VÚB BANKA

Interim consolidated financial statements for the six months ended 30 June 2021

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

VÚB BANKA

Contents

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Consolidated statement of financial position as at 30 June 2021
(In thousands of euro)

	Note	June 2021	December 2020
Assets			
Cash and cash equivalents	7	2 434 419	1 571 642
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		195 840	85 423
Non-trading financial assets at fair value through profit or loss		7 741	711
Derivatives – Hedge accounting	9	55 890	85 192
Financial assets at fair value through other comprehensive income	10	1 342 518	1 618 067
of which pledged as collateral		*1 219 083*	*634 093*
Financial assets at amortised cost:	11		
Due from other banks		197 635	205 420
Due from customers		15 870 815	15 239 856
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	12 135	20 016
Investments in joint ventures and associates	13	12 892	11 058
Property and equipment	14	123 134	124 862
Intangible assets	15	127 481	129 527
Goodwill	16	29 305	29 305
Current income tax assets	17	14 222	26 518
Deferred income tax assets	17	50 357	54 802
Other assets	18	19 027	25 819
Non-current assets classified as held for sale	14	154	1
		20 493 565	19 228 219
Liabilities			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		81 082	87 377
Derivatives – Hedge accounting	9	35 097	65 407
Financial liabilities at amortised cost:	11		
Due to banks		1 665 219	629 800
Due to customers		12 769 350	12 986 820
Lease liabilities		20 668	18 562
Subordinated debt		200 134	200 151
Debt securities in issue		3 850 620	3 422 729
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	5 129	6 990
Current income tax liabilities	17	351	3 411
Provisions	19	18 950	18 036
Other liabilities	20	83 690	81 997
		18 730 290	17 521 280
Equity	22		
Share capital		430 819	430 819
Share premium		13 719	13 719
Legal reserve fund		89 350	89 350
Retained earnings		1 206 734	1 145 632
Equity reserves		22 653	27 419
		1 763 275	1 706 939
		20 493 565	19 228 219

The accompanying notes on pages 8 to 155 form an integral part of these financial statements.

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Consolidated statement of profit or loss and other comprehensive income
for the six months ended 30 June 2021
(In thousands of euro)

	Note	June 2021	June 2020
Interest income calculated using the effective interest method		152 673	166 770
Other interest income		2 775	3 054
Interest and similar expense		(15 401)	(20 843)
Net interest income	24	140 047	148 981
Fee and commission income		82 451	78 285
Fee and commission expense		(13 070)	(13 894)
Net fee and commission income	25	69 381	64 391
Net trading result	26	13 064	5 205
Other operating income	27	3 517	3 963
Other operating expenses	28	(18 160)	(12 291)
Special levy of selected financial institutions	29	-	(31 038)
Salaries and employee benefits	30	(60 574)	(61 647)
Other administrative expenses	31	(35 339)	(38 305)
Amortisation	15	(8 072)	(6 904)
Depreciation	14	(7 975)	(7 779)
Profit before provisions, impairment and tax		95 889	64 576
Net modification gains or losses		(46)	-
Provisions	19, 32	(82)	44
Impairment losses	21, 33	(20 574)	(33 472)
Net loss arising from the derecognition of financial assets at amortised cost	33	(1 631)	(1 728)
		73 556	29 420
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method		4 804	2 247
Profit before tax		78 360	31 667
Income tax expense	34	(17 420)	(7 632)
NET PROFIT FOR THE SIX MONTHS		60 940	24 035
Other comprehensive income for the six months, after tax:	35, 36		
Items that shall not be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		460	219
Reversal of deferred income tax on disposed property and equipment		-	99
		460	318
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)		(5 313)	(3 547)
Exchange difference on translation of foreign operations		(22)	(360)
		(5 335)	(3 907)
Other comprehensive income for the six months, net of tax		(4 875)	(3 589)
TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS		56 065	20 446

The accompanying notes on pages 8 to 155 form an integral part of these financial statements.

Consolidated statement of changes in equity for the six months ended 30 June 2021
(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2021	430 819	13 719	89 350	1 145 632	17 297	10 101	-	21	1 706 939
Total comprehensive income for the six months, net of tax	-	-	-	60 940	-	(4 853)	-	(22)	56 065
Losses on the sale of shares at FVOCI	-	-	-	(110)	-	110	-	-	-
Gain on disposal of property and equipment	-	-	-	1	(1)	-	-	-	-
Exchange difference	-	-	-	2	-	-	-	-	2
Transactions with owners, recorded directly in equity									
Reversal of dividends distributed but not collected	-	-	-	*269*	-	-	-	-	*269*
At 30 June 2021	430 819	13 719	89 350	1 206 734	17 296	5 358	-	(1)	1 763 275

(Table continues on the next page)

The accompanying notes on pages 8 to 155 form an integral part of these financial statements.

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Consolidated statement of changes in equity for the six months ended 30 June 2021 (continued)
(In thousands of euro)

	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 2020	430 819	13 719	88 986	1 057 794	14 073	7 276	-	330	1 612 997
Total comprehensive income for the six months, net of tax	-	-	-	24 035	99	(3 328)	-	(360)	20 446
Gain on disposal of property and equipment	-	-	-	472	(472)	-	-	-	-
Losses on the sale of shares at FVOCI	-	-	-	(254)	-	254	-	-	-
Transfers	-	-	364	(364)	-	-	-	-	-
Exchange difference	-	-	-	371	-	-	-	-	371
Transactions with owners, recorded directly in equity									
Reversal of dividends distributed but not collected	-	-	-	*196*	-	-	-	-	*196*
At 30 June 2020	430 819	13 719	89 350	1 082 250	13 700	4 202	-	(30)	1 634 010

The accompanying notes on pages 8 to 155 form an integral part of these financial statements.

Consolidated statement of cash flows for the six months ended 30 June 2021
(In thousands of euro)

	Note	June 2021	June 2020
Cash flows from operating activities:			
Profit before tax		78 360	31 667
Adjustments for:			
Interest income	24	(155 448)	(169 824)
Interest expense	24	15 401	20 843
Loss/(gain) from sale/revaluation of financial assets at fair value through other comprehensive income		17 811	(17 390)
Gain on sale of intangible assets and property and equipment	28	(323)	(295)
(Gain)/loss from revaluation of debt securities in issue		(28 238)	34 796
Amortisation	15	8 072	6 904
Depreciation	14	7 975	7 779
Impairment losses and similar charges	32, 33	52 146	46 337
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method and related items		(1 834)	2 112
Exchange difference on translation of foreign operations	35, 36	(20)	11
Interest received		165 818	170 131
Interest paid		(12 741)	(20 436)
Tax paid		(3 739)	(26 950)
(Increase) in financial assets at fair value through profit or loss		(117 436)	(125 850)
Decrease/(increase) in derivatives – hedge accounting (assets)		29 302	(33 323)
Financial assets at amortised cost:			
Decrease/(increase) in due from other banks		8 410	(7 929)
(Increase) in due from customers		(688 762)	(358 184)
Decrease/(increase) in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		7 881	(7 493)
Decrease in other assets		7 024	2 929
(Decrease)/increase in financial liabilities at fair value through profit or loss		(6 295)	7 982
(Decrease)/increase in derivatives – hedge accounting (liabilities)		(30 310)	22 975
Financial liabilities measured at amortised cost:			
Increase/(decrease) in due to banks		1 063 485	(95 235)
(Decrease)/increase in due to customers		(216 616)	251 412
(Decrease)/increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		(1 861)	2 220
Increase in provisions		898	493
Increase/(decrease) in other liabilities		1 962	(22 371)
Net cash from/(used in) operating activities		200 922	(276 689)
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(547 514)	(894 033)
Disposal of financial assets at fair value through other comprehensive income		419 835	337 450
Repayments of financial assets at fair value through other comprehensive income		375 000	310 000
Purchase of intangible assets and property and equipment		(13 175)	(13 156)
Disposal of intangible assets and property and equipment		1 385	1 845
Net cash from/(used in) investing activities		235 531	(257 894)

(Table continues on the next page)

The accompanying notes on pages 8 to 155 form an integral part of these financial statements.

Consolidated statement of cash flows for the six months ended 30 June 2021
(In thousands of euro)
(continued)

	Note	June 2021	June 2020
Cash flows from financing activities:			
Proceeds from issue of debt securities		500 000	500 000
Repayments of debt securities in issue		(47 597)	(152 539)
Proceeds from loans received from other banks		-	317 857
Repayments of loans received from other banks		(27 871)	(26 686)
Repayments of lease liabilities		1 792	(3 980)
Net cash from financing activities		426 324	634 652
Net change in cash and cash equivalents		862 777	100 069
Cash and cash equivalents as at 1 January	7	1 571 642	996 446
Cash and cash equivalents at 30 June	7	2 434 419	1 096 515

The accompanying notes on pages 8 to 155 form an integral part of these financial statements.

1. Basis of preparation

1.1. Reporting entity - general information

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

As at 30 June 2021, the VUB Group had a network of 181 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2020: 197). The VUB Group also has one branch in the Czech Republic (31 December 2020: 1).

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

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

As at 30 June 2021, the members of the Supervisory Board are Ignacio Jaquotot (Chairman), Elena Kohútiková (Vice Chairman), Marco Fabris, Peter Gutten, Luca Leoncini Bartoli, Christian Schaack and Róbert Szabo.

1.1. 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 June 2021	Share December 2020	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. Basis of preparation (continued)

1.3. Basis of accounting

The interim consolidated financial statements of the VUB Group ('the financial statements') have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and 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. Basis of preparation (continued)

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. Basis of preparation (continued)

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.

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.

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. Significant accounting policies (continued)

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).

3. Significant accounting policies (continued)

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. Significant accounting policies (continued)

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. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

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'.

3. Significant accounting policies (continued)

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. Significant accounting policies (continued)

3.6. Financial assets at fair value through other comprehensive income

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

The 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.

3. Significant accounting policies (continued)

Due from other banks

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

Due from customers

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

Impairment

The detailed description of policy is in the note 4.1.2.

The 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. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments

If a hedging relationship is directly affected by IBOR reform, then the 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.

3. Significant accounting policies (continued)

The Phase 2 amendments

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. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

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

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

3.13. Intangible assets

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

	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.

3. Significant accounting policies (continued)

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

	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.

3. Significant accounting policies (continued)

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

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

3.18. 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. Significant accounting policies (continued)

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 draw-down 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. Financial and operational risk management (continued)

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.

4. Financial and operational risk management (continued)

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.

4. Financial and operational risk management (continued)

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.

4. Financial and operational risk management (continued)

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).

4. Financial and operational risk management (continued)

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 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.

4. Financial and operational risk management (continued)

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).

4. Financial and operational risk management (continued)

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.

4. Financial and operational risk management (continued)

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

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

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:

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

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.

4. Financial and operational risk management (continued)

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.

4. Financial and operational risk management (continued)

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

	Portfolio assessed			Individually assessed		
June 2021 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 1						
Financial assets at AC:						
Due from other banks	196 616	(168)	196 448	-	-	-
Due from customers:						
Public administration	211 191	(996)	210 195	-	-	-
Corporate	5 043 553	(29 608)	5 013 945	-	-	-
Retail	9 561 897	(12 756)	9 549 141	-	-	-
	14 816 641	(43 360)	14 773 281	-	-	-
	15 013 257	(43 528)	14 969 729	-	-	-
Financial assets at FVOCI – debt securities	1 335 028	(312)	1 334 716	-	-	-
Financial commitments and contingencies	5 701 410	(6 378)	5 695 032	-	-	-

4. Financial and operational risk management (continued)

	Portfolio assessed			Individually assessed		
December 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	-	-	-

4. Financial and operational risk management (continued)

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

	Portfolio assessed			Individually assessed		
June 2021 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 2						
Financial assets at AC:						
Due from other banks	1 226	(39)	1 187	-	-	-
Due from customers:						
Public administration	29 121	(1 262)	27 859	-	-	-
Corporate	392 568	(13 090)	379 478	-	-	-
Retail	560 458	(34 879)	525 579	-	-	-
	982 147	(49 231)	932 916	-	-	-
	983 373	(49 270)	934 103	-	-	-
Financial commitments and contingencies	182 810	(3 300)	179 510	-	-	-

4. Financial and operational risk management (continued)

December 2020 € '000	Portfolio assessed Gross amount	Portfolio assessed Impairment losses	Portfolio assessed Net amount	Individually assessed Gross amount	Individually assessed Impairment losses	Individually assessed Net amount
Stage 2						
Financial assets at AC:						
Due from customers:						
Public administration	26 717	(1 605)	25 112	-	-	-
Corporate	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	-	-	-

4. Financial and operational risk management (continued)

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

	Portfolio assessed			Individually assessed		
June 2021 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	14 048	(5 046)	9 002	74 608	(50 529)	24 079
Retail	296 544	(168 747)	127 797	13 752	(10 012)	3 740
	310 592	(173 793)	136 799	88 360	(60 541)	27 819
Financial commitments and contingencies	5 591	(1 608)	3 983	13 258	(3 479)	9 779

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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.

4. Financial and operational risk management (continued)

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

June 2021 **€ '000**	**Category**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from other banks				
	Performing	197 842	(207)	197 635
Due from customers:				
Public administration				
	Performing	240 312	(2 258)	238 054
Corporate				
	Performing	5 436 121	(42 698)	5 393 423
	Past due	5 879	(775)	5 104
	Unlikely to pay	43 103	(21 425)	21 678
	Doubtful	39 674	(33 375)	6 299
		5 524 777	(98 273)	5 426 504
Retail				
	Performing	10 122 355	(47 635)	10 074 720
	Past due	39 021	(15 792)	23 229
	Unlikely to pay	33 150	(15 440)	17 710
	Doubtful	238 125	(147 527)	90 598
		10 432 651	(226 394)	10 206 257
		16 197 740	(326 925)	15 870 815
		16 395 582	(327 132)	16 068 450
Financial assets at FVOCI – debt securities				
	Performing	1 335 028	(312)	1 334 716
Financial commitments and contingencies				
	Performing	5 884 220	(9 678)	5 874 542
	Past due	1 620	(60)	1 560
	Unlikely to pay	13 431	(3 410)	10 021
	Doubtful	3 798	(1 617)	2 181
		5 903 069	(14 765)	5 888 304

4. Financial and operational risk management (continued)

December 2020 **€ '000**	**Category**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from other banks				
	Performing	206 126	(706)	205 420
Due from customers:				
Public administration				
	Performing	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

4. Financial and operational risk management (continued)

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

June 2021 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from other banks			
No delinquency	195 384	(207)	195 177
1 – 30 days	2 458	-	2 458
	197 842	(207)	197 635
Due from customers:			
Public administration			
No delinquency	240 248	(2 257)	237 991
1 – 30 days	64	(1)	63
	240 312	(2 258)	238 054
Corporate			
No delinquency	5 450 584	(59 722)	5 390 862
1 – 30 days	27 523	(1 426)	26 097
31 – 60 days	3 998	(2 034)	1 964
61 – 90 days	413	(165)	248
91 – 180 days	4 795	(3 204)	1 591
Over 181 days	37 464	(31 722)	5 742
	5 524 777	(98 273)	5 426 504
Retail			
No delinquency	10 096 044	(57 603)	10 038 441
1 – 30 days	69 518	(9 339)	60 179
31 – 60 days	12 660	(2 489)	10 171
61 – 90 days	14 253	(3 119)	11 134
91 – 180 days	24 094	(13 413)	10 681
Over 181 days	216 082	(140 431)	75 651
	10 432 651	(226 394)	10 206 257
	16 197 740	(326 925)	15 870 815
	16 395 582	(327 132)	16 068 450
Financial assets at FVOCI - debt securities			
No delinquency	1 335 028	(312)	1 334 716
Financial commitments and contingencies			
No delinquency	5 903 069	(14 765)	5 888 304

4. Financial and operational risk management (continued)

December 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

4. Financial and operational risk management (continued)

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

June 2021 € '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	195 384	(207)	195 177	2 458	-	2 458	-	-	-
Due from customers:									
Public administration									
Single Resolution Fund	-	-	-	-	-	-	-	-	-
State administration	127 884	(19)	127 865	-	-	-	-	-	-
Municipalities	111 909	(2 236)	109 673	-	-	-	-	-	-
Municipalities – Leasing	455	(2)	453	64	(1)	63	-	-	-
	240 248	(2 257)	237 991	64	(1)	63	-	-	-
Corporate									
Large Corporates	2 096 258	(1 795)	2 094 463	4	-	4	337	(221)	116
Large Corporates – debt securities	129 295	(120)	129 175	-	-	-	-	-	-
Specialized Lending	900 167	(32 311)	867 856	4 651	(385)	4 266	4 409	(4 041)	368
SME	1 521 821	(5 958)	1 515 863	12 461	(287)	12 174	71 392	(45 287)	26 105
Other Non-banking Financial Institutions	417 792	(390)	417 402	-	-	-	5	(4)	1
Other Non-banking Financial Institutions - debt securities	80 251	(55)	80 196	-	-	-	-	-	-
Public Sector Entities	2 758	(85)	2 673	-	-	-	4	(1)	3
Leasing	150 332	(1 158)	149 174	4 506	(122)	4 384	8 594	(4 946)	3 648
Factoring	110 210	(7)	110 203	5 615	(25)	5 590	3 915	(1 075)	2 840
	5 408 884	(41 879)	5 367 005	27 237	(819)	26 418	88 656	(55 575)	33 081

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 € '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 customers:									
Retail									
Small Business	415 511	(7 331)	408 180	11 240	(884)	10 356	23 115	(14 546)	8 569
Small Business - Leasing	55 521	(958)	54 563	3 546	(98)	3 448	11 633	(7 469)	4 164
Consumer Loans	1 248 753	(21 945)	1 226 808	45 006	(5 821)	39 185	163 730	(101 898)	61 832
Mortgages	8 141 533	(6 991)	8 134 542	12 408	(580)	11 828	86 560	(36 784)	49 776
Credit Cards	81 842	(860)	80 982	3 306	(687)	2 619	18 119	(12 836)	5 283
Overdrafts	59 896	(1 014)	58 882	1 313	(157)	1 156	7 114	(5 219)	1 895
Leasing	4 812	(87)	4 725	14	-	14	25	(7)	18
Flat Owners Associations	37 654	(222)	37 432	-	-	-	-	-	-
	10 045 522	(39 408)	10 006 114	76 833	(8 227)	68 606	310 296	(178 759)	131 537
	15 694 654	(83 544)	15 611 110	104 134	(9 047)	95 087	398 952	(234 334)	164 618
	15 890 038	(83 751)	15 806 287	106 592	(9 047)	97 545	398 952	(234 334)	164 618
Financial assets at FVOCI – debt securities	1 335 028	(312)	1 334 716	-	-	-	-	-	-
Financial commitments and contingencies	5 884 220	(9 678)	5 874 542	-	-	-	18 849	(5 087)	13 762

4. Financial and operational risk management (continued)

December 2020 € '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	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

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4. Financial and operational risk management (continued)

December 2020 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	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

4. Financial and operational risk management (continued)

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

June 2021 € '000	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from other banks:			
1 – 30 days	2 458	-	2 458
Due from customers:			
Public administration			
1 – 30 days	64	(1)	63
Corporate			
1 – 30 days	25 279	(699)	24 580
31 – 60 days	1 773	(105)	1 668
61 – 90 days	185	(15)	170
	27 237	(819)	26 418
Retail			
1 – 30 days	56 988	(5 017)	51 971
31 – 60 days	9 102	(1 323)	7 779
61 – 90 days	10 743	(1 887)	8 856
	76 833	(8 227)	68 606
	104 134	(9 047)	95 087
	106 592	(9 047)	97 545

December 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

4. Financial and operational risk management (continued)

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

June 2021 € '000	Stage 1 Gross amount	Stage 1 Impairment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impairment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks	196 616	(168)	196 448	1 226	(39)	1 187	-	-	-
Due from customers:									
Public administration									
Single Resolution Fund	-	-	-	-	-	-	-	-	-
State administration	127 884	(19)	127 865	-	-	-	-	-	-
Municipalities	82 788	(974)	81 814	29 121	(1 262)	27 859	-	-	-
Municipalities – Leasing	519	(3)	516	-	-	-	-	-	-
	211 191	(996)	210 195	29 121	(1 262)	27 859	-	-	-
Corporate									
Large Corporates	1 962 343	(1 506)	1 960 837	133 919	(289)	133 630	337	(221)	116
Large Corporates – debt securities	120 560	(82)	120 478	8 735	(38)	8 697	-	-	-
Specialized Lending	837 977	(23 563)	814 414	66 841	(9 133)	57 708	4 409	(4 041)	368
SME	1 356 113	(2 950)	1 353 163	178 169	(3 295)	174 874	71 392	(45 287)	26 105
Other Non-banking Financial Institutions	417 792	(390)	417 402	-	-	-	5	(4)	1
Other Non-banking Financial Institutions – debt securities	80 251	(55)	80 196	-	-	-	-	-	-
Public Sector Entities	2 257	(62)	2 195	501	(23)	478	4	(1)	3
Leasing	151 066	(971)	150 095	3 772	(309)	3 463	8 594	(4 946)	3 648
Factoring	115 193	(29)	115 164	632	(3)	629	3 915	(1 075)	2 840
	5 043 552	(29 608)	5 013 944	392 569	(13 090)	379 479	88 656	(55 575)	33 081

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 € '000	Stage 1 Gross amount	Stage 1 Impairment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impairment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	347 856	(3 232)	344 624	78 895	(4 983)	73 912	23 115	(14 546)	8 569
Small Business – Leasing	53 524	(406)	53 118	5 543	(650)	4 893	11 633	(7 469)	4 164
Consumer Loans	1 100 028	(7 229)	1 092 799	193 731	(20 537)	173 194	163 730	(101 898)	61 832
Mortgages	7 905 108	(1 027)	7 904 081	248 833	(6 544)	242 289	86 560	(36 784)	49 776
Credit Cards	73 661	(199)	73 462	11 487	(1 348)	10 139	18 119	(12 836)	5 283
Overdrafts	39 246	(354)	38 892	21 963	(817)	21 146	7 114	(5 219)	1 895
Leasing	4 820	(86)	4 734	6	(1)	5	25	(7)	18
Flat Owners Associations	37 654	(222)	37 432	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	9 561 897	(12 755)	9 549 142	560 458	(34 880)	525 578	310 296	(178 759)	131 537
	14 816 640	(43 359)	14 773 281	982 148	(49 232)	932 916	398 952	(234 334)	164 618
Financial assets at FVOCI – debt securities	1 335 028	(312)	1 334 716	-	-	-	-	-	-
Financial commitments and contingencies	5 701 410	(6 378)	5 695 032	182 810	(3 300)	179 510	18 849	(5 087)	13 762

4. Financial and operational risk management (continued)

December 2020 € '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	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)

4. Financial and operational risk management (continued)

December 2020 € '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 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

4. Financial and operational risk management (continued)

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

June 2021 € '000	Stage 1 Gross amount	Stage 1 Impairment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impairment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	194 158	(168)	193 990	1 226	(39)	1 187	-	-	-
1 – 30 days	2 458	-	2 458	-	-	-	-	-	-
	196 616	(168)	196 448	1 226	(39)	1 187	-	-	-
Due from customers:									
Public administration									
No delinquency	211 127	(995)	210 132	29 121	(1 262)	27 859	-	-	-
1 – 30 days	64	(1)	63	-	-	-	-	-	-
	211 191	(996)	210 195	29 121	(1 262)	27 859	-	-	-
Corporate									
No delinquency	5 027 547	(29 488)	4 998 059	381 330	(12 392)	368 938	41 707	(17 842)	23 865
1 – 30 days	16 005	(120)	15 885	9 281	(578)	8 703	2 237	(728)	1 509
31 – 60 days	-	-	-	1 773	(105)	1 668	2 225	(1 929)	296
61 – 90 days	-	-	-	185	(15)	170	228	(150)	78
91 – 180 days	-	-	-	-	-	-	4 795	(3 204)	1 591
Over 181 days	-	-	-	-	-	-	37 464	(31 722)	5 742
	5 043 552	(29 608)	5 013 944	392 569	(13 090)	379 479	88 656	(55 575)	33 081

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 € '000	Stage 1 Gross amount	Stage 1 Impairment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impairment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	9 541 063	(12 256)	9 528 807	504 459	(27 151)	477 308	50 522	(18 196)	32 326
1 – 30 days	20 820	(498)	20 322	36 168	(4 519)	31 649	12 530	(4 322)	8 208
31 – 60 days	14	(1)	13	9 087	(1 323)	7 764	3 559	(1 165)	2 394
61 – 90 days	-	-	-	10 744	(1 887)	8 857	3 509	(1 232)	2 277
91 – 180 days	-	-	-	-	-	-	24 094	(13 413)	10 681
Over 181 days	-	-	-	-	-	-	216 082	(140 431)	75 651
	9 561 897	(12 755)	9 549 142	560 458	(34 880)	525 578	310 296	(178 759)	131 537
	14 816 640	(43 359)	14 773 281	982 148	(49 232)	932 916	398 952	(234 334)	164 618
	15 013 256	(43 527)	14 969 729	983 374	(49 271)	934 103	398 952	(234 334)	164 618
Financial assets at FVOCI – debt securities									
No delinquency	1 335 028	(312)	1 334 716	-	-	-	-	-	-
Financial commitments and contingencies									
No delinquency	5 701 410	(6 378)	5 695 032	182 810	(3 300)	179 510	18 849	(5 087)	13 762

4. Financial and operational risk management (continued)

December 2020 € '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									
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)

4. Financial and operational risk management (continued)

December 2020 € '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 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

4. Financial and operational risk management (continued)

4.1.4. Loans with renegotiated terms and forbearance policy

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the 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		
June 2021 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	55 279	(3 681)	51 598	37 444	(26 290)	11 154
Retail	93 460	(5 563)	87 897	30 010	(18 286)	11 724
	148 739	(9 244)	139 495	67 454	(44 576)	22 878
Financial commitments and contingencies	1 507	(1)	1 506	3 600	(983)	2 617

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

4.1.5. Write-off Policy

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

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

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

The amount of loans written off during the year that are still subject to enforcement activity is € 17 729 thousand (31 December 2020: € 39 210 thousand).

4. Financial and operational risk management (continued)

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.

4. Financial and operational risk management (continued)

4.1.7. Offsetting financial assets and financial liabilities

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

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

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

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the 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.

4. Financial and operational risk management (continued)

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.

June 2021 **€ '000**	**Gross amount**	**Impairment losses/ provisions**	**Net amount**
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	206 572	(2 257)	204 315
Corporate	3 583 444	(93 796)	3 489 648
Retail	10 302 760	(223 922)	10 078 838
	14 092 776	(319 975)	13 772 801
Financial assets at FVOCI - debt securities	421 178	(50)	421 128
Financial commitments and contingencies	3 890 269	(13 128)	3 877 141
Czech republic			
Financial assets at AC:			
Due from other banks	14	-	14
Due from customers:			
Corporate	849 547	(2 533)	847 014
Retail	20 376	(1 778)	18 598
	869 923	(4 311)	865 612
Financial commitments and contingencies	1 291 974	(828)	1 291 146
Other European countries			
Financial assets at AC:			
Due from other banks	112 320	(63)	112 257
Due from customers:			
Corporate	1 083 340	(1 941)	1 081 399
Retail	94 333	(634)	93 699
	1 177 673	(2 575)	1 175 098
	1 289 993	(2 638)	1 287 355
Financial assets at FVOCI - debt securities	813 595	(242)	813 353
Financial commitments and contingencies	677 225	(760)	676 465

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 **€ '000**	**Gross amount**	**Impairment losses/ provisions**	**Net amount**
North America			
Financial assets at AC:			
Due from customers:			
Corporate	8 424	(3)	8 421
Retail	1 855	(3)	1 852
	10 279	(6)	10 273
Financial assets at FVOCI - debt securities	100 254	(20)	100 234
Financial commitments and contingencies	278	-	278
Asia			
Financial assets at AC:			
Due from other banks	8 346	(1)	8 345
Due from customers:			
Retail	10 443	(48)	10 395
	18 789	(49)	18 740
Financial commitments and contingencies	42 318	(49)	42 269
Rest of the World			
Financial assets at AC:			
Due from other banks	77 162	(143)	77 019
Due from customers:			
Public administration	33 740	(1)	33 739
Corporate	22	-	22
Retail	2 884	(9)	2 875
	36 646	(10)	36 636
	113 808	(153)	113 655
Financial commitments and contingencies	1 005	-	1 005

4. Financial and operational risk management (continued)

December 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)

4. Financial and operational risk management (continued)

December 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

4. Financial and operational risk management (continued)

is shown in the table below.

June 2021 € '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	-	-	183 009	27 548	-	106 292
Mining and quarrying	-	-	48 392	316	-	35 798
Manufacturing	-	1	840 649	38 839	-	839 790
Electricity, gas, steam and air conditioning supply	-	-	608 190	718	-	623 881
Water supply	-	-	75 001	2 134	-	23 468
Construction	-	-	267 616	38 139	-	655 729
Wholesale and retail trade	-	-	941 353	101 856	-	544 133
Transport and storage	-	-	543 192	153 370	-	332 128
Accommodation and food service activities	-	464	33 695	13 335	-	5 285
Information and communication	-	13	125 753	9 325	-	75 049
Financial and insurance activities**	197 635	-	456 883	442	356 894	1 065 396
Real estate activities	-	-	543 702	59 377	-	199 977
Professional, scientific and technical activities	-	6	212 033	34 826	-	180 995
Administrative and support service activities	-	-	131 420	11 320	-	21 062
Public administration and defense, compulsory social security	-	237 570	674	181	977 821	173 475
Education	-	-	635	1 199	-	384
Human health services and social work activities	-	-	6 677	22 593	-	6 965
Arts, entertainment and recreation	-	-	36 114	9 577	-	673
Other services	-	-	371 516	6 374	-	73 847
Consumer Loans	-	-	-	1 478 642	-	299 491
Mortgage Loans	-	-	-	8 196 146	-	624 486
	197 635	238 054	5 426 504	10 206 257	1 334 715	5 888 304

4. Financial and operational risk management (continued)

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

* ‘Retail’ includes Small Business and Flat Owners Associations.

** ‘Financial and insurance activities’ involves financial services, leasing and insurance.

4. Financial and operational risk management (continued)

4.1.9. Internal and external ratings

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

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

4. Financial and operational risk management (continued)

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

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.

4. Financial and operational risk management (continued)

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

June 2021 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	5 696	-	5 696
	Low	50 204	(24)	50 180
	Lower - Intermediate	89 185	(144)	89 041
	Upper - Intermediate	51 531	-	51 531
		196 616	(168)	196 448
Due from customers:				
Public administration				
	Very low	95 574	(19)	95 555
	Low	1 577	-	1 577
	Intermediate	17 545	(11)	17 534
	Upper - Intermediate	31 434	(85)	31 349
	High	6 564	(224)	6 340
	Unrated	58 497	(657)	57 840
		211 191	(996)	210 195
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	491 902	(73)	491 829
	Low	1 505 734	(626)	1 505 108
	Lower - Intermediate	933 062	(873)	932 189
	Intermediate	551 591	(1 025)	550 566
	Upper - Intermediate	249 318	(1 052)	248 266
	High	17 722	(297)	17 425
	Unrated	456 244	(2 099)	454 145
Specialized Lending - SPV, RED				
	Strong	204 732	(1 398)	203 334
	Good	317 283	(4 085)	313 198
	Satisfactory	269 399	(13 087)	256 312
	Weak	43 921	(4 975)	38 946
	Unrated	2 644	(19)	2 625
		5 043 552	(29 609)	5 013 943

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 **€ '000**	**Internal rating**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19 606	(9)	19 597
	Low	29 466	(36)	29 430
	Lower - Intermediate	59 543	(185)	59 358
	Intermediate	117 426	(571)	116 855
	Upper - Intermediate	33 302	(456)	32 846
	High	1 601	(171)	1 430
	Unrated	182 911	(2 519)	180 392
Mortgages				
	Very Low	7 336 418	(493)	7 335 925
	Lower - Intermediate	551 582	(416)	551 166
	Intermediate	6 788	(38)	6 750
	High	2 603	(80)	2 523
	Unrated	7 717	-	7 717
Unsecured Retail				
	Very Low	364 368	(396)	363 972
	Low	115 716	(238)	115 478
	Lower - Intermediate	485 795	(2 213)	483 582
	Intermediate	80 440	(1 356)	79 084
	Upper - Intermediate	33 010	(1 753)	31 257
	High	4 949	(774)	4 175
	Unrated	128 656	(1 051)	127 605
		9 561 897	(12 755)	9 549 142
		14 816 640	(43 360)	14 773 280
Financial assets at FVOCI - debt securities				
	Unrated	1 335 028	(312)	1 334 716

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies: Due from other banks				
	Very Low	5 962	-	5 962
	Lower - Intermediate	234 788	(26)	234 762
	Unrated	383 777	-	383 777
		624 527	(26)	624 501
Due from customers: Public administration				
	Very Low	140 733	(434)	140 299
	Low	544	-	544
	Intermediate	4 429	(1)	4 428
	Upper - Intermediate	22 555	(16)	22 539
	High	3 523	(41)	3 482
	Unrated	58	-	58
		171 842	(492)	171 350
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 040 038	(82)	1 039 956
	Low	1 594 755	(61)	1 594 694
	Lower - Intermediate	424 420	(268)	424 152
	Intermediate	256 038	(378)	255 660
	Upper - Intermediate	119 691	(546)	119 145
	High	36 393	(426)	35 967
	Unrated	228 174	(653)	227 521
Specialized Lending - SPV, RED				
	Good	95 376	(512)	94 864
	Satisfactory	88 718	(1 143)	87 575
	Weak	31 602	(1 184)	30 418
	Default	710	(57)	653
		3 915 915	(5 310)	3 910 605
Retail				
	Very Low	772 523	(96)	772 427
	Low	30 107	(15)	30 092
	Lower - Intermediate	161 278	(270)	161 008
	Intermediate	17 414	(58)	17 356
	Upper - Intermediate	6 721	(82)	6 639
	High	206	(29)	177
	Unrated	877	-	877
		989 126	(550)	988 576
		5 076 883	(6 352)	5 070 531

4. Financial and operational risk management (continued)

December 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)

4. Financial and operational risk management (continued)

December 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)

4. Financial and operational risk management (continued)

December 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

4. Financial and operational risk management (continued)

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

June 2021 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 2				
Financial assets at AC:				
Due from other banks	Very Low	349	-	349
	Upper - Intermediate	877	(39)	838
		1 226	(39)	1 187
Due from customers:				
Public administration				
	Intermediate	3 206	(11)	3 195
	Upper - Intermediate	13 458	(266)	13 192
	High	12 297	(975)	11 322
	Unrated	160	(10)	150
		29 121	(1 262)	27 859
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Low	82 528	(40)	82 488
	Lower - Intermediate	26 687	(183)	26 504
	Intermediate	52 957	(241)	52 716
	Upper - Intermediate	124 244	(1 588)	122 656
	High	32 243	(1 237)	31 006
	Unrated	7 070	(667)	6 403
Specialized Lending - SPV, RED				
	Good	24 648	(1 751)	22 897
	Satisfactory	18 478	(1 937)	16 541
	Weak	23 676	(5 443)	18 233
	Unrated	37	(2)	35
		392 568	(13 089)	379 479

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	21	-	21
	Low	246	(7)	239
	Lower - Intermediate	3 940	(65)	3 875
	Intermediate	20 084	(483)	19 601
	Upper - Intermediate	38 288	(2 008)	36 280
	High	9 972	(1 446)	8 526
	Unrated	11 892	(1 624)	10 268
Mortgages				
	Very Low	31 925	(219)	31 706
	Lower - Intermediate	119 415	(1 728)	117 687
	Intermediate	47 882	(1 334)	46 548
	High	49 611	(3 263)	46 348
Unsecured Retail				
	Very Low	1 565	(9)	1 556
	Low	1 044	(12)	1 032
	Lower - Intermediate	55 914	(1 285)	54 629
	Intermediate	51 034	(2 587)	48 447
	Upper - Intermediate	57 339	(5 483)	51 856
	High	59 199	(13 124)	46 075
	Unrated	1 087	(203)	884
		560 458	(34 880)	525 578
		982 147	(49 231)	932 916

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 € '000	Risk profile	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	Intermediate	226	(1)	225
	Upper - Intermediate	421	(2)	419
	High	900	(5)	895
		1 547	(8)	1 539
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	6 425	(2)	6 423
	Low	4 022	(2)	4 020
	Lower - Intermediate	4 609	(8)	4 601
	Intermediate	111 630	(772)	110 858
	Upper - Intermediate	28 734	(448)	28 286
	High	5 985	(350)	5 635
Specialized Lending - SPV, RED				
	Satisfactory	3 412	(590)	2 822
		164 817	(2 172)	162 645
Retail				
	Very Low	271	(7)	264
	Low	15	-	15
	Lower - Intermediate	9 112	(286)	8 826
	Intermediate	2 298	(87)	2 211
	Upper - Intermediate	2 796	(271)	2 525
	High	1 954	(469)	1 485
		16 446	(1 120)	15 326
		182 810	(3 300)	179 510

4. Financial and operational risk management (continued)

December 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)

4. Financial and operational risk management (continued)

December 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)

4. Financial and operational risk management (continued)

December 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

4. Financial and operational risk management (continued)

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

June 2021 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 3				
Financial assets at AC:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing	Default	84 247	(51 535)	32 712
Specialized Lending - SPV, RED	Default	4 409	(4 040)	369
		88 656	(55 575)	33 081
Retail				
Small Business, Flat Owners Associations	Default	34 773	(22 022)	12 751
Mortgages	Default	86 560	(36 784)	49 776
Unsecured Retail	Default	188 963	(119 953)	69 010
		310 296	(178 759)	131 537
		398 952	(234 334)	164 618
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing	Default	13 975	(3 784)	10 191
Retail	Default	4 874	(1 303)	3 571
		18 849	(5 087)	13 762

4. Financial and operational risk management (continued)

December 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

4. Financial and operational risk management (continued)

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

June 2021 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from other banks				
	Very Low	6 045	-	6 045
	Low	50 204	(24)	50 180
	Lower - Intermediate	89 185	(144)	89 041
	Upper - Intermediate	877	(39)	838
	Unrated	51 531	-	51 531
		197 842	(207)	197 635
Due from customers:				
Public administration				
	Very Low	95 574	(19)	95 555
	Low	1 577	-	1 577
	Intermediate	20 751	(22)	20 729
	Upper - Intermediate	44 892	(351)	44 541
	High	18 861	(1 199)	17 662
	Unrated	58 657	(667)	57 990
		240 312	(2 258)	238 054
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	491 902	(73)	491 829
	Low	1 588 262	(666)	1 587 596
	Lower - Intermediate	959 750	(1 056)	958 694
	Intermediate	604 548	(1 266)	603 282
	Upper - Intermediate	373 562	(2 640)	370 922
	High	49 965	(1 534)	48 431
	Default	84 247	(51 535)	32 712
	Unrated	463 314	(2 766)	460 548
Specialized Lending - SPV, RED				
	Strong	204 732	(1 398)	203 334
	Good	341 931	(5 836)	336 095
	Satisfactory	287 877	(15 024)	272 853
	Weak	67 597	(10 418)	57 179
	Default	4 409	(4 040)	369
	Unrated	2 681	(21)	2 660
		5 524 777	(98 273)	5 426 504

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19 627	(9)	19 618
	Low	29 712	(43)	29 669
	Lower - Intermediate	63 483	(250)	63 233
	Intermediate	137 510	(1 054)	136 456
	Upper - Intermediate	71 590	(2 464)	69 126
	High	11 573	(1 617)	9 956
	Default	34 773	(22 022)	12 751
	Unrated	194 803	(4 143)	190 660
Mortgages				
	Very Low	7 368 343	(712)	7 367 631
	Lower - Intermediate	670 997	(2 144)	668 853
	Intermediate	54 670	(1 372)	53 298
	High	52 214	(3 343)	48 871
	Default	86 560	(36 784)	49 776
	Unrated	7 717	-	7 717
Unsecured Retail				
	Very Low	365 933	(405)	365 528
	Low	116 760	(250)	116 510
	Lower - Intermediate	541 709	(3 498)	538 211
	Intermediate	131 474	(3 943)	127 531
	Upper - Intermediate	90 349	(7 236)	83 113
	High	64 148	(13 898)	50 250
	Default	188 963	(119 953)	69 010
	Unrated	129 743	(1 254)	128 489
		10 432 651	(226 394)	10 206 257
		16 197 740	(326 925)	15 870 815
Financial assets at FVOCI - debt securities				
	Unrated	1 335 028	(312)	1 334 716

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2021 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	5 962	-	5 962
	Lower - Intermediate	234 788	(26)	234 762
	Unrated	383 777	-	383 777
		624 527	(26)	624 501
Due from customers:				
Public administration				
	Very Low	140 733	(434)	140 299
	Low	544	-	544
	Intermediate	4 655	(2)	4 653
	Upper - Intermediate	22 976	(18)	22 958
	High	4 423	(46)	4 377
	Unrated	58	-	58
		173 389	(500)	172 889
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 046 463	(84)	1 046 379
	Low	1 598 777	(63)	1 598 714
	Lower - Intermediate	429 029	(276)	428 753
	Intermediate	367 668	(1 150)	366 518
	Upper - Intermediate	148 425	(994)	147 431
	High	42 378	(776)	41 602
	Default	13 975	(3 784)	10 191
	Unrated	228 174	(653)	227 521
Specialized Lending - SPV, RED				
	Good	95 376	(512)	94 864
	Satisfactory	92 130	(1 733)	90 397
	Weak	31 602	(1 184)	30 418
	Default	710	(57)	653
		4 094 707	(11 266)	4 083 441
Retail				
	Very Low	772 794	(103)	772 691
	Low	30 122	(15)	30 107
	Lower - Intermediate	170 390	(556)	169 834
	Intermediate	19 712	(145)	19 567
	Upper - Intermediate	9 517	(353)	9 164
	High	2 160	(498)	1 662
	Default	4 874	(1 303)	3 571
	Unrated	877	-	877
		1 010 446	(2 973)	1 007 473
		5 278 542	(14 739)	5 263 803

4. Financial and operational risk management (continued)

December 2020 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from other banks				
	Very Low	10 307	-	10 307
	Low	50 353	(65)	50 288
	Lower - Intermediate	144 414	(614)	143 800
	Upper - Intermediate	1 052	(27)	1 025
		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)

4. Financial and operational risk management (continued)

December 2020 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19 929	(9)	19 920
	Low	27 481	(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)

4. Financial and operational risk management (continued)

December 2020 **€ '000**	**Risk Profile**	**Gross amount**	**Provisions**	**Net amount**
Financial commitments and contingencies:				
Due from other banks				
	Very Low	6 073	(1)	6 072
	Lower - Intermediate	46 412	(64)	46 348
		52 485	(65)	52 420
Due from customers:				
Public administration				
	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

4. Financial and operational risk management (continued)

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

June 2021 **€ '000**	**External rating**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at FVOCI - debt securities				
	Aaa	226 513	(39)	226 474
	Aa1	135 628	(72)	135 556
	A2	362 323	(42)	362 281
	Baa1	169 700	(22)	169 678
	Baa3	440 864	(137)	440 727
		1 335 028	(312)	1 334 716

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

4. Financial and operational risk management (continued)

4.1.10. 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	June 2021	December 2020
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	122 040	109 307
Derivatives – Hedge accounting	103 832	127 863
	225 872	237 170

4. Financial and operational risk management (continued)

4.1.11. 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.

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 30 June 2021 the VUB Group received 28 548 requests for deferral of repayments of corporate and retail loans, of which 26 308 was granted in the total gross amount of € 1 276 000 thousand. Out of these, expired € 1 216 313 thousand.

June 2021 € '000		**Performing**			**Non-performing**	
	Gross amount	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	11 200	(1 413)	9 787	-	-	-
Retail	48 290	(1 500)	46 790	197	(102)	95
	59 490	(2 913)	56 577	197	(102)	95

4. Financial and operational risk management (continued)

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 30 June 2021 the VUB Group provided 1 410 newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis to enterprises in the total gross amount of € 205 545 thousand.

	Performing			Non-performing		
June 2021 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	158 816	(656)	158 160	1 008	(101)	907
Retail	45 721	(414)	45 307	-	-	-
	204 537	(1 070)	203 467	1 008	(101)	907

4. Financial and operational risk management (continued)

4.2. Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices or foreign exchange rate will affect the 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:

	June 2021				December 2020			
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	29	40	11	12	88	76	277	3
Interest rate risk	96	93	251	4	162	218	489	22
Total VaŔ	92	106	28	39	164	261	633	30
Total sVaR	609	443	1 466	195	178	503	1 265	135

4. Financial and operational risk management (continued)

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

- VaR does not measure the worst case loss, since a 99% confidence interval means that in 1% of cases the loss is expected to be greater than the VaR amount;
- VaR calculated using a one day holding period assumes hedge or disposal of a position within one day, which might not be realistic in the case of a longer illiquid situation on the market.

These limitations are recognized, by supplementing VaR limits with other structure position limits. In addition, the 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 repricing time buckets either by maturity for fixed rate instruments, or by next re-pricing date for floating rate instruments. Assets and liabilities that do not have a contractual maturity date are mapped according to internal models based on behavioural assumptions.

The Risk Management division is responsible for monitoring and reporting of interest rate gaps at least on a monthly basis. The management of interest rate risk is measured by shift sensitivity of fair value analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and instantaneous shift of +/- 100 basis points of the yield curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and instantaneous shift of +/-200 basis points, and non-parallel steepening and flattening scenarios as well as short rates up and down scenarios. Six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision, have been introduced in 2017. All scenarios are applied on monthly basis as from September 2020.

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

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

4. Financial and operational risk management (continued)

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

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

Contractual

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.

As at 31 June 2021, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (1 130) thousand (31 December 2020: € (2 523) thousand).

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

	June 2021	**December 2020**
Financial assets		
Cash and cash equivalents	0.06%	0.06%
Financial assets at FVTPL	0.07%	0.17%
Financial assets at FVOCI	(0.29)%	(0.07)%
Financial assets at AC:		
Due from other banks	1.16%	1.68%
Due from customers	2.00%	2.17%
Financial liabilities		
Financial liabilities at AC:		
Due to banks	0.67%	0.30%
Due to customers	0.09%	0.14%
Debt securities in issue	0.39%	0.55%

4. Financial and operational risk management (continued)

4.2.4. Currency denominations of assets and liabilities

Foreign exchange rate risk comprises the risk that the value of financial assets and financial liabilities will fluctuate due to changes in foreign exchange rates. It is the policy of the 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.

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.

4. Financial and operational risk management (continued)

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.

4. Financial and operational risk management (continued)

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:

June 2021 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and cash equivalents	2 434 419	-	2 434 419
Financial assets at FVTPL	11 648	191 933	203 581
Derivatives – Hedge accounting	102	55 788	55 890
Financial assets at FVOCI	444 255	898 263	1 342 518
Financial assets at AC:			
Due from other banks	75 252	122 383	197 635
Due from customers	3 005 557	12 865 258	15 870 815
Fair value changes of the hedged items in portfolio hedge of IRR	-	12 135	12 135
Investments in subsidiaries, joint ventures and associates	-	12 892	12 892
Property and equipment	-	123 134	123 134
Intangible assets	-	127 481	127 481
Goodwill	-	29 305	29 305
Current income tax assets	14 222	-	14 222
Deferred income tax assets	-	50 357	50 357
Other assets	19 027	-	19 027
Non-current assets and disposal groups classified as held for sale	154	-	154
	6 004 636	14 488 929	20 493 565
Liabilities			
Financial liabilities at FVTPL	(14 653)	(66 429)	(81 082)
Derivatives – Hedge accounting	(7 379)	(27 718)	(35 097)
Financial liabilities measured at AC:			
Due to banks	(313 427)	(1 351 792)	(1 665 219)
Due to customers	(1 642 920)	(11 124 839)	(12 767 759)
Lease liabilities	(6 501)	(15 758)	(22 259)
Subordinated debt	(134)	(200 000)	(200 134)
Debt securities in issue	(53 085)	(3 797 535)	(3 850 620)
Fair value changes of the hedged items in portfolio hedge of IRR	-	(5 129)	(5 129)
Current income tax liabilities	(351)	-	(351)
Provisions	-	(18 950)	(18 950)
Other liabilities	(78 283)	(5 407)	(83 690)
	(2 116 733)	(16 613 557)	(18 730 290)
Net position	3 887 903	(2 124 628)	1 763 275

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

4.4. Operational risk

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

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

(c) Due from customers

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

(d) Due to banks and Due to customers

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

(e) Subordinated debt

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

(f) Debt securities in issue

The fair value of debt securities issued by the 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.

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

June 2021 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and cash equivalents	7	2 434 419	-	2 434 419	-	2 434 420	-	2 434 420
Financial assets at FVTPL	8	-	203 581	203 581	7 741	195 840	-	203 581
Derivatives – Hedge accounting	9	-	55 890	55 890	-	55 890	-	55 890
Financial assets at FVOCI	10	-	1 342 518	1 342 518	1 015 443	327 074	-	1 342 517
Financial assets at AC:	11							
Due from other banks		197 635	-	197 635	-	197 634	-	197 634
Due from customers		15 870 815	-	15 870 815	-	49 780	17 785 719	17 835 499
		18 502 869	1 601 989	20 104 858	1 023 184	3 260 638	17 785 719	22 069 541
Financial liabilities								
Financial liabilities at FVTPL	8	-	81 082	81 082	-	81 082	-	81 082
Derivatives – Hedge accounting	9	-	35 097	35 097	-	35 097	-	35 097
Financial liabilities at AC:	11							
Due to banks		1 665 219	-	1 665 219	-	1 665 219	-	1 665 219
Due to customers		12 769 350	-	12 769 350	-	12 776 325	-	12 776 325
Lease liabilities		20 668	-	20 668	-	20 668	-	20 668
Subordinated debt		200 134	-	200 134	-	231 396	-	231 396
Debt securities in issue		3 850 620	-	3 850 620	-	3 891 994	-	3 891 994
		18 505 991	116 179	18 622 170	-	18 701 781	-	18 701 781

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

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

There were no transfers of financial instruments among the levels during 2021 and 2020.

6. Segment reporting

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

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

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

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

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

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

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

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

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

6. Segment reporting (continued)

June 2021 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Total reportable segments**	**Other**	**Total**
External revenue:						
Interest and similar income	102 385	58 550	(8 318)	152 617	2 831	155 448
Interest and similar expense	(3 145)	(946)	(8 199)	(12 290)	(3 111)	(15 401)
Inter-segment revenue	(3 043)	(4 728)	8 306	535	(535)	-
Net interest income	96 197	52 876	(8 211)	140 862	(815)	140 047
Net fee and commission income (note 25)	52 642	17 446	1 023	71 111	(1 730)	69 381
Dividend income	-	-	-	-	-	-
Net trading result	1 298	1 899	9 831	13 028	36	13 064
Other operating income	(798)	3 226	(878)	1 550	1 967	3 517
Other operating expense	(14 489)	(1 274)	19	(15 744)	(2 416)	(18 160)
Special levy of selected financial institutions*	-	-	-	-	-	-
Salaries and employee benefit	(22 157)	(6 864)	(330)	(29 351)	(31 223)	(60 574)
Other administrative expenses*	-	1 204	(781)	423	(35 762)	(35 339)
Amortisation	(3 193)	(207)	-	(3 400)	(4 672)	(8 072)
Depreciation	(1 461)	(1 240)	44	(2 657)	(5 318)	(7 975)
Profit before provisions, impairment and tax	108 039	67 066	717	175 822	(79 933)	95 889
Net modification gains or losses*	-	-	-	-	(46)	(46)
Provisions*	-	(73)	-	(73)	(9)	(82)
Impairment losses	1 122	(22 931)	248	(21 561)	987	(20 574)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(2 282)	660	-	(1 622)	(9)	(1 631)
Profit before tax	106 879	44 722	965	152 566	(79 010)	73 556
Segment assets	10 334 671	5 812 287	3 780 688	19 927 646	565 919	20 493 565
Segment liabilities	8 834 267	4 428 965	5 046 528	18 309 760	420 530	18 730 290

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

6. Segment reporting (continued)

June 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 26)	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 benefits	(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

December 2020 **€ '000**						
Segment assets	9 753 639	5 666 640	3 284 621	18 704 900	523 319	19 228 219
Segment liabilities	8 060 841	4 874 949	4 259 883	17 195 673	325 607	17 521 280

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

7. Cash and cash equivalents

'Cash and cash equivalents' comprise the following balances:

€ '000	June 2021	December 2020
Cash in hand	181 130	161 622
Balances at central banks:		
Compulsory minimum reserves	2 092 216	690 985
Current accounts	2	4
Term deposits	47 087	47 227
Loans and advances	86 332	78 749
	2 225 637	816 965
Due from other banks:		
Current accounts	27 652	17 859
	2 434 419	996 446

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	June 2021	December 2020
Financial assets held for trading:		
Trading derivatives	77 555	79 260
Equity instruments	-	6 163
Government debt securities of European Union countries	118 285	-
	195 840	85 423
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	7 741	711
Financial liabilities held for trading:		
Trading derivatives	81 082	87 377

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and Visa Inc. Series C Preferred Stock. The ISP shares form the part of the incentive plan introduced by the Parent Company in line with the Capital Directive 'CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). As at 1 January 2021, Visa Inc. Series C Preferred Stock were reclassified from 'Financial assets held for trading' to 'Non-trading financial assets at fair value through profit or loss'. The VUB Group did not elect at initial recognition the option to present these shares at FVOCI.

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

€ '000	**June 2021 Assets**	**December 2020 Assets**	**June 2021 Liabilities**	**December 2020 Liabilities**
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	64 973	71 917	66 625	74 070
Foreign currency instruments:				
Forwards and swaps	4 502	5 616	6 519	11 728
Options	173	194	161	194
	4 675	5 810	6 680	11 922
Equity and commodity instruments:				
Commodity forwards and swaps	7 907	1 533	7 777	1 385
	77 555	79 260	81 082	87 377

€ '000	**June 2021 Assets**	**December 2020 Assets**	**June 2021 Liabilities**	**December 2020 Liabilities**
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	5 001 177	3 834 656	5 001 177	3 834 656
Options	113 039	116 703	113 039	116 703
Futures	10 707	-	10 707	-
	5 124 923	3 951 359	5 124 923	3 951 359
Foreign currency instruments:				
Forwards and swaps	499 952	1 025 828	505 222	1 032 169
Options	18 717	21 859	18 722	21 859
	518 669	1 047 687	523 944	1 054 028
Equity and commodity instruments:				
Commodity forwards and swaps	40 081	37 770	40 081	37 770
	5 683 673	5 036 816	5 688 948	5 043 157

9. Derivatives – Hedge accounting

€ '000	June 2021 Assets	December 2020 Assets	June 2021 Liabilities	December 2020 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	55 890	85 192	35 097	65 407

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

The VUB Group used 13 interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The VUB Group used 28 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 9 interest rate swaps to hedge the interest rate risk of 6 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 1 interest rate swap to hedge the inflation and interest rate risk of 1 inflation bond from the FVOCI portfolio. The changes in fair value of interest rate swap substantially offset the changes in fair value of inflation bond in relation to both changes of interest rates and inflation reference index.

The VUB Group used 19 interest rate swaps to hedge the interest rate risk of 19 fixed rate financial institutions bonds from the FVOCI portfolio. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used 8 interest rate swaps and one cross currency swap to hedge the interest rate risk of 8 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 2 cross currency swaps to hedge the interest rate and foreign currency risk of 2 corporate loans denominated in GBP and USD. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of both interest rates and foreign exchange rates.

The VUB Group used 1 interest rate swap to hedge the interest rate risk of 1 loan received from European Investment 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 28 interest rate swaps to hedge the interest rate risk arising from the issuance of 16 fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

9. Derivatives – Hedge accounting (continued)

June 2021 **€ '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 recogni-sed in profit or loss**
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	718	12 759	797 000	797 000	13 751	1
Hedge of corporate loans	2 387	1 948	246 124	246 124	2 865	(15)
Hedge of loans received from EIB	-	30	50 000	50 000	(569)	7
Hedge of covered bonds	45 562	2 328	2 300 400	2 300 400	(24 187)	-
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	718	12 759	797 000	797 000	13 751	1
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	1 454	10 602	1 670 000	1 670 000	7 013	(61)
Hedge of current accounts	5 769	615	1 217 500	1 217 500	(1 919)	(58)

9. Derivatives – Hedge accounting (continued)

December 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 recogni-sed 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 corporate loans	979	19 861	2 300 000	2 300 000	(6 468)	240
Hedge of mortgage loans	7 513	-	112 500	112 500	2 445	35
Hedge of TLTROs	7 712	36 754	1 084 900	1 084 900	(17 430)	-
Hedge of current accounts	436	2 954	277 418	277 418	(1 829)	339

9. Derivatives – Hedge accounting (continued)

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

June 2021 € '000	**Line item in SOFP**	**Carrying amount**	**Accumulated amount of fair value adjustments included in carrying amount**	**Change in fair value used for calculating hedge ineffectiveness**	**Accumulated amount of fair value adjustment after termination of hedging relationship***
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 165 037	-	(13 750)	(125)
Corporate loans	Financial assets at AC: Due from customers	332 741	169	(5 735)	865
Loans received from EIB	Financial assets at AC: Due to banks	50 000	19	(576)	-
Covered bonds	Financial liabilities at AC: Debt securities in issue	1 239	41 620	(24 187)	41 321
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	1 670 000	9 391	(7 074)	2 744
Current accounts	Financial liabilities at AC: Due to customers	1 217 500	5 129	(1 861)	-

* 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.

9. Derivatives – Hedge accounting (continued)

December 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	-

10. Financial assets at fair value through other comprehensive income

€ '000	**June 2021**	**December 2020**
Government debt securities of European Union countries	977 866	1 271 994
of which Italian government debt securities	*421 688*	*492 007*
Bank debt securities	323 479	304 864
Other debt securities	33 371	33 851
Equity instruments:		
Visa Inc. Series A Preferred Stock	7 673	6 952
Intesa Sanpaolo S.p.A.	44	326
S.W.I.F.T.	85	80
	7 802	7 358
	1 342 518	1 618 067

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

11. Financial assets and financial liabilities at amortised cost

11.1. Due from other banks

€ '000	Note	June 2021	December 2020
Term deposits		14	-
Loans and advances		146 160	149 755
Cash collateral		51 668	56 371
Impairment losses	21	(207)	(706)
		197 635	205 420

11.2. Due from customers

June 2021 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
State administration	127 884	(19)	127 865
Municipalities	111 909	(2 236)	109 673
Municipalities – Leasing	519	(3)	516
	240 312	(2 258)	238 054
Corporate			
Large Corporates	2 096 599	(2 016)	2 094 583
Large Corporates – debt securities	129 295	(120)	129 175
Specialized Lending	909 227	(36 737)	872 490
SME	1 605 674	(51 532)	1 554 142
Other Non-banking Financial Institutions	417 797	(394)	417 403
Other Non-banking Financial Institutions – debt securities	80 251	(55)	80 196
Public Sector Entities	2 762	(86)	2 676
Leasing	163 432	(6 226)	157 206
Factoring	119 740	(1 107)	118 633
	5 524 777	(98 273)	5 426 504
Retail			
Small Business	449 866	(22 761)	427 105
Small Business – Leasing	70 700	(8 525)	62 175
Consumer Loans	1 457 489	(129 664)	1 327 825
Mortgages	8 240 501	(44 355)	8 196 146
Credit Cards	103 267	(14 383)	88 884
Overdrafts	68 323	(6 390)	61 933
Leasing	4 851	(94)	4 757
Flat Owners Associations	37 654	(222)	37 432
	10 432 651	(226 394)	10 206 257
	16 197 740	(326 925)	15 870 815

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

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

11.3. Due to banks

€ '000	June 2021	December 2020
Due to central banks:		
Current accounts	1 208	1 458
Loans received from central banks	999 806	-
	1 001 014	1 458
Due to other banks:		
Current accounts	85 204	27 464
Term deposits	7 227	8 170
Loans received from other banks	540 126	568 344
Revaluation of fair value hedged loans received	19	595
Cash collateral received	31 629	23 769
	664 205	628 342
	1 665 219	629 800

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

11.4. Due to customers

€ '000	June 2021	December 2020
Current accounts	9 914 070	9 533 964
Term deposits	1 845 935	2 618 892
Government and municipal deposits	567 859	486 233
Savings accounts	222 945	229 480
Loans received	9 043	9 103
Other deposits	209 498	109 148
	12 769 350	12 986 820

11.4. Lease liabilities

€ '000	June 2021	December 2020
Lease liabilities	20 668	18 562

11.6. Subordinated debt

€ '000	June 2021	December 2020
Subordinated debt	200 134	200 151

At 30 June 2021, the balance of subordinated debt comprised of one ten-year loan in the nominal amount of € 200,000 thousand (31 December 2020: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

11.7. Debt securities in issue

€ '000	2021	2020
Covered bonds	2 528 699	2 577 764
Covered bonds subject to fair value hedges	1 238 980	733 786
	3 767 679	3 311 550
Revaluation of fair value hedged covered bonds	41 620	65 807
Unamortized part of revaluation related to terminated fair value hedges	41 321	45 372
	3 850 620	3 422 729

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the VUB Group (note 11.2.).

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

Name	Interest rate (%)	Currency	Number in circulation as at 31 June 2021	Nominal value in original currency per piece	Issue date	Maturity date	June 2021 € '000	December 2020 € '000
Mortgage bonds VÚB, a. s. 30.	5.000	EUR	1 000	33 194	5.9.2007	5.9.2032	34 352	33 513
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33 194	29.11.2007	29.11.2037	20 261	19 766
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33 194	26.9.2008	26.9.2025	16 831	16 359
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50 000	29.11.2011	29.11.2030	15 473	15 071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100 000	21.6.2012	21.6.2027	24 933	25 512
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100 000	11.7.2012	11.7.2022	51 995	50 924
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100 000	16.1.2013	15.12.2023	70 958	72 107
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1 000 000	27.3.2014	27.3.2024	38 613	39 163
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100 000	14.11.2014	14.11.2029	50 303	49 717
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1 000	100 000	9.6.2015	9.6.2025	98 591	99 030
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1 000	100 000	29.9.2015	29.9.2025	100 375	99 713
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1 000	100 000	29.10.2015	29.10.2030	99 432	98 544
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1 000	100 000	21.3.2016	21.3.2023	100 000	100 251
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2 500	100 000	18.1.2017	18.1.2024	249 270	249 637
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2 500	100 000	27.4.2017	27.4.2027	247 998	249 099
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2 500	100 000	26.9.2017	26.9.2022	250 225	249 562
Covered bonds VÚB, a. s. 1	0.500	EUR	2 500	100 000	26.6.2018	26.6.2023	249 550	250 066
Covered bonds VÚB, a. s. 2	1.500	EUR	500	100 000	5.10.2018	15.12.2027	50 338	49 958
Covered bonds VÚB, a. s. 3	0.250	EUR	5 000	100 000	26.3.2019	26.3.2024	497 908	498 105
Covered bonds VÚB, a. s. 4	0.500	EUR	5 000	100 000	26.6.2019	26.6.2029	496 038	497 081
Covered bonds VÚB, a. s. 5	0.010	EUR	5 000	100 000	23.6.2020	23.6.2025	499 745	499 739
							3 767 679	3 311 550

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

€ '000	**June 2021**	**December 2020**
Financial assets at AC:		
Due from customers:		
Retail		
Mortgages	12 135	20 016
Financial liabilities at AC:		
Due to customers	5 129	6 990

13. Investments in joint ventures and associates

June 2021 € '000	**Share**	**Cost**	**Revaluation**	**Carrying amount**
VÚB Generali	50.00%	16 597	(3 787)	12 809
SBCB	33.33%	3	79	83
		16 600	(3 708)	12 892

December 2020 € '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.

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

June 2021 **€ '000**	**Owned**	**Right-of-use**	**Total**
Buildings and land	77 245	18 150	95 395
Equipment	6 361		6 361
Other tangibles	15 627	2 411	18 038
Assets in progress	3 494		3 494
	102 727	20 561	123 288

December 2020 **€ '000**	**Owned**	**Right-of-use**	**Total**
Buildings and land	75 649	18 480	94 129
Equipment	6 596	-	6 596
Other tangibles	16 172	22	16 194
Assets in progress	7 944	-	7 944
	106 361	18 502	124 863

June 2020 **€ '000**	**Buildings and land**	**Equipment**	**Other tangibles**	**Assets in progress**	**Total**
Cost or fair value					
As at 1 January	109 558	53 534	47 323	7 944	218 359
Additions	3 075	-	2 678	1 888	7 641
Disposals	(6 338)	(1 383)	(3 444)	-	(11 165)
Revaluation	-	-	-		-
Transfers	3 400	762	2 177	(6 338)	1
Exchange differences	12	6	1	-	19
As at 30 June	109 707	52 919	48 735	3 494	214 855
Accumulated depreciation					
As at 1 January	(15 080)	(46 938)	(30 808)	-	(92 826)
Depreciation for the period	(5 126)	(996)	(1 853)	-	(7 975)
Disposals	6 250	1 381	2 286	-	9 917
Revaluation	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange differences	(7)	(5)	-	-	(12)
As at 30 June	(13 963)	(46 558)	(30 375)	-	(90 896)
Impairment losses (note 21)					
As at 1 January	(349)	-	(321)	-	(670)
Creation	-	-	(57)	-	(57)
Release	-	-	56	-	56
As at 30 June	(349)	-	(322)	-	(671)
Carrying amount					
As at 1 January	94 129	6 596	16 194	7 944	124 863
As at 30 June	95 395	6 361	18 038	3 494	123 288

15. Intangible assets

June 2021 **€ '000**	**Software**	**Other intangible assets**	**Assets in progress**	**Total**
Cost				
As at 1 January	295 942	10 729	55 923	362 594
Additions	-	-	6 070	6 070
Disposals	(79)	-	-	(79)
Transfers	6 841	-	(6 841)	-
Exchange differences	27	-	-	27
As at 30 June	302 731	10 729	55 152	368 612
AccumulAs ated amortisAs ation				
As at 1 January	(222 695)	(10 371)	-	(233 066)
Amortization for the period	(8 011)	(61)	-	(8 072)
Disposals	29	-	-	29
Exchange differences	(22)	-	-	(22)
As at 30 June	(230 699)	(10 432)	-	(241 131)
Carrying amount				
As at 1 January	73 247	358	55 923	129 528
As at 30 June	72 032	297	55 152	127 481

16. Goodwill

€ '000	**June 2021**	**December 2020**
VÚB Leasing, a. s.	10 434	10 434
Retail Banking	18 871	18 871
	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 2021 and 2020.

17. Current and deferred income tax assets and liabilities

€ '000	June 2021	December 2020
Current income tax assets	14 222	26 518
Deferred income tax assets	50 357	54 802
Current income tax liabilities	351	3 411

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

€ '000	June 2021	Profit/ (loss) (note 34)	Equity	December 2020
Financial assets at FVOCI	(1 236)	-	1 271	(2 507)
Financial assets at AC:				
Due from other banks	43	(75)	-	118
Due from customers	48 422	(4 802)	-	53 224
Property and equipment	(14 351)	(185)	-	(14 167)
Other assets	7	-	-	7
Financial liabilities at AC:				
Lease liabilities	4 358	(102)	-	4 460
Provisions	2 811	57	-	2 754
Other liabilities	7 676	(726)	-	8 403
Other	2 627	112	(1)	2 510
	50 357	(5 721)	1 270	54 802

18. Other assets

€ '000	Note	June 2021	December 2020
Operating receivables and advances		13 411	16 643
Prepayments and accrued income		5 303	10 196
Inventories		2 642	1 213
Other tax receivables		386	712
Receivables from termination of leasing		9	64
Settlement of operations with financial instruments		179	12
Other		268	382
Impairment losses	21	(3 171)	(3 403)
		19 027	25 819

19. Provisions

€ '000	Note	June 2021	December 2020
Financial guarantees and commitments	21	14 765	13 933
Litigation	23	3 784	3 702
Restructuring provision		400	400
Other provisions		1	1
		18 950	18 036

2021 € '000	Note	1 January	Net creation/ release	Use	30 June
Litigation	23, 32	3 702	83	(1)	3 784
Restructuring provision	32	400	-	-	400
Other provisions	32	1	-	-	1
		4 103	83	(1)	4 185

20. Other liabilities

€ '000	June 2021	December 2020
Various creditors	35 641	40 435
Settlement with employees	28 903	28 524
Severance and Jubilee benefits	5 407	5 407
Settlement of operations with financial instruments	4 205	1
Accruals and deferred income	2 572	2 211
VAT payable and other tax payables	1 286	1 710
Settlement with shareholders	905	1 404
Share remuneration scheme	894	711
Investment certificates	544	843
Other	3 333	751
	83 690	81 997

At 30 June 2021 and 31 December 2020 there were no overdue balances within ‘Other liabilities’.

20. Other liabilities (continued)

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:

	December 2020	
	Jubilee benefits	**Retirement benefits**
Discount rate	(0,66)%	(0,11)%
Growth of wages*	-	0,00%
Future growth of wages*	-	4,50%
Turnover rate (based on age)	5,1% – 40,9%	5,1% – 40,9%
Retirement age	Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic	

* Growth of wages and Future growth of wages is not part of calculation for Jubilee benefits.

21. Movements in impairment losses and provisions for financial guarantees and commitments

2021 € '000	Note	1 January	Net creation/ (release) (note 33)	Assets written-off/sold	Exchange difference	Other*	30 June
Financial assets at FVOCI		306	6	-	-	-	312
Financial assets at AC:	11						
Due from other banks		706	(493)	-	(6)	-	207
Due from customers		331 219	21 276	(22 035)	(663)	(2 872)	326 925
Impairment losses according to IFRS 9		332 231	20 789	(22 035)	(669)	(2 872)	327 444
Financial guarantees and commitments	19	13 933	16	-	816	-	14 765
Impairment losses and provisions according to IFRS 9		346 164	20 805	(22 035)	147	(2 872)	342 209
Property and equipment and Non-current assets classified as held for sale	14	670	1	-	-	-	671
Other assets	18	3 403	(232)	-	-	-	3 171
Total impairment losses and provisions for financial guarantees and commitments		350 237	20 574	(22 035)	147	(2 872)	346 051

* ‘Other’ represents:
- the interest portion (unwinding of interest).

22. Equity

€ '000	**June 2021**	**December 2020**
Share capital - authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295 426	295 426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135 393	135 393
	430 819	430 819
Share premium	13 719	13 719
Reserves	112 003	116 769
Retained earnings (excluding net profit for the period)	1 145 794	1 062 938
	1 702 335	1 624 245

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

	June 2021	**December 2020**
Net profit for the period attributable to shareholders in € '000	60 940	82 694

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

The structure of shareholders is as follows:

€ '000	**June 2021**	**December 2020**
Intesa Sanpaolo Holding International S. A.	100,00%	97,03%
Domestic shareholders	0,00%	2,17%
Foreign shareholders	0,00%	0,80%
	100,00%	100,00%

22. Equity (continued)

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	**June 2021**	**December 2020**
Tier 1 capital		
Share capital	430 819	430 819
Share premium	13 719	13 719
Retained earnings*	1 137 330	1 054 474
Legal reserve fund	97 814	89 350
Other capital funds	-	8 464
Accumulated other comprehensive income	22 653	27 419
(-) Value adjustments due to the requirements for prudent valuation	(25)	(47)
Other transitional adjustments to CET1 Capital	20 674	31 413
CET1 capital elements or deductions — other	(6 401)	(5 090)
Less goodwill and intangible assets	(118 959)	(129 041)
Less IRB shortfall of credit risk adjustments to expected losses	(3 177)	(8 416)
(-) Insufficient coverage for non-performing exposures	(281)	-
	1 585 205	1 513 064
Tier 2 capital		
IRB excess of provisions over expected losses eligible	2 392	-
Subordinated debt	200 000	200 000
Other transitional adjustments to T2 Capital	(5 141)	(7 197)
	197 251	192 803
Total regulatory capital	1 782 456	1 705 867

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

€ '000	**June 2021**	**December 2020**
Retained earnings	1 206 734	1 145 632
Net profit for the period/year	(60 940)	(82 694)
Other capital funds	(8 464)	(8 464)
	1 137 330	1 054 474

€ '000	**June 2021**	**December 2020**	**June 2021 Required**	**December 2020 Required**
Tier 1 capital	1 585 205	1 513 064	730 837	726 425
Tier 2 capital	197 251	192 803	197 251	192 803
Total regulatory capital	1 782 456	1 705 867	730 837	726 425
Total Risk Weighted Assets	9 135 461	9 080 316	9 135 461	9 080 316
CET 1 capital ratio	17.35%	16.66%	11.84%	11.84%
Total capital ratio	19.51%	18.79%	16.00%	16.00%

22. Equity (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, accumulated other comprehensive income, foreign currency translation and reserves. The deducted amounts in Tier 1 capital are goodwill, intangible assets and irrevocable payment commitments (contribution to Single Resolution Fund) and IRB shortfall. Certain adjustments are made to IFRSs-based results and reserves, as prescribed by the CRR Regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and IRB excess of provisions over expected losses.

Own Funds, risk-weighted assets and the capital ratios as at 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 CounterCyclical Buffer 1.5%.

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

Since November 2014, the Bank has been under the supervision of the European Central Bank.

Internally, within its Risk Appetite framework, the VUB Group has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

22. Equity (continued)

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) No 2017/2395 amending the CRR Regulation as regard transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, integrating the CRR Regulation with Article 473 "Introduction of IFRS 9". The new Article allows banks to re-introduce in their Common Equity Tier 1 ('CET 1') a decreasing quota of the impact of IFRS 9 in a five-year transitional period (2018 – 2022). That amount shall be determined using the static approach which will be adopted by the 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	**June 2021**	**December 2020**
Issued guarantees	845 452	866 694
Commitments and undrawn credit facilities	5 057 617	3 665 938
of which revocable	*1 875 250*	*567 499*
	5 903 069	4 532 632

Issued guarantees represent irrevocable assurances that the VUB Group will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the VUB Group recognizes provisions for these instruments. (note 19)

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

23.3. 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 30 June 2021. Pursuant to this review, management has recorded total provisions of € 3 784 thousand (31 December 2020: € 3 702 thousand) in respect of such legal proceedings (note 19). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 30 935 thousand, as at 30 June 2021 (31 December 2020: € 30 367 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the VUB Group.

24. Net interest income

€ '000	June 2021	June 2020
Interest and similar income		
Financial assets at FVTPL	18	150
Financial assets at FVOCI	(99)	1 403
Financial assets at AC:		
Due from other banks	1 969	1 940
Due from customers	162 174	173 086
Derivatives - Hedge accounting	(9 223)	(7 414)
Interest income on liabilities	609	659
	155 448	169 824
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(864)	(1 039)
Due to customers and Subordinated debt	(6 372)	(10 259)
Lease liabilities	*(79)*	*(40)*
Debt securities in issue	(11 436)	(15 066)
Derivatives - Hedge accounting	5 052	5 798
Interest expense on assets	(1 781)	(277)
	(15 401)	(20 843)
	140 047	148 981

€ '000	June 2021	June 2020
Interest and similar income		
Total interest income calculated using the effective interest method	152 673	166 770
Other interest income - interest income on finance leases	18	2 904
Other interest income - interest income on financial assets at FVTPL	2 757	150
	155 448	169 824

€ '000	June 2021	June 2020
Net interest income		
Financial assets at FVOCI	(99)	1 403
Financial assets at AC	159 605	171 845
	159 506	173 248
Financial liabilities at AC	(18 063)	(25 705)

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.

25. Net fee and commission income (continued)

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.

25. Net fee and commission income (continued)

June 2021 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
Fee and commission income					
Current accounts	18 318	1 780	-	6	20 104
Payments and cash management	12 890	104	-	29	13 023
Cards	6 752	4 031	380	1	11 164
Loans	10 242	21	-	-	10 263
Indirect deposits	5 575	3 717	-	180	9 472
Insurance	6 411	-	-	-	6 411
Trade finance	6	4 052	869	-	4 927
Factoring	-	720	-	-	720
Structured finance	-	878	-	-	878
Other	387	1 860	298	187	2 732
	60 581	17 163	1 547	403	79 694
Fee and commission expense					
Cards	(6 848)	-	-	-	(6 848)
Payments and cash management	(775)	(2 353)	(271)	(274)	(3 673)
Current accounts	-	-	-	(347)	(347)
Insurance	(213)	-	-	-	(213)
Factoring	-	(145)	-	-	(145)
Indirect deposits	-	1	-	-	1
Other	(103)	(266)	(253)	(1 512)	(2 134)
	(7 939)	(2 763)	(524)	(2 133)	(13 359)
Net fee and commission income under IFRS 15	52 642	14 400	1 023	(1 730)	66 335
Income from guarantees under IFRS 9	-	3 046	-	-	3 046
Total net fee and commission income	52 642	17 446	1 023	(1 730)	69 381

25. Net fee and commission income (continued)

June 2020 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
Fee and commission income					
Current accounts	19 330	1 481	-	4	20 815
Cards	6 777	5 932	1 193	10	13 912
Payments and cash management	12 963	153	-	20	13 136
Indirect deposits	4 881	3 896	-	290	9 067
Loans	8 154	22	-	-	8 176
Insurance	5 931	2	-	-	5 933
Trade finance	5	3 536	796	-	4 337
Factoring	-	565	-	-	565
Structured finance	-	452	-	-	452
Other	397	1 342	118	35	1 892
	58 438	17 381	2 107	359	78 285
Fee and commission expense					
Cards	(7 587)	-	-	-	(7 587)
Payments and cash management	(815)	(2 358)	(221)	(246)	(3 640)
Current accounts	-	-	-	(241)	(241)
Insurance	(222)	-	-	-	(222)
Factoring	-	(119)	-	-	(119)
Other	(174)	-	(766)	(1 145)	(2 085)
	(8 798)	(2 477)	(987)	(1 632)	(13 894)
Net fee and commission income	49 640	14 904	1 120	(1 273)	64 391

26. Net trading result

€ '000	June 2021	June 2020
Financial assets measured at FVOCI	6 139	270
Foreign currency derivatives and transactions	5 923	(1 702)
Customer foreign exchange margins	3 485	3 150
Interest rate derivatives	733	(1 494)
Financial assets held for trading - debt securities	400	1 669
Non-trading financial assets measured at FVTPL	135	(172)
Other derivatives	70	195
Dividends from equity shares FVOCI	46	36
Net result from hedging transactions	(126)	909
Cross currency swaps	(3 741)	2 344
	13 064	5 205

27. Other operating income

€ '000	June 2021	June 2020
Income from operating leasing	2 181	2 214
Financial revenues	440	1 112
Net profit from sale of fixed assets	274	338
Services	3	4
Other	619	295
	3 517	3 963

28. Other operating expenses

€ '000	June 2021	June 2020
Contribution to the Single Resolution Fund*	(7 424)	(6 880)
Contribution to the Deposit Protection Fund**	(5 267)	(605)
Costs of product support – credit cards	(700)	-
Court fees and expenses and out-of-court settlements	(607)	-
Other damages	(168)	(12)
Other	(3 994)	(4 794)
	(18 160)	(12 291)

* 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	June 2021	June 2020
Special levy of selected financial institutions	-	(31 038)

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

The special levy of selected financial institutions was set to 0.4% p. a. of selected liabilities for the year 2020. As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective. This amendment also covered measures in the area of special levy of selected financial institutions. According to these measures no more special levy payments were required from July 2020 until the end of 2020.

30. Salaries and employee benefits

€ '000	June 2021	June 2020
Remuneration	(43 484)	(43 731)
Social security costs	(16 445)	(17 113)
Social fund	(645)	(653)
Termination benefit	-	(150)
Severance and Jubilee benefits	-	-
	(60 574)	(61 647)

At 30 June 2021, the total number of employees of the VUB Group was 3 482 (31 December 2020: 3 655). The average number of employees of the VUB Group during the period ended as at 30 June 2021 was 3 525 (31 December 2020: 3 699).

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

31. Other administrative expenses

€ '000	June 2021	June 2020
Third parties' services	(9 083)	(9 384)
Information technologies systems maintenance	(7 086)	(7 214)
Maintenance and repairs	(2 726)	(2 976)
Advertising and sponsorship	(2 500)	(2 942)
Postage costs	(1 925)	(2 297)
Rental of buildings and related expenses**	(1 865)	(1 840)
Telephone and telecommunication costs	(1 596)	(1 404)
Forms and office supplies	(1 192)	(1 338)
Energy costs	(1 113)	(1 386)
Electronic data processing system leasing**	(976)	(916)
Cleaning of premises	(789)	(910)
Transport	(721)	(728)
Security	(660)	(692)
Insurance	(609)	(499)
Archives and documents	(488)	(574)
Cost of legal services	(451)	(368)
Indirect personnel costs and compensation	(442)	(501)
Other rentals	(416)	(464)
Consultations and other fees*	(357)	(360)
Information and research	(106)	(85)
Other expenses**	(949)	(2 174)
Value added tax and other taxes	(165)	(50)
Reinvoicing	876	797
	(35 339)	(38 305)

32. Provisions

€ '000	Note	June 2021	June 2020
Net release and use of provisions for litigations	19	82	44
Net release and use of provisions for other provisions	19	-	-
		82	44

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

€ '000	Note	June 2021	June 2020
Net creation of impairment losses	21	(20 559)	(32 760)
Net (creation)/release of provisions for financial guarantees and commitments	21	(15)	(712)
		(20 574)	(33 472)
Net loss arising from the derecognition of financial assets at AC		(1 631)	(1 728)

34. Income tax expense

€ '000	Note	June 2021	June 2020
Current income tax	17	(11 699)	(3 413)
Deferred income tax	17	(5 721)	(4 219)
		(17 420)	(7 632)

35. Other comprehensive income

€ '000	June 2021	June 2020
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation gain/(loss) arising during the year	501	(173)
Reclassification adjustment for profit on sale of FVOCI equities within equity	110	614
	611	441
Net revaluation gain from property and equipment	-	-
Reversal of deferred income tax on disposed property and equipment	-	99
	611	540
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	-	-
Change in value of financial assets at FVOCI (debt instruments):		
Revaluation loss arising during the year	6 997	(4 315)
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(13 723)	(175)
	(6 726)	(4 490)
Exchange difference on translation foreign operation	(22)	(360)
	(6 748)	(4 850)
Total other comprehensive income	(6 137)	(4 310)
Income tax relating to components of other comprehensive income (note 36)	1 262	721
Other comprehensive income for the year after tax	(4 875)	(3 589)

36. Income tax effects relating to other comprehensive income

€ '000	June 2021 Before tax amount	June 2021 Tax (expense)/ benefit	June 2021 Net of tax amount	June 2020 Before tax amount	June 2020 Tax (expense)/ benefit	June 2020 Net of tax amount
Items that shall not be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (equity instruments)	611	(151)	460	441	(222)	219
Reversal of deferred income tax on disposed property and equipment	-	-	-	99	-	99
	611	(151)	460	540	(222)	318
Items that may be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (debt instruments)	(6 726)	1 413	(5 313)	(4 490)	943	(3 547)
Exchange differences on translation foreign operations	(22)		(22)	(360)		(360)
	(6 748)	1 413	(5 335)	(4 850)	943	(3 907)
	(6 137)	1 262	(4 875)	(4 310)	721	(3 589)

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.

On 20 July 2020 was completed the merger by incorporation of Banca IMI S.p.A., the part of the ISP Group, into the Parent Company Intesa Sanpaolo S.p.A. From this day all legal relations concerning the merged company will be intended as referred to Intesa Sanpaolo S.p.A.

37. Related parties (continued)

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

€ '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Cash and cash equivalents	-	-	-	16 572	374	16 946
Financial assets at FVTPL:						
Financial assets held for trading	-	-	-	54 923	1	54 924
Non-trading financial assets at FVTPL	-	-	-	894	-	894
Derivatives - Hedge accounting	-	-	-	55 890	-	55 890
Financial assets at FVOCI	-	-	-	44	-	44
Financial assets at AC:						
Due from other banks	-	-	-	48 038	-	48 038
Due from customers	327	4	-	-	14 986	15 317
Other assets	-	-	-	-	1 134	1 134
	327	4	-	176 361	16 495	193 187
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	-	-	-	64 356	-	64 356
Derivatives - Hedge accounting	-	-	-	21 186	-	21 186
Financial liabilities at AC:		-				
Due to banks	-	-	-	503 769	6 468	510 237
Due to customers	1 100	-	214	-	10 788	12 102
Subordinated debt	-	-	-	-	200 134	200 134
Provisions	-	-	-	18	-	18
Other liabilities	894	-	-	35	-	929
	1 994	-	214	589 364	217 390	808 962

37. Related parties (continued)

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

37. Related parties (continued)

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

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	56	17	-	191 479	-	191 552
Issued guarantees	-	-	-	2 924	116	3 040
Received guarantees	-	-	-	8 305	-	8 305
Derivative transactions (notional amount – receivable)	-	-	-	10 957 067	1 527	10 958 594
Derivative transactions (notional amount – payable)	-	-	-	10 955 344	1 527	10 956 871

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

37. Related parties (continued)

For the year ended 30 June 2021, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	2	-	1	1	19	23
Interest and similar expense	(1)	-	-	(622)	(2 777)	(3 400)
Fee and commission income	-	-	-	48	8 328	8 376
Fee and commission expense	-	-	-	(289)	(4)	(293)
Net trading result	-	-	-	5 967	(38)	5 929
Other operating income	-	-	-	4	28	32
Other operating expenses	-	-	-	(198)	-	(198)
Other administrative expenses	-	-	-	(4 465)	(713)	(5 178)
Impairment losses	-	-	-	16	-	16
	1	-	1	462	4 843	5 307

37. Related parties (continued)

For the year ended 30 June 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	-	-	9	4	15
Interest and similar expense	(1)	-	-	(678)	(2 941)	(3 620)
Fee and commission income	1	-	-	104	7 140	7 245
Fee and commission expense	-	-	-	(281)	(622)	(903)
Net trading result	-	-	-	1 542	2 050	3 592
Other operating income	-	-	-	-	78	78
Other operating expenses	-	-	-	(189)	-	(189)
Other administrative expenses	-	-	-	(5 862)	(202)	(6 064)
Impairment losses	-	-	-	(5)	2	(3)
	2	-	-	(5 360)	5 509	151

38. Events after the end of the reporting period

From 30 June 2021, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue on 25 August 2021.

Peter Magala Member of the Management Board	Paolo Vivona Member of the Management Board