impairment allowances and provisions, net	10,320	11,632
Additional tax of prior period	876	(175)
Creation/(release) of allowances for uncertain realisation of deferred tax receivables	(9,704)	(7,565)
Income tax expense	(26,447)	(34,099)
Effective tax for the year	24.23%	22.12%

35. Other comprehensive income

€ '000	2020	2019
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation (loss)/gain arising during the year	3,080	3,123
Reclassification adjustment for profit on sale of FVOCI equities within equity	(4,470)	360
	(1,390)	3,483
Net revaluation gain from property and equipment	4,553	13
Reversal of deferred income tax on disposed property and equipment	99	2,101
	3,262	5,597
Items that may be reclassified to statement of profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation gain arising during the period	–	8
Change in value of financial assets at FVOCI (debt instruments):		
Revaluation loss arising during the year	33,284	237
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(23,849)	(1,919)
	9,435	(1,682)
Exchange difference on translation foreign operation	(309)	343
	9,126	(1,331)
Total other comprehensive income	12,388	4,266
Income tax relating to components of other comprehensive income (note 36)	(1,706)	(459)
Other comprehensive income for the year after tax	10,682	3,807

36. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense) /benefit	Net of tax amount 2020	Before tax amount	Tax (expense) /benefit	Net of tax amount 2019
Items that shall not be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (equity instruments)	4,553	(956)	3,597	3,483	(807)	2,676
Reversal of deferred income tax on disposed property and equipment	99	–	99	2,101	–	2,101
Net revaluation gain from property and equipment	(1,390)	1,231	(159)	13	(3)	10
	3,262	275	3,537	5,597	(810)	4,787
Items that may be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (debt instruments)	9,435	(1,981)	7,454	(1,682)	353	(1,329)
Exchange differences on translation foreign operations	(309)		(309)	343		343
Change in value of cash flow hedges	–	–	–	8	(2)	6
	9,126	(1,981)	7,145	(1,331)	351	(980)
	12,388	(1,706)	10,682	4,266	(459)	3,807

37. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates – enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the VUB Group that gives them significant influence over the VUB Group, and anyone expected to influence, or be influenced by, that person in their dealings with the VUB Group;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the VUB Group, including directors and officers of the VUB Group and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the VUB Group and enterprises that have a member of key management in common with the VUB Group.

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

In 2020, the remuneration and other benefits provided to members of the Management Board were € 3,227 thousand (2019: € 2,870 thousand), of which the severance benefits € 79 thousand (2019: € 112 thousand), and to members of the Supervisory Board € 55 thousand (2019: € 99 thousand).

On 20 July 2020 was completed the merger by incorporation of Banca IMI S.p.A., the part of the ISP Group, into the Parent Company Intesa Sanpaolo S.p.A. From this day all legal relations concerning the merged company will be intended as referred to Intesa Sanpaolo S.p.A.

As at 31 December 2020, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Financial assets at FVTPL:						
Financial assets held for trading	–	–	–	58,969	15	58,984
Non-trading financial assets at FVTPL	–	–	–	711	–	711
Derivatives – Hedge accounting	–	–	–	85,124	–	85,124
Financial assets at FVOCI	–	–	–	326	–	326
Financial assets at AC:						
Due from other banks	–	–	–	69,198	315	69,513
Due from customers	329	1	–	–	–	330
Other assets	–	–	–	–	1,139	1,139
	329	1	–	214,328	1,469	216,127
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	–	–	–	73,861	–	73,861
Derivatives – Hedge accounting	–		–	52,625	–	52,625
Financial liabilities at AC:		–				
Due to banks	–	–	–	467,438	2,092	469,530
Due to customers	1,311	–	245	–	11,226	12,782
Subordinated debt	–	–	–	–	200,151	200,151
Provisions	–	–	–	21	–	21
Other liabilities	711	–	–	2,510	–	3,221
	2,022	–	245	596,455	213,469	812,191

As at 31 December 2019, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Financial assets at FVTPL:						
Financial assets held for trading	–	–	–	590	8,332	8,922
Non-trading financial assets at FVTPL	–	–	–	584	–	584
Derivatives – Hedge accounting	–	–	–	–	82,501	82,501
Financial assets at FVOCI	–	–	–	797	–	797
Financial assets at AC:						
Due from other banks	–	–	–	5,411	40,675	46,086
Due from customers	285	5	–	–	–	290
Other assets	–	–	–	6	1,221	1,227
	285	5	–	7,388	132,729	140,407
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	–	–	–	510	17,293	17,803
Derivatives – Hedge accounting	–		–	–	37,065	37,065
Financial liabilities at AC:		–				
Due to banks	–	–	–	189,100	28,075	217,175
Due to customers	1,600	–	257	–	27,255	29,112
Subordinated debt	–	–	–	–	200,143	200,143
Provisions	–	–	–	14	2	16
Other liabilities	584	–	–	2,615	–	3,199
	2,184	–	257	192,239	309,833	504,513

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

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	56	20	–	14	–	90
Issued guarantees	–	–	–	10,360	85	10,445
Received guarantees	–	–	–	10,157	–	10,157
Derivative transactions (notional amount – receivable)	–	–	–	8,739,712	5,038	8,744,750
Derivative transactions (notional amount – payable)	–	–	–	8,741,454	5,028	8,746,482

As at 31 December 2019, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	323	–	–	2,596	–	2,919
Issued guarantees	–	–	–	14,317	1,877	16,194
Received guarantees	–	–	–	18,000	–	18,000
Derivative transactions (notional amount – receivable)	–	–	–	150,387	8,552,538	8,702,925
Derivative transactions (notional amount – payable)	–	–	–	149,116	8,552,540	8,701,656

For the year ended 31 December 2020, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	2	–	1	12	19	34
Interest and similar expense	(1)	–	–	(1,325)	(5,903)	(7,229)
Fee and commission income	–	–	–	310	15,080	15,390
Fee and commission expense	–	–	–	(1,168)	(5)	(1,173)
Net trading result	–	–	–	(41,125)	(328)	(41,453)
Other operating income	–	–	–	279	197	476
Other operating expenses	–	–	–	(516)	–	(516)
Other administrative expenses	–	–	–	(11,569)	(387)	(11,956)
Impairment losses	–	–	–	(18)	2	(16)
	1	–	–	(55,120)	8,675	(46,443)

For the year ended 31 December 2019, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	3	–	–	47	4	54
Interest and similar expense	(2)	–	–	(465)	(7,338)	(7,805)
Fee and commission income	1	–	1	197	13,989	14,188
Fee and commission expense	–	–	–	(548)	(11)	(559)
Net trading result	–	–	–	(12,224)	31,536	19,312
Other operating income	–	20	–	270	82	372
Other operating expenses	–	–	–	(511)	–	(511)
Other administrative expenses	–	13	–	(11,249)	(272)	(11,508)
Impairment losses	–	–	(8)	(1)	–	(9)
	2	33	(7)	(24,484)	37,990	13,534

38. Events after the end of the reporting period

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

At present, uncertainty still remains as for the further developments of the pandemic. In many countries, the situation is gradually improving as vaccination is being rolled out and previous containment measures brought contagion down. In Slovakia and the Czech Republic, however, the situation is far from stabilized yet. In fact, in late February 2021, Slovakia became the worst hit country in the world in terms of new COVID-related deaths and hospitalizations per number of inhabitants in the world. A new set of containment measures is therefore being contemplated by the government to bring contagions down, including a full-scale lockdown similar to the one adopted in the first wave of the pandemic in the Spring 2020. The impact of such measures on the banking sector would be similarly harsh as in March/April last year, but most probably only temporary as vaccination is progressing, maybe slowly at this stage but steadily. And this gives hope of some return to normality from late Spring, early Summer months of 2021.

The Extraordinary General Meeting of the Bank, held on 18 December 2020, approved that the Bank's shares admitted to trading on the Listed Main Market organized by the Bratislava Stock Exchange cease to be listed and traded on a stock exchange. It further approved that a mandatory takeover bid pursuant to the relevant provisions of the Securities Act be made by the majority shareholder of the Bank instead of the Bank. The General Meeting also approved that the Bank will cease to be a public joint-stock company after the implementation of a mandatory takeover bid and the termination of trading with shares. The mandatory takeover bid was announced on 21 January 2021 and lasted until 19 February 2021. On 26 February 2021, the shares of the Bank were delisted from the Bratislava Stock Exchange. As a result, the Bank has become a private joint stock company.

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

From 1 January 2021, the VUB Group put in use part of the new core banking system which was deployed for its Prague Branch.

From 31 December 2020, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue by the Management Board on 3 March 2021.

Alexander Resch
Chairman of the Management Board

Roberto Vercelli
Member of the Management Board

Separate financial statements

Separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditors' Report for the year ended 31 December 2020

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

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

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Všeobecná úverová banka, a. s. ("the Bank"), which comprise the separate statement of financial position as at 31 December 2020, separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2020: € 14,724,137 thousand; impairment loss recognised in 2020: € 49,147 thousand; total impairment loss as at 31 December 2020: € 298,310 thousand.

Refer to Note 3 (Significant accounting policies) and Notes 11.2, 21 and 33 (Due from customers, Movements in impairment losses and Impairment losses and Net loss arising from the derecognition of financial assets measured at amortised cost).

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within financial assets at amortized cost at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment from the Management Board over the amount of any such impairment. Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below EUR 500 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. For non-performing exposures equal to or exceeding EUR 500 thousand, the impairment assessment is based on the Bank's knowledge and understanding of each individual borrower's circumstances and often on estimation of the realizable amount of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows valuation. For the above reasons, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the	Our audit procedures in this area included, among others: • Updating our understanding of the Bank's ECL impairment methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. We also challenged the Management Board on whether the level of methodology sophistication is appropriate based on our assessment of the entity-level and portfolio-level factors, including inspecting and assessing the internal validation reports; • Obtaining an understanding of the Bank's retrospective review of its ECL estimates and its response to the results of the review, and performing our own independent back-test; • Making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for data security and access, assisted by our own IT specialists; • Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans and advances, including, but not limited

economy, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.

to, the controls relating to the identification of loss events / default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and the overall ECL estimate;

- Assessing whether the definition of default and the staging criteria of the Standard were consistently applied. Also assessing whether the definition of default applied for each segment/portfolio is appropriate based on the requirements of IFRS 9 (e.g. taking into account the 90-day presumption of default);

- Evaluating whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic;

- For collective impairment allowance:

– Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank's ECL assessment. Assessing the information by means of comparison to the economic projections published by the National bank of Slovakia and corroborating inquiries of the Management Board;

– Challenging the collective LGD, EAD and PD parameters used by the Bank, by reference to historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances;

- For impairment allowances calculated individually, for a risk-based sample of loans:

– Critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 3 as at 31 December 2020;

– For the exposures with triggers for classification in Stage 3 and with exposure of EUR 500 thousand or more, challenging key

	assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period by reference to the original effective interest rate inspection, assessment of collateral values and reasonableness of the cash flow realization periods, and also performing respective independent estimates, where relevant. • For loan and advances exposures in totality: – Critically assessing the overall reasonableness of the impairment allowances, including the loans provision coverage, by benchmarking them against publicly available industry data; – Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

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

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on other information in the Annual Report

The Management Board is responsible for the other information. The other information comprises the information included in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting") but does not include the separate financial statements and our auditors' report thereon. The Management Board presented the disclosures in respect of the separate Annual Report required by the Act on Accounting in the consolidated Annual Report ("the Annual Report") of the Bank and, therefore, we will refer to this report further on. Our opinion on the separate financial statements does not cover the other information in the Annual Report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information in the Annual Report that we have obtained prior to the date of the auditors' report on the audit of the separate financial statements, and, in doing so, consider whether the other information is materially inconsistent with the audited separate financial statements or our knowledge obtained in the audit of the separate financial statements, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With respect to the Annual Report, we are required by the Act on Accounting to express an opinion on whether the other information given in the Annual Report is consistent with the separate financial statements prepared for the same financial year, and whether it contains information required by the Act on Accounting.

Based on the work undertaken in the course of the audit of the separate financial statements, in our opinion, in all material respects:

- the other information given in the Annual Report for the year ended 31 December 2020 is consistent with the separate financial statements prepared for the same financial year; and
- the Annual Report contains information required by the Act on Accounting.

In addition to this, in light of the knowledge of the Bank and its environment obtained in the course of the audit of the separate financial statements, we are required by the Act on Accounting to report if we have identified material misstatements in the other information in the Annual Report. We have nothing to report in this respect.

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

Appointment and approval of an auditor

We have been appointed as a statutory auditor by the Management Board of the Bank on 24 July 2020 on the basis of approval by the General Meeting of the Bank on 24 April 2020. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is nine years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

In addition to the statutory audit services and services disclosed in the Annual Report or the separate financial statements of the Bank, we did not provide any other services to the Bank or accounting entities controlled by the Bank.

3 March 2021
Bratislava, Slovak Republic

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

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

Responsible auditor:
Ing. Mgr. Peter Špeťko, PhD., FCCA
License UDVA No. 994

Separate statement of financial position as at 31 December 2020 (In thousands of euro)

	Note	2020	2019
Assets			
Cash and cash equivalents	7	1,571,629	996,438
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		85,423	23,454
Non-trading financial assets at fair value through profit or loss		711	584
Derivatives – Hedge accounting	9	85,192	82,501
Financial assets at fair value through other comprehensive income	10	1,618,067	1,574,549
of which pledged as collateral		*634,093*	*773,472*
Financial assets at amortised cost:	11		
Due from other banks		205,420	180,491
Due from customers		14,724,137	14,078,141
of which pledged as collateral		–	*190,060*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	20,016	13,840
Investments in subsidiaries, joint ventures and associates	13	69,629	63,629
Property and equipment	14	113,163	106,554
Intangible assets	15	128,896	112,046
Goodwill	16	18,871	18,871
Current income tax assets	17	26,518	25,309
Deferred income tax assets	17	51,056	63,157
Other assets	18	22,685	20,988
Non-current assets classified as held for sale	14	1	645
		18,741,414	17,361,197
Liabilities			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		87,377	24,750
Derivatives – Hedge accounting	9	65,407	59,833
Financial liabilities at amortised cost:	11		
Due to banks		170,671	325,769
Due to customers		12,977,960	11,905,002
Lease liabilities		22,858	22,058
Subordinated debt		200,151	200,143
Debt securities in issue		3,422,729	3,120,695
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	6,990	4,580
Current income tax liabilities	17	635	–
Provisions	19	14,895	10,671
Other liabilities	20	78,495	90,757
		17,048,168	15,764,258
Equity	22		
Share capital		430,819	430,819
Share premium		13,719	13,719
Legal reserve fund		87,493	87,493
Retained earnings		1,134,224	1,043,673
Equity reserves		26,991	21,235
		1,693,246	1,596,939
		18,741,414	17,361,197

The accompanying notes on pages 252 to 435 form an integral part of these financial statements.

Separate statement of profit or loss and other comprehensive income for the year ended 31December 2020 (In thousands of euro)

	Note	2020	2019
Interest income calculated using the effective interest method		313,931	371,235
Other interest income		127	199
Interest and similar expense		(36,504)	(46,603)
Net interest income	24	277,554	324,831
Fee and commission income		161,004	155,952
Fee and commission expense		(28,411)	(29,913)
Net fee and commission income	25	132,593	126,039
Dividend income		4,001	2,000
Net trading result	26	18,646	(7,509)
Other operating income	27	2,218	3,220
Other operating expenses	28	(15,257)	(16,618)
Special levy of selected financial institutions	29	(31,038)	(29,695)
Salaries and employee benefits	30	(122,778)	(121,329)
Other administrative expenses	31	(71,487)	(75,058)
Amortisation	15	(14,489)	(12,383)
Depreciation	16	(13,592)	(11,731)
Profit before provisions, impairment and tax		166,371	181,767
Provisions	19, 32	355	5,068
Impairment losses	21, 33	(49,147)	(35,416)
Net loss arising from the derecognition of financial assets at amortised cost	33	(7,458)	(4,514)
Profit before tax		110,121	146,905
Income tax expense	34	(25,082)	(32,818)
NET PROFIT FOR THE YEAR		85,039	114,087
Other comprehensive income for the year, after tax:	35, 36		
Items that shall not be reclassified to profit or loss in the future:			
Net revaluation gain from property and equipment		3,597	10
Reversal of deferred income tax on disposed property and equipment		99	2,101
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		(159)	2,676
		3,537	4,787
Items that may be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		7,470	(1,838)
Change in value of cash flow hedges		–	6
Exchange difference on translation of foreign operations		(309)	344
		7,161	(1,488)
Other comprehensive income for the year, net of tax		10,698	3,299
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		95,737	117,386
Basic and diluted earnings per € 33.2 share in €		6.55	8.79

The accompanying notes on pages 252 to 435 form an integral part of these financial statements.

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

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2020	430,819	13,719	87,493	1,043,673	14,073	6,832	–	330	1,596,939
Total comprehensive income for the year, net of tax	–	–	–	85,039	3,696	7,311	–	(309)	95,737
Reclassification of Visa Inc. Series C Preferred Stock	–	–	–	4,724	–	(4,724)	–	–	–
Gain on disposal of property and equipment	–	–	–	472	(472)	–	–	–	–
Losses on the sale of shares at FVOCI	–	–	–	(254)	–	254	–	–	–
Exchange difference	–	–	–	374	–	–	–	–	374
Transactions with owners, recorded directly in equity									
Reversal of dividends distributed but not collected (note 38)	–	–	–	*196*	–	–	–	–	*196*
At 31 December 2020	430,819	13,719	87,493	1,134,224	17,297	9,673	–	21	1,693,246

The accompanying notes on pages 252 to 435 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2020 (continued)

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2019	430,819	13,719	87,493	1,049,076	21,967	5,634	(6)	(14)	1,608,688
Total comprehensive income for the year, net of tax	–	–	–	114,087	2,111	838	6	344	117,386
Transactions under common control	–	–	–	(4,301)	–	–	–	–	(4,301)
Gain on disposal of property and equipment	–	–	–	10,005	(10,005)	–	–	–	–
Losses on the sale of shares at FVOCI	–	–	–	(360)	–	360	–	–	–
Transactions with owners, recorded directly in equity									
Dividends to shareholders (note 38)	–	–	–	*(125,049)*	–	–	–	–	*(125,049)*
Reversal of dividends distributed but not collected (note 38)	–	–	–	*215*	–	–	–	–	*215*
	–	–	–	(124,834)	–	–	–	–	(124,834)
At 31 December 2019	430,819	13,719	87,493	1,043,673	14,073	6,832	–	330	1,596,939

The accompanying notes on pages 252 to 435 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2020

(In thousands of euro)

	Note	2020	2019
Cash flows from operating activities:			
Profit before tax		110,121	146,905
Adjustments for:			
Interest income	24	(314,058)	(371,434)
Interest expense	24	36,504	46,603
Dividend income		(4,001)	(2,000)
Gain from sale/revaluation of financial assets at fair value through other comprehensive income		(11,385)	(26,983)
Loss on sale of intangible assets and property and equipment	28	3,725	46
Loss from revaluation of debt securities in issue		35,598	51,065
Amortisation	15	14,489	12,383
Depreciation	14	13,592	11,731
Impairment losses and similar charges	32, 33	75,018	66,073
Exchange difference on translation of foreign operations	35, 36	65	344
Interest received		269,509	378,368
Interest paid		(33,347)	(50,684)
Tax paid		(13,555)	(59,086)
(Increase)/decrease in financial assets at fair value through profit or loss		(62,122)	15,976
Increase in derivatives – hedge accounting (assets)		(2,691)	(55,736)
Financial assets at amortised cost:			
Increase in due from other banks		(25,675)	(76,266)
Increase in due from customers		(710,043)	(820,614)
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		(6,176)	(4,657)
Increase in other assets		(699)	(1,657)
Increase/(decrease) in financial liabilities at fair value through profit or loss		62,627	(14,585)
Increase in derivatives – hedge accounting (liabilities)		5,574	44,607
Financial liabilities measured at amortised cost:			
Decrease in due to banks		(138,464)	(692,318)
Increase in due to customers		1,073,500	850,349
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		2,410	3,081
Increase/(decrease) in provisions		968	(5,985)
Decrease in other liabilities		(12,066)	(2,865)
Net cash from/(used in) operating activities		369,418	(557,339)
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(1,511,287)	(1,516,232)
Disposal of financial assets at fair value through other comprehensive income		758,638	400,943
Repayments of financial assets at fair value through other comprehensive income		757,370	311,355
Purchase of intangible assets and property and equipment		(41,356)	(38,336)
Disposal of intangible assets and property and equipment		647	18,910
Dividends received		4,001	2,000
Increase of share capital in subsidiary		–	(30,000)
Net cash used in investing activities		(31,987)	(851,360)

(Table continues on the next page)

The accompanying notes on pages 252 to 435 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2020

(In thousands of euro)

(continued)

	Note	2020	2019
Cash flows from financing activities:			
Proceeds from issue of debt securities		500,000	1,000,000
Repayments of debt securities in issue		(235,840)	(258,035)
Proceeds from loans received from other banks		2,500	99,868
Repayments of loans received from other banks		(20,550)	(74,418)
Repayments of lease liabilities		(8,350)	(6,350)
Dividends paid		–	(125,049)
Net cash from financing activities		237,760	636,016
Net change in cash and cash equivalents		575,191	(772,683)
Cash and cash equivalents at the beginning of the year	7	996,438	1,769,121
Cash and cash equivalents at 31 December	7	1,571,629	996,438

The accompanying notes on pages 252 to 435 form an integral part of these financial statements.

1. Basis of preparation

1.1. Reporting entity - general information

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

At 31 December 2020, the Bank had a network of 197 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2019: 203). The Bank also has one branch in the Czech Republic (31 December 2019: 1).

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

At 31 December 2020, the members of the Management Board are Alexander Resch (Chairman), Marie Kovářová (from 3 April 2020), Peter Magala, Martin Techman, Roberto Vercelli, Andrej Viceník and Paolo Vivona (from 24 October 2020). Another member of the Management Board was Antonio Bergalio (until 30 June 2020).

At 31 December 2020, the members of the Supervisory Board are Ignacio Jaquotot (Chairman), Elena Kohútiková (Vice Chairman), Marco Fabris, Peter Gutten, Luca Leoncini Bartoli (from 8 December 2020), Christian Schaack and Róbert Szabo. Another member of the Supervisory Board was Paolo Sarcinelli (until 24 April 2020).

1.2. Basis of accounting

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

The separate financial statements of the Bank for the year ended 31 December 2019 were authorised for issue by the Management Board on 21 February 2020.

The consolidated financial statements of the VUB Group for the year ended 31 December 2020 were issued on 3 March 2021 and are available at the registered office of the Bank.

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

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

1.3. Functional and presentation currency

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

Negative balances are presented in brackets.

1.4. Use of judgements and estimates

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

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

1.4.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes. The most significant judgements relate to the classification of financial instruments.
– Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ('SPPI') on the principal amount outstanding. (note 3.4.2)
– Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL. (note 4.1.2)
– Valuation of lease liabilities (note 11.5) and right-of-use assets (note 14)

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

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

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

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

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

1.4.2. Assumptions and estimation uncertainties

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

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

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

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information. (note 4.1.2)
  The Bank reviews its loans and advances at each reporting date to assess whether any individually assessed impairment loss should be recorded in the statement of profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment loss required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the individually assessed impairment losses.

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

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

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

2. Changes in accounting policies

A number of the new standards are also effective from 1 January 2020 but they do not have a material effect on the financial statements.

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

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

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

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

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

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

In accordance with exceptions provided in the Phase 2 amendments, the Bank has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2019. There is no impact on opening equity balances as a result of retrospective application.

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

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

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

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

(Effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not authorised for issue at 28 May 2020.)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

The practical expedient will only apply if:
- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

This practical expedient is not available for lessors.

The Bank expects that the amendments, when initially applied, will not have a material impact on the financial statements of the Bank because the Bank is in no need to renegotiate rent agreements.

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted.)

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Bank's right to defer settlement at the end of the reporting period. The Bank's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the Bank will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

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

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets Onerous Contracts – Cost of Fulfilling a Contract

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.)

In determining costs of fulfilling a contract, the amendments require the Bank to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Bank shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The Bank shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

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

Annual Improvements to IFRS Standards 2018-2020

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.)

Amendment to IFRS 9 Financial Instruments

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

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

3. Significant accounting policies

3.1. Foreign currency transactions

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

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

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income ('OCI'):
- qualifying cash flow hedges to the extent that the hedge is effective; and
- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.

3.2. Foreign operations

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

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

3.3. Cash and cash equivalents

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

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

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

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

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

3.4.2. Classification

On initial recognition, a financial asset is classified as measured at:
– Amortised cost ('AC'),
– Fair value through other comprehensive income ('FVOCI'), or
– Fair value through profit or loss ('FVTPL').

A financial asset is measured at AC, if it meets both of the following conditions and is not designated as at FVTPL:
– The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
– The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

The Bank uses the following business models:
– Held to collect,
– Held to collect and sell,
– Held for trading/Other.

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
– The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
– How the performance of the portfolio is evaluated and reported to the Bank's management;
– The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
– How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
– The frequency, volume and timing of sales, in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank states objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment of whether contractual cash flows are SPPI

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

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:
- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

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

Reclassifications

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

3.4.3. Subsequent measurement

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

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

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

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

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

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

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

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

3.4.5. Modifications

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

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

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. 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.

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'.

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

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

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

3.5.2. Financial assets at fair value through profit or loss

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

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

3.6. Financial assets at fair value through other comprehensive income

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

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

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

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

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

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

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

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

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

3.7. Financial assets and financial liabilities at amortised costs

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

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

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

Due from other banks

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

Due from customers

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

Impairment

The detailed description of policy is in the note 4.1.2.

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

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

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

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

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

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

3.8. Repurchase and reverse repurchase agreements

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

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

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

3.9. Derivatives – Hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments

If a hedging relationship is directly affected by IBOR reform, then 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 not 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.

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.

3.10. Investments in subsidiaries, joint ventures and associates

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

Free Cash Flow to Equity model

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

3.11. Transactions under common control

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

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

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

3.12. Property and equipment

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

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

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

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

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

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

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

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

Property and equipment contains also right-of-use assets. (note 3.16)

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7 – 10

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

3.14. Goodwill

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

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

3.15. Non-current assets held for sale

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

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

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

The Bank is a party to lease contracts for:
- Buildings and land (branch and office premises and lands under ATMs),
- Other tangible assets (motor vehicles).

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

Leases in which the Bank is a lessee

The Bank applies a single accounting model, requiring lessees to recognise assets and liabilities for all leases. However, the Bank applies exemptions regarding:
- Leases with a lease term of 12 months or less and containing no purchase options;
- Leases where the underlying asset has a low value ('small-ticket' leases).

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

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

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

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

	Years
Buildings	2 – 6
Other tangibles	2 – 5

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:
- Fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

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

The lease term determined by the Bank comprises:
- Non-cancellable period of lease contracts,
- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option,
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Bank measures the lease liability by:
- Increasing the carrying amount to reflect interest on the lease liability,
- Reducing the carrying amount to reflect lease payments made, and
- Re-measuring the carrying 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.

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.

3.20. 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.

3.22. Net trading result

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

3.23. Dividend income

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

3.24. Special levy of selected financial institutions

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

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

Subsequently this special levy was cancelled in full effectively from 1 January 2021. (note 39)

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 instrumets, the Bank's objectives, policies and processes for measuring and managing risk.

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

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

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

4.1. Credit risk

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

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

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

4.1.1. Management of credit risk

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

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

4.1.2. Impairment losses

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

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

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

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

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

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

Inputs, assumptions and techniques used for estimating impairment

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

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

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

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

For LGD models of the portfolios where the Bank uses internal models, the modelling approach consists of the following steps:
- Calculation of nominal LGD values;
- Incorporation of forward looking information using coefficients calculated based on Path-generator issued by the European Banking Authority ('EBA');
- Obtaining the final LGD values by discounting the recovery rates using effective interest rate and average time to recovery.

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

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

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

Days past due ('DPD') methodology

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

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

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

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

The calculation of days past due starts at the moment when the obligor-level overdue exposure breaches both absolute and relative thresholds. Materiality threshold is composed of both an absolute and a relative component according to the Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing the Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due.

The absolute threshold is exceeded when:

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

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

The relative threshold is exceeded when:

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

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

Staging methodology

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

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

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

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

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

In general following rules are applied:

– At origination financial instruments are classified in Stage 1, except instruments which are credit-impaired at the date of acquisition, which are classified in the relevant stage;
– If there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2.

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

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

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

Stage 2 criterion: Forborne performing exposures

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

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

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

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

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

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

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

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

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

Stage 3 criterion

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

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

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

Staging criteria for debt securities

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

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

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

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

Staging criteria for Low Default Portfolio and Intragroup exposures

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

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

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

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

Expected credit loss calculation

Stage 1

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

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

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

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

$$PD_n = 1 - {}^{12}/_{n} \sqrt{1 - PD_{1year}}$$

where n is the number of months to maturity.

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

Stage 2

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

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

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

For exposures with remaining maturity greater than one year :

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

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

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

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

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

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

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

Additionally, for cases when residual maturity is a fraction of years, the 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:

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

where:
- PCBS is the provision calculated based on scenarios determined by the Bank on NPLs;
- Add-on$_{Performing}$ is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, 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.

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 scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario	Base scenario	Best scenario	Worst scenario
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.

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

2020 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	206,126	(706)	205,420	–	–	–
Due from customers:						
Public administration	126,202	(1,070)	125,132	–	–	–
Corporate	4,478,108	(24,315)	4,453,793	–	–	–
Retail	8,861,776	(9,549)	8,852,227	–	–	–
	13,466,086	(34,934)	13,431,152	–	–	–
	13,672,212	(35,640)	13,636,572	–	–	–
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	–	–	–

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2019 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	180,136	(482)	179,654	–	–	–
Due from customers:						
Public administration	116,207	(1,068)	115,139	–	–	–
Corporate	4,804,645	(17,427)	4,787,218	–	–	–
Retail	8,058,776	(12,739)	8,046,037	–	–	–
	12,979,628	(31,234)	12,948,394	–	–	–
	13,159,764	(31,716)	13,128,048	–	–	–
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–
Financial commitments and contingencies	3,846,979	(4,253)	3,842,726	–	–	–

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

	Portfolio assessed			Individually assessed		
2020 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 2						
Financial assets at AC:						
Due from customers:						
Public administration	26,717	(1,605)	25,112	–	–	–
Corporate	601,259	(12,125)	589,134	–	–	–
Retail	561,966	(36,312)	525,654	–	–	–
	1,189,942	(50,042)	1,139,900	–	–	–
	1,189,942	(50,042)	1,139,900	–	–	–
Financial commitments and contingencies	94,192	(2,161)	92,031	–	–	–

2019 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	843	(6)	837	–	–	–
Due from customers:						
Public administration	18,503	(1,182)	17,321	–	–	–
Corporate	412,992	(14,356)	398,636	–	–	–
Retail	584,731	(43,764)	540,967	–	–	–
	1,016,226	(59,302)	956,924	–	–	–
	1,017,069	(59,308)	957,761	–	–	–
Financial commitments and contingencies	134,792	(1,710)	133,082	–	–	–

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

2020 € '000	Portfolio assessed Gross amount	Portfolio assessed Impairment losses	Portfolio assessed Net amount	Individually assessed Gross amount	Individually assessed Impairment losses	Individually assessed Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	9,280	(4,085)	5,195	54,499	(41,206)	13,293
Retail	298,019	(164,654)	133,365	4,621	(3,389)	1,232
	307,299	(168,739)	138,560	59,120	(44,595)	14,525
	307,299	(168,739)	138,560	59,120	(44,595)	14,525
Financial commitments and contingencies	8,013	(1,635)	6,378	9,216	(3,085)	6,131

2019 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Public administration	50	(8)	42	–	–	–
Corporate	7,076	(2,672)	4,404	70,217	(44,930)	25,287
Retail	320,198	(178,225)	141,973	5,868	(4,751)	1,117
	327,324	(180,905)	146,419	76,085	(49,681)	26,404
	327,324	(180,905)	146,419	76,085	(49,681)	26,404
Financial commitments and contingencies	4,363	(1,055)	3,308	18,284	(2,373)	15,911

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

2020 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	224	249	(72)	–	–	–	(95)	–	306
Financial assets at AC:									
Due from other banks	482	268	(1,572)	2,111	(416)	–	(167)	–	706
Due from customers	31,234	27,913	(47,705)	50,212	(20,713)	(183)	(5,824)	–	34,934
	31,716	28,181	(49,277)	52,323	(21,129)	(183)	(5,991)	–	35,640
Financial commitments and contingencies	4,253	11,082	(6,761)	3,111	(3,675)	(9)	(978)	–	7,023
Stage 2									
Financial assets at AC:									
Due from other banks	6	–	1,706	(2,111)	416	–	(17)	–	–
Due from customers	59,302	–	47,147	(48,148)	23,742	(28,351)	(3,650)	–	50,042
	59,308	–	48,853	(50,259)	24,158	(28,351)	(3,667)	–	50,042
Financial commitments and contingencies	1,710	–	1,597	(2,989)	3,775	(864)	(1,068)	–	2,161
Stage 3									
Financial assets at AC:									
Due from customers	230,586	–	27,453	(2,064)	(3,029)	28,534	(116)	(68,030)	213,334
Financial commitments and contingencies	3,428	–	1,502	(122)	(100)	873	(861)	–	4,720

(Table continues on the next page)

2020 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	224	249	(72)	–	–	–	(95)	–	306
Financial assets at AC:									
Due from other banks	488	268	134	–	–	–	(184)	–	706
Due from customers	321,122	27,913	26,895	–	–	–	(9,590)	(68,030)	298,310
	321,610	28,181	27,029	–	–	–	(9,774)	(68,030)	299,016
Financial commitments and contingencies	9,391	11,082	(3,662)	–	–	–	(2,907)	–	13,904

2019 € '000	1 January	Merger	Origi-nation	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 Decem-ber
Stage 1										
Financial assets at FVOCI	134	–	587	(381)	–	–	–	(116)	–	224
Financial assets at AC:										
Due from other banks	656	–	1,655	35	–	–	–	(1,864)	–	482
Due from customers	42,812	545	26,706	(59,375)	54,686	(19,045)	(2,314)	(12,781)	–	31,234
	43,468	545	28,361	(59,340)	54,686	(19,045)	(2,314)	(14,645)	–	31,716
Financial commitments and contingencies	7,022	–	6,167	(10,779)	6,638	(1,768)	(741)	(2,286)	–	4,253
Stage 2										
Financial assets at AC:										
Due from other banks	98	–	–	(92)	–	–	–	–	–	6
Due from customers	65,366	774	–	58,127	(48,662)	26,155	(29,624)	(12,834)	–	59,302
	65,464	774	–	58,035	(48,662)	26,155	(29,624)	(12,834)	–	59,308
Financial commitments and contingencies	3,664	–	–	2,011	(5,110)	2,368	(402)	(821)	–	1,710
Stage 3										
Financial assets at AC:										
Due from customers	262,620	970	–	31,014	(6,024)	(7,110)	31,938	–	(82,822)	230,586
Financial commitments and contingencies	3,723	–	–	3,555	(1,528)	(600)	1,143	(2,865)	–	3,428

(Table continues on the next page)

2019 € '000	1 January	Merger	Origina-tion	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 Decem-ber
Total										
Financial assets at FVOCI	134	–	587	(381)	–	–	–	(116)	–	224
Financial assets at AC:										
Due from other banks	754	–	1,655	(57)	–	–	–	(1,864)	–	488
Due from customers	370,798	2,289	26,706	29,766	–	–	–	(25,615)	(82,822)	321,122
	371,552	2,289	28,361	29,709	–	–	–	(27,479)	(82,822)	321,610
Financial commitments and contingencies	14,409	–	6,167	(5,213)	–	–	–	(5,972)	–	9,391

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

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

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

2020 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1,562,538	1,307,160	–	–	–	(524,489)	(734,500)	1,610,709
Financial assets at AC:								
Due from other banks	180,136	891,306	135,331	(135,337)	–	(865,310)	–	206,126
Due from customers	12,979,628	5,468,698	1,426,501	(2,279,263)	(15,120)	(4,114,358)	–	13,466,086
	13,159,764	6,360,004	1,561,832	(2,414,600)	(15,120)	(4,979,668)	–	13,672,212
Financial commitments and contingencies	3,846,979	3,968,944	224,459	(264,749)	(2,262)	(3,005,804)	–	4,767,567
Stage 2								
Financial assets at AC:								
Due from other banks	843	–	(135,331)	135,337	–	(849)	–	–
Due from customers	1,016,226	–	(1,419,129)	2,294,044	(124,249)	(576,950)	–	1,189,942
	1,017,069	–	(1,554,460)	2,429,381	(124,249)	(577,799)	–	1,189,942
Financial commitments and contingencies	134,792	–	(216,944)	265,074	(7,042)	(81,688)	–	94,192
Stage 3								
Financial assets at AC:								
Due from customers	403,409	–	(7,372)	(14,781)	139,369	(60,304)	(93,902)	366,419
Financial commitments and contingencies	22,647	–	(7,515)	(325)	9,304	(6,882)	–	17,229

(Table continues on the next page)

2020 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1,562,538	1,307,160	–	–	–	(524,489)	(734,500)	1,610,709
Financial assets at AC:								
Due from other banks	180,979	891,306	–	–	–	(866,159)	–	206,126
Due from customers	14,399,263	5,468,698	–	–	–	(4,751,612)	(93,902)	15,022,447
	14,580,242	6,360,004	–	–	–	(5,617,771)	(93,902)	15,228,573
Financial commitments and contingencies	4,004,418	3,968,944	–	–	–	(3,094,374)	–	4,878,988

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

2019 € '000	1 January	Merger	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	741,114	–	1,549,860	–	–	–	(327,493)	(400,943)	1,562,538
Financial assets at AC:									
Due from other banks	100,678	–	9,897,008	–	(135)	–	(9,817,415)	–	180,136
Due from customers	12,344,678	386	5,913,018	1,263,096	(2,263,879)	(41,248)	(4,236,423)	–	12,979,628
	12,445,356	386	15,810,026	1,263,096	(2,264,014)	(41,248)	(14,053,838)	–	13,159,764
Financial commitments and contingencies	3,814,268	–	3,134,542	237,277	(260,288)	(14,067)	(3,064,753)	–	3,846,979
Stage 2									
Financial assets at AC:									
Due from other banks	2,530	–	–	–	135	–	(1,822)	–	843
Due from customers	933,413	2,179	–	(1,249,051)	2,280,895	(144,289)	(806,921)	–	1,016,226
	935,943	2,179	–	(1,249,051)	2,281,030	(144,289)	(808,743)	–	1,017,069
Financial commitments and contingencies	206,588	–	–	(233,454)	262,226	(6,582)	(93,986)	–	134,792
Stage 3									
Financial assets at AC:									
Due from customers	420,240	1,619	–	(14,045)	(17,016)	185,537	(60,646)	(112,280)	403,409
Financial commitments and contingencies	19,793	–	–	(3,823)	(1,938)	20,649	(12,034)	–	22,647

(Table continues on the next page)

2019 € '000	1 January	Merger	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	741,114	–	1,549,860	–	–	–	(327,493)	(400,943)	1,562,538
Financial assets at AC:									
Due from other banks	103,208	–	9,897,008	–	–	–	(9,819,237)	–	180,979
Due from customers	13,698,331	4,184	5,913,018	–	–	–	(5,103,990)	(112,280)	14,399,263
	13,801,539	4,184	15,810,026	–	–	–	(14,923,227)	(112,280)	14,580,242
Financial commitments and contingencies	4,040,649	–	3,134,542	–	–	–	(3,170,773)	–	4,004,418

4.1.3. Non-performing loan classification

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

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

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

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

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

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

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

2020 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	206,126	(706)	205,420
Due from customers:				
Public administration				
	Performing	152,919	(2,675)	150,244
Corporate				
	Performing	5,079,367	(36,440)	5,042,927
	Past due	1,496	(93)	1,403
	Unlikely to pay	27,108	(16,318)	10,790
	Doubtful	35,175	(28,880)	6,295
		5,143,146	(81,731)	5,061,415
Retail				
	Performing	9,423,742	(45,861)	9,377,881
	Past due	38,260	(15,046)	23,214
	Unlikely to pay	27,739	(12,950)	14,789
	Doubtful	236,641	(140,047)	96,594
		9,726,382	(213,904)	9,512,478
		15,022,447	(298,310)	14,724,137
		15,228,573	(299,016)	14,929,557
Financial assets at FVOCI – debt securities				
	Performing	1,611,015	(306)	1,610,709
Financial commitments and contingencies				
	Performing	4,861,759	(9,184)	4,852,575
	Past due	3,553	(271)	3,282
	Unlikely to pay	9,881	(3,146)	6,735
	Doubtful	3,795	(1,303)	2,492
		4,878,988	(13,904)	4,865,084

2019 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	180,979	(488)	180,491
Due from customers:				
Public administration				
	Performing	134,710	(2,250)	132,460
	Past due	50	(8)	42
		134,760	(2,258)	132,502
Corporate				
	Performing	5,217,637	(31,783)	5,185,854
	Past due	1,290	(22)	1,268
	Unlikely to pay	37,492	(15,653)	21,839
	Doubtful	38,511	(31,927)	6,584
		5,294,930	(79,385)	5,215,545
Retail				
	Performing	8,643,507	(56,503)	8,587,004
	Past due	30,841	(13,129)	17,712
	Unlikely to pay	50,707	(23,883)	26,824
	Doubtful	244,518	(145,964)	98,554
		8,969,573	(239,479)	8,730,094
		14,399,263	(321,122)	14,078,141
		14,580,242	(321,610)	14,258,632
Financial assets at FVOCI – debt securities				
	Performing	1,562,762	(224)	1,562,538
Financial commitments and contingencies				
	Performing	3,981,771	(5,963)	3,975,808
	Past due	326	(92)	234
	Unlikely to pay	18,506	(2,182)	16,324
	Doubtful	3,815	(1,154)	2,661
		4,004,418	(9,391)	3,995,027

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

2020 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	206,126	(706)	205,420
Due from customers:			
Public administration			
No delinquency	152,429	(2,672)	149,757
1 – 30 days	490	(3)	487
	152,919	(2,675)	150,244
Corporate			
No delinquency	5,013,493	(47,934)	4,965,559
1 – 30 days	89,686	(949)	88,737
31 – 60 days	181	(2)	179
61 – 90 days	1,932	(892)	1,040
91 – 180 days	4,655	(4,187)	468
Over 181 days	33,199	(27,767)	5,432
	5,143,146	(81,731)	5,061,415
Retail			
No delinquency	9,420,955	(54,553)	9,366,402
1 – 30 days	47,832	(7,743)	40,089
31 – 60 days	1,031	(410)	621
61 – 90 days	12,460	(3,037)	9,423
91 – 180 days	22,935	(11,336)	11,599
Over 181 days	221,169	(136,825)	84,344
	9,726,382	(213,904)	9,512,478
	15,022,447	(298,310)	14,724,137
	15,228,573	(299,016)	14,929,557
Financial assets at FVOCI – debt securities			
No delinquency	1,611,015	(306)	1,610,709
Financial commitments and contingencies			
No delinquency	4,878,988	(13,904)	4,865,084

2019 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	180,979	(488)	180,491
Due from customers:			
Public administration			
No delinquency	134,085	(2,249)	131,836
1 – 30 days	625	(1)	624
91 – 180 days	50	(8)	42
	134,760	(2,258)	132,502
Corporate			
No delinquency	5,235,056	(43,360)	5,191,696
1 – 30 days	12,970	(106)	12,864
31 – 60 days	13,260	(8,234)	5,026
61 – 90 days	1,604	(1,530)	74
91 – 180 days	1,011	(87)	924
Over 181 days	31,029	(26,068)	4,961
	5,294,930	(79,385)	5,215,545
Retail			
No delinquency	8,594,518	(54,637)	8,539,881
1 – 30 days	77,025	(12,779)	64,246
31 – 60 days	14,489	(3,419)	11,070
61 – 90 days	12,392	(3,519)	8,873
91 – 180 days	41,031	(19,562)	21,469
Over 181 days	230,118	(145,563)	84,555
	8,969,573	(239,479)	8,730,094
	14,399,263	(321,122)	14,078,141
	14,580,242	(321,610)	14,258,632
Financial assets at FVOCI – debt securities			
No delinquency	1,562,762	(224)	1,562,538
Financial commitments and contingencies			
No delinquency	4,004,418	(9,391)	3,995,027

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

	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
2020 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Financial assets at AC:									
Due from other banks	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)

	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
2020 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Financial assets at AC:									
Due from 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	–	–	–	–	–	–
	9,376,239	(39,884)	9,336,355	47,503	(5,977)	41,526	302,640	(168,043)	134,597
	14,517,795	(78,196)	14,439,599	138,233	(6,780)	131,453	366,419	(213,334)	153,085
	14,723,921	(78,902)	14,645,019	138,233	(6,780)	131,453	366,419	(213,334)	153,085
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

2019 € '000	Neither past due nor impaired Gross amount	Impair-ment losses	Net amount	Past due but not individually impaired Gross amount	Impair-ment losses	Net amount	Impaired (non-performing) Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	180,979	(488)	180,491	–	–	–	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	3,876	–	3,876	–	–	–	–	–	–
Municipalities	130,209	(2,249)	127,960	625	(1)	624	50	(8)	42
	134,085	(2,249)	131,836	625	(1)	624	50	(8)	42
Corporate									
Large Corporates	2,213,903	(2,235)	2,211,668	3	–	3	7,069	(2,974)	4,095
Large Corporates – debt securities	124,322	(118)	124,204	–	–	–	–	–	–
Specialized Lending	855,516	(25,068)	830,448	1,880	(20)	1,860	14,586	(13,348)	1,238
SME	1,240,919	(3,775)	1,237,144	2,330	(60)	2,270	50,984	(30,090)	20,894
Other Non-banking Financial Institutions	663,943	(396)	663,547	–	–	–	1	(1)	–
Other Non-banking Financial Institutions – debt securities	25,063	(28)	25,035	–	–	–	–	–	–
Public Sector Entities	1,337	(37)	1,300	–	–	–	7	(1)	6
Factoring	79,202	(9)	79,193	9,219	(37)	9,182	4,646	(1,188)	3,458
	5,204,205	(31,666)	5,172,539	13,432	(117)	13,315	77,293	(47,602)	29,691

(Table continues on the next page)

2019 € '000	Neither past due nor impaired Gross amount	Impair-ment losses	Net amount	Past due but not individually impaired Gross amount	Impair-ment losses	Net amount	Impaired (non-performing) Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	235,684	(3,619)	232,065	2,800	(244)	2,556	13,628	(9,018)	4,610
Consumer Loans	1,299,660	(25,933)	1,273,727	65,213	(11,996)	53,217	195,871	(120,803)	75,068
Mortgages	6,801,375	(8,796)	6,792,579	14,060	(897)	13,163	82,188	(29,147)	53,041
Credit Cards	119,008	(2,552)	116,456	4,256	(892)	3,364	26,809	(18,984)	7,825
Overdrafts	63,369	(1,012)	62,357	1,944	(315)	1,629	7,570	(5,024)	2,546
Flat Owners Associations	36,138	(247)	35,891	–	–	–	–	–	–
	8,555,234	(42,159)	8,513,075	88,273	(14,344)	73,929	326,066	(182,976)	143,090
	13,893,524	(76,074)	13,817,450	102,330	(14,462)	87,868	403,409	(230,586)	172,823
	14,074,503	(76,562)	13,997,941	102,330	(14,462)	87,868	403,409	(230,586)	172,823
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies	3,981,771	(5,963)	3,975,808	–	–	–	22,647	(3,428)	19,219

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

2020 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
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
	90,240	(800)	89,440
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
	47,503	(5,977)	41,526
	138,233	(6,780)	131,453
	138,233	(6,780)	131,453

2019 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from customers:			
Public administration			
1 – 30 days	625	(1)	624
Corporate			
1 – 30 days	12,889	(114)	12,775
31 – 60 days	535	(3)	532
61 – 90 days	8	–	8
	13,432	(117)	13,315
Retail			
1 – 30 days	68,036	(9,328)	58,708
31 – 60 days	11,006	(2,404)	8,602
61 – 90 days	9,231	(2,612)	6,619
	88,273	(14,344)	73,929
	102,330	(14,462)	87,868
	102,330	(14,462)	87,868

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

			Stage 1			Stage 2			Stage 3
2020 € '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	206,126	(706)	205,420	–	–	–	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	5,090	–	5,090	–	–	–	–	–	–
State administration	32,685	(3)	32,682	–	–	–	–	–	–
Municipalities	88,427	(1,067)	87,360	26,717	(1,605)	25,112	–	–	–
	126,202	(1,070)	125,132	26,717	(1,605)	25,112	–	–	–
Corporate									
Large Corporates	1,813,653	(1,277)	1,812,376	302,690	(624)	302,066	4,221	(3,254)	967
Large Corporates – debt securities	141,947	(100)	141,847	8,480	(165)	8,315	–	–	–
Specialized Lending	826,388	(21,050)	805,338	60,498	(7,904)	52,594	4,808	(4,788)	20
SME	1,135,338	(1,592)	1,133,746	226,996	(3,428)	223,568	51,149	(36,052)	15,097
Other Non-banking Financial Institutions	431,750	(171)	431,579	–	–	–	1	–	1
Other Non-banking Financial Institutions – debt securities	50,056	(48)	50,008	–	–	–	–	–	–
Public Sector Entities	1,279	(46)	1,233	–	–	–	5	(1)	4
Factoring	77,698	(32)	77,666	2,594	(3)	2,591	3,595	(1,196)	2,399
	4,478,109	(24,316)	4,453,793	601,258	(12,124)	589,134	63,779	(45,291)	18,488

(Table continues on the next page)

2020 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	190,314	(979)	189,335	66,212	(3,405)	62,807	13,620	(9,728)	3,892
Consumer Loans	1,011,112	(6,523)	1,004,589	210,760	(23,550)	187,210	169,174	(103,873)	65,301
Mortgages	7,504,985	(1,033)	7,503,952	252,709	(7,280)	245,429	89,647	(33,335)	56,312
Credit Cards	69,727	(416)	69,311	11,578	(1,186)	10,392	22,787	(15,956)	6,831
Overdrafts	48,461	(379)	48,082	20,708	(891)	19,817	7,412	(5,151)	2,261
Flat Owners Associations	37,176	(219)	36,957	–	–	–	–	–	–
	8,861,775	(9,549)	8,852,226	561,967	(36,312)	525,655	302,640	(168,043)	134,597
	13,466,086	(34,935)	13,431,151	1,189,942	(50,041)	1,139,901	366,419	(213,334)	153,085
	13,672,212	(35,641)	13,636,571	1,189,942	(50,041)	1,139,901	366,419	(213,334)	153,085
Financial assets at FVOCI – debt securities	1,611,015	(306)	1,610,709	–	–	–	–	–	–
Financial commitments and contingencies	4,767,567	(7,023)	4,760,544	94,192	(2,161)	92,031	17,229	(4,720)	12,509

2019 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks	180,136	(482)	179,654	843	(6)	837	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	3,876	–	3,876	–	–	–	–	–	–
Municipalities	112,331	(1,068)	111,263	18,503	(1,182)	17,321	50	(8)	42
	116,207	(1,068)	115,139	18,503	(1,182)	17,321	50	(8)	42
Corporate									
Large Corporates	2,137,087	(1,959)	2,135,128	76,819	(276)	76,543	7,069	(2,974)	4,095
Large Corporates – debt securities	124,322	(118)	124,204	–	–	–	–	–	–
Specialized Lending	770,728	(13,890)	756,838	86,668	(11,198)	75,470	14,586	(13,348)	1,238
SME	996,165	(958)	995,207	247,084	(2,877)	244,207	50,984	(30,090)	20,894
Other Non-banking Financial Institutions	663,943	(396)	663,547	–	–	–	1	(1)	–
Other Non-banking Financial Institutions – debt securities	25,063	(28)	25,035	–	–	–	–	–	–
Public Sector Entities	1,337	(37)	1,300	–	–	–	7	(1)	6
Factoring	86,000	(41)	85,959	2,421	(5)	2,416	4,646	(1,188)	3,458
	4,804,645	(17,427)	4,787,218	412,992	(14,356)	398,636	77,293	(47,602)	29,691

(Table continues on the next page)

2019 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	175,975	(871)	175,104	62,509	(2,992)	59,517	13,628	(9,018)	4,610
Consumer Loans	1,131,473	(9,430)	1,122,043	233,400	(28,499)	204,901	195,871	(120,803)	75,068
Mortgages	6,562,236	(941)	6,561,295	253,199	(8,752)	244,447	82,188	(29,147)	53,041
Credit Cards	107,211	(928)	106,283	16,053	(2,516)	13,537	26,809	(18,984)	7,825
Overdrafts	45,743	(322)	45,421	19,570	(1,005)	18,565	7,570	(5,024)	2,546
Flat Owners Associations	36,138	(247)	35,891	–	–	–	–	–	–
	8,058,776	(12,739)	8,046,037	584,731	(43,764)	540,967	326,066	(182,976)	143,090
	12,979,628	(31,234)	12,948,394	1,016,226	(59,302)	956,924	403,409	(230,586)	172,823
	13,159,764	(31,716)	13,128,048	1,017,069	(59,308)	957,761	403,409	(230,586)	172,823
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies	3,846,979	(4,253)	3,842,726	134,792	(1,710)	133,082	22,647	(3,428)	19,219

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

			Stage 1			Stage 2			Stage 3
2020 € '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	206,126	(706)	205,420	–	–	–	–	–	–
Due from customers:									
Public administration									
No delinquency	125,877	(1,070)	124,807	26,552	(1,602)	24,950	–	–	–
1 – 30 days	325	–	325	165	(3)	162	–	–	–
	126,202	(1,070)	125,132	26,717	(1,605)	25,112	–	–	–
Corporate									
No delinquency	4,471,397	(24,288)	4,447,109	517,730	(11,352)	506,378	24,366	(12,294)	12,072
1 – 30 days	6,681	(28)	6,653	82,468	(769)	81,699	537	(152)	385
31 – 60 days	31	–	31	150	(2)	148	–	–	–
61 – 90 days	–	–	–	910	(1)	909	1,022	(891)	131
91 – 180 days	–	–	–	–	–	–	4,655	(4,187)	468
Over 181 days	–	–	–	–	–	–	33,199	(27,767)	5,432
	4,478,109	(24,316)	4,453,793	601,258	(12,124)	589,134	63,779	(45,291)	18,488

(Table continues on the next page)

2020 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	8,851,958	(9,235)	8,842,723	524,281	(30,649)	493,632	44,716	(14,669)	30,047
1 – 30 days	9,817	(314)	9,503	28,815	(4,007)	24,808	9,200	(3,422)	5,778
31 – 60 days	–	–	–	543	(100)	443	488	(310)	178
61 – 90 days	–	–	–	8,328	(1,556)	6,772	4,132	(1,481)	2,651
91 – 180 days	–	–	–	–	–	–	22,935	(11,336)	11,599
Over 181 days	–	–	–	–	–	–	221,169	(136,825)	84,344
	8,861,775	(9,549)	8,852,226	561,967	(36,312)	525,655	302,640	(168,043)	134,597
	13,466,086	(34,935)	13,431,151	1,189,942	(50,041)	1,139,901	366,419	(213,334)	153,085
	13,672,212	(35,641)	13,636,571	1,189,942	(50,041)	1,139,901	366,419	(213,334)	153,085
Financial assets at FVOCI – debt securities									
No delinquency	1,611,015	(306)	1,610,709	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	4,767,567	(7,023)	4,760,544	94,192	(2,161)	92,031	17,229	(4,720)	12,509

2019 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	180,136	(482)	179,654	843	(6)	837	–	–	–
Due from customers:									
Public administration									
No delinquency	115,582	(1,067)	114,515	18,503	(1,182)	17,321	–	–	–
1 – 30 days	625	(1)	624	–	–	–	–	–	–
91 – 180 days	–	–	–	–	–	–	50	(8)	42
	116,207	(1,068)	115,139	18,503	(1,182)	17,321	50	(8)	42
Corporate									
No delinquency	4,796,306	(17,394)	4,778,912	407,900	(14,270)	393,630	30,850	(11,696)	19,154
1 – 30 days	8,334	(33)	8,301	4,554	(82)	4,472	82	9	91
31 – 60 days	5	–	5	530	(4)	526	12,725	(8,230)	4,495
61 – 90 days	–	–	–	8	–	8	1,596	(1,530)	66
91 – 180 days	–	–	–	–	–	–	1,011	(87)	924
Over 181 days	–	–	–	–	–	–	31,029	(26,068)	4,961
	4,804,645	(17,427)	4,787,218	412,992	(14,356)	398,636	77,293	(47,602)	29,691

(Table continues on the next page)

			Stage 1			Stage 2			Stage 3
2019 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	8,042,724	(12,116)	8,030,608	512,510	(30,044)	482,466	39,284	(12,477)	26,807
1 – 30 days	16,052	(623)	15,429	51,984	(8,704)	43,280	8,989	(3,452)	5,537
31 – 60 days	–	–	–	11,006	(2,404)	8,602	3,483	(1,015)	2,468
61 – 90 days	–	–	–	9,231	(2,612)	6,619	3,184	(921)	2,263
91 – 180 days	–	–	–	–	–	–	41,008	(19,548)	21,460
Over 181 days	–	–	–	–	–	–	230,118	(145,563)	84,555
	8,058,776	(12,739)	8,046,037	584,731	(43,764)	540,967	326,066	(182,976)	143,090
	12,979,628	(31,234)	12,948,394	1,016,226	(59,302)	956,924	403,409	(230,586)	172,823
	13,159,764	(31,716)	13,128,048	1,017,069	(59,308)	957,761	403,409	(230,586)	172,823
Financial assets at FVOCI – debt securities									
No delinquency	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	3,846,979	(4,253)	3,842,726	134,792	(1,710)	133,082	22,647	(3,428)	19,219

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:

	Performing forborne			Non-performing forborne		
2020 € '000	**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
	82,020	(2,366)	79,654	49,844	(34,026)	15,818
Financial commitments and contingencies	1,270	(4)	1,266	4,200	(1,142)	3,058

	Performing forborne			Non-performing forborne		
2019 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	51,648	(4,168)	47,480	39,640	(28,772)	10,868
Retail	47,302	(2,249)	45,053	19,654	(10,904)	8,750
	98,950	(6,417)	92,533	59,294	(39,676)	19,618
Financial commitments and contingencies	1,038	(4)	1,034	1,822	(271)	1,551

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 € 38,112 thousand (31 December 2019: € 51,207 thousand).

4.1.6. Collateral Policy

The Bank's collateral policy is an integral and indispensable part of the credit risk management and credit risk mitigation for VUB Bank. Collateral is used primarily to provide the Bank with the means for repayment of an exposure in the event of the default of the borrower. The principal objective of the policy is to clearly set up rules for a common and standard set of collateral types used by the Bank in its lending activities. The rules, as the minimum, describe and state:
- Conditions for legal enforceability;
- Conditions for the process of valuation and the maximum values accepted by the Bank at the origination for specific types of collaterals; and
- Conditions for the process of revaluation.

However, collateral management has a wider meaning than the simple taking of collateral in order to secure the repayment of the Bank's exposures. This includes the following:
- The establishment and maintenance of a collateral policy defining the types of collateral taken by the Bank, the legal documentation used by the Bank to secure its right to this collateral in the event of default and the valuation of this collateral at origination. These aspects of collateral management are addressed in the internal policy document;
- The relevant and proper implementation and registration of collateral to secure the Bank's right to collateral in the event of default by the borrower;
- The regular monitoring and re-valuation of collateral held by the Bank during the life of the exposure;
- The analysis, monitoring and review of realization rates achieved by Recovery Department activities in order to assess the effectiveness of the collateral policy as a risk mitigant.

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

The Bank mainly uses the following means of enforcement of collateral:
- Voluntary auction,
- Foreclosure procedure,
- Realization of the collateral for the receivable in a bankruptcy procedure,
- Sale of receivables including collateral.

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

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

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

€ '000	Clients	2020 Banks	Clients	2019 Banks
Property	8,859,996	–	7,940,874	–
of which covering mortgages:	7,888,727	–	7,002,416	–
LTV* lower than 60%	2,294,528	–	2,011,790	–
LTV higher than 60% and lower than 80%	4,019,497	–	3,244,878	–
LTV higher than 80% and lower than 100%	1,568,727	–	1,741,780	–
LTV higher than 100%	5,976	–	3,969	–
Debt securities	34,899	–	25,631	–
Other	558,195	85,591	536,221	85,186
	9,453,090	85,591	8,502,726	85,186

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

€ '000	Clients	2020 Banks	Clients	2019 Banks
Property	149,877	–	145,989	–
of which covering mortgages:	122,190	–	113,185	–
LTV* lower than 60%	56,125	–	49,450	–
LTV higher than 60% and lower than 80%	53,404	–	47,240	–
LTV higher than 80% and lower than 100%	10,784	–	14,421	–
LTV higher than 100%	1,877	–	2,075	–
Other	4,928	–	5,549	–
	154,805	–	151,538	–

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

4.1.7. Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

					Related amounts not offset in SOFP		
2019 € '000	**Note**	**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrument and non-cash collateral**	**Cash collateral received**	**Net amount**
Types of financial assets							
Reverse repo transactions	7	78,749	–	78,749	(78,749)	–	–
Derivative financial instruments	8, 9	92,086	–	92,086	–	(22,239)	69,847

					Related amounts not offset in SOFP		
2019 € '000		**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrument and non-cash collateral**	**Cash collateral pledged**	**Net amount**
Types of financial liabilities							
Derivative financial instruments	8, 9	80,972	–	80,972	–	(65,060)	15,912

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

€ '000	Note	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure
				2020			2019
Financial assets							
Cash and cash equivalents	7	1,571,629	604,335	967,294	996,438	78,749	917,689
Financial assets at FVTPL:	8						
Financial assets held for trading		79,260	62,970	16,290	21,251	9,585	11,666
Derivatives – Hedge accounting	9	85,192	85,192	–	82,501	82,501	–
Financial liabilities							
Financial liabilities at FVTPL:	8						
Financial liabilities held for trading		87,377	76,267	11,110	24,750	21,139	3,611
Derivatives – Hedge accounting	9	65,407	65,407	–	59,833	59,833	–

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.

2020 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	115,144	(2,672)	112,472
Corporate	3,355,691	(75,904)	3,279,787
Retail	9,611,318	(211,325)	9,399,993
	13,082,153	(289,901)	12,792,252
Financial assets at FVOCI – debt securities	714,975	(69)	714,906
Financial commitments and contingencies	3,803,157	(13,169)	3,789,988
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	599,239	(2,150)	597,089
Retail	19,608	(1,848)	17,760
	618,847	(3,998)	614,849
Financial commitments and contingencies	610,029	(365)	609,664
Other European countries			
Financial assets at AC:			
Due from other banks	116,486	(235)	116,251
Due from customers:			
Public administration	5,090	–	5,090
Corporate	1,180,008	(3,674)	1,176,334
Retail	82,928	(648)	82,280
	1,268,026	(4,322)	1,263,704
	1,384,512	(4,557)	1,379,955
Financial assets at FVOCI – debt securities	794,938	(213)	794,725
Financial commitments and contingencies	420,596	(243)	420,353

(Table continues on the next page)

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

2019 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	130,884	(2,258)	128,626
Corporate	3,440,914	(72,372)	3,368,542
Retail	8,879,306	(237,065)	8,642,241
	12,451,104	(311,695)	12,139,409
Financial assets at FVOCI – debt securities	612,767	(52)	612,715
Financial commitments and contingencies	3,292,072	(8,856)	3,283,216
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	685,372	(2,346)	683,026
Retail	22,212	(1,771)	20,441
	707,584	(4,117)	703,467
Financial commitments and contingencies	25,229	(18)	25,211
Other European countries			
Financial assets at AC:			
Due from other banks	121,832	(131)	121,701
Due from customers:			
Public administration	3,876	–	3,876
Corporate	1,122,789	(4,646)	1,118,143
Retail	59,394	(571)	58,823
	1,186,059	(5,217)	1,180,842
	1,307,891	(5,348)	1,302,543
Financial assets at FVOCI – debt securities	850,633	(154)	850,479
Financial commitments and contingencies	637,455	(480)	636,975

(Table continues on the next page)

2019 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	8,925	(4)	8,921
Retail	1,375	(2)	1,373
	10,300	(6)	10,294
Financial assets at FVOCI – debt securities	99,361	(17)	99,344
Financial commitments and contingencies	329	–	329
Asia			
Financial assets at AC:			
Due from other banks	991	–	991
Due from customers:			
Corporate	36,613	(17)	36,596
Retail	5,182	(55)	5,127
	41,795	(72)	41,723
	42,786	(72)	42,714
Financial commitments and contingencies	44,722	(27)	44,695
Rest of the World			
Financial assets at AC:			
Due from other banks	58,156	(357)	57,799
Due from customers:			
Corporate	317	–	317
Retail	2,104	(15)	2,089
	2,421	(15)	2,406
	60,577	(372)	60,205
Financial commitments and contingencies	4,611	(10)	4,601

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

€ '000	Gross amount	Impairment losses	2020 Net amount	Gross amount	Impairment losses	2019 Net amount
Europe						
Slovakia	714,976	(69)	714,907	612,767	(52)	612,715
Italy	492,112	(105)	492,007	489,947	(117)	489,830
Spain	118,596	(11)	118,585	199,284	(17)	199,267
Poland	68,943	(28)	68,915	51,710	(11)	51,699
Great Britain	34,308	(11)	34,297	47,685	(4)	47,681
France	33,857	(6)	33,851	56,607	(5)	56,602
Estonia	22,874	(45)	22,829	–	–	–
Hungary	19,054	(7)	19,047	–	–	–
Austria	5,193	–	5,193	5,400	–	5,400
	1,509,913	(282)	1,509,631	1,463,400	(206)	1,463,194
North America						
Canada	101,102	(24)	101,078	99,361	(17)	99,344

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

2020 € '000			Financial assets at AC:		Financial assets at FVOCI – debt securities	Financial commit-ments and contin-gencies
	Banks	Public administration	Corporate	Retail*		
Agriculture, forestry and fishing	–	–	163,424	19,593	–	101,518
Mining and quarrying	–	–	43,174	322	–	36,378
Manufacturing	–	–	794,002	30,138	–	736,817
Electricity, gas, steam and air conditioning supply	–	–	584,421	648	–	663,704
Water supply	–	–	75,704	2,170	–	23,664
Construction	–	–	228,499	30,201	–	541,115
Wholesale and retail trade	–	–	870,671	68,864	–	446,117
Transport and storage	–	–	283,898	13,855	–	303,526
Accommodation and food service activities	–	–	32,500	13,063	–	6,071
Information and communication	–	–	110,245	7,162	–	59,125
Financial and insurance activities**	205,420	–	583,339	369	338,715	657,569
Real estate activities	–	–	525,585	53,017	–	151,492
Professional, scientific and technical activities	–	–	176,970	22,019	–	170,572
Administrative and support service activities	–	–	199,107	5,809	–	15,973
Public administration and defense, compulsory social security	–	150,242	386	169	1,271,994	29,262
Education	–	2	367	906	–	301
Human health services and social work activities	–	–	40,627	19,447	–	10,081
Arts, entertainment and recreation	–	–	27,403	1,561	–	477
Other services	–	–	321,093	3,678	–	64,912
Consumer Loans	–	–	–	1,413,794	–	301,467
Mortgage Loans	–	–	–	7,805,693	–	544,943
	205,420	150,244	5,061,415	9,512,478	1,610,709	4,865,084

2019 € '000			Financial assets at AC:		Financial assets at FVOCI – debt securities	Financial commit-ments and contin-gencies
	Banks	Public administration	Corporate	Retail*		
Agriculture, forestry and fishing	–	–	167,180	21,101	–	66,249
Mining and quarrying	–	–	46,671	450	–	37,413
Manufacturing	–	–	742,736	27,727	–	700,300
Electricity, gas, steam and air conditioning supply	–	–	697,879	1,398	–	407,179
Water supply	–	–	97,923	2,617	–	13,742
Construction	–	–	195,838	27,702	–	421,308
Wholesale and retail trade	–	–	836,675	66,336	–	390,648
Transport and storage	–	1,746	273,056	13,491	–	229,113
Accommodation and food service activities	–	–	22,613	12,249	–	3,672
Information and communication	–	–	120,512	5,327	–	54,453
Financial and insurance activities**	180,491	–	799,869	230	388,411	348,391
Real estate activities	–	–	499,488	50,202	–	55,239
Professional, scientific and technical activities	–	–	157,083	19,440	–	168,448
Administrative and support service activities	–	–	198,289	4,857	–	27,456
Public administration and defense, compulsory social security	–	130,755	227	147	1,174,127	9,528
Education	–	1	332	1,056	–	216
Human health services and social work activities	–	–	34,237	14,782	–	14,072
Arts, entertainment and recreation	–	–	23,043	2,124	–	2,353
Other services	–	–	301,894	3,887	–	68,900
Consumer Loans	–	–	–	1,596,188	–	338,582
Mortgage Loans	–	–	–	6,858,783	–	637,765
	180,491	132,502	5,215,545	8,730,094	1,562,538	3,995,027

* 'Retail' includes Small Business and Flat Owners Associations.
** 'Financial and insurance activities' involves financial services, leasing and insurance.

4.1.9. Internal and external ratings

The public administration exposures are classified to the following risk profiles based on assigned internal ratings.

- Risk-free
- Almost risk-free
- Very low risk
- Low risk
- Medium risk
- Higher risk
- High risk
- Default

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

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

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

Specialized Lending – SPV and RED

- Strong
- Good
- Satisfactory
- Weak
- Default

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

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

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

Capital requirement calculation

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

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

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	10,307	–	10,307
	Low	50,353	(65)	50,288
	Lower – Intermediate	144,414	(614)	143,800
	Upper – Intermediate	1,052	(27)	1,025
		206,126	(706)	205,420
Due from customers:				
Public administration				
	Risk-free	154	–	154
	Almost risk-free	1,047	–	1,047
	Very low risk	697	–	697
	Low risk	18,709	(12)	18,697
	Medium risk	56,907	(733)	56,174
	Higher risk	34,976	(16)	34,960
	High risk	8,622	(309)	8,313
	Unrated	5,090	–	5,090
		126,202	(1,070)	125,132
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	454,164	(56)	454,108
	Low	1,481,295	(617)	1,480,678
	Lower – Intermediate	993,224	(852)	992,372
	Intermediate	399,792	(594)	399,198
	Upper – Intermediate	237,066	(822)	236,244
	High	12,847	(260)	12,587
	Unrated	73,332	(64)	73,268
Specialized Lending – SPV, RED				
	Strong	353,997	(2,488)	351,509
	Good	209,956	(2,932)	207,024
	Satisfactory	231,478	(11,095)	220,383
	Weak	30,957	(4,535)	26,422
		4,478,108	(24,315)	4,453,793

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19,928	(9)	19,919
	Low	27,423	(34)	27,389
	Lower – Intermediate	43,554	(87)	43,467
	Intermediate	104,239	(490)	103,749
	Upper – Intermediate	31,155	(407)	30,748
	High	1,191	(170)	1,021
Mortgages				
	Very Low	6,944,903	(489)	6,944,414
	Low	298,060	(121)	297,939
	Lower – Intermediate	252,350	(298)	252,052
	Intermediate	6,666	(40)	6,626
	High	3,006	(86)	2,920
Unsecured Retail				
	Very Low	344,523	(390)	344,133
	Low	110,989	(239)	110,750
	Lower – Intermediate	539,197	(2,331)	536,866
	Intermediate	89,755	(1,106)	88,649
	Upper – Intermediate	39,267	(2,338)	36,929
	High	5,570	(914)	4,656
		8,861,776	(9,549)	8,852,227
		13,466,086	(34,934)	13,431,152
Financial assets at FVOCI – debt securities				
	Unrated	1,611,015	(306)	1,610,709

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	6,073	(1)	6,072
	Lower – Intermediate	46,412	(64)	46,348
		52,485	(65)	52,420
Due from customers:				
Public administration				
	Risk-free	6	–	6
	Almost risk-free	20	–	20
	Very low risk	1,134	–	1,134
	Low risk	3,787	(1)	3,786
	Medium risk	19,885	(10)	19,875
	Higher risk	1,576	(4)	1,572
	High risk	2,130	(32)	2,098
		28,538	(47)	28,491
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	828,058	(81)	827,977
	Low	1,534,477	(683)	1,533,794
	Lower – Intermediate	698,540	(252)	698,288
	Intermediate	339,206	(921)	338,285
	Upper – Intermediate	98,775	(462)	98,313
	High	14,038	(302)	13,736
	Unrated	3,240	(52)	3,188
Specialized Lending – SPV, RED				
	Strong	100,517	(542)	99,975
	Good	102,957	(1,100)	101,857
	Satisfactory	53,487	(2,027)	51,460
	Weak	31	–	31
		3,773,326	(6,422)	3,766,904
Retail				
	Very Low	575,071	(89)	574,982
	Low	172,316	(19)	172,297
	Lower – Intermediate	140,995	(197)	140,798
	Intermediate	19,428	(69)	19,359
	Upper – Intermediate	4,898	(69)	4,829
	High	510	(46)	464
		913,218	(489)	912,729
		4,715,082	(6,958)	4,708,124

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	990	–	990
	Low	50,351	(50)	50,301
	Lower – Intermediate	126,920	(394)	126,526
	Upper – Intermediate	1,875	(38)	1,837
		180,136	(482)	179,654
Due from customers:				
Public administration				
	Risk-free	784	–	784
	Almost risk-free	3,021	(1)	3,020
	Very low risk	805	–	805
	Low risk	26,894	(21)	26,873
	Medium risk	71,107	(832)	70,275
	Higher risk	4,046	(25)	4,021
	High risk	5,674	(189)	5,485
	Unrated	3,876	–	3,876
		116,207	(1,068)	115,139
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	851,483	(100)	851,383
	Low	1,488,735	(774)	1,487,961
	Lower – Intermediate	498,885	(334)	498,551
	Intermediate	912,240	(1,425)	910,815
	Upper – Intermediate	200,326	(707)	199,619
	High	8,470	(128)	8,342
	Unrated	73,778	(68)	73,710
Specialized Lending – SPV, RED				
	Strong	262,763	(1,468)	261,295
	Good	297,234	(3,459)	293,775
	Satisfactory	193,450	(6,925)	186,525
	Weak	17,281	(2,039)	15,242
		4,804,645	(17,427)	4,787,218

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	15,966	(7)	15,959
	Low	21,601	(26)	21,575
	Lower – Intermediate	42,264	(117)	42,147
	Intermediate	99,997	(538)	99,459
	Upper – Intermediate	32,077	(405)	31,672
	High	208	(25)	183
Mortgages				
	Very Low	5,987,671	(357)	5,987,314
	Low	279,305	(105)	279,200
	Lower – Intermediate	277,961	(331)	277,630
	Intermediate	15,895	(110)	15,785
	High	1,405	(38)	1,367
Unsecured Retail				
	Very Low	338,726	(416)	338,310
	Low	123,047	(288)	122,759
	Lower – Intermediate	646,997	(3,625)	643,372
	Intermediate	115,683	(2,205)	113,478
	Upper – Intermediate	52,014	(2,849)	49,165
	High	7,959	(1,297)	6,662
		8,058,776	(12,739)	8,046,037
		12,979,628	(31,234)	12,948,394
Financial assets at FVOCI – debt securities				
	Unrated	1,562,762	(224)	1,562,538

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	1,142	–	1,142
	Lower – Intermediate	45,128	(43)	45,085
		46,270	(43)	46,227
Due from customers:				
Public administration				
	Risk-free	578	–	578
	Very low risk	89	–	89
	Low risk	3,852	(2)	3,850
	Medium risk	3,167	(2)	3,165
	Higher risk	978	(3)	975
	High risk	702	(12)	690
		9,366	(19)	9,347
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	768,472	(54)	768,418
	Low	1,141,758	(338)	1,141,420
	Lower – Intermediate	327,917	(154)	327,763
	Intermediate	278,434	(273)	278,161
	Upper – Intermediate	84,262	(331)	83,931
	High	8,744	(152)	8,592
	Unrated	2,497	(24)	2,473
Specialized Lending – SPV, RED				
	Strong	13,147	(56)	13,091
	Good	96,645	(837)	95,808
	Satisfactory	42,444	(1,291)	41,153
	Weak	25	(2)	23
		2,764,345	(3,513)	2,760,832
Retail				
	Very Low	614,417	(79)	614,338
	Low	167,532	(18)	167,514
	Lower – Intermediate	209,683	(271)	209,412
	Intermediate	27,382	(156)	27,226
	Upper – Intermediate	7,068	(94)	6,974
	High	916	(61)	855
		1,026,998	(678)	1,026,320
		3,800,709	(4,210)	3,796,499

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

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Public administration				
	Almost risk-free	534	(1)	533
	Low risk	2,953	(9)	2,944
	Medium risk	414	(3)	411
	Higher risk	6,215	(187)	6,028
	High risk	16,601	(1,405)	15,196
		26,717	(1,605)	25,112
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Low	85,597	(77)	85,520
	Lower – Intermediate	15,256	(52)	15,204
	Intermediate	68,112	(362)	67,750
	Upper – Intermediate	314,847	(2,125)	312,722
	High	54,355	(1,600)	52,755
	Unrated	2,594	(5)	2,589
Specialized Lending – SPV, RED				
	Strong	3,367	(2)	3,365
	Good	16,126	(2,007)	14,119
	Satisfactory	28,189	(1,911)	26,278
	Weak	12,816	(3,984)	8,832
		601,259	(12,125)	589,134

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	1	–	1
	Low	48	–	48
	Lower – Intermediate	4,196	(212)	3,984
	Intermediate	20,103	(476)	19,627
	Upper – Intermediate	34,030	(1,612)	32,418
	High	7,834	(1,106)	6,728
Mortgages				
	Very Low	15,420	(75)	15,345
	Low	5,075	(37)	5,038
	Lower – Intermediate	124,083	(2,056)	122,027
	Intermediate	54,327	(1,515)	52,812
	High	53,804	(3,596)	50,208
Unsecured Retail				
	Very Low	1,253	(9)	1,244
	Low	777	(9)	768
	Lower – Intermediate	60,038	(1,603)	58,435
	Intermediate	56,596	(3,242)	53,354
	Upper – Intermediate	65,496	(6,986)	58,510
	High	58,885	(13,778)	45,107
		561,966	(36,312)	525,654
		1,189,942	(50,042)	1,139,900

(Table continues on the next page)

2020 € '000	Risk profile	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	Low risk	226	(1)	225
	High risk	202	(4)	198
		428	(5)	423
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	6,769	(7)	6,762
	Low	586	–	586
	Lower – Intermediate	3,184	(7)	3,177
	Intermediate	43,124	(130)	42,994
	Upper – Intermediate	15,378	(401)	14,977
	High	5,967	(178)	5,789
Specialized Lending – SPV, RED				
	Satisfactory	3,425	(591)	2,834
		78,433	(1,314)	77,119
Retail				
	Very Low	448	(13)	435
	Low	624	(6)	618
	Lower – Intermediate	6,984	(158)	6,826
	Intermediate	2,887	(92)	2,795
	Upper – Intermediate	2,005	(158)	1,847
	High	2,383	(415)	1,968
		15,331	(842)	14,489
		94,192	(2,161)	92,031

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks				
	Upper – Intermediate	843	(6)	837
Due from customers:				
Public administration				
	Medium risk	371	(4)	367
	Higher risk	7,897	(322)	7,575
	High risk	10,235	(856)	9,379
		18,503	(1,182)	17,321
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Low	293	–	293
	Lower – Intermediate	1,213	(5)	1,208
	Intermediate	76,109	(175)	75,934
	Upper – Intermediate	199,431	(2,187)	197,244
	High	46,857	(786)	46,071
	Unrated	2,421	(6)	2,415
Specialized Lending – SPV, RED				
	Strong	4,612	(308)	4,304
	Good	35,344	(4,285)	31,059
	Satisfactory	32,066	(1,999)	30,067
	Weak	14,646	(4,605)	10,041
		412,992	(14,356)	398,636

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Low	351	–	351
	Lower – Intermediate	2,690	(49)	2,641
	Intermediate	17,482	(404)	17,078
	Upper – Intermediate	35,383	(1,648)	33,735
	High	6,603	(891)	5,712
Mortgages				
	Very Low	15,134	(77)	15,057
	Low	2,620	(5)	2,615
	Lower – Intermediate	117,646	(1,869)	115,777
	Intermediate	55,614	(1,633)	53,981
	High	62,185	(5,167)	57,018
Unsecured Retail				
	Very Low	982	(5)	977
	Low	498	(7)	491
	Lower – Intermediate	61,489	(1,463)	60,026
	Intermediate	57,357	(2,963)	54,394
	Upper – Intermediate	65,538	(6,559)	58,979
	High	83,160	(21,023)	62,137
		584,731	(43,764)	540,967
		1,016,226	(59,302)	956,924

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	High risk	47	(3)	44
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Low	407	–	407
	Lower – Intermediate	275	–	275
	Intermediate	75,561	(114)	75,447
	Upper – Intermediate	21,844	(216)	21,628
	High	13,588	(175)	13,413
Specialized Lending – SPV, RED				
	Strong	8	–	8
	Satisfactory	1,560	(102)	1,458
		113,243	(607)	112,636
Retail				
	Low	87	(3)	84
	Lower – Intermediate	6,722	(97)	6,625
	Intermediate	3,799	(84)	3,715
	Upper – Intermediate	8,033	(372)	7,661
	High	2,861	(544)	2,317
		21,502	(1,100)	20,402
		134,792	(1,710)	133,082

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

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring	Default	58,971	(40,503)	18,468
Specialized Lending – SPV, RED	Default	4,808	(4,788)	20
		63,779	(45,291)	18,488
Retail				
Small Business, Flat Owners Associations	Default	13,620	(9,728)	3,892
Mortgages	Default	89,647	(33,335)	56,312
Unsecured Retail	Default	199,373	(124,980)	74,393
		302,640	(168,043)	134,597
		366,419	(213,334)	153,085
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring	Default	11,432	(3,150)	8,282
Specialized Lending – SPV, RED	Default	229	(221)	8
		11,661	(3,371)	8,290
Retail	Default	5,568	(1,349)	4,219
		17,229	(4,720)	12,509

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Public administration				
	Default	50	(8)	42
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Default	62,707	(34,254)	28,453
Specialized Lending – SPV, RED				
	Default	14,586	(13,348)	1,238
		77,293	(47,602)	29,691
Retail				
Small Business, Flat Owners Associations				
	Default	13,628	(9,018)	4,610
Mortgages				
	Default	82,188	(29,147)	53,041
Unsecured Retail				
	Default	230,250	(144,811)	85,439
		326,066	(182,976)	143,090
		403,409	(230,586)	172,823
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Default	18,415	(2,439)	15,976
Retail				
	Default	4,232	(989)	3,243
		22,647	(3,428)	19,219

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

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Very Low	10,307	–	10,307
	Low	50,353	(65)	50,288
	Lower – Intermediate	144,414	(614)	143,800
	Upper – Intermediate	1,052	(27)	1,025
		206,126	(706)	205,420
Due from customers:				
Public administration				
	Risk-free	154	–	154
	Almost risk-free	1,581	(1)	1,580
	Very low risk	697	–	697
	Low risk	21,662	(21)	21,641
	Medium risk	57,321	(736)	56,585
	Higher risk	41,191	(203)	40,988
	High risk	25,223	(1,714)	23,509
	Unrated	5,090	–	5,090
		152,919	(2,675)	150,244
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	454,164	(56)	454,108
	Low	1,566,892	(694)	1,566,198
	Lower – Intermediate	1,008,480	(904)	1,007,576
	Intermediate	467,904	(956)	466,948
	Upper – Intermediate	551,913	(2,947)	548,966
	High	67,202	(1,860)	65,342
	Default	58,971	(40,503)	18,468
	Unrated	75,926	(69)	75,857
Specialized Lending – SPV, RED				
	Strong	357,364	(2,490)	354,874
	Good	226,082	(4,939)	221,143
	Satisfactory	259,667	(13,006)	246,661
	Weak	43,773	(8,519)	35,254
	Default	4,808	(4,788)	20
		5,143,146	(81,731)	5,061,415

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19,929	(9)	19,920
	Low	27,471	(34)	27,437
	Lower – Intermediate	47,750	(299)	47,451
	Intermediate	124,342	(966)	123,376
	Upper – Intermediate	65,185	(2,019)	63,166
	High	9,025	(1,276)	7,749
	Default	13,620	(9,728)	3,892
Mortgages				
	Very Low	6,960,323	(564)	6,959,759
	Low	303,135	(158)	302,977
	Lower – Intermediate	376,433	(2,354)	374,079
	Intermediate	60,993	(1,555)	59,438
	High	56,810	(3,682)	53,128
	Default	89,647	(33,335)	56,312
Unsecured Retail				
	Very Low	345,776	(399)	345,377
	Low	111,766	(248)	111,518
	Lower – Intermediate	599,235	(3,934)	595,301
	Intermediate	146,351	(4,348)	142,003
	Upper – Intermediate	104,763	(9,324)	95,439
	High	64,455	(14,692)	49,763
	Default	199,373	(124,980)	74,393
		9,726,382	(213,904)	9,512,478
		15,022,447	(298,310)	14,724,137
Financial assets at FVOCI – debt securities				
	Unrated	1,611,015	(306)	1,610,709

(Table continues on the next page)

2020 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	6,073	(1)	6,072
	Lower – Intermediate	46,412	(64)	46,348
		52,485	(65)	52,420
Due from customers:				
Public administration				
	Risk–free	6	–	6
	Almost risk-free	20	–	20
	Very low risk	1,134	–	1,134
	Low risk	4,013	(2)	4,011
	Medium risk	19,885	(10)	19,875
	Higher risk	1,576	(4)	1,572
	High risk	2,332	(36)	2,296
		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

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Very Low	990	–	990
	Low	50,351	(50)	50,301
	Lower – Intermediate	126,920	(394)	126,526
	Upper – Intermediate	2,718	(44)	2,674
		180,979	(488)	180,491
Due from customers:				
Public administration				
	Risk-free	784	–	784
	Almost risk-free	3,021	(1)	3,020
	Very low risk	805	–	805
	Low risk	26,894	(21)	26,873
	Medium risk	71,478	(836)	70,642
	Higher risk	11,943	(347)	11,596
	High risk	15,909	(1,045)	14,864
	Default	50	(8)	42
	Unrated	3,876	–	3,876
		134,760	(2,258)	132,502
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	851,483	(100)	851,383
	Low	1,489,028	(774)	1,488,254
	Lower – Intermediate	500,098	(339)	499,759
	Intermediate	988,349	(1,600)	986,749
	Upper – Intermediate	399,757	(2,894)	396,863
	High	55,327	(914)	54,413
	Default	62,707	(34,254)	28,453
	Unrated	76,199	(74)	76,125
Specialized Lending – SPV, RED				
	Strong	267,375	(1,776)	265,599
	Good	332,578	(7,744)	324,834
	Satisfactory	225,516	(8,924)	216,592
	Weak	31,927	(6,644)	25,283
	Default	14,586	(13,348)	1,238
		5,294,930	(79,385)	5,215,545

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	15,966	(7)	15,959
	Low	21,952	(26)	21,926
	Lower – Intermediate	44,954	(166)	44,788
	Intermediate	117,479	(942)	116,537
	Upper – Intermediate	67,460	(2,053)	65,407
	High	6,811	(916)	5,895
	Default	13,628	(9,018)	4,610
Mortgages				
	Very Low	6,005,424	(440)	6,004,984
	Low	285,789	(153)	285,636
	Lower – Intermediate	389,123	(2,152)	386,971
	Intermediate	71,509	(1,743)	69,766
	High	63,590	(5,205)	58,385
	Default	82,188	(29,147)	53,041
Unsecured Retail				
	Very Low	339,708	(421)	339,287
	Low	123,545	(295)	123,250
	Lower – Intermediate	708,486	(5,088)	703,398
	Intermediate	173,040	(5,168)	167,872
	Upper – Intermediate	117,552	(9,408)	108,144
	High	91,119	(22,320)	68,799
	Default	230,250	(144,811)	85,439
		8,969,573	(239,479)	8,730,094
		14,399,263	(321,122)	14,078,141
Financial assets at FVOCI – debt securities				
	Unrated	1,562,762	(224)	1,562,538

(Table continues on the next page)

2019 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	1,142	–	1,142
	Lower – Intermediate	45,128	(43)	45,085
		46,270	(43)	46,227
Due from customers:				
Public administration				
	Risk-free	578	–	578
	Very low risk	89	–	89
	Low risk	3,852	(2)	3,850
	Medium risk	3,167	(2)	3,165
	Higher risk	978	(3)	975
	High risk	749	(15)	734
		9,413	(22)	9,391
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	768,472	(54)	768,418
	Low	1,142,165	(338)	1,141,827
	Lower – Intermediate	328,192	(154)	328,038
	Intermediate	353,995	(387)	353,608
	Upper – Intermediate	106,106	(547)	105,559
	High	22,332	(327)	22,005
	Default	18,415	(2,439)	15,976
	Unrated	2,497	(24)	2,473
Specialized Lending – SPV, RED				
	Strong	13,155	(56)	13,099
	Good	96,645	(837)	95,808
	Satisfactory	44,004	(1,393)	42,611
	Weak	25	(2)	23
		2,896,003	(6,559)	2,889,444
Retail				
	Very Low	614,417	(79)	614,338
	Low	167,619	(21)	167,598
	Lower – Intermediate	216,405	(368)	216,037
	Intermediate	31,181	(240)	30,941
	Upper – Intermediate	15,101	(466)	14,635
	High	3,777	(605)	3,172
	Default	4,232	(989)	3,243
		1,052,732	(2,767)	1,049,965
		3,958,148	(9,348)	3,948,800

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 2019: Aa1 to Caa1). The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on Moody's ratings.

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

2019 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aaa	268,633	(34)	268,599
	Aa1	34,409	(6)	34,403
	Aa3	51,710	(11)	51,699
	A2	508,674	(41)	508,633
	Baa1	209,389	(15)	209,374
	Baa3	489,947	(117)	489,830
		1,562,762	(224)	1,562,538

4.1.10. Sensitivity analysis of impairment losses

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

2020 **€ '000**	**Base scenario**	**Decrease PD by 10%**		
	Impairment losses	**Impairment losses**	**Absolute change**	**Relative change**
Financial assets at AC:				
Due from other banks	706	636	(70)	(9.92)%
Due from customers:				
Public Administration	2,675	2,407	(268)	(10.02)%
Corporate				
Large Corporates	5,155	4,965	(190)	(3.69)%
Large Corporates – debt securities	265	238	(27)	(10.19)%
Specialized Lending	33,742	30,846	(2,896)	(8.58)%
SME	41,072	40,570	(502)	(1.22)%
Other Non-banking Financial Institutions	171	154	(17)	(9.94)%
Other Non-banking Financial Institutions – debt securities	48	43	(5)	(10.42)%
Public Sector Entities	47	42	(5)	(10.64)%
actoring	1,231	1,228	(3)	(0.24)%
	81,731	78,086	(3,645)	(4.46)%
Retail				
Small Business	14,112	13,674	(438)	(3.10)%
Consumer Loans	133,946	130,938	(3,008)	(2.25)%
Mortgages	41,648	40,817	(831)	(2.00)%
Credit Cards	17,558	17,398	(160)	(0.91)%
Overdrafts	6,421	6,294	(127)	(1.98)%
Flat Owners Associations	219	197	(22)	(10.05)%
	213,904	209,318	(4,586)	(2.14)%
	298,310	289,811	(8,499)	(2.85)%
	299,016	290,447	(8,569)	(2.87)%
Financial assets at FVOCI – debt securities	306	275	(31)	(10.13)%

2019 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	488	439	(49)	(10.04)%
Due from customers:				
Public Administration	2,258	2,033	(225)	(9.96)%
Corporate				
Large Corporates	5,209	4,986	(223)	(4.28)%
Large Corporates – debt securities	118	106	(12)	(10.17)%
Specialized Lending	38,436	35,927	(2,509)	(6.53)%
SME	33,925	33,542	(383)	(1.13)%
Other Non-banking Financial Institutions	397	357	(40)	(10.08)%
Other Non-banking Financial Institutions – debt securities	28	25	(3)	(10.71)%
Public Sector Entities	38	34	(4)	(10.53)%
Factoring	1,234	1,230	(4)	(0.32)%
	79,385	76,207	(3,178)	(4.00)%
Retail				
Small Business	12,881	12,495	(386)	(3.00)%
Consumer Loans	158,732	154,939	(3,793)	(2.39)%
Mortgages	38,840	37,871	(969)	(2.49)%
Credit Cards	22,428	22,084	(344)	(1.53)%
Overdrafts	6,351	6,218	(133)	(2.09)%
Flat Owners Associations	247	222	(25)	(10.12)%
	239,479	233,829	(5,650)	(2.36)%
	321,122	312,069	(9,053)	(2.82)%
	321,610	312,508	(9,102)	(2.83)%
Financial assets at FVOCI – debt securities	224	202	(22)	(9.82)%

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

2020 **€ '000**	**Base scenario**	**Increase PD by 10%**		
	Impairment losses	**Impairment losses**	**Absolute change**	**Relative change**
Financial assets at AC:				
Due from other banks	706	777	71	10.06%
Due from customers:				
Public Administration	2,675	2,942	267	9.98%
Corporate				
Large Corporates	5,155	5,345	190	3.69%
Large Corporates – debt securities	265	291	26	9.81%
Specialized Lending	33,742	36,637	2,895	8.58%
SME	41,072	41,574	502	1.22%
Other Non-banking Financial Institutions	171	188	17	9.94%
Other Non-banking Financial Institutions – debt securities	48	53	5	10.42%
Public Sector Entities	47	52	5	10.64%
Factoring	1,231	1,235	4	0.32%
	81,731	85,375	3,644	4.46%
Retail				
Small Business	14,112	14,551	439	3.11%
Consumer Loans	133,946	136,953	3,007	2.24%
Mortgages	41,648	42,480	832	2.00%
Credit Cards	17,558	17,718	160	0.91%
Overdrafts	6,421	6,548	127	1.98%
Flat Owners Associations	219	241	22	10.05%
	213,904	218,491	4,587	2.14%
	298,310	306,808	8,498	2.85%
	299,016	307,585	8,569	2.87%
Financial assets at FVOCI – debt securities	306	336	30	9.80%

2019 € '000	Base scenario Impairment losses	Increase PD by 10% Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	488	537	49	10.04%
Due from customers:				
Public Administration	2,258	2,483	225	9.96%
Corporate				
Large Corporates	5,209	5,432	223	4.28%
Large Corporates – debt securities	118	130	12	10.17%
Specialized Lending	38,436	40,945	2,509	6.53%
SME	33,925	34,308	383	1.13%
Other Non-banking Financial Institutions	397	437	40	10.08%
Other Non-banking Financial Institutions – debt securities	28	31	3	10.71%
Public Sector Entities	38	42	4	10.53%
Factoring	1,234	1,238	4	0.32%
	79,385	82,563	3,178	4.00%
Retail				
Small Business	12,881	13,267	386	3.00%
Consumer Loans	158,732	162,525	3,793	2.39%
Mortgages	38,840	39,809	969	2.49%
Credit Cards	22,428	22,772	344	1.53%
Overdrafts	6,351	6,484	133	2.09%
Flat Owners Associations	247	272	25	10.12%
	239,479	245,129	5,650	2.36%
	321,122	330,175	9,053	2.82%
	321,610	330,712	9,102	2.83%
Financial assets at FVOCI – debt securities	224	246	22	9.82%

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

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

Based on the data related to the COVID moratoria available from the end of 2020, the Bank has performed the analysis focused on the payment discipline of clients who used this option. Observed payment discipline (measured by First Payment Defaults and Early Past Dues) indicates that the development in individual product portfolios is in line with the expectations and does not show any material worsening. Consequently, the Bank does not expect that the reasonably possible worsening of the macroeconomic indicators could have a material impact on the individual portfolios.

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

2020 € '000					Stage 1
Scenario	**Scenario description**		**Impairment losses**	**Provisions**	**Total**
Base	without stressing				
		ECL	1,033	159	1,192
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	1,042	160	1,202
		Absolute change	9	1	10
		Relative change	0.94%	0.91%	0.93%
UR stress 10%	UR increase by 15 bps				
		ECL	1,043	161	1,204
		Absolute change	10	2	12
		Relative change	1.04%	1.02%	1.04%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	1,053	162	1,215
		Absolute change	20	3	23
		Relative change	1.98%	1.93%	1.97%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	1,061	163	1,224
		Absolute change	28	4	32
		Relative change	2.71%	2.65%	2.70%
UR stress 30%	UR increase by 45 bps				
		ECL	1,067	164	1,231
		Absolute change	34	5	39
		Relative change	3.34%	3.26%	3.62%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	1,097	169	1,266
		Absolute change	64	10	74
		Relative change	6.17%	6.01%	6.15%

2019 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	939	327	1,266
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	943	328	1,271
		Absolute change	4	1	5
		Relative change	0.30%	0.26%	0.29%
UR stress 10%	UR increase by 15 bps				
		ECL	953	331	1,284
		Absolute change	14	4	18
		Relative change	1.38%	1.23%	1.34%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	956	332	1,288
		Absolute change	17	5	22
		Relative change	1.69%	1.50%	1.64%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	949	330	1,279
		Absolute change	10	3	13
		Relative change	0.86%	0.77%	0.84%
UR stress 30%	UR increase by 45 bps				
		ECL	980	339	1,319
		Absolute change	41	12	53
		Relative change	4.16%	3.69%	4.04%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	988	342	1,330
		Absolute change	49	15	64
		Relative change	5.04%	4.47%	4.90%

2020 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	7,280	238	7,518
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 bps				
		ECL	7,314	239	7,553
		Absolute change	34	1	35
		Relative change	0.48%	0.28%	0.47%
UR stress 10%	UR increase by 15 bps				
		ECL	7,319	239	7,558
		Absolute change	39	1	40
		Relative change	0.55%	0.32%	0.54%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	7,352	240	7,592
		Absolute change	72	2	74
		Relative change	1.01%	0.59%	0.99%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	7,380	240	7,620
		Absolute change	100	2	102
		Relative change	1.39%	0.81%	1.37%
UR stress 30%	UR increase by 45 bps				
		ECL	7,401	240	7,641
		Absolute change	121	2	123
		Relative change	1.71%	0.85%	1.68%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	7,502	242	7,744
		Absolute change	222	4	226
		Relative change	3.08%	1.80%	3.04%

2019 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	8,753	298	9,051
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 bps				
		ECL	8,779	299	9,078
		Absolute change	26	1	27
		Relative change	0.31%	0.15%	0.30%
UR stress 10%	UR increase by 15 bps				
		ECL	8,802	299	9,101
		Absolute change	49	1	50
		Relative change	0.57%	0.29%	0.56%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	8,829	299	9,128
		Absolute change	76	1	77
		Relative change	0.88%	0.44%	0.86%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	8,832	299	9,131
		Absolute change	79	1	80
		Relative change	0.91%	0.45%	0.89%
UR stress 30%	UR increase by 45 bps				
		ECL	8,902	301	9,202
		Absolute change	149	3	152
		Relative change	1.71%	0.85%	1.68%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	8,980	302	9,282
		Absolute change	227	4	231
		Relative change	2.60%	1.30%	2.56%

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	2020	2019
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	109,307	40,070
Derivatives – Hedge accounting	127,863	137,860
	237,170	177,930

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.

The Bank updated its IFRS 9 PD and LGD models by the new economic predictions, the last update is from December 2020 an it is linked to NBS economic forecast. The outcome is creation of additional ECL in amount of € 10 million. The part of the additional ECL was created in the form of post-model adjustments. The total post-model adjustments at 31 December 2020 increased the ECL by € 5 million in segment of specialized lending. Another important factor is the deterioration of credit quality as indicated by rating downgrade, i.e. some portion of portfolios has been re-classified to stage 2, with additional impact on level of ECL in the amount of € 2 million, mainly in segments of consumer loans and small business. The main drivers for stage 2 reclassification are: significant rating downgrade, 30 days past due, forbearance flag and monitoring of client in proactive credit risk regime. Finally, the migration to stage 3 was observed mainly for clients without legal moratorium, driven dominantly by consumer loans.

During the pandemic period, the borrower 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.

Till 31 December 2020 the Bank received 26,983 requests for deferral of repayments of corporate and retail loans, of which 25,457 was granted in the total gross amount of € 1,321,339 thousand. Out of these, expired € 846,507 thousand.

			Performing			Non-performing
2020 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	92,828	(2,590)	90,238	516	(372)	144
Retail	377,408	(7,539)	369,869	4,080	(1,949)	2,131
	470,236	(10,129)	460,107	4,596	(2,321)	2,275

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

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

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

Till 31 December 2020 the Bank provided 935 newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis to enterprises in the total gross amount of € 130,171 thousand.

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

4.2. Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices or foreign exchange rate will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

4.2.1. Management of market risk

The Bank separates its exposures to market risk between trading ('trading book') and non-trading portfolios ('banking book'). Trading portfolios are held by the Trading sub-department and Sales sub-department include positions arising from market-making and proprietary position taking. All foreign exchange risk within the Bank is transferred each day to the Trading sub-department and forms part of the trading portfolio for risk management purposes. The non-trading portfolios are managed by the sub-department Asset Liability Management ('ALM'), and include all positions which are not intended for trading.

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. 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:

				2020				2019
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	88	76	277	3	31	49	133	5
Interest rate risk	162	218	489	22	98	570	1,956	71
Total VaŔ	164	261	633	30	101	573	1,966	80
Total sVaR	178	503	1,265	135	184	1,534	3,073	184

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 VÚB Group' which are approved by the Management Board and are consistent with ISP Group IRRBB Guidelines and Rules.

The main risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to a change in market interest rates. Interest rate risk is managed mainly through the monitoring of interest rate gaps. Financial instruments are mapped to re-pricing time buckets either by maturity for fixed rate instruments, or by next re-pricing date for floating rate instruments. Assets and liabilities that do not have a contractual maturity date are mapped according to internal models based on behavioural assumptions.

The Risk Management division is responsible for monitoring and reporting of interest rate gaps at least on a monthly basis. The management of interest rate risk is measured by shift sensitivity of fair value analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and instantaneous shift of +/- 100 basis points of the yield curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and instantaneous shift of +/-200 basis points, and non-parallel steepening and flattening scenarios as well as short rates up and down scenarios. Six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision, have been introduced in 2017. All scenarios are applied on monthly basis as from September 2019.

The sensitivity of the interest margin is also measured with a set of scenarios similar to shift sensitivity analysis – baseline, internal stress and regulatory scenarios. The baseline scenario is represented by parallel and instantaneous +/-50 bps shocks in the yield curve, in a period of the following 12 months. Furthermore, additional internal stress and regulatory scenarios are applied: +/-100, +/-200 and six stress scenarios according to the Interest Rate Risk in the Banking Book Guidelines published by the Basel Committee on Banking Supervision.

Overall banking book interest rate risk positions are managed by the Treasury and ALM Department, which uses different on balance and off balance sheet instruments to manage the overall positions arising from the banking book activities.

Models applied for the interest rate risk ('IRR') calculation

Each financial and non-financial instrument is allocated to the time bucket based on its contractual or behavioural repricing date:

Contractual category

This category includes instruments where the Bank knows exactly when the maturity or next re-pricing takes place. This treatment is applied mainly to: bought and issued securities, received loans and term deposits.

Behavioural category

These are items for which it is not exactly known when the maturity or next re-pricing will take place (e.g. current accounts). There are also some items where the maturity or re-pricing period is known but it can be assumed that they will behave differently (e.g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the behaviour characteristics of these items. The assumptions are based on the detailed analysis of the Bank's historical time series data and statistical models.

At 31 December 2020, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € 43,717 thousand (31 December 2019: € 31,907 thousand).

At 31 December 2020, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (47,618) thousand (31 December 2019: € (43,699) thousand).

At 31 December 2020, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (20,783) thousand (31 December 2019: € (13,605) thousand).

At 31 December 2020, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € 7,937 thousand (31 December 2019: € 3,951 thousand).

At 31 December 2020, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2,523) thousand (31 December 2019: € (1,274) thousand).

The average interest rates for financial assets and financial liabilities were as follows:

	2020	2019
Financial assets		
Cash and cash equivalents	0.06%	1.32%
Financial assets at FVTPL	0.17%	1.10%
Financial assets at FVOCI	(0.07)%	0.47%
Financial assets at AC:		
Due from other banks	1.68%	2.42%
Due from customers	2.13%	2.43%
Financial liabilities		
Financial liabilities at AC:		
Due to banks	0.38%	0.36%
Due to customers	0.14%	0.18%
Debt securities in issue	0.55%	0.79%

The re-pricing structure of interest rate bearing financial assets and financial liabilities based on contractual discounted cash-flows for the non-trading portfolios was as follows:

2020 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	1,571,629	–	–	–	–	–	1,571,629
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	6,874	6,874
Financial assets at FVOCI	759	295	742,700	235,347	631,608	7,358	1,618,067
Financial assets at AC:							
Due from other banks	5,829	91,669	1,024	49,936	–	56,962	205,420
Due from customers	1,927,691	1,788,836	1,604,514	8,418,775	716,586	267,735	14,724,137
	3,505,908	1,880,800	2,348,238	8,704,058	1,348,194	338,929	18,126,127
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(59,144)	(4,118)	(46,686)	(8,619)	(50,016)	(2,088)	(170,671)
Due to customers	(6,573,722)	(1,342,480)	(1,489,156)	(3,239,636)	(332,966)	–	(12,977,960)
Lease liabilities	(646)	(1,285)	(4,803)	(14,422)	(1,702)	–	(22,858)
Subordinated debt	–	(200,151)	–	–	–	–	(200,151)
Debt securities in issue	(47,961)	(50,843)	(8,374)	(2,228,784)	(1,086,767)	–	(3,422,729)
	(6,681,473)	(1,598,877)	(1,549,019)	(5,491,461)	(1,471,451)	(2,088)	(16,794,369)
Net position of financial instruments	(3,175,565)	281,923	799,219	3,212,597	(123,257)	336,841	1,331,758
Cumulative net position of financial instruments	(3,175,565)	(2,893,642)	(2,094,423)	1,118,174	994,917	1,331,758	–
Cash inflow from derivatives	3,102,593	2,488,693	1,213,750	1,811,214	1,696,666	–	10,312,916
Cash outflow from derivatives	(2,043,894)	(1,211,567)	(1,517,064)	(4,222,592)	(1,319,411)	–	(10,314,528)
Net position from derivatives	1,058,699	1,277,126	(303,314)	(2,411,378)	377,255	–	(1,612)
Total net position	(2,116,866)	1,559,049	495,905	801,219	253,998	336,841	1,330,146
Cumulative total net position	(2,116,866)	(557,817)	(61,912)	739,307	993,305	1,330,146	–

2019 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	996,438	–	–	–	–	–	996,438
Financial assets at FVTPL (excluding Trading derivatives)	584	–	–	–	–	–	584
Financial assets at FVOCI	101,868	269,588	173,469	342,332	675,280	12,012	1,574,549
Financial assets at AC:							
Due from other banks	8,992	82,253	2,668	–	64,461	22,117	180,491
Due from customers	1,972,740	1,555,331	1,795,699	7,596,015	967,796	190,560	14,078,141
	3,080,622	1,907,172	1,971,836	7,938,347	1,707,537	224,689	16,830,203
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(51,022)	(3,971)	(106,244)	(112,429)	(50,047)	(2,056)	(325,769)
Due to customers	(5,915,282)	(1,410,338)	(2,218,353)	(2,098,264)	(265,765)	–	(11,905,002)
Lease liabilities	(645)	(1,275)	(4,793)	(12,250)	(95)	–	(22,058)
Subordinated debt	–	(200,143)	–	–	–	–	(200,143)
Debt securities in issue	(21,165)	(31,794)	(216,630)	(1,556,317)	(1,294,789)	–	(3,120,695)
	(5,988,114)	(1,647,521)	(2,546,020)	(3,779,260)	(1,610,696)	(2,056)	(15,573,667)
Net position of financial instruments	(2,907,492)	259,651	(574,184)	4,159,087	96,841	222,633	1,256,536
Cumulative net position of financial instruments	(2,907,492)	(2,647,841)	(3,222,025)	937,062	1,033,903	1,256,536	–
Cash inflow from derivatives	2,399,133	2,369,212	1,971,202	1,764,051	1,677,643	–	10,181,241
Cash outflow from derivatives	(2,076,929)	(1,127,853)	(1,704,183)	(4,332,493)	(944,445)	–	(10,185,903)
Net position from derivatives	322,204	1,241,359	267,019	(2,568,442)	733,198	–	(4,662)
Total net position	(2,585,288)	1,501,010	(307,165)	1,590,645	830,039	222,633	1,251,874
Cumulative total net position	(2,585,288)	(1,084,278)	(1,391,443)	199,202	1,029,241	1,251,874	–

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.

2020 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	939,583	2,499	624,558	4,989	1,571,629
Financial assets at FVTPL	77,179	8,518	437	–	86,134
Derivatives – Hedge accounting	84,688	68	436	–	85,192
Financial assets at FVOCI	1,611,115	6,952	–	–	1,618,067
Financial assets at AC:					
Due from other banks	196,994	8,426	–	–	205,420
Due from customers	14,077,131	214,683	357,296	75,027	14,724,137
Fair value changes of the hedged items in portfolio hedge of IRR	20,016	–	–	–	20,016
	17,006,706	241,146	982,727	80,016	18,310,595
Financial liabilities					
Financial liabilities at FVTPL	82,680	3,091	1,559	47	87,377
Derivatives – Hedge accounting	59,502	3,545	67	2,293	65,407
Financial liabilities at AC:					
Due to banks	139,325	9,137	22,143	66	170,671
Due to customers	12,289,028	231,786	382,865	74,281	12,977,960
Lease liabilities	22,858	–	–	–	22,858
Subordinated debt	200,151	–	–	–	200,151
Debt securities in issue	3,422,729	–	–	–	3,422,729
Fair value changes of the hedged items in portfolio hedge of IRR	6,990	–	–	–	6,990
	16,223,263	247,559	406,634	76,687	16,954,143
Net position	783,443	(6,413)	576,093	3,329	1,356,452

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2020 € '000	EUR	USD	CZK	Other	Total
Receivables	846,188	174,006	31,500	68,701	1,120,395
Payables	(257,380)	(177,452)	(601,231)	(85,848)	(1,121,911)
Net position from derivatives	588,808	(3,446)	(569,731)	(17,147)	(1,516)

2019 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	849,191	1,436	140,244	5,567	996,438
Financial assets at FVTPL	21,575	1,259	1,200	4	24,038
Derivatives – Hedge accounting	79,985	–	2,516	–	82,501
Financial assets at FVOCI	1,563,409	11,140	–	–	1,574,549
Financial assets at AC:					
Due from other banks	162,992	13,721	–	3,778	180,491
Due from customers	13,392,694	223,105	374,008	88,334	14,078,141
Fair value changes of the hedged items in portfolio hedge of IRR	13,840	–	–	–	13,840
	16,083,686	250,661	517,968	97,683	16,949,998
Financial liabilities					
Financial liabilities at FVTPL	21,850	760	2,131	9	24,750
Derivatives – Hedge accounting	50,996	5,794	–	3,043	59,833
Financial liabilities at AC:					
Due to banks	308,539	11,470	5,760	–	325,769
Due to customers	11,334,100	187,822	308,349	74,731	11,905,002
Lease liabilities	22,058	–	–	–	22,058
Subordinated debt	200,143	–	–	–	200,143
Debt securities in issue	3,120,695	–	–	–	3,120,695
Fair value changes of the hedged items in portfolio hedge of IRR	4,580	–	–	–	4,580
	15,062,961	205,846	316,240	77,783	15,662,830
Net position	1,020,725	44,815	201,728	19,900	1,287,168

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2019 € '000	EUR	USD	CZK	Other	Total
Receivables	399,537	36,896	60,017	70,510	566,960
Payables	(142,749)	(88,137)	(240,619)	(100,045)	(571,550)
Net position from derivatives	256,788	(51,241)	(180,602)	(29,535)	(4,590)

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.

	Financial assets at AC		Financial liabilities at AC			Derivatives
2020 **€ '000**	**Number of contracts**	**Net amount**	**Number of contracts**	**Net amount**	**Number of contracts**	**Notional amount**
Referenced to:						
EONIA	–	–	4	15,141	7	683,100
EURIBOR	5,180	2,863,896	–	–	223	8,477,301
LIBOR	32	113,674	–	–	5	117,602
Of which: USD	30	113,674	–	–	5	117,602
Of which: GBP	2	–	–	–	–	–

	Financial assets at AC		Financial liabilities at AC			Derivatives
2019 **€ '000**	**Number of contracts**	**Net amount**	**Number of contracts**	**Net amount**	**Number of contracts**	**Notional amount**
Referenced to:						
EONIA	–	–	4	17,049	8	142,800
EURIBOR	5,143	2,935,808	–	–	223	8,726,620
LIBOR	32	103,218	–	–	5	97,727
Of which: USD	29	103,218	–	–	5	97,727
Of which: GBP	3	–	–	–	–	–

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.

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:

2020 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	1,571,629	–	1,571,629
Financial assets at FVTPL	5,791	80,343	86,134
Derivatives – Hedge accounting	100	85,092	85,192
Financial assets at FVOCI	743,755	874,312	1,618,067
Financial assets at AC:			
Due from other banks	77,261	128,159	205,420
Due from customers	2,632,937	12,091,200	14,724,137
Fair value changes of the hedged items in portfolio hedge of IRR	–	20,016	20,016
Investments in subsidiaries, joint ventures and associates	–	69,629	69,629
Property and equipment	–	113,163	113,163
Intangible assets	–	128,896	128,896
Goodwill	–	18,871	18,871
Current income tax assets	26,518	–	26,518
Deferred income tax assets	–	51,056	51,056
Other assets	22,685	–	22,685
Non-current assets and disposal groups classified as held for sale	1	–	1
	5,080,677	13,660,737	18,741,414
Liabilities			
Financial liabilities at FVTPL	(12,068)	(75,309)	(87,377)
Derivatives – Hedge accounting	(7,607)	(57,800)	(65,407)
Financial liabilities measured at AC:			
Due to banks	(67,225)	(103,446)	(170,671)
Due to customers	(1,587,769)	(11,390,191)	(12,977,960)
Lease liabilities	(6,734)	(16,124)	(22,858)
Subordinated debt	(151)	(200,000)	(200,151)
Debt securities in issue	(108,020)	(3,314,709)	(3,422,729)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(6,990)	(6,990)
Current income tax liabilities	(635)	–	(635)
Provisions	–	(14,895)	(14,895)
Other liabilities	(73,088)	(5,407)	(78,495)
	(1,863,297)	(15,184,871)	(17,048,168)
Net position	3,217,380	(1,524,134)	1,693,246

2019 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	996,438	–	996,438
Financial assets at FVTPL	2,058	21,980	24,038
Derivatives – Hedge accounting	252	82,249	82,501
Financial assets at FVOCI	544,623	1,029,926	1,574,549
Financial assets at AC:			
Due from other banks	53,795	126,696	180,491
Due from customers	2,491,027	11,587,114	14,078,141
Fair value changes of the hedged items in portfolio hedge of IRR	–	13,840	13,840
Investments in subsidiaries, joint ventures and associates	–	63,629	63,629
Property and equipment	–	106,554	106,554
Intangible assets	–	112,046	112,046
Goodwill	–	18,871	18,871
Current income tax assets	25,309	–	25,309
Deferred income tax assets	–	63,157	63,157
Other assets	20,988	–	20,988
Non-current assets classified as held for sale	645	–	645
	4,135,135	13,226,062	17,361,197
Liabilities			
Financial liabilities at FVTPL	(3,611)	(21,139)	(24,750)
Derivatives – Hedge accounting	(472)	(59,361)	(59,833)
Financial liabilities measured at AC:			
Due to banks	(109,477)	(216,292)	(325,769)
Due to customers	(1,873,580)	(10,031,422)	(11,905,002)
Lease liabilities	(6,713)	(15,345)	(22,058)
Subordinated debt	(143)	(200,000)	(200,143)
Debt securities in issue	(270,232)	(2,850,463)	(3,120,695)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(4,580)	(4,580)
Provisions	–	(10,671)	(10,671)
Other liabilities	(85,124)	(5,633)	(90,757)
	(2,349,352)	(13,414,906)	(15,764,258)
Net position	1,785,783	(188,844)	1,596,939

The remaining maturities of assets and liabilities based on contractual undiscounted cash-flows were as follows:

2020 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	1,571,629	–	–	–	–	–	1,571,629
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	6,874	6,874
Financial assets at FVOCI	808	546	743,051	249,248	592,786	7,358	1,593,797
Financial assets at AC:							
Due from other banks	61,877	8,125	8,440	115,581	20,463	–	214,486
Due from customers	1,108,032	503,432	1,174,894	4,962,428	8,374,379	274,450	16,397,615
	2,742,346	512,103	1,926,385	5,327,257	8,987,628	288,682	19,784,401
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(56,644)	(4,118)	(6,464)	(33,217)	(70,730)	–	(171,173)
Due to customers	(11,208,937)	(1,157,522)	(488,903)	(122,999)	–	–	(12,978,361)
Lease liabilities	(646)	(1,287)	(4,828)	(14,772)	(1,944)	–	(23,477)
Subordinated debt	–	(1,344)	(4,081)	(20,814)	(207,368)	–	(233,607)
Debt securities in issue	(3,607)	(51,710)	(21,238)	(2,314,597)	(1,102,794)	–	(3,493,946)
	(11,269,834)	(1,215,981)	(525,514)	(2,506,399)	(1,382,836)	–	(16,900,564)
Net position of financial instruments	(8,527,488)	(703,878)	1,400,871	2,820,858	7,604,792	288,682	2,883,837
Cash inflows from derivatives	773,460	31,953	196,150	191,708	121,634	–	1,314,905
Cash outflows from derivatives	(776,379)	(31,709)	(206,497)	(195,545)	(81,652)	–	(1,291,782)
Net position from derivatives	(2,919)	244	(10,347)	(3,837)	39,982	–	23,123
Net position from financial commitments and contingencies	(4,878,988)	–	–	–	–	–	(4,878,988)

2019 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	996,438	–	–	–	–	–	996,438
Financial assets at FVTPL (excluding Trading derivatives)	28	–	–	83	2,110	584	2,805
Financial assets at FVOCI	1,938	250,499	295,890	361,495	664,498	12,012	1,586,332
Financial assets at AC:							
Due from other banks	44,462	1,475	8,789	55,818	80,894	–	191,438
Due from customers	994,382	328,399	1,410,807	5,213,559	8,170,100	232,183	16,349,430
	2,037,248	580,373	1,715,486	5,630,955	8,917,602	244,779	19,126,443
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(45,743)	(3,971)	(61,146)	(138,987)	(76,468)	–	(326,315)
Due to customers	(9,446,480)	(837,231)	(1,474,225)	(149,938)	–	–	(11,907,874)
Lease liabilities	(646)	(1,277)	(4,817)	(15,531)	(96)	–	(22,367)
Subordinated debt	–	(1,440)	(4,364)	(23,416)	(215,894)	–	(245,114)
Debt securities in issue	(3,602)	(13,553)	(249,575)	(1,657,456)	(1,335,905)	–	(3,260,091)
	(9,496,471)	(857,472)	(1,794,127)	(1,985,328)	(1,628,363)	–	(15,761,761)
Net position of financial instruments	(7,459,223)	(277,099)	(78,641)	3,645,627	7,289,239	244,779	3,364,682
Cash inflows from derivatives	250,632	100,688	95,759	99,980	159,783	–	706,842
Cash outflows from derivatives	(252,501)	(101,273)	(96,212)	(117,533)	(112,768)	–	(680,287)
Net position from derivatives	(1,869)	(585)	(453)	(17,553)	47,015	–	26,555
Net position from financial commitments and contingencies	(4,004,418)	–	–	–	–	–	(4,004,418)

* The high negative liquidity gap in the first bucket is caused by a huge volume of deposits on demand (without contractual maturity) which are presented under 'Due to customers'. For the purpose of internal liquidity management monitoring the behavioural profile of on-demand deposits is taken into account based on a statistical model using internal historical data. According to when they are expected to be settled such deposits are then placed into later buckets (see the previous table).

4.4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, information and communication technology risk and financial reporting risk; strategic and reputational risk are not included. Operational risk can arise from legal and regulatory requirements, non-compliance with generally accepted standards of corporate behaviour and from all of the Bank's operations.

4.4.1. Operational risk management strategies and processes

The Bank, in coordination with Intesa Sanpaolo, has defined the overall operational risk management framework by setting up a VUB Group policy and organisational process for measuring, managing and controlling operational risk.

The control of operational risk was attributed to the Operational Risk Committee, which identifies risk management policies. The Supervisory and Management Boards of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: 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.

(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.

2020 € '000	Note	At amortised cost	At fair value	Carrying amount Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash and cash equivalents	7	1,571,629	–	1,571,629	–	1,571,629	–	1,571,629
Financial assets at FVTPL	8	–	86,134	86,134	711	85,423	–	86,134
Derivatives – Hedge accounting	9	–	85,192	85,192	–	85,192	–	85,192
Financial assets at FVOCI	10	–	1,618,067	1,618,067	896,128	721,938	–	1,618,066
Financial assets at AC:	11							
Due from other banks		205,420	–	205,420	–	205,420	–	205,420
Due from customers		14,724,137	–	14,724,137	–	96,415	16,699,116	16,795,531
		16,501,186	1,789,393	18,290,579	896,839	2,766,017	16,699,116	20,361,972
Financial liabilities								
Financial liabilities at FVTPL	8	–	87,377	87,377	–	87,377	–	87,377
Derivatives – Hedge accounting	9	–	65,407	65,407	–	65,407	–	65,407
Financial liabilities at AC:	11							
Due to banks		170,671	–	170,671	–	170,671	–	170,671
Due to customers		12,977,960	–	12,977,960	–	12,981,028	–	12,981,028
Lease liabilities		22,858	–	22,858	–	22,858	–	22,858
Subordinated debt		200,151	–	200,151	–	233,805	–	233,805
Debt securities in issue		3,422,729	–	3,422,729	–	3,488,512	–	3,488,512
		16,794,369	152,784	16,947,153	–	17,049,658	–	17,049,658

2019 € '000	Note	At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
				Carrying amount				Fair value
Financial assets								
Cash and cash equivalents	7	996,438	–	996,438	–	996,438	–	996,438
Financial assets at FVTPL	8	–	24,038	24,038	584	23,454	–	24,038
Derivatives – Hedge accounting	9	–	82,501	82,501	–	82,501	–	82,501
Financial assets at FVOCI	10	–	1,574,549	1,574,549	950,619	623,930	–	1,574,549
Financial assets at AC:	11							
Due from other banks		180,491	–	180,491	–	180,491	–	180,491
Due from customers		14,078,141	–	14,078,141	–	75,252	14,536,140	14,611,392
		15,255,070	1,681,088	16,936,158	951,203	1,982,066	14,536,140	17,469,409
Financial liabilities								
Financial liabilities at FVTPL	8	–	24,750	24,750	–	24,750	–	24,750
Derivatives – Hedge accounting	9	–	59,833	59,833	–	59,833	–	59,833
Financial liabilities at AC:	11							
Due to banks		325,769	–	325,769	–	325,769	–	325,769
Due to customers		11,905,002	–	11,905,002	–	11,911,942	–	11,911,942
Lease liabilities		22,058	–	22,058	–	22,058	–	22,058
Subordinated debt		200,143	–	200,143	–	192,743	–	192,743
Debt securities in issue		3,120,695	–	3,120,695	–	3,164,185	–	3,164,185
		15,573,667	84,583	15,658,250	–	15,701,280	–	15,701,280

There were no other transfers of financial instruments among the levels during 2020 and 2019.

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.

2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Total re-portable segments	Other	Total
External revenue:						
Interest and similar income	217,235	102,242	(11,509)	307,968	6,090	314,058
Interest and similar expense	(9,168)	(3,992)	(16,274)	(29,434)	(7,070)	(36,504)
Inter-segment revenue	(18,721)	(23,336)	41,869	(188)	188	–
Net interest income	189,346	74,914	14,086	278,346	(792)	277,554
Net fee and commission income (note 25)	104,358	29,152	2,425	135,935	(3,342)	132,593
Dividend income	–	–	–	–	4,001	4,001
Net trading result	4,203	5,983	8,415	18,601	45	18,646
Other operating income	–	–	8	8	2,210	2,218
Other operating expense	(11,346)	(51)	–	(11,397)	(3,860)	(15,257)
Special levy of selected financial institutions*	–	–	–	–	(31,038)	(31,038)
Salaries and employee benefits	(50,514)	(10,287)	(676)	(61,477)	(61,301)	(122,778)
Other administrative expenses*	–	–	–	–	(71,487)	(71,487)
Amortisation	(5,972)	(259)	(2)	(6,233)	(8,256)	(14,489)
Depreciation	(2,696)	(52)	(3)	(2,751)	(10,841)	(13,592)
Profit before provisions, impairment and tax	227,379	99,400	24,253	351,032	(184,661)	166,371
Provisions*	–	–	–	–	355	355
Impairment losses	(39,160)	(17,843)	(208)	(57,211)	8,064	(49,147)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(8,434)	1,701	–	(6,733)	(725)	(7,458)
Profit before tax	179,785	83,258	24,045	287,088	(176,967)	110,121
Segment assets	9,450,893	5,368,578	3,358,182	18,177,653	563,761	18,741,414
Segment liabilities	8,060,841	4,942,827	3,735,077	16,738,745	309,423	17,048,168

* The Bank does not allocate these items to the individual segments.

2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Total re-portable segments	Other	Total
External revenue:						
Interest and similar income	243,678	105,913	11,951	361,542	9,892	371,434
Interest and similar expense	(12,512)	(5,674)	(19,609)	(37,795)	(8,808)	(46,603)
Inter-segment revenue	(23,936)	(25,170)	49,400	294	(294)	–
Net interest income	207,230	75,069	41,742	324,041	790	324,831
Net fee and commission income (note 26)	101,360	26,978	1,074	129,412	(3,373)	126,039
Dividend income	–	–	–	–	2,000	2,000
Net trading result	4,679	5,581	(17,311)	(7,051)	(458)	(7,509)
Other operating income	–	–	7	7	3,213	3,220
Other operating expense	(11,563)	–	–	(11,563)	(5,055)	(16,618)
Special levy of selected financial institutions*	–	–	–	–	(29,695)	(29,695)
Salaries and employee benefits	(51,459)	(10,066)	(693)	(62,218)	(59,111)	(121,329)
Other administrative expenses*	–	–	–	–	(75,058)	(75,058)
Amortisation	(4,739)	(242)	(7)	(4,988)	(7,395)	(12,383)
Depreciation	(2,854)	(45)	(3)	(2,902)	(8,829)	(11,731)
Profit before provisions, impairment and tax	242,654	97,275	24,809	364,738	(182,971)	181,767
Provisions*	–	–	–	–	5,068	5,068
Impairment losses	(34,355)	(1,402)	211	(35,546)	130	(35,416)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(5,420)	922	–	(4,498)	(16)	(4,514)
Profit before tax	202,879	96,795	25,020	324,694	(177,789)	146,905
Segment assets	8,668,025	5,521,616	2,571,592	16,761,233	599,964	17,361,197
Segment liabilities	7,325,048	4,431,980	3,957,858	15,714,886	49,372	15,764,258

* 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	2020	2019
Cash in hand	161,155	161,621
Balances at central banks:		
Compulsory minimum reserves	777,270	690,985
Current accounts	38	4
Term deposits	7,621	47,227
Loans and advances	604,335	78,749
	1,389,264	816,965
Due from other banks:		
Current accounts	21,210	17,852
	1,571,629	996,438

At 31 December 2020 the balance of 'Loans and advances' comprised of five reverse repo trade concluded with ČNB in the total nominal amount of CZK 15,860 million (€ 604,306 thousand) (31 December 2019: one reverse repo trade, CZK 2,000 million (€ 78,709 thousand)). The repo trades were secured by 15,573 treasury bill of ČNB (31 December 2019: 1,986 treasury bills of ČNB).

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and Česká národní banka ('ČNB'). The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the Bank and the amount of issued bonds, both with a maturity of up to two years. The rate for the calculation of the compulsory minimum reserve is 1% for the reserves held at the NBS and 2% for the reserves held at ČNB. The required balance is calculated as the total of individual items multiplied by the valid rate.

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation. The compliance with the compulsory minimum reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period.

8. Financial assets and financial liabilities at fair value through profit or loss

€ '000	2020	2019
Financial assets held for trading:		
Trading derivatives	79,260	21,251
Equity instruments	6,163	–
Government debt securities of European Union countries	–	2,203
	85,423	23,454
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	711	584
Financial liabilities held for trading:		
Trading derivatives	87,377	24,750

On the line 'Equity instruments' in 'Financial assets held for trading' is recognized the fair value of the Visa Inc. Series C Preferred Stock that were reclassified as at 1 January 2020 from FVOCI (note 10) to FVTPL portfolio.

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and they form the part of the incentive plan introduced by the Parent Company in line with the Capital Directive ‚CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). The Bank did not elect the option to present these at FVOCI.

€ '000	2020 Assets	2019 Assets	2020 Liabilities	2019 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	71,917	17,919	74,070	19,318
Foreign currency instruments:				
Forwards and swaps	5,616	2,614	11,728	4,781
Options	194	93	194	95
	5,810	2,707	11,922	4,876
Equity and commodity instruments:				
Equity options	–	229	–	229
Commodity forwards and swaps	1,533	396	1,385	327
	1,533	625	1,385	556
	79,260	21,251	87,377	24,750

€ '000	2020 Assets	2019 Assets	2020 Liabilities	2019 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	3,834,656	1,764,501	3,834,656	1,764,501
Options	116,703	184,435	116,703	184,435
Futures	–	12,072	–	12,072
	3,951,359	1,961,008	3,951,359	1,961,008
Foreign currency instruments:				
Forwards and swaps	1,025,828	473,297	1,032,169	475,958
Options	21,859	17,872	21,859	17,872
	1,047,687	491,169	1,054,028	493,830
Equity and commodity instruments:				
Equity options	–	2,100	–	2,100
Commodity forwards and swaps	37,770	26,284	37,770	26,284
	37,770	28,384	37,770	28,384
	5,036,816	2,480,561	5,043,157	2,483,222

9. Derivatives – Hedge accounting

€ '000	2020 Assets	2019 Assets	2020 Liabilities	2019 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	85,192	82,501	65,407	59,833

9.1. Fair value hedges of interest rate, foreign currency and inflation risk

The Bank used twenty two 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 twenty five 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 twenty one interest rate swaps to hedge the interest rate risk of nine 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 one interest rate swap to hedge the inflation and interest rate risk of one 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 eighteen interest rate swaps to hedge the interest rate risk of fifteen 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 thirteen interest rate swaps and one cross currency swap to hedge the interest rate risk of fourteen corporate loans. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

The Bank used two cross currency swaps to hedge the interest rate and foreign currency risk of two 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 one interest rate swap to hedge the interest rate risk of one 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 twenty six interest rate swaps to hedge the interest rate risk arising from the issuance of fourteen fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

In 2020, the Bank recognised a net gain of € 15,013 thousand (2019: net gain of € 41,789 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 14,383 thousand (2019: net loss of € 41,920 thousand). Both items are disclosed within 'Net trading result' on the line 'Net result from hedging transactions'.

2020 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffecti-veness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	7,712	36,754	1,084,900	1,084,900	(17,430)	–
Hedge of corporate loans	436	2,954	277,418	277,418	(1,829)	339
Hedge of loans received from EIB	533	–	50,000	50,000	1,323	16
Hedge of covered bonds	67,951	–	1,145,400	1,145,400	40,565	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	68	5,838	91,532	86,805	(3,594)	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	979	19,861	2,300,000	2,300,000	(6,468)	240
Hedge of current accounts	7,513	–	112,500	112,500	2,445	35

2019 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	2,981	24,234	960,900	960,900	(5,836)	–
Hedge of corporate loans	2,524	2,906	401,123	401,123	4,159	18
Hedge of loans received from EIB	444	802	50,000	50,000	(817)	(105)
Hedge of covered bonds	67,486	5,300	2,568,200	2,568,200	53,077	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	–	8,837	92,460	94,474	(6,319)	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of corporate loans	–	–	–	–	(189)	5
Hedge of mortgage loans	3,526	16,894	2,740,000	2,740,000	(5,467)	(149)
Hedge of TLTROs	–	–	–	–	–	(18)
Hedge of current accounts	5,540	860	612,500	612,500	3,181	118

The amounts relating to items designated as hedged items were as follows:

2020 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffectiveness	Accumulated amount of fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1,014,069	–	17,430	(3,108)
Corporate loans	Financial assets at AC: Due from customers	364,223	5,946	5,762	928
Loans received from EIB	Financial assets at AC: Due to banks	50,000	595	1,307	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	733,786	65,807	40,565	45,372
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	2,300,000	19,396	6,708	620
Current accounts	Financial liabilities at AC: Due to customers	112,500	6,990	2,410	–

* 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.

2019 € '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 elationship
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	987,302	–	5,836	–
Corporate loans	Financial assets at AC: Due from customers	495,597	184	2,178	1,131
Loans received from EIB	Financial assets at AC: Due to banks	50,000	712	(712)	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1,334,575	57,211	53,077	18,369
Macro hedges					
Corporate loans	Financial assets at AC: Due from customers	–	–	194	–
Mortgage loans	Financial assets at AC: Due from customers	2,740,000	12,688	5,318	1,152
TLTROs	Financial liabilities at AC: Due to banks	–	–	18	–
Current accounts	Financial liabilities at AC: Due to customers	612,500	4,580	3,063	–

Maturity of notional values of hedging instruments designated as fair value hedges of interest rate risk and their average interest rates:

€ '000	Less than 1 year	1 – 5 years	2020 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	118,900	231,000	577,000
	0.19%	(0.27)%	0.12%
Hedge of corporate loans	–	248,076	29,342
	–	0.20%	0.98%
Hedge of mortgage loans	345,000	1,955,000	–
	(0.09)%	(0.03)%	–
Hedge of loans received from other banks	–	–	50,000
	–	–	(0.26)%
Hedge of current account	–	31,500	81,000
	–	0.0056%	0.67%
Hedge of covered bonds	10,000	465,500	669,900
	0.85%	1.10%	1.17%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	86,805	–
	–	1.75%	–

€ '000	Less than 1 year	1 – 5 years	2019 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	–	324,400	636,500
	–	0.06%	0.12%
Hedge of corporate loans	150,000	251,123	–
	(0.30)%	0.19%	–
Hedge of mortgage loans	640,000	2,100,000	–
	(0.25)%	(0.03)%	–
Hedge of loans received from other banks	–	–	50,000
	–	–	0.32%
Hedge of current account	500,000	–	112,500
	(0.62)%	–	0.64%
Hedge of covered bonds	150,000	509,000	1,109,200
	(0.15)%	0.72%	1.11%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	4,628	89,846
	–	0.00%	2.63%

10. Financial assets at fair value through other comprehensive income

€ '000	2020	2019
Government debt securities of European Union countries	1,271,994	1,174,127
of which Italian government debt securities	*492,007*	*489,830*
Bank debt securities	304,864	357,806
Other debt securities	33,851	30,605
Equity instruments:		
Visa Inc. Series A Preferred Stock	6,952	–
Visa Inc. Series C Preferred Stock	–	11,139
Intesa Sanpaolo S.p.A.	326	797
S.W.I.F.T.	80	75
	7,358	12,011
	1,618,067	1,574,549

At 31 December 2020, the bonds in the total nominal amount of € 583,000 thousand were pledged by the Bank to secure collateralized transactions (31 December 2019: € 725,500 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.

The Visa Inc. Series C Preferred Stock are convertible in shares of Class A Common Stock or Series A Preferred Stock on a conversion rate based on a periodic conservative assessment of the ongoing risk of liability pursuant to covered claims in the Visa Europe territory. These assessments are undertaken by Visa Inc., in consultation with the Litigation Management Committee comprising the former Visa Europe member representative, on predetermined anniversaries of the closing of acquisition of Visa Europe Limited by Visa Inc. On the twelfth anniversary of the Closing, each share of Preferred Stock will be converted into shares of Class A Common Stock or Series A Preferred Stock.

Following the first assessment carried out on the fourth anniversary (as at 21 June 2020), Visa Inc., on 24 September 2020, has issued to each holder, for each share of Series C Preferred stock, whole shares of Class A Common Stock (or Serie A Preferred Stock) equal to the conversion adjustment (divided by 100 in the case of Serie A Preferred Stock; for each Serie A Preferred Stock are recognized number 100 Class A Common Stock) equal to 6.861.

In the case of the VUB bank, 50% of the value of Series C Preferred stock, in number of 5,686, was converted into Serie A Preferred Stock in number of 390 (equal to 39,012 Class A Common Stock).

The Visa Inc. Series C Preferred Stock were reclassified as at 1 January 2020 from FVOCI to FVTPL portfolio (note 8).

11. Financial assets and financial liabilities at amortised cost

11.1. Due from other banks

€ '000	Note	2020	2019
Loans and advances		149,755	136,788
Cash collateral		56,371	44,191
Impairment losses	21	(706)	(488)
		205,420	180,491

11.2. Due from customers

2020 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public Administration			
Single Resolution Fund	5,090	–	5,090
State administration	32,685	(3)	32,682
Municipalities	115,144	(2,672)	112,472
	152,919	(2,675)	150,244
Corporate			
Large Corporates	2,120,564	(5,155)	2,115,409
Large Corporates – debt securities	150,427	(265)	150,162
Specialized Lending	891,694	(33,742)	857,952
SME	1,413,483	(41,072)	1,372,411
Other Non-banking Financial Institutions	431,751	(171)	431,580
Other Non-banking Financial Institutions – Debt securities	50,056	(48)	50,008
Public Sector Entities	1,284	(47)	1,237
Factoring	83,887	(1,231)	82,656
	5,143,146	(81,731)	5,061,415
Retail			
Small Business	270,146	(14,112)	256,034
Consumer Loans	1,391,046	(133,946)	1,257,100
Mortgages	7,847,341	(41,648)	7,805,693
Credit Cards	104,092	(17,558)	86,534
Overdrafts	76,581	(6,421)	70,160
Flat Owners Associations	37,176	(219)	36,957
	9,726,382	(213,904)	9,512,478
	15,022,447	(298,310)	14,724,137

2019 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public Administration			
Single Resolution Fund	3,876	–	3,876
Municipalities	130,884	(2,258)	128,626
	134,760	(2,258)	132,502
Corporate			
Large Corporates	2,220,975	(5,209)	2,215,766
Large Corporates – debt securities	124,322	(118)	124,204
Specialized Lending	871,982	(38,436)	833,546
SME	1,294,233	(33,925)	1,260,308
Other Non-banking Financial Institutions	663,944	(397)	663,547
Other Non-banking Financial Institutions – Debt securities	25,063	(28)	25,035
Public Sector Entities	1,344	(38)	1,306
Factoring	93,067	(1,234)	91,833
	5,294,930	(79,385)	5,215,545
Retail			
Small Business	252,112	(12,881)	239,231
Consumer Loans	1,560,744	(158,732)	1,402,012
Mortgages	6,897,623	(38,840)	6,858,783
Credit Cards	150,073	(22,428)	127,645
Overdrafts	72,883	(6,351)	66,532
Flat Owners Associations	36,138	(247)	35,891
	8,969,573	(239,479)	8,730,094
	14,399,263	(321,122)	14,078,141

At 31 December 2020, the 20 largest corporate customers represented a total carrying amount of € 1,450,483 thousand (31 December 2019: € 1,710,697 thousand), respectively 10.30% (31 December 2019: 12.15%) of the total loan portfolio.

11.3. Due to banks

€ '000	2020	2019
Due to central banks:		
Current accounts	1,458	920
Loans received from central banks	–	148,219
	1,458	149,139
Due to other banks:		
Current accounts	27,464	22,811
Term deposits	8,170	5,019
Loans received from other banks	109,215	127,273
Revaluation of fair value hedged loans received	595	(712)
Cash collateral received	23,769	22,239
	169,213	176,630
	170,671	325,769

At 31 December 2019, 'Loans received from central banks' contains two loans from National Bank of Slovakia in the nominal amount of € 100,000 thousand and € 50,000 thousand. The interest rate for these loans was (0.4)% and the maturity was in 2020 and 2021. The loan repayable in 2021 was repaid early in 2020. The principal and interests are due at maturity of the loans.

The breakdown of 'Loans received from other banks' according to the counterparty is presented below:

€ '000	2020	2019
European Investment Bank	100,733	114,181
European Bank for Reconstruction and Development	7,149	9,655
Council of Europe Development Bank	1,333	3,437
	109,215	127,273

European Investment Bank

Loans from the European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2020, the balance comprised of six loans in the nominal amount of € 42,105 thousand, € 4,155 thousand, € 1,162 thousand, € 1,156 thousand with variable interest rates and € 50,000 thousand and € 2,143 thousand with fixed interest rate. The interest rates were between 0.00% and 1.73% (31 December 2019: seven loans in the nominal amount of € 47,368 thousand, € 5,817 thousand, € 4,375 thousand, € 1,541 thousand, € 1,495 thousand with variable interest rates and € 50,000 thousand and € 3,571 thousand with fixed interest rate between 0.00% and 1.72%) and with maturity between 2022 and 2028 (31 December 2019: 2020 and 2028). The principal of the loans is payable on an annual or semi-annual basis and the interest is payable semi-annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

European Bank for Reconstruction and Development ('EBRD')

Loans received from the EBRD represented funds granted to support energy savings in large corporations. At 31 December 2020, there were five loan arrangements concluded in the nominal amount of € 2,500 thousand, € 2,500 thousand, € 714 thousand, € 714 thousand and € 714 thousand (31 December 2020: five loan arrangements in the nominal amount of € 2,500 thousand, € 2,143 thousand, € 2,143 thousand, € 2,143 thousand and € 714 thousand). The maturity of the loans is between 2021 and 2025 (31 December 2019: 2020 and 2024). At 31 December 2020 the variable interest rates was 0.20% (31 December 2019: 0.20% and 0.35%). The frequency of the repayment of both the interest and the principal is semi-annual.

Council of Europe Development Bank

At 31 December 2020, loans from the Council of Europe Development Bank comprised of one loan in the nominal amount of € 1,333 thousand (31 December 2019: three loans in the nominal amount of € 2,000 thousand, € 1,000 thousand and € 437 thousand). The purpose of these loans is to fund SME projects and development of municipalities in the Slovak republic. The interest rates of this loan is linked to 3M Euribor and was 0.00% at 31 December 2020 (31 December 2019: 0.00% and 0.39%). The maturity of the the loan is in 2022 (31 December 2019: 2020 and 2022). The interest is payable quarterly and the principal is payable on an annual basis.

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2020 € '000	1 January	Cash flow Proceeds	Cash flow Repayments	Non-cash changes Accruals	Non-cash changes Revaluation	Non-cash changes Other	31 December
Loans received from other banks (including revaluation)	126,561	2,500	(20,550)	(8)	1,307	–	109,810

2019 € '000	1 January	Cash flow Proceeds	Cash flow Repayments	Non-cash changes Accruals	Non-cash changes Revaluation	Non-cash changes Other	31 December
Loans received from other banks (including revaluation)	101,829	99,868	(74,418)	(6)	(712)	–	126,561

11.4. Due to customers

€ '000	2020	2019
Current accounts	9,534,207	8,016,452
Term deposits	2,618,892	2,633,491
Government and municipal deposits	486,233	904,185
Savings accounts	229,480	245,816
Other deposits	109,148	105,058
	12,977,960	11,905,002

11.5. Lease liabilities

€ '000	2020	2019
Lease liabilities	22,858	22,058

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

		Cash flow			Non-cash changes		
2020 € '000	1 January	Repayments	New	Accruals	Revaluation	Other	31 December
Lease liabilities	22,058	(8,350)	9,150	–	–	–	22,858

		Cash flow			Non-cash changes		
2019 € '000	1 January	Repayments	New	Accruals	Revaluation	Other	31 December
Lease liabilities	16,443	(6,350)	11,965	–	–	–	22,058

11.6. Subordinated debt

€ '000	2020	2019
Subordinated debt	200,151	200,143

At 31 December 2020, the balance of subordinated debt comprised of one ten-year loan in the nominal amount of € 200,000 thousand (31 December 2019: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. The variable interest rate was 2.89% as at 31 December 2020 (31 December 2019: 2.89%). In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2020 € '000	1 January	Cash flow Proceeds	Cash flow Repayments	Non-cash changes Accruals	Non-cash changes Revaluation	Non-cash changes Other	31 December
Subordinated debt	200,143	–	–	8	–	–	200,151

2019 € '000	1 January	Cash flow Proceeds	Cash flow Repayments	Non-cash changes Accruals	Non-cash changes Revaluation	Non-cash changes Other	31 December
Subordinated debt	200,181	–	–	(38)	–	–	200,143

11.7. Debt securities in issue

€ '000	2020	2019
Covered bonds	2,577,764	1,710,540
Covered bonds subject to fair value hedges	733,786	1,334,575
	3,311,550	3,045,115
Revaluation of fair value hedged covered bonds	65,807	57,211
Unamortized part of revaluation related to terminated fair value hedges	45,372	18,369
	3,422,729	3,120,695

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the Bank (note 11.2.) and debt securities in FVOCI portfolio (note 10).

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2020 € '000	1 January	Cash flow Proceeds from issue	Cash flow Repayments	Non-cash changes Accruals	Non-cash changes Revaluation	Non-cash changes Other	31 December
Covered bonds	3,120,695	500,000	(235,840)	2,275	35,599	–	3,422,729

2019 € '000	1 January	Cash flow Proceeds from issue	Cash flow Repayments	Non-cash changes Accruals	Non-cash changes Revaluation	Non-cash changes Other	31 December
Covered bonds	2,332,253	1,000,000	(258,035)	(4,582)	51,059	–	3,120,695

Name	Interest rate (%)	Currency	Number in circulation as at 31 December 2020	Nominal value in original currency per piece	Issue date	Maturity date	2020 € '000	2019 € '000
Mortgage bonds VÚB, a. s. XX.	4.300	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a. s. XXX.	5.000	EUR	1,000	33,194	5.9.2007	5.9.2032	33,513	33,494
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,766	19,752
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	–	33,194	31.3.2008	31.3.2020	–	19,239
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,359	16,262
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,512	25,496
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	50,924	50,881
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	72,107	72,061
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	–	10,000	3.3.2014	3.3.2020	–	9,213
Mortgage bonds VÚB, a. s. 79.	2.000	EUR	–	1,000	24.3.2014	24.9.2020	–	10,154
Mortgage bonds VÚB, a. s. 80.	1.850	EUR	31	1,000,000	27.3.2014	27.3.2021	31,457	31,539
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	39,163	39,294
Mortgage bonds VÚB, a. s. 82.	1.650	EUR	–	1,000	16.6.2014	16.12.2020	–	1,716
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,717	49,676
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	–	100,000	27.4.2015	27.4.2020	–	100,083
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	99,030	98,655
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	–	100,000	11.9.2015	11.9.2020	–	96,673
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,713	99,584
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,544	98,368
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	100,251	100,160
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	249,639	249,142
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	249,099	248,662
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	249,562	249,178
Covered bonds VÚB, a. s. 1	0.500	EUR	2,500	100,000	26.6.2018	26.6.2023	250,066	249,836
Covered bonds VÚB, a. s. 2	1.500	EUR	500	100,000	5.10.2018	15.12.2027	49,958	49,945
Covered bonds VÚB, a. s. 3	0.250	EUR	5,000	100,000	26.3.2019	26.3.2024	498,105	497,215
Covered bonds VÚB, a. s. 4	0.500	EUR	5,000	100,000	26.6.2019	26.6.2029	497,081	496,590
Covered bonds VÚB, a. s. 5	0.010	EUR	5,000	100,000	23.6.2020	23.6.2025	499,739	–
							3,311,550	3,045,115

12. Fair value changes of the hedged items in portfolio hedge of interest rate risk

€ '000	2020	2019
Financial assets at AC:		
Due from customers:		
Retail		
Mortgages	20,016	13,840
Financial liabilities at AC:		
Due to customers	6,990	4,580

13. Investments in subsidiaries, joint ventures and associates

2020 € '000	Share	Cost	Impairment losses (note 21)	Carrying amount
VÚB Leasing, a. s.	100.00%	74,410	(21,381)	53,029
VÚB Generali d. s. s., a. s.	50.00%	16,597	–	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3
		91,010	(21,381)	69,629

2019 € '000	Share	Cost	Impairment losses (note 21)	Carrying amount
VÚB Leasing, a. s.	100.00%	74,410	(27,381)	47,029
VÚB Generali d. s. s., a. s.	50.00%	16,597	–	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3
		91,010	(27,381)	63,629

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.

Investments in subsidiaries, joint ventures and associates are tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses were created during 2020 a 2019. In 2020, part of the impairment loss for VÚB Leasing, a. s. in the amount of € 6,000 thousand was released.

The Bank uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to future cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on ISP Group level specifically for the Slovak market.

The following rates are used by the Bank:

€ '000	2020	2019
Pre-tax discount rate – cash flows	5.67%	6.81%
Pre-tax discount rate – terminal value	7.65%	7.95%
Projected growth rate	1.82%	4.42%

The calculation considers the following key assumptions:
- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

The impairment calculation is most sensitive to market interest rates, expected cash-flows and projected growth rates.

2020 **€ '000**			**Change in value in use**
	Sensitivity to growth rate	**Sensitivity to discount rate for cash flows**	**Sensitivity to terminal value cash flows**
	- 10 bps	**+ 10 bps**	**- 10%**
VÚB Leasing, a. s.	(1.82)%	(0.39)%	(8.15)%
VÚB Generali d. s. s., a. s.	(1.85)%	(0.03)%	(8.28)%

14. Property and equipment and Non-current assets classified as held for sale

2020 € '000	Owned	Right-of-use	Total
Buildings and land	75,648	18,421	94,069
Equipment	6,419	–	6,419
Other tangibles	1,181	4,309	5,490
Assets in progress	7,186	–	7,186
	90,434	22,730	113,164

2019 € '000	Owned	Right-of-use	Total
Buildings and land	72,421	19,876	92,297
Equipment	4,767	–	4,767
Other tangibles	1,046	2,187	3,233
Assets in progress	6,902	–	6,902
	85,136	22,063	107,199

2020 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	106,329	55,628	28,292	6,902	197,151
Additions	6,143	–	3,007	5,775	14,925
Disposals	(3,304)	(6,091)	(1,377)	–	(10,772)
Revaluation	(1,271)	–	–	–	(1,271)
Transfers	1,519	3,608	364	(5,491)	–
Exchange differences	(23)	(6)	–	–	(29)
At 31 December	109,393	53,139	30,286	7,186	200,004
Accumulated depreciation					
At 1 January	(11,704)	(50,861)	(25,059)	–	(87,624)
Depreciation for the period	(10,368)	(2,022)	(1,202)	–	(13,592)
Disposals	1,267	6,237	1,385	–	8,889
Revaluation	5,824	–	–	–	5,824
Exchange differences	6	5	1	–	12
At 31 December	(14,975)	(46,720)	(24,796)	–	(86,491)
Impairment losses (note 21)					
At 1 January	(2,328)	–	–	–	(2,328)
Creation	(52)	–	–	–	(52)
Release	2,031	–	–	–	2,031
At 31 December	(349)	–	–	–	(349)
Carrying amount					
At 1 January	92,297	4,767	3,233	6,902	107,199
At 31 December	94,069	6,419	5,490	7,186	113,164

2019 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 31 December 2018	103,383	56,781	28,363	5,281	193,808
Impact of adopting IFRS 16	14,256	–	2,187	–	16,443
At 1 January	117,639	56,781	30,550	5,281	210,251
Additions from merger	18	65	–	–	83
Additions	11,314	2	651	6,134	18,101
Revaluation	2	–	–	–	2
Disposals	(24,921)	(3,165)	(3,209)	–	(31,295)
Transfers	2,269	1,945	299	(4,513)	–
Exchange differences	8	–	1	–	9
At 31 December	106,329	55,628	28,292	6,902	197,151
Accumulated depreciation					
At 1 January	(4,353)	(51,800)	(27,349)	–	(83,502)
Additions from merger	(6)	(40)	–	–	(46)
Revaluation	11	–	–	–	11
Depreciation for the period	(8,644)	(2,179)	(908)	–	(11,731)
Disposals	1,290	3,159	3,198	–	7,647
Exchange differences	(2)	(1)	–	–	(3)
At 31 December	(11,704)	(50,861)	(25,059)	–	(87,624)
Impairment losses (note 21)					
At 1 January	(7,090)	–	–	–	(7,090)
Release	4,762	–	–	–	4,762
At 31 December	(2,328)	–	–	–	(2,328)
Carrying amount					
At 31 December 2018	91,940	4,981	1,014	5,281	103,216
Impact of adopting IFRS 16	14,256	–	2,187	–	16,443
At 1 January	106,196	4,981	3,201	5,281	119,659
At 31 December	92,297	4,767	3,233	6,902	107,199

Of which right-of-use assets:

2020 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	25,448	2,828	28,276
Additions	6,143	3,007	9,150
Disposals	(400)	–	(400)
Exchange differences	(18)	–	(18)
At 31 December	31,173	5,835	37,008
Accumulated depreciation			
At 1 January	(5,572)	(641)	(6,213)
Depreciation for the period	(7,245)	(885)	(8,130)
Disposals	62	–	62
Exchange differences	3	–	3
At 31 December	(12,752)	(1,526)	(14,278)
Carrying amount			
At 1 January	19,876	2,187	22,063
At 31 December	18,421	4,309	22,730

2019 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	14,256	2,187	16,443
Additions	11,314	651	11,965
Disposals	(129)	(10)	(139)
Exchange differences	7	–	7
At 31 December	25,448	2,828	28,276
Accumulated depreciation			
At 1 January	–	–	–
Depreciation for the period	(5,602)	(647)	(6,249)
Disposals	31	6	37
Exchange differences	(1)	–	(1)
At 31 December	(5,572)	(641)	(6,213)
Carrying amount			
At 1 January	14,256	2,187	16,443
At 31 December	19,876	2,187	22,063

For 'Buildings and land' the Bank uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The Bank uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs. As at 31 October 2020, the Bank updated the revaluation of buildings and land to their current market value. The impact on equity was in the amount of € 3,597 thousand and on the profit of € 1,066 thousand due to the release of the previously created impairment.

In order to optimize costs, the Bank decided to sell part of its own buildings and land during 2020 and 2019, which it did not use or used only part of its premises primarily as its branches. From November 2019 to March 2020, these buildings and land were sold, and approximately 35% of the premises were subsequently rented back by the Bank to continue to use them. The Bank thus entered into sale and leaseback transactions. The buildings sold were excluded from property and equipment and the premises that the Bank began to lease back were falling back to property and equipment as rights of use. At the same time, lease liabilities of the same amount as the rights of use were recognized. The gains from these transactions were € nil thousand, as the selling price corresponded to their fair value, in which these buildings were also recognized in the accounting under the revaluation model. The contracts were concluded under current market conditions. The lease term was agreed in the contracts for an average of four years.

In 2020 the Bank reviewed the carrying amount of its property and equipment. An impairment test was carried out to determine the recoverable amount. The recoverable amount is determined with reference to the fair value less costs to sell or the value in use, if determinable and if it is higher than fair value. For property and equipment other than buildings and land is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances. The Bank measures buildings and land according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement. As a result of the impairment test the Bank recognized an impairment loss in the amount of € 349 thousand (31 December 2019: € 2,328 thousand).

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2020	2019
Cost	102,888	105,661
Accumulated depreciation	(52,980)	(52,622)
Impairment losses	(350)	(2,328)
	49,558	50,711

The Bank held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2020	2019
Cost	1	1,585
Accumulated depreciation	–	(28)
Impairment losses	–	(912)
	1	645

At 31 December 2020, the gross book value of fully depreciated tangible assets that are still used by the Bank amounted to € 80,129 thousand (31 December 2019: € 81,631 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

At 31 December 2020, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2019: € nil thousand).

The Bank's insurance program covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism and other damages).

15. Intangible assets

2020 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	275,265	10,931	43,738	329,934
Additions	–	–	31,685	31,685
Disposals	(619)	(102)	–	(721)
Transfers	19,596	(96)	(19,500)	–
Exchange differences	(20)	(4)	–	(24)
At 31 December	294,222	10,729	55,923	360,874
Accumulated amortisation				
At 1 January	(207,556)	(10,332)	–	(217,888)
Amortization for the period	(14,365)	(124)	–	(14,489)
Disposals	312	82	–	394
Exchange differences	2	3	–	5
At 31 December	(221,607)	(10,371)	–	(231,978)
Carrying amount				
At 1 January	67,709	599	43,738	112,046
At 31 December	72,615	358	55,923	128,896

2019 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	250,475	10,833	36,357	297,665
Additions from merger	158	–	–	158
Additions	63	95	31,961	32,119
Disposals	(18)	–	–	(18)
Transfers	24,580	–	(24,580)	–
Exchange differences	7	3	–	10
At 31 December	275,265	10,931	43,738	329,934
Accumulated amortisation				
At 1 January	(195,538)	(9,926)	–	(205,464)
Additions from merger	(54)	–		(54)
Amortization for the period	(11,978)	(405)	–	(12,383)
Disposals	18	–	–	18
Exchange differences	(4)	(1)	–	(5)
At 31 December	(207,556)	(10,332)	–	(217,888)
Carrying amount				
At 1 January	54,937	907	36,357	92,201
At 31 December	67,709	599	43,738	112,046

Assets in progress include development of new software applications, mainly the new core banking system (€ 31,216 thousand), that is being developed and the costs for the technical upgrade of software that have not yet been put in use.
At 31 December 2020, the gross book value of fully amortised intangible assets that are still used by the Bank amounted to € 162,375 thousand (31 December 2019: € 147,373 thousand).
At 31 December 2020, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2019: € 1,442 thousand).

16. Goodwill

€ '000	2020	2019
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 2020 and 2019. The calculation is based on the same procedures as for the impairment testing of the investments in subsidiaries, joint ventures and associates (note 13).

2020 € '000		Change in value in use	
	Sensitivity to growth rate	Sensitivity to discount rate for cash flows	Sensitivity to terminal value cash flows
	- 10 bps	+ 10 bps	- 10%
Retail Banking	(1.84)%	(0.35)%	(8.22)%

17. Current and deferred income tax assets and liabilities

€ '000	2020	2019
Current income tax assets	26,518	25,309
Deferred income tax assets	51,056	63,157
Current income tax liabilities	635	–

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2019: 21%) as follows:

€ '000	2020	Profit/ (loss) (note 34)	Equity	2019
Financial assets at FVOCI	(2,507)	–	(738)	(1,769)
Financial assets at AC:				–
Due from other banks	118	23	–	95
Due from customers	49,112	(7,054)	–	56,166
Property and equipment	(12,457)	(4,226)	(857)	(7,374)
Other assets	7	–	–	7
Financial liabilities at AC:				
Lease liabilities	4,801	158	–	4,643
Provisions	2,754	898	–	1,856
Other liabilities	8,076	(639)	–	8,715
Other	1,152	351	(17)	818
	51,056	(10,489)	(1,612)	63,157

18. Other assets

€ '000	Note	2020	2019
Operating receivables and advances		13,865	14,216
Prepayments and accrued income		9,857	8,641
Other tax receivables		712	732
Inventories		381	513
Settlement of operations with financial instruments		12	25
Impairment losses	21	(2,142)	(3,139)
		22,685	20,988

19. Provisions

€ '000	Note	2020	2019
Financial guarantees and commitments	21	13,904	9,391
Restructuring provision		591	334
Litigation	23	400	946
		14,895	10,671

2020 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	946	(205)	(150)	591
Restructuring provision	32	334	400	(334)	400
		1,280	195	(484)	991

2019 € '000	Note	1 January	Net creation/ release*	Use	31 December
Litigation	23, 32	6,575	(5,058)	(571)	946
Restructuring provision	32	924	–	(590)	334
Other provisions	32	10	–	(10)	–
		7,509	(5,058)	(1,171)	1,280

* On the basis of success in litigation and mainly as a result of an independent assessment, based on which management revised the expected probability of success, the provision was released for € 5,058 thousand.

20. Other liabilities

€ '000	2020	2019
Various creditors	38,110	45,687
Settlement with employees	27,208	30,726
Severance and Jubilee benefits	5,407	5,633
Accruals and deferred income	2,211	2,673
VAT payable and other tax payables	1,626	2,245
Settlement with shareholders	1,404	1,753
Investment certificates	843	641
Share remuneration scheme	711	584
Settlement of operations with financial instruments	1	5
Other	974	810
	78,495	90,757

At 31 December 2020 and 31 December 2019 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:

		2020		2019
	Jubilee benefits	**Retirement benefits**	**Jubilee benefits**	**Retirement benefits**
Discount rate	(0.66)%	(0.11)%	(0.28)%	0.55%
Growth of wages*	–	0.00%	–	3.00%
Future growth of wages*	–	4.50%	–	4.50%
Turnover rate (based on age)	5.1% – 40.9%	5.1% – 40.9%	5.9% – 41.3%	5.9% – 41.3%
Retirement age	Based on valid legislation		Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic		Based on mortality tables issued by the Statistical Office of the Slovak Republic	

* Growth of wages and Future growth of wages is not part of calculation for Jubilee benefits.

The movements in social fund liability presented within 'Settlement with employees' were as follows:

2020 € '000	**1 January**	**Creation (note 31)**	**Use**	**31 December**
Social fund	1,999	2,724	(2,076)	2,647

2019 € '000	**1 January**	**Creation (note 31)**	**Use**	**31 December**
Social fund	2,795	1,150	(1,946)	1,999

21. Movements in impairment losses and provisions for financial guarantees and commitments

2020 € '000	Note	1 January	Net creation/ (release) (note 33)	Assets written-off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		224	82	–	–	–	306
Financial assets at AC:	11						
Due from other banks		488	218	–	–	–	706
Due from customers		321,122	53,655	(68,030)	(1,571)	(6,866)	298,310
Impairment losses according to IFRS 9		321,834	53,955	(68,030)	(1,571)	(6,866)	299,322
Financial guarantees and commitments	19	9,391	3,256	–	1,257	–	13,904
Impairment losses and provisions according to IFRS 9		331,225	57,211	(68,030)	(314)	(6,866)	313,226
Investments in subsidiaries, joint ventures and associates	13	27,381	(6,000)	–	–	–	21,381
Property and equipment and Non-current assets classified as held for sale	14	2,328	(1,067)	(912)	–	–	349
Other assets	18	3,139	(997)	–	–	–	2,142
Total impairment losses and provisions for financial guarantees and commitments		364,073	49,147	(68,942)	(314)	(6,866)	337,098

* 'Other' represents:
– the interest portion (unwinding of interest).

2019 € '000	Note	1 January	Merger	Net creation/ (release) (note 33)	Assets written-off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		134	–	90	–	–	–	224
Financial assets at AC:	11							
Due from other banks		754	–	(369)	–	103	–	488
Due from customers		370,798	2,289	39,973	(82,822)	(127)	(8,989)	321,122
Impairment losses according to IFRS 9		371,686	2,289	39,694	(82,822)	(24)	(8,989)	321,834
Financial guarantees and commitments	19, 34	14,409	–	(5,262)	–	244	–	9,391
Impairment losses and provisions according to IFRS 9		386,095	2,289	34,432	(82,822)	220	(8,989)	331,225
Investments in subsidiaries, joint ventures and associates	13	27,381	–	–	–	–	–	27,381
Property and equipment and Non-current assets classified as held for sale	14	7,090	–	–	(4,762)	–	–	2,328
Other assets	18	2,155	–	984	–	–	–	3,139
Total impairment losses and provisions for financial guarantees and commitments		422,721	2,289	35,416	(87,584)	220	(8,989)	364,073

* 'Other' represents:
– the interest portion (unwinding of interest).

22. Equity

€ '000	2020	2019
Share capital – authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,719	13,719
Reserves	114,484	108,728
Retained earnings (excluding net profit for the period)	1,049,185	929,586
	1,608,207	1,482,852

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.

	2020	2019
Net profit for the period attributable to shareholders in € '000	85,039	114,087
Divided by the weighted average number of ordinary shares, calculated as follows:		
89 ordinary shares of € 3,319,391.89 each in €	295,425,878	295,425,878
4,078,108 ordinary shares of € 33.2 each in €	135,393,186	135,393,186
	430,819,064	430,819,064
Divided by the value of one ordinary share of € 33.2		
The weighted average number of ordinary shares of € 33.2 each	12,976,478	12,976,478
Basic and diluted earnings per € 33.2 share in €	6.55	8.79

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	2020	2019
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.17%	2.16%
Foreign shareholders	0.80%	0.81%
	100.00%	100.00%

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have been made in the objectives, policies and processes from the previous years.

The Bank's regulatory capital position was determined based on the rules for capital adequacy calculation set by the CRR Regulaion:

€ '000	**2020**	**2019**
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings*	1,040,721	921,122
Legal reserve fund	87,493	87,493
Other capital funds	8,464	8,464
Accumulated other comprehensive income	26,991	21,235
(-) Value adjustments due to the requirements for prudent valuation	(47)	(57)
Other transitional adjustments to CET1 Capital	28,944	35,146
CET1 capital elements or deductions – other	(5,090)	(3,876)
Less goodwill and intangible assets	(118,379)	(130,916)
Less IRB shortfall of credit risk adjustments to expected losses	(8,416)	(8,958)
	1,505,219	1,374,191
Tier 2 capital		
Subordinated debt	200,000	200,000
Other transitional adjustments to T2 Capital	(7,197)	(8,739)
	192,803	191,261
Total regulatory capital	1,698,022	1,565,452

* Excluding net profit for the period, profit in approval and other capital funds.

€ '000	**2020**	**2019**
Retained earnings	1,134,224	1,043,673
Net profit for the period/year	(85,039)	(114,087)
Other capital funds	(8,464)	(8,464)
	1,040,721	921,122

€ '000	2020	2019	2020 Required	2019 Required
Tier 1 capital	1,505,219	1,374,191	698,077	708,897
Tier 2 capital	192,803	191,261	192,803	191,261
Total regulatory capital	1,698,022	1,565,452	698,077	708,897
Total Risk Weighted Assets	8,725,964	8,861,215	8,725,964	8,861,215
CET 1 capital ratio	17.25%	15.51%	11.84%	13.00%
Total capital ratio	19.46%	17.67%	16.00%	15.50%

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 31 December 2020 and 31 December 2019 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 March 2020, ECB announced relaxation of the capital requirements in relation to COVID-19 pandemic, by allowing the banks to fully release the P2CG (1%) and allow banks to operate temporarily below the level of capital defined by the capital conservation buffer (CCB) (2.5%), meaning in total effect of 3.5%. Moreover, requirement on P2R composition based on CRD V rules has been updated to 75% Tier 1, out of which 75% should represent CET 1 (56.25% of P2R). These changes represent from 31 March 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 cosists 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 Counter-Cyclical 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.

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	2020	2019
Issued guarantees	866,694	762,567
Commitments and undrawn credit facilities	4,012,294	3,241,851
of which revocable	*913,855*	*567,948*
	4,878,988	4,004,418

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 31 December 2020. Pursuant to this review, management has recorded total provisions of € 591 thousand (31 December 2019: € 946 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 € 30,367 thousand, as at 31 December 2020 (31 December 2019: € 30,902 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

€ '000	2020	2019
Legal proceedings related to credit contracts	584	344
Legal proceedings on credit collection	7	602
	591	946

24. Net interest income

€ '000	2020	2019
Interest and similar income		
Financial assets at FVTPL	127	199
Financial assets at FVOCI	2,582	7,430
Financial assets at AC:		
Due from other banks	3,799	19,428
Due from customers	322,115	355,184
Derivatives – Hedge accounting	(15,475)	(13,250)
Interest income on liabilities	910	2,443
	314,058	371,434
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(605)	(1,316)
Due to customers and Subordinated debt	(17,475)	(21,980)
Lease liabilities	(209)	(157)
Debt securities in issue	(28,283)	(32,556)
Derivatives – Hedge accounting	10,584	10,546
Interest expense on assets	(516)	(1,140)
	(36,504)	(46,603)
	277,554	324,831

€ '000	2020	2019
Interest and similar income		
Total interest income calculated using the effective interest method	313,931	371,235
Other interest income – interest income on financial assets at FVTPL	127	199
	314,058	371,434

€ '000	2020	2019
Net interest income		
Financial assets at FVOCI	2,582	7,430
Financial assets at AC	325,398	373,472
	327,980	380,902
Financial liabilities at AC	(45,662)	(53,566)

Interest income on impaired loans and advances to customers for 2020 amounted to € 10,524 thousand (2019: € 8,551 thousand).

25. Net fee and commission income

Nature and timing of satisfaction of performance obligations, including significant payment terms:

Current accounts

Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.

Cards

Credit card and debit card fees relate to both fees for issuance of credit card for the period of card's validity as well as fees for specific transactions.

Payments and cash management

Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.

Loans

Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration.

They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.

Indirect deposits

These fees mainly relate to providing Bank's retail network for the mediation of investments into funds. These fees are paid to the Bank by VÚB Asset Management, správ. spol., a. s. Since the Bank does not have any ongoing performance obligation regarding these fees, they are recognised in full when charged.

Insurance

The Bank provides insurance mediation along with selling its products. Except for life insurance mediation, only aliquot part of commission is sent by the insurance company on monthly basis, therefore the Bank only recognises aliquot part of commission as income with the passage of time. In case client cancels insurance contract with insurance company, the insurance company stops paying the aliquot part of the commission and the Bank therefore stops to recognise these fees. The Bank is not liable to return aliquot part of commissions recognised in fees to insurance company.

Regarding life insurance mediation the Bank is exposed to clawbacks if client cancels the insurance contract within certain periods. The Bank calculated effect of International Financial Reporting Standard 15 Revenue from Contracts with Customers ('IFRS 15') impact and evaluated this impact as non-material and continues to recognise income on these fees as the related mediation service is provided.

Trade finance, Structured finance

Fees for loan commitments which are not expected to result in the draw-down of a loan are recognised on a straight-line basis over the commitment period.

Administration of a loan syndication, execution of client transactions with exchanges and securities underwriting, charges for premature termination of loans and other are charged when transaction takes place.

Factoring

Services related to factoring include:

- Facility commitment, where fee is recognised on a straight-line basis over the commitment period;
- Invoice processing fee, where fixed amount for each processed invoice is charged;
- Factoring fee, where fee represent a percentage on a total receivable amount factored.

Revenue recognition under IFRS 15:

Current accounts	Revenue from account service and servicing fees is recognised over time as the services are provided.
Cards	Revenue from card issuance is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Payments and cash management	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loans	Overdraft fee is recognised on a straight-line basis over the overdraft duration. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Indirect deposits	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Insurance	Revenue from insurance mediation services is recognised over time for the duration of contract, except for life insurance mediation where service fee is recognised when service is provided and clawbacks are recognised when they occur.
Trade finance, Structured finance	Loan commitment fee is recognised on a straight-line basis over the commitment period. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Factoring	Facility fee is recognised on a straight-line basis over the commitment period. Revenues related to invoice processing and factoring fee are recognised at the point in time when the transaction takes place.

2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38,525	3,174	–	9	41,708
Payments and cash management	14,441	13,148	1,351	11	28,951
Cards	27,714	290	–	39	28,043
Loans	9,837	7,524	–	516	17,877
Indirect deposits	17,740	43	–	–	17,783
Insurance	13,702	3	–	–	13,705
Trade finance	10	635	1,776	–	2,421
Factoring	–	1,193	–	–	1,193
Structured finance	–	951	–	–	951
Other	483	468	235	–	1,186
	122,452	27,429	3,362	575	153,818
Fee and commission expense					
Cards	(15,523)	–	–	–	(15,523)
Payments and cash management	(1,762)	(5,232)	(470)	(493)	(7,957)
Current accounts	–	–	–	(613)	(613)
Insurance	(432)	–	–	–	(432)
Factoring	–	(229)	–	–	(229)
Other	(377)	(2)	(467)	(2,811)	(3,657)
	(18,094)	(5,463)	(937)	(3,917)	(28,411)
Net fee and commission income under IFRS 15	104,358	21,966	2,425	(3,342)	125,407
Income from guarantees under IFRS 9	–	7,186	–	–	7,186
Total net fee and commission income	104,358	29,152	2,425	(3,342)	132,593

2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38,894	3,340	–	8	42,242
Cards	40,400	347	–	1	40,748
Payments and cash management	9,887	6,649	347	5	16,888
Loans	8,241	7,247	–	671	16,159
Indirect deposits	16,025	–	–	–	16,025
Insurance	11,782	1	–	25	11,808
Trade finance	18	466	1,174	–	1,658
Factoring	–	1,466	–	–	1,466
Structured finance	–	1,127	–	–	1,127
Other	482	1,964	218	827	3,491
	125,729	22,607	1,739	1,537	151,612
Fee and commission expense					
Cards	(23,753)	–	–	–	(23,753)
Payments and cash management	(31)	(8)	(562)	(443)	(1,044)
Current accounts	–	–	–	(589)	(589)
Insurance	(402)	–	–	–	(402)
Factoring	–	(247)	–	–	(247)
Indirect deposits	(7)	(10)	–	–	(17)
Other	(94)	(2)	(90)	(3,675)	(3,861)
	(24,287)	(267)	(652)	(4,707)	(29,913)
Net fee and commission income under IFRS 15	101,360	20,794	1,074	(3,373)	119,855
Income from guarantees under IFRS 9	–	6,184	–	–	6,184
Total net fee and commission income	101,360	26,978	1,074	(3,373)	126,039

26. Net trading result

€ '000	2020	2019
Customer foreign exchange margins	6,831	6,805
Financial assets measured at FVOCI	6,754	2,005
Cross currency swaps	6,641	(6,131)
Financial assets held for trading – debt securities	3,982	1,044
Net result from hedging transactions	630	(132)
Other derivatives	177	141
Dividends from equity shares held in FVTPL	63	37
Dividends from equity shares measured at FVOCI	–	154
Equity derivatives	–	(2)
Non-trading financial assets measured at FVTPL	(93)	211
Foreign currency derivatives and transactions	(2,361)	(13,067)
Interest rate derivatives	(3,978)	1,426
	18,646	(7,509)

27. Other operating income

€ '000	2020	2019
Financial revenues	1,579	1,763
Services	3	4
Income from operating leasing	–	523
Other	636	930
	2,218	3,220

28. Other operating expenses

€ '000	2020	2019
Contribution to the Single Resolution Fund*	(6,880)	(5,701)
Costs of product support – credit cards	(1,892)	(2,560)
Court fees and expenses and out-of-court settlements	(1,421)	(2,137)
Contribution to the Deposit Protection Fund**	(605)	(547)
Other damages	(251)	(261)
Net loss from sale of fixed assets	(19)	(46)
Other	(4,189)	(5,366)
	(15,257)	(16,618)

* Starting from 1 January 2015 the Bank Recovery and Resolution Directive No 2014/59/EU ('BRRD') is effective. The Directive was implemented to Slovak legislation by Act No 371/2014 on Resolution. The Directive sets an obligation for banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of a bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023.
** The annual contribution for 2020 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2020, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2020 was set at 0.0075% p. q. of the amount of protected deposits.

29. Special levy of selected financial institutions

€ '000	2020	2019
Special levy of selected financial institutions	(31,038)	(29,695)

The special levy of selected financial institutions was set to 0.4% p. a. of selected liabilities for the year 2020 (2019: 0.2% p. a.).

As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective. This amendment also covered measures in the area of special levy of selected financial institutions. According to these measures no more special levy payments were required from July 2020 until the end of 2020.

30. Salaries and employee benefits

€ '000	2020	2019
Remuneration	(86,763)	(86,548)
Social security costs	(33,451)	(33,999)
Social fund	(2,724)	(1,150)
Termination benefit	(66)	590
Severance and Jubilee benefits	226	(222)
	(122,778)	(121,329)

At 31 December 2020, the total number of employees of the Bank was 3,574 (31 December 2019: 3,657). The average number of employees of the Bank during the period ended 31 December 2020 was 3,616 (31 December 2019: 3,677).

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	2020	2019
Third parties' services	(19,211)	(16,213)
Information technologies systems maintenance	(13,263)	(14,727)
Maintenance and repairs	(5,502)	(5,536)
Advertising and sponsorship	(5,008)	(7,078)
Postage costs	(4,155)	(4,163)
Rental of buildings and related expenses**	(3,462)	(3,516)
Telephone and telecommunication costs	(2,803)	(2,959)
Forms and office supplies	(2,540)	(2,842)
Energy costs	(2,498)	(3,816)
Electronic data processing system leasing**	(1,844)	(1,577)
Security	(1,444)	(1,484)
Cleaning of premises	(1,440)	(1,872)
Indirect personnel costs and compensation	(1,407)	(2,685)
Transport	(1,398)	(1,560)
Cost of legal services	(936)	(1,583)
Insurance	(894)	(972)
Archives and documents	(889)	(1,028)
Consultations and other fees*	(845)	(990)
Other rentals**	(779)	(786)
Information and research	(211)	(237)
Other expenses	(2,833)	(2,814)
Value added tax and other taxes	(162)	(256)
Reinvoicing	2,037	3,636
	(71,487)	(75,058)

* 'Consultations and other fees' includes the fee for the statutory audit of € 170 thousand (2019: € 170 thousand). Other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the Bank's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h – 71k of the Act No. 566/2001 Coll on securities, assurance work and audit of the Bank as a payment service provider in accordance with regulatory technical standards on strong customer authentication and secure communication under PSD2 amounted to € 363 thousand (2019: € 409 thousand).
** These items includes among other things:

€ '000	2020	2019
Expenses relating to short-term leases	(513)	(304)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	(1,345)	(1,643)
	(1,858)	(1,947)

32. Provisions

€ '000	Note	2020	2019
Net release and use of provisions for litigations	19	355	5,058
Net release and use of other provisions	19	–	10
		355	5,068

33. Impairment losses and Net (loss)/gain arising from the derecognition of financial assets at amortised cost

€ '000	Note	2020	2019
Net creation of impairment losses	21	(45,936)	(40,678)
Net (creation)/release of provisions for financial guarantees and commitments	21	(3,211)	5,262
		(49,147)	(35,416)
Net (loss)/gain arising from the derecognition of financial assets at AC		(7,458)	(4,514)

34. Income tax expense

€ '000	Note	2020	2019
Current income tax	17	(14,593)	(26,047)
Deferred income tax	17	(10,489)	(6,771)
		(25,082)	(32,818)

The movement in deferred taxes in the statement of profit or loss is as follows:

€ '000	2020	2019
Due from other banks	23	(64)
Due from customers	(7,054)	(19,294)
Property and equipment	(4,226)	(1,682)
Lease liabilities	158	1,201
Provisions	898	1,240
Other liabilities	(639)	(805)
Other	351	12,633
	(10,489)	(6,771)

The effective tax rate differs from the statutory tax rate in 2020 and in 2019. The reconciliation of the Bank's profit before tax with the actual corporate income tax is as follows:

€ '000	2020	2019
Profit before tax	110,121	146,905
Theoretical tax calculated at the tax rate 21%	(23,125)	(30,850)
Tax impact:		
Non-taxable income	2,207	3,874
Tax non-deductible expenses	(6,153)	(9,679)
Impairment allowances and provisions, net	11,605	10,783
Additional tax of prior period	876	(175)
Creation/(release) of allowances for uncertain realisation of deferred tax receivables	(10,489)	(6,771)
Income tax expense	(25,082)	(32,818)
Effective tax for the year	22.78%	22.34%

35. Other comprehensive income

€ '000	2020	2019
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation gains arising during the year	3,080	3,123
Reclassification adjustment for profit on sale of FVOCI equities within equity	(4,470)	360
	(1,390)	3,483
Net revaluation gain from property and equipment	4,553	13
Reversal of deferred income tax on disposed property and equipment	99	2,101
	3,262	5,597
Items that may be reclassified to statement of profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation gains arising during the year	–	8
Change in value of financial assets at FVOCI (debt instruments):		
Gains/(losses) arising during the year	33,305	(408)
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(23,849)	(1,919)
	9,456	(2,327)
Exchange difference on translation foreign operation	(309)	344
	9,147	(1,975)
Total other comprehensive income	12,409	3,622
Income tax relating to components of other comprehensive income (note 36)	(1,711)	(323)
Other comprehensive income for the year after tax	10,698	3,299

36. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense) /benefit	2020 Net of tax amount	Before tax amount	Tax (expense) /benefit	2019 Net of tax amount
Items that shall not be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (equity instruments)	4,553	(956)	3,597	3,483	(807)	2,676
Reversal of deferred income tax on disposed property and equipment	99	–	99	2,101	–	2,101
Net revaluation gain from property and equipment	(1,390)	1,231	(159)	13	(3)	10
	3,262	275	3,537	5,597	(810)	4,787
Items that may be reclassified to statement of profit or loss in the future						
Change in value of cash flow hedges	–	–	–	8	(2)	6
Change in value of financial assets at FVOCI (debt instruments)	9,456	(1,986)	7,470	(2,327)	489	(1,838)
Exchange differences on translation foreign operations	(309)	–	(309)	344	–	344
	9,147	(1,986)	7,161	(1,975)	487	(1,488)
	12,409	(1,711)	10,698	3,622	(323)	3,299

37. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates – enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The stated transactions have been made under arms-length commercial and banking conditions.

In 2020, the remuneration and other benefits provided to members of the Management Board were € 3,102 thousand (2019: € 2,441 thousand), of which the severance benefits € 79 thousand (2019: € 112 thousand), and to members of the Supervisory Board € 55 thousand (2019: € 99 thousand).

On 20 July 2020 was completed the merger by incorporation of Banca IMI S.p.A., the part of the ISP Group, into the Parent Company Intesa Sanpaolo S.p.A. From this day all legal relations concerning the merged company will be intended as referred to Intesa Sanpaolo S.p.A.

As at 31 December 2020, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Financial assets at FVTPL:							
Financial assets held for trading	–	–	–	–	58,969	15	58,984
Non-trading financial assets at FVTPL	–	–	–	–	711	–	711
Derivatives – Hedge accounting	–	–	–	–	85,124	–	85,124
Financial assets at FVOCI	–	–	–	–	326	–	326
Financial assets at AC:							
Due from other banks	–	–	–	–	69,198	315	69,513
Due from customers	329	65,467	1	–	–	–	65,797
Property and equipment	–	3,933	–	–	–	–	3,933
Other assets	–	–	–	–	–	1,139	1,139
	329	69,400	1	–	214,328	1,469	285,527
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	–	–	–	–	73,861	–	73,861
Derivatives – Hedge accounting	–	–	–	–	52,625	–	52,625
Financial liabilities at AC:							–
Due to banks	–	–	–	–	46,540	2,092	48,632
Due to customers	1,311	243	–	245	–	2,123	3,922
Lease liabilities	–	4,458	–	–	–	–	4,458
Subordinated debt	–	–	–	–	–	200,151	200,151
Provisions	–	32	–	–	21	–	53
Other liabilities	711	295	–	–	2,474	–	3,480
	2,022	5,028	–	245	175,521	204,366	387,182

As at 31 December 2019, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Financial assets at FVTPL:							
Financial assets held for trading	–	–	–	–	590	8,332	8,922
Non-trading financial assets at FVTPL	–	–	–	–	584	–	584
Derivatives – Hedge accounting	–	–	–	–	–	82,501	82,501
Financial assets at FVOCI	–	–	–	–	797	–	797
Financial assets at AC:							
Due from other banks	–	–	–	–	5,411	40,675	46,086
Due from customers	285	297,780	5	–	–	–	298,070
Property and equipment	–	1,532	–	–	–	–	1,532
Other assets	–	882	–	–	6	1,221	2,109
	285	300,194	5	–	7,388	132,729	440,601
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	–	–	–	–	510	17,293	17,803
Derivatives – Hedge accounting	–	–	–	–	–	37,065	37,065
Financial liabilities at AC:							–
Due to banks	–	–	–	–	18,896	28,075	46,971
Due to customers	1,600	241	–	257	–	1,067	3,165
Lease liabilities	–	2,217	–	–	–	–	2,217
Subordinated debt	–	–	–	–	–	200,143	200,143
Provisions	–	21	–	–	14	2	37
Other liabilities	584	390	–	–	2,615	–	3,589
	2,184	2,869	–	257	22,035	283,645	310,990

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

As at 31 December 2019, 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	323	103,362	–	–	2,596	–	106,281
Issued guarantees	–	–	–	–	14,317	1,877	16,194
Received guarantees	–	–	–	–	18,000	–	18,000
Derivative transactions (notional amount – receivable)	–	–	–	–	150,387	8,552,538	8,702,925
Derivative transactions (notional amount – payable)	–	–	–	–	149,116	8,552,540	8,701,656

For the nine months ended 31 December 2020, the outstanding balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	2	187	–	1	12	19	221
Interest and similar expense	(1)	(132)	–	–	(35)	(5,776)	(5,944)
Fee and commission income	–	14	–	–	310	15,080	15,404
Fee and commission expense	–	–	–	–	(1,133)	(5)	(1,138)
Dividend income	–	–	4,001	–	–	–	4,001
Net trading result	–	–	–	–	(41,125)	(328)	(41,453)
Other operating income	–	–	–	–	279	173	452
Other operating expenses	–	–	–	–	(516)		(516)
Other administrative expenses	–	951	–	–	(11,466)	(387)	(10,902)
Depreciation	–	(952)	–	–	–	–	(952)
Impairment losses	–	6,111	–	–	(18)	2	6,095
	1	6,179	4,001	1	(53,692)	8,778	(34,732)

For the year ended 31 December 2019, the outstanding balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	3	1,869	–	–	47	4	1,923
Interest and similar expense	(2)	(89)	–	–	(241)	(6,478)	(6,810)
Fee and commission income	1	13	–	1	197	13,989	14,201
Fee and commission expense	–	–	–	–	(446)	(11)	(457)
Dividend income	–	–	2,000	–	–	–	2,000
Net trading result	–	–	–	–	(12,224)	31,536	19,312
Other operating income	–	50	20	–	270	56	396
Other operating expenses	–	–	–	–	(511)	–	(511)
Other administrative expenses	–	1,955	13	–	(11,151)	(272)	(9,455)
Depreciation	–	(641)	–	–	–	–	(641)
Impairment losses	–	59	–	(8)	(1)	–	50
	2	3,216	2,033	(7)	(24,060)	38,824	20,008

38. Profit distribution

On 27 March 2020, the ECB adopted recommendation that at least until 1 October 2020 no dividends are paid out and no irrevocable commitment to pay out dividends is undertaken by credit institutions and that credit institutions refrain from share buy-backs aimed at remunerating shareholders. On 27 July 2020, the ECB prolonged this recommendation until 1 January 2021.

On 24 April 2020, the Bank's shareholders approved the following profit distribution for 2019:

€ '000	
Dividends to shareholders (€ nil per € 33.2 share)	–
Retained earnings	114,087
	114,087

In 2020 the Bank transferred dividends distributed for the year 2014 but not collected into Retained earnings in the amount of € 196 thousands (2019: for the year 2013 € 215 thousands).

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.

The Management Board will therefore propose the following 2020 profit distribution:

€ '000	
Dividends to shareholders (€ nil per € 33.2 share)	–
Retained earnings	85,039
	85,039

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.

At present, uncertainty still remains as for the further developments of the pandemic. In many countries, the situation is gradually improving as vaccination is being rolled out and previous containment measures brought contagion down. In Slovakia and the Czech Republic, however, the situation is far from stabilized yet. In fact, in late February 2021, Slovakia became the worst hit country in the world in terms of new COVID-related deaths and hospitalizations per number of inhabitants in the world. A new set of containment measures is therefore being contemplated by the government to bring contagions down, including a full-scale lockdown similar to the one adopted in the first wave of the pandemic in the Spring 2020. The impact of such measures on the banking sector would be similarly harsh as in March/April last year, but most probably only temporary as vaccination is progressing, maybe slowly at this stage but steadily. And this gives hope of some return to normality from late Spring, early Summer months of 2021.

The Extraordinary General Meeting of the Bank, held on 18 December 2020, approved that the Bank's shares admitted to trading on the Listed Main Market organized by the Bratislava Stock Exchange cease to be listed and traded on a stock exchange. It further approved that a mandatory takeover bid pursuant to the relevant provisions of the Securities Act be made by the majority shareholder of the Bank instead of the Bank. The General Meeting also approved that the Bank will cease to be a public joint-stock company after the implementation of a mandatory takeover bid and the termination of trading with shares. The mandatory takeover bid was announced on 21 January 2021 and lasted until 19 February 2021. On 26 February 2021, the shares of the Bank were delisted from the Bratislava Stock Exchange. As a result, the Bank has become a private joint stock company.

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.

From 1 January 2021, the Bank put in use part of the new core banking system which was deployed for its Prague Branch.

From 31 December 2020, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue by the Management Board on 3 March 2021.

Alexander Resch	Roberto Vercelli
Chairman of the Management Board	Member of the Management Board

Information on Securities issued by the Bank

Debt securities issued by the Bank

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., XX.	SK4120004946	9.3.2006	9.3.2021	EUR	331,939.19	50	4.30%	annually	no
Mortgage bonds VÚB, a.s., XXX.	SK4120005547	5.9.2007	5.9.2032	EUR	33,193.92	1,000	5.00%	annually	no
Mortgage bonds VÚB, a.s., 31	SK4120005679	29.11.2007	29.11.2037	EUR	33,193.92	600	4.90%	annually	no
Mortgage bonds VÚB, a.s., 43	SK4120006271	26.9.2008	26.9.2025	EUR	33,193.92	500	5.10%	annually	no
Mortgage bonds VÚB, a.s., 67	SK4120008228	29.11.2011	29.11.2030	EUR	50,000.00	300	5.35%	annually	no
Mortgage bonds VÚB, a.s., 72	SK4120008608	21.6.2012	21.6.2027	EUR	100,000.00	250	4.70%	annually	no
Mortgage bonds VÚB, a.s., 73	SK4120008624	11.7.2012	11.7.2022	EUR	100,000.00	500	4.20%	annually	no
Mortgage bonds VÚB, a.s., 74	SK4120008939	16.1.2013	15.12.2023	EUR	100,000.00	700	3.35%	annually	no
Mortgage bonds VÚB, a.s., 80	SK4120009879	27.3.2014	27.3.2021	EUR	1,000,000.00	31	1.85%	annually	no
Mortgage bonds VÚB, a.s., 81	SK4120009887	27.3.2014	27.3.2024	EUR	1,000,000.00	38	2.55%	annually	no
Mortgage bonds VÚB, a.s., 85	SK4120010364	14.11.2014	14.11.2029	EUR	100,000.00	500	2.25%	annually	no
Mortgage bonds VÚB, a.s., 87	SK4120010794	9.6.2015	9.6.2025	EUR	100,000.00	1,000	1.25%	annually	no
Mortgage bonds VÚB, a.s., 89	SK4120011065	29.9.2015	29.9.2025	EUR	100,000.00	1,000	1.20%	annually	no
Mortgage bonds VÚB, a.s., 90	SK4120011149	29.10.2015	29.10.2030	EUR	100,000.00	1,000	1.60%	annually	no
Mortgage bonds VÚB, a.s., 91	SK4120011529	21.3.2016	21.3.2023	EUR	100,000.00	1,000	0.60%	annually	no
Mortgage bonds VÚB, a.s., 93	SK4120012469	18.1.2017	18.1.2024	EUR	100,000.00	2,500	0.50%	annually	no
Mortgage bonds VÚB, a.s., 94	SK4120012824	27.4.2017	27.4.2027	EUR	100,000.00	2,500	1.05%	annually	no
Mortgage bonds VÚB, a.s., 95	SK4120013251	26.9.2017	26.9.2022	EUR	100,000.00	2,500	0.375%	annually	no

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Covered bonds VÚB, a.s., 1	SK4120014168	26.6.2018	26.6.2023	EUR	100,000.00	2,500	0.50%	annually	no
Covered bonds VÚB, a.s., 2	SK4120014531	5.10.2018	15.12.2027	EUR	100,000.00	500	1.50%	annually	no
Covered bonds VÚB, a.s., 3	SK4120015108	26.3.2019	26.3.2024	EUR	100,000.00	5,000	0.25%	annually	no
Covered bonds VÚB, a.s., 4	SK4000015475	26.6.2019	26.6.2029	EUR	100,000.00	5,000	0.50%	annually	no
Covered bonds VÚB, a.s., 5	SK4000017455	23.6.2020	23.6.2025	EUR	100,000.00	5,000	0.01%	annually	no

All debt securities issued by VÚB, a.s., are bearer bonds in book entry form. No person took any guarantee for the repayment of the nominal value and/or coupon payment.

As of 31 December 2020 VÚB, a.s., did not issue and did not decide to issue bonds with pre-emption rights or convertible rights associated therewith.

The bonds are transferable to another holder without any restrictions. The rights associated with the bonds are based on the terms and conditions of the bonds pursuant to Act No. 530/1990 Coll. on Bonds as amended, Act No 483/2001 Coll. on Banks as amended, Act No 566/2001 Coll. on Securities as amended and in accordance with applicable legislation.

Investment certificates issued by the Bank

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Investment certificates VÚB, a.s., 2021	SK5110000828	28.6.2018	28.6.2021	EUR	1.00	385,500	0.00%	–	no
Investment certificates VÚB, a.s., 2022	SK4000015582	27.6.2019	27.6.2022	EUR	1.00	312,700	0.00%	–	no
Investment certificates VÚB, a.s., 2023	SK4000017554	30.6.2020	30.6.2023	EUR	1.00	144,800	0.00%	–	no

During the accounting year 2020, the company issued the Investment certificates VÚB, a.s., 2023. The reason for issuing investment certificates was to fulfil the obligations arising from the Act on Banks no. 483/2001 Coll. as amended in conjunction with Regulation EU No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and the internal procedure of VÚB, a.s. - Remuneration Policy. Based on these documents, part of the variable component of total compensation, severance payments, retirement allowances and other compensation payable to selected personnel acc. to § 23a par. 1 of the Act on Banks is provided in the form of securities or other financial instruments.

Investment certificates issued by VUB, a.s., are registered securities in book-entry form. No person has taken any guarantee for the repayment of the nominal value and/or coupon payment.

No pre-emption or convertible rights are associated with investment certificates.

Investment certificates are not transferable to another holder. The rights associated with the investment certificates are based on the applicable legislation of the Slovak Republic, in particular on Act No 566/2001 Coll. on Securities as amended and in the relevant issue conditions and prospectus of the investment certificates.

List of VUB Retail Branches

Name	Postcode	Address
Regional Retail Business Network Bratislava		
Bratislava – Centrum	811 06	Nám. SNP 15
Bratislava – OC Aupark	851 01	Einsteinova 18
Bratislava – Páričkova	821 08	Páričkova 2
Bratislava – Ružinov	827 61	Kaštieľska 2
Bratislava – OC Vivo	831 04	Vajnorská 100
Bratislava – Dúbravka	841 01	Sch. Trnavského 6/A
Bratislava – OC Eurovea	811 09	Pribinova 8
Bratislava – Dolné Hony	821 06	Kazanská 41
Bratislava – OC Centrál	821 08	Metodova 6
Bratislava – OC Avion	821 04	Ivánska cesta 16
Bratislava – Šintavská	851 05	Šintavská 24
Bratislava – Devínska N. Ves	841 07	Eisnerova 48
Bratislava – Vlastenecké nám.	851 01	Vlastenecké nám. 6
Bratislava – Furdekova	851 04	Furdekova 16
Bratislava – Dlhé Diely	841 05	Ľ. Fullu 5
Bratislava – OC BORY MALL	841 03	Lamač 6780
Bratislava – Dulovo nám.	821 08	Dulovo nám. 1
Bratislava – Rača	831 06	Detvianska 22
Bratislava – Herlianska	821 03	Komárnická 11
Bratislava – Lamač	841 03	Heyrovského 1
Bratislava – Magnifica	811 09	Pribinova 8
Bratislava – MC Centrum	811 06	Nám. SNP 15
Mortgage Centres		
Bratislava – Centrum	811 06	Nám. SNP 15
Bratislava – OC Aupark	851 01	Einsteinova 18
Bratislava – Páričkova	821 08	Páričkova 2
Regional Retail Business Network West		
Trnava – Dolné bašty	917 68	Dolné bašty 2
Piešťany	921 01	Nám. slobody 11
Nové Zámky	940 33	Hlavné nám. 5
Komárno	945 23	Tržničné nám. 1
Dunajská Streda	929 35	Alžbetínske nám. 328
Galanta	924 41	Mierové nám. 2
Topoľčany – Moyzesova	955 19	Moyzesova 585/2
Malacky	901 01	Záhorácka 15
Hlohovec	920 01	Podzámska 37
Trnava – Hlavná	917 68	Hlavná 31
Senica	905 33	Nám. oslobodenia 8
Šaľa	927 00	Hlavná 5
Bánovce nad Bebravou	957 01	Nám. Ľ. Štúra 5/5
Partizánske	958 01	L. Svobodu 4
Nové Mesto nad Váhom	915 01	Hviezdoslavova 19
Pezinok	902 01	Štefánikova 14

Senec	903 01	Nám. 1. mája 25
Stupava	900 31	Mlynská 1
Trnava – OC Arkadia	917 01	Veterná 40/A
Holíč	908 51	Bratislavská 1518/7
Myjava	907 01	Nám. M.R.Štefánika 525/21
Skalica	909 01	Potočná 20
Šamorín	931 01	Hlavná 64
Sereď	926 00	Cukrovarská 3013/1
Vrbové	922 03	Nám. slobody 285/9
Topoľčany – Pribinova	955 01	Pribinova 2
Stará Turá	916 01	SNP 275/67
Hurbanovo	947 01	Komárňanská 98
Ivanka pri Dunaji	900 28	Štefánikova 25/A
Smolenice	919 04	SNP 81
Šaštín – Stráže	908 41	Nám. slobody 648
Veľký Meder	932 01	Komárňanská 135/22
Gabčíkovo	930 05	Mlynársky rad 185/1
Sládkovičovo	925 21	Fučíkova 131
Trnava – Magnifica	917 68	Dolné bašty 2
Mortgage Centres		
Trnava – Dolné bašty	917 68	Dolné bašty 2

Regional Retail Business Network Centre

Prievidza	971 01	Nám. slobody 10
Banská Bystrica	975 55	Nám. slobody 1
Nitra – Štefánikova 44	949 31	Štefánikova 44
Levice	934 01	Štúrova 21
Zvolen	960 94	Nám. SNP 2093/13
Nitra – OC Mlyny	949 01	Štefánikova 61
Žiar nad Hronom	965 01	Nám. Matice slov. 21
Lučenec	984 35	T. G. Masaryka 24
Veľký Krtíš	990 20	Novohradská 7
Rimavská Sobota	979 13	Francisciho 1
Zlaté Moravce	953 00	Župná 10
Banská Bystrica – SC Európa	974 01	Na troskách 26
Handlová	972 51	SNP 1
Prievidza – Bojnická cesta	971 01	Bojnická cesta 15
Vráble	952 01	Levická 1288/16
Nitra – OC Centro	949 01	Akademická 1/A
Štúrovo	943 01	Hlavná 59
Šurany	942 01	SNP 25
Želiezovce	937 01	Komenského 8
Brezno	977 01	Boženy Němcovej 1/A
Banská Štiavnica	969 01	Radničné nám. 15
Nová Baňa	968 01	Nám. slobody 11
Žarnovica	966 81	Nám. SNP 26
Krupina	963 01	Svätotrojičné nám. 8
Detva	962 11	M. R. Štefánika 65

Zvolen – SC Európa	960 01	Nám. SNP 9690/63
Fiľakovo	986 01	Biskupická 2
Hnúšťa	981 01	Francisciho 372
Revúca	050 01	Nám. slobody 3
Tornaľa	982 01	Mierová 37
Poltár	987 01	Sklárska 289
Nitra – Magnifica	949 31	Štefánikova 44
Banská Bystrica – Magnifica	975 55	Nám. slobody 1
Mortgage Centres		
Nitra	949 31	Štefánikova 44
Banská Bystrica	975 55	Nám. slobody 1

Regional Retail Business Network North

Považská Bystrica	017 01	Nám. A. Hlinku 23/28
Žilina	010 01	Na bráne 1
Martin	036 01	M. R. Štefánika 2
Trenčín	911 01	Mierové nám. 37
Poprad	058 17	Mnoheľova 2832/9
Čadca	022 24	Fraňa Kráľa 1504
Dubnica nad Váhom	018 41	Nám. Matice slov. 1712/7
Púchov	020 01	Nám. slobody 1657
Dolný Kubín	026 01	Radlinského 1712/34
Liptovský Mikuláš	031 31	Štúrova 19
Žilina – OC Dubeň	010 08	Vysokoškolákov 52
Ružomberok	034 01	Podhora 48
Trenčín – OC Laugarício	911 01	Belá 7271
Trenčín – Legionárska	911 01	Legionárska 7158/5
Ilava	019 01	Mierové nám. 77
Nová Dubnica	018 51	Mierové nám. 29/34
Bytča	014 01	Sidónie Sakalovej 138/1
Žilina – Nám. A. Hlinku	010 43	Nám. A. Hlinku 1
Kysucké Nové Mesto	024 01	Nám. slobody 184
Turzovka	023 54	R. Jašíka 44
Námestovo	029 01	Hviezdoslavovo nám. 200/5
Tvrdošín	027 44	Trojičné nám. 191
Trstená	028 01	Nám. M. R. Štefánika 15
Martin – OC Tulip	036 01	Pltníky 2
Kežmarok	060 01	Hviezdoslavova 5
Spišská Belá	059 01	SNP 2522
Poprad – OC Forum	058 01	Nám. sv. Egídia 3290/124
Nižná	027 43	Nová Doba 481
Turčianske Teplice	039 01	Hájska 3
Trenčín – Magnifica	911 01	Legionárska 7158/5
Žilina – Magnifica	010 43	Na bráne 1
Mortgage Centres		
Trenčín	911 01	Legionárska 7158/5
Žilina	010 43	Na bráne 1
Poprad	058 17	Mnoheľova 2832/9

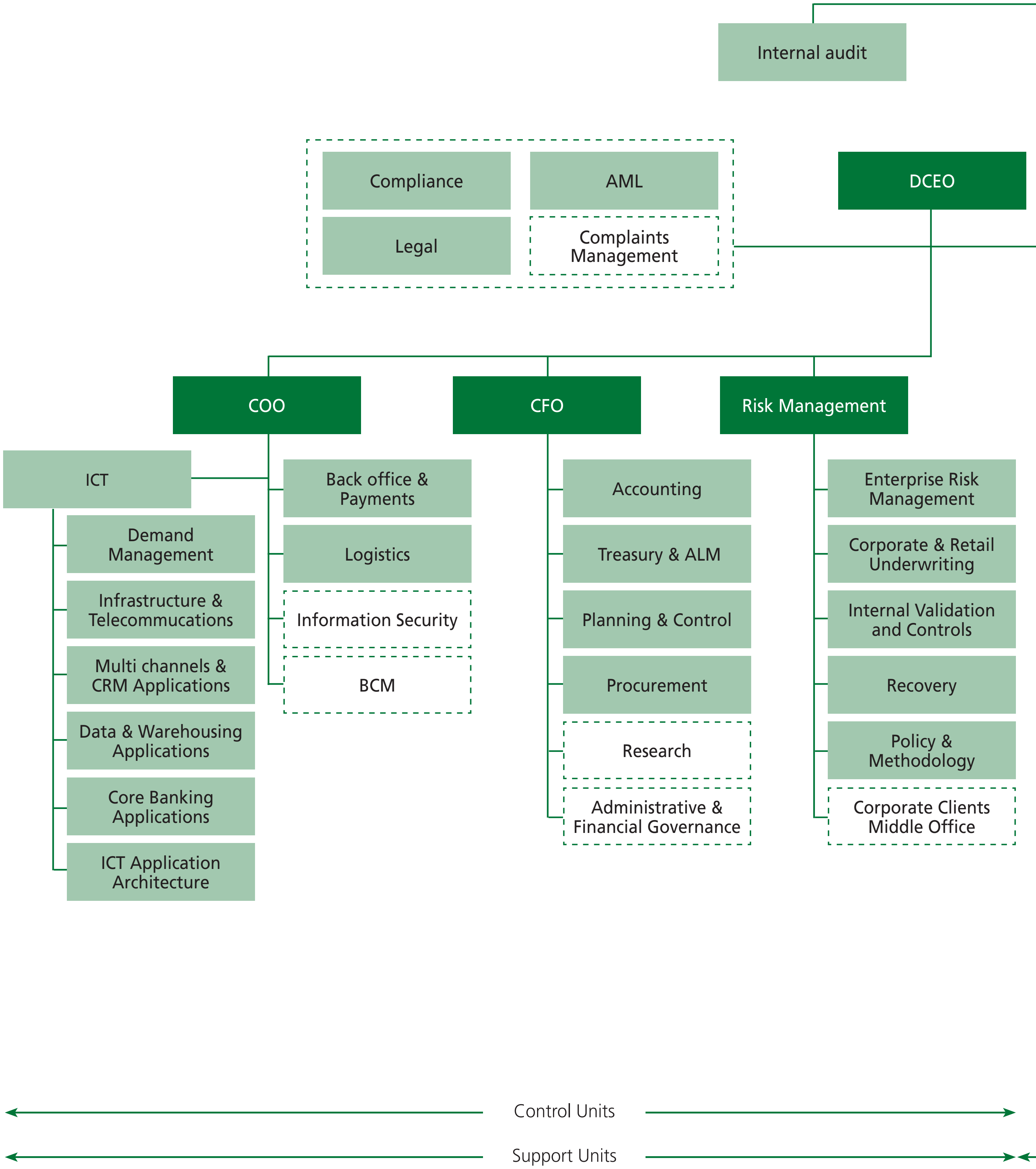
Regional Retail Business Network East

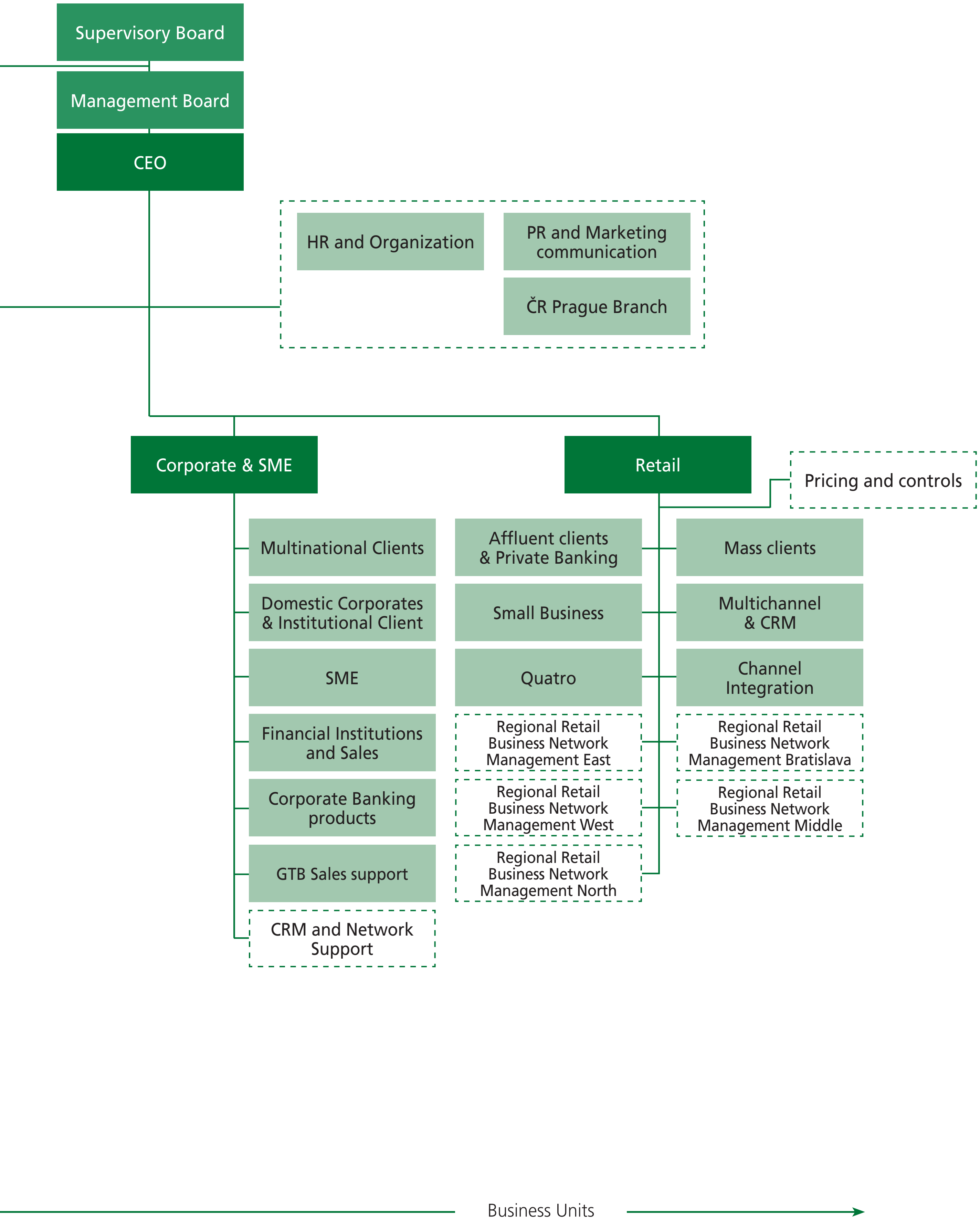
Prešov	080 01	Masarykova 13
Michalovce	071 80	Nám. slobody 3
Rožňava	048 73	Šafárikova 21
Spišská Nová Ves	052 14	Letná 33
Stará Ľubovňa	064 01	Nám. sv. Mikuláša 27
Vranov nad Topľou	093 01	Nám. slobody 6
Bardejov	085 01	Kellerova 1
Humenné	066 01	Nám. slobody 26/10
Košice – Štúrova	040 01	Štúrova 27/A
Košice – Hlavná 1	042 31	Hlavná 1
Košice – Letná	040 01	Letná 40
Trebišov	075 17	M. R. Štefánika 3197/32
Košice – OC Aupark	040 01	Nám. osloboditeľov 1
Levoča	054 01	Nám. Majstra Pavla 38
Krompachy	053 42	Lorencova 20
Sabinov	083 01	Nám. slobody 90
Lipany	082 71	Nám. sv. Martina 2
Prešov – Hlavná	080 01	Hlavná 61
Prešov – OC MAX	080 01	Vihorlatská 2A
Svidník	089 27	Centrálna 584/5
Stropkov	091 01	Mlynská 692/1
Snina	069 01	Strojárska 2524
Medzilaborce	068 10	Mierová 289/1
Košice – OC Optima	040 11	Moldavská cesta 32
Košice – OC Galéria	040 11	Toryská 5
Moldava nad Bodvou	045 01	Hviezdoslavova 13
Michalovce – mesto	071 01	Nám. osloboditeľov 2
Veľké Kapušany	079 01	Sídl. P. O. Hviezdoslava 79
Giraltovce	087 01	Dukelská 58
Košice – Sídlisko KVP	040 23	Trieda KVP 1
Sobrance	073 01	Štefánikova 9
Prešov – Magnifica	081 86	Masarykova 13
Košice – Magnifica	042 31	Štúrova 27/A
Mortgage Centres		
Prešov	081 86	Masarykova 13
Košice	042 31	Štúrova 27/A

List of VUB Corporate branches

Corporate Business Centre Bratislava		
BRATISLAVA	Mlynské nivy 1	0904 755 337
BRATISLAVA – Avion	Ivanská cesta 16	0904 751 310
Corporate Business Centre Trnava		
TRNAVA	Dolné bašty 2	0904 755 170
SENICA	Nám. oslobodenia 8	0904 756 420
Corporate Business Centre Nitra		
NITRA	Štefánikova 44	0904 751 379
TOPOĽČANY	Moyzesova 585/2	0904 757 796
LEVICE	Štúrova 21	0904 751 379
Corporate Business Centre Nové Zámky		
NOVÉ ZÁMKY	Hlavné námestie 5	0904 750 611
KOMÁRNO	Tržničné nám. 1	0904 750 611
GALANTA	Mierové námestie 2	0904 755 804
DUNAJSKÁ STREDA	Alžbetínske nám. 328	0904 755 804
Corporate Business Centre Trenčín		
TRENČÍN	Legionárska 7158/5	0904 750 356
POVAŽSKÁ BYSTRICA	Nám. A. Hlinku 23/28	0904 750 009
PRIEVIDZA	Námestie slobody 10	0904 750 140
Corporate Business Centre Žilina		
ŽILINA	Na bráne 1	0904 757 824
MARTIN	M.R.Štefánika 2	0904 750 399
ČADCA	Fraňa Kráľa 1504	0904 755 443
DOLNÝ KUBÍN	Radlinského 1712/34	0904 755 762
Corporate Business Centre Banská Bystrica		
ŽIAR NAD HRONOM	Nám. Matice slovenskej 21	0904 751 097
ZVOLEN	Námestie SNP 2093/13	0904 754 085
BANSKÁ BYSTRICA	Námestie slobody 1	0904 754 085
LUČENEC	T.G. Masaryka 24	0904 751 152
RIMAVSKÁ SOBOTA	Francisciho 1	0904 751 152
Corporate Business Centre Poprad		
POPRAD	Mnoheľova 2832/9	0904 750 900
LIPTOVSKÝ MIKULÁŠ	Štúrova 19	0904 750 079
SPIŠSKÁ NOVÁ VES	Letná 33	0904 750 900
Corporate Business Centre Prešov		
PREŠOV	Masarykova 13	0904 750 680
BARDEJOV	Kellerova 1	0904 750 680
VRANOV NAD TOPĽOU	Námestie slobody 6	0904 760 714
HUMENNÉ	Námestie slobody 26/10	0904 760 714
Corporate Business Centre Košice		
KOŠICE	Štúrova 27/A	0904 750 258
MICHALOVCE	Námestie slobody 3	0904 751 307

Organization Chart of VUB as at 31 December 2020





Supervisory Board
Management Board
CEO
HR and Organization
PR and Marketing communication
ČR Prague Branch
Corporate & SME
Retail
Pricing and controls
Multinational Clients
Domestic Corporates & Institutional Client
SME
Financial Institutions and Sales
Corporate Banking products
GTB Sales support
CRM and Network Support
Affluent clients & Private Banking
Small Business
Quatro
Regional Retail Business Network Management East
Regional Retail Business Network Management West
Regional Retail Business Network Management North
Mass clients
Multichannel & CRM
Channel Integration
Regional Retail Business Network Management Bratislava
Regional Retail Business Network Management Middle
Business Units

Natália Šimonová
(1995, Žiar nad Hronom)
Reťazák
2020, rust, pastel on canvas, 200 × 180 cm

The competition of *Maľba – Cena Nadácie VÚB za maliarske dielo pre mladých umelcov* / Painting. Prize of the VUB Foundation for Painting for Young Artists is one of the best known projects of the VUB Foundation and also one of the initiatives with the longest history and tradition. Even after fifteen years of its existence it still adheres to the mission it was created for. The aim of the competition is to present the biggest talents of young professional artists of Slovakia, to enhance and refi ne the medium of painting and help young artists to enter the artistic scene. Thanks to the international jury, which evaluates the artworks Slovak painting, curators abroad become increasingly aware of the young Slovak painting opening the door to the world to the artists.