Interim condensed consolidated financial statements for the six months ended 30 June 2022

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

VÚB BANKA

Contents

Consolidated statement of financial position as at 30 June 2022
(In thousands of euro)

	Note	June 2022	December 2021
Assets			
Cash and cash equivalents	7	3 115 522	2 612 787
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		47 119	30 064
Non-trading financial assets at fair value through profit or loss		6 762	7 316
Derivatives – Hedge accounting	9	195 269	55 574
Financial assets at fair value through other comprehensive income	10	1 493 029	1 671 403
of which pledged as collateral		*1 374 291*	*1 549 666*
Financial assets at amortised cost:	11		
Due from other banks		1 846 229	1 819 392
of which pledged as collateral		*1 653 303*	*1 649 805*
Due from customers		16 991 386	16 659 876
of which pledged as collateral		*102 049*	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	(47 456)	3 301
Investments in joint ventures and associates	13	10 436	18 090
Property and equipment	14	113 059	122 597
Intangible assets	15	127 689	131 776
Goodwill	16	29 305	29 305
Current income tax assets	17	52	1 594
Deferred income tax assets	17	57 156	55 471
Other assets	18	25 142	23 794
Non-current assets classified as held for sale	14	5 946	515
		24 016 645	23 242 855
Liabilities			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		46 305	30 863
Derivatives – Hedge accounting	9	195 133	31 510
Financial liabilities at amortised cost:	11		
Due to banks		3 372 651	3 314 948
Due to customers		14 147 642	13 952 765
Lease liabilities		19 559	19 133
Subordinated debt		200 152	200 150
Debt securities in issue		4 151 235	3 829 056
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	(11 420)	2 816
Current income tax liabilities	17	19 888	12 018
Provisions	19	20 669	25 061
Other liabilities	20	86 676	89 611
		22 248 490	21 507 931
Equity	22		
Share capital		430 819	430 819
Share premium		13 719	13 719
Legal reserve fund		87 493	89 778
Retained earnings		1 231 462	1 175 583
Equity reserves		4 662	25 025
		1 768 155	1 734 924
		24 016 645	23 242 855

The accompanying notes on pages 8 to 145 form an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2022 (In thousands of euro)

	Note	June 2022	June 2021
Interest income calculated using the effective interest method		180 386	152 673
Other interest income		2 315	2 775
Interest and similar expense		(34 942)	(15 401)
Net interest income	24	147 759	140 047
Fee and commission income		98 771	82 451
Fee and commission expense		(16 149)	(13 070)
Net fee and commission income	25	82 622	69 381
Net trading result	26	6 705	13 064
Other operating income	27	3 706	3 517
Other operating expenses	28	(21 767)	(18 160)
Salaries and employee benefits	29	(59 767)	(60 574)
Other administrative expenses	30	(37 055)	(35 339)
Amortisation	15	(9 019)	(8 072)
Depreciation	14	(7 180)	(7 975)
Profit before provisions, impairment and tax		106 004	95 889
Net modification gains or losses		(17)	(46)
Provisions	19, 31	(63)	(82)
Impairment losses	21, 32	(30 920)	(20 574)
Net loss arising from the derecognition of financial assets at amortised cost	32	8 387	(1 631)
		83 391	73 556
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method		1 306	4 804
Profit before tax		84 697	78 360
Income tax expense	33	(20 932)	(17 420)
NET PROFIT FOR THE SIX MONTHS		63 765	60 940
Other comprehensive income for the six months, after tax:	34, 35		
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)		(541)	460
		(541)	460
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)		(19 730)	(5 313)
Exchange difference on translation of foreign operations		(92)	(22)
		(19 822)	(5 335)
Other comprehensive income for the six months, net of tax		(20 363)	(4 875)
TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS		43 402	56 065

The accompanying notes on pages 8 to 145 form an integral part of these financial statements.

VÚB BANKA

Consolidated statement of changes in equity for the six months ended 30 June 2022
(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 31 December 2021	430 819	13 719	89 778	1 175 583	17 215	7 710	-	100	1 734 924
VUB Leasing Merger	-	-	(2 285)	2 608	-	-	-	-	323
At 1 January 2022	430 819	13 719	87 493	1 178 191	17 215	7 710	-	100	1 735 247
Total comprehensive income for the six months, net of tax	-	-	-	63 765	-	(20 271)	-	(92)	43 402
Losses on the sale of shares at FVOCI	-	-	-	-	-	-	-	-	-
Gain on disposal of property and equipment	-	-	-	-	-	-	-	-	-
Exchange difference	-	-	-	(104)	-	-	-	-	(104)
Transactions with owners, recorded directly in equity									
Dividends to shareholders	-	-	-	(10 534)	-	-	-	-	(10 534)
Reversal of dividends distributed but not collected	-	-	-	144	-	-	-	-	144
At 30 June 2022	430 819	13 719	87 493	1 231 462	17 215	(12 561)	-	8	1 768 155

(Table continues on the next page)

The accompanying notes on pages 8 to 145 form an integral part of these financial statements.

Consolidated statement of changes in equity for the six months ended 30 June 2022
(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 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

The accompanying notes on pages 8 to 145 form an integral part of these financial statements.

VÚB BANKA

Consolidated statement of cash flows for the six months ended 30 June 2022
(In thousands of euro)

	Note	June 2022	June 2021
Cash flows from operating activities:			
Profit before tax		84 697	78 360
Adjustments for:			
Interest income	24	(182 701)	(155 448)
Interest expense	24	34 942	15 401
Loss from sale/revaluation of financial assets at fair value through other comprehensive income		55 525	17 811
Gain on sale of intangible assets and property and equipment	28	(729)	(323)
Gain from revaluation of debt securities in issue		(162 316)	(28 238)
Amortisation	15	9 019	8 072
Depreciation	14	7 180	7 975
Impairment losses and similar charges	31, 32	64 947	52 146
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method and related items		7 729	(1 834)
Exchange difference on translation of foreign operations	34, 35	(196)	(20)
Interest received		184 433	165 818
Interest paid		(50 863)	(12 741)
Tax paid		(13 205)	(3 739)
Increase in financial assets at fair value through profit or loss		(16 499)	(117 436)
(Increase)/decrease in derivatives – hedge accounting (assets)		(139 695)	29 302
Financial assets at amortised cost:			
(Increase)/decrease in due from other banks		(23 159)	8 410
Increase in due from customers		(401 025)	(688 762)
Decrease in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		50 757	7 881
(Increase)/decrease in other assets		(1 534)	7 024
Increase/(decrease) in financial liabilities at fair value through profit or loss		15 442	(6 295)
Increase/(decrease) in derivatives – hedge accounting (liabilities)		163 623	(30 310)
Financial liabilities measured at amortised cost:			
(Decrease)/increase in due to banks		(376 420)	1 063 485
Increase/(decrease) in due to customers		198 698	(216 616)
Decrease in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		(14 236)	(1 861)
Increase in provisions		169	898
(Decrease)/increase in other liabilities		(2 791)	1 962
Net cash (used in)/from operating activities		(508 208)	200 922
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(483 390)	(547 514)
Disposal of financial assets at fair value through other comprehensive income		294 275	419 835
Repayments of financial assets at fair value through other comprehensive income		286 803	375 000
Purchase of intangible assets and property and equipment		1 054 713	(13 175)
Disposal of intangible assets and property and equipment		(1 058 079)	1 385
Purchase of share in Monilogi, s.r.o.		(75)	-
Net cash from investing activities		94 247	235 531

(Table continues on the next page)

The accompanying notes on pages 8 to 145 form an integral part of these financial statements.

Consolidated statement of cash flows for the six months ended 30 June 2022
(In thousands of euro)
(continued)

	Note	June 2022	June 2021
Cash flows from financing activities:			
Proceeds from issue of debt securities		500 000	500 000
Repayments of debt securities in issue		(14 000)	(47 597)
Proceeds from loans received from other banks		450 000	-
Repayments of loans received from other banks		(5 280)	(27 871)
Repayments of lease liabilities		(3 490)	1 792
Dividends paid		(10 534)	-
Net cash from financing activities		916 696	426 324
Net change in cash and cash equivalents		502 735	862 777
Cash and cash equivalents as at 1 January	7	2 612 787	1 571 642
Cash and cash equivalents at 30 June	7	3 115 522	2 434 419

The accompanying notes on pages 8 to 145 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 2022, the VUB Group had a network of 172 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2021: 179). The VUB Group also has one branch in the Czech Republic (31 December 2021: 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 2022, the members of the Management Board are Alexander Resch (Chairman), Paolo Vivona (Vice Chairman), Marie Kovářová, Peter Magala, Martin Techman, Andrej Viceník a Darina Kmeťová.

As at 30 June 2022, 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 2022	Share December 2021	Principal business activity
Subsidiaries			
VÚB Leasing, a. s. ('VÚB Leasing')	-	100%	Finance and operating leasing
VUB Operating Leasing, a.s. ("VUB Operating leasing")	100%	100%	Operating leasing
Joint ventures			
Monilogi, s.r.o.("Monilogi)	30 %	-	Cash processing
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.

The Bank´s 100% subsidiary VÚB Leasing, a.s. (Business Reg. Nr.: 31318045) ceased its operations as of 31.12.2021 and as of this day the company has been removed from the list of active companies of Business Register of the Slovak Republic. Its operations related to finance lease have been transferred to the Bank and those related to operating lease to the company VÚB Operating Leasing, a.s. (Business Reg. Nr.: 54108128), that is also 100% subsidiary of the Bank.

On 10 May 2022, Monilogi, s.r.o., in which VUB group has a 30 % shareholding, was registered in the Business Register of the Slovak Republic. This is a joint venture of the five banks that created this company to outsource cash processing operations and cost optimisation.

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.

1.5. Functional and presentation currency

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

Negative balances are presented in brackets.

1.6. Use of judgements and estimates

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

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

1.6.1. Judgements

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

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

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

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

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

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

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

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

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

1.6.2. Assumptions and estimation uncertainties

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

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

- Determination of the fair value of financial instruments with significant unobservable inputs. (note 5)

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

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information. (note 4.1.2)

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

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

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

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

2. Changes in accounting policies

A number of the new standards are also effective from 1 January 2022 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- IFRS 17: Insurance Contracts and amendments to IFRS 17 Insurance Contracts,
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1),
- Reference to Conceptual Framework (Amendments to IFRS 3),
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16),
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37),
- Annual Improvements to IFRS Standards 2018–2020,
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16),
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2),
- Definition of Accounting Estimates (Amendments to IAS 8).

Annual Improvements to IFRS Standards 2018-2021

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

Amendment to IFRS 9 Financial Instruments

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

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

2.3 Group restructuring under common control

The merger was accounted for according to the continuity principle, where the values used were accounted for in accordance with IFRS standards of VÚB Leasing, a. s. (VÚBL).

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.

3.3. Cash and cash equivalents

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

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

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

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

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

3.4.2. Classification

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

- Amortised cost ('AC'),
- Fair value through other comprehensive income ('FVOCI'), or
- Fair value through profit or loss ('FVTPL').

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

The VUB Group uses the following business models:

- Held to collect,
- Held to collect and sell,
- Held for trading/Other.

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales, in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the VUB Group states objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment of whether contractual cash flows are SPPI

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

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

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

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

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

Reclassifications

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

3.4.3. Subsequent measurement

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

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

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

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

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

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

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

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

3.4.5. Modifications

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

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

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

3.4.6. Offsetting

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

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

3.4.7. Fair value measurement

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

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

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

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

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

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

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

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

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

3.5.2. Financial assets at fair value through profit or loss

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

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

3.6. Financial assets at fair value through other comprehensive income

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

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

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

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

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

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

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

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

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

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

3.7. Financial assets and financial liabilities at amortised costs

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

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

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Due from other banks

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

Due from customers

Due from customers balances comprise loans and advances and securities with fixed or determinable payments and fixed maturities. These receivables are recorded at amortised cost less any impairment losses. (note 11.2)

Impairment

The detailed description of policy is in the note 4.1.2.

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

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

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

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

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

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

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

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

3.8. Repurchase and reverse repurchase agreements

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

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

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

3.9. Derivatives – Hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments

If a hedging relationship is directly affected by IBOR reform, then the VUB Group applies certain exceptions (referred to as ‘the Phase 1 amendments’) to the general hedge accounting policy.

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

The Phase 2 amendments

Policies specific to non-contractually specified risk portions

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

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

Policies specific to cash flow hedges

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

3.10. Investments in joint ventures and associates

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

Free Cash Flow to Equity model

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

3.11. Transactions under common control

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

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

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

3.12. Property and equipment

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

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

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

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

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

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

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

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

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

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7 – 10

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

3.14. Goodwill

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

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

3.15. Non-current assets held for sale

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

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

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

The VUB Group is a party to lease contracts for:

- Buildings and land (branch and office premises and lands under ATMs),
- Other tangible assets (motor vehicles).

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

Leases in which the VUB Group is a lessee

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

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

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

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

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

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

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

	Years
Buildings	2 – 6
Other tangibles	2 – 5

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

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

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

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

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

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

The lease term determined by the VUB Group comprises:

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

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

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

Leases in which the VUB Group is a lessor

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

Finance leases

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

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

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

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

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

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

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

The lease payments are applied against the gross investment in the lease and reduce both the principal and the unearned finance income. The detailed description of impairment of the net investment in the lease is described in the note 4.1.2.

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

Operating leases

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

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

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

3.17. Provisions

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

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

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

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

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

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

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

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

3.18. Provisions for employee benefits

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

3.19. Equity reserves

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

- 'Revaluation surplus of buildings and land' reserve which consists of the revaluation surplus of buildings and land measured at fair value using a revaluation model.
- 'Cash flow hedges' reserve which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.
- 'Financial assets at fair value through other comprehensive income' reserve which comprises changes in the fair value of financial assets at FVOCI.
- 'Translation of foreign operation' reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations.

3.20. Net interest income

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest expense from TLTRO, presented under line “Interest Income”.

3.21. Net fee and commission income

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

Fee and commission income and expense 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.

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

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

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

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

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

Revenue recognition under IFRS 15:

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

3.22. Net trading result

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

3.23. Dividend income

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

3.24. Current and deferred income tax

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

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

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

4. Financial and operational risk management

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

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

- Asset/Liability Committee ('ALCO'),
- Credit Risk Governance Committee ('CRGC'),
- Operational Risk Committee ('ORC').

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

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

4.1. Credit risk

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

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

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

- Authorized Approval Authority,
- Collateral Management Policy,
- Provisioning Policy,
- Credit Concentration Limits,
- Default Definition,
- Risk Management Client Segmentation Policy,
- Corporate Credit Policy, Retail Credit Policy,
- Retail and Corporate Remedial Management and Collections.

4.1.1. Management of credit risk

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

- The development of credit risk strategies, policies, processes and procedures covering rules for credit assessment, collateral requirements, risk grading and reporting;
- Setting limits for the concentration of exposure to counterparties, related parties, countries and total assets and monitoring compliance with those limits;
- Establishment of the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are set in the CRC;

- Credit risk assessment according to defined policy;
- Monitoring of quality portfolio performance and its compliance with set limits (regulatory, internal). Regular reports are provided to the Management Board and the CRC on the credit quality of the VUB Group's portfolios;
- Development, maintenance and validation of scoring and rating models – both application and behavioural;
- Development, maintenance and back-testing of impairment loss models.

4.1.2. Impairment losses

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

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

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

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

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

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

Inputs, assumptions and techniques used for estimating impairment

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

The VUB Group identified the following portfolios: Retail – Consumer Loans, Retail – Overdrafts, Retail – Credit cards, Retail – Leasing, 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 Operating Leasing.

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

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

- Creation of migration matrices using the internal ratings;
- Removal of macroeconomic effect from the migration matrices using the Merton formula;
- Creation of Through-the-cycle ('TTC') matrix computed as the average of the annual migration matrices obtained after the removal of the macroeconomic effect;
- Creation of the future Point-in-Time ('PIT') matrices obtained by conditioning the TTC matrix using Merton formula and forward looking information;
- Obtaining the final Lifetime PD vectors by multiplying the predicted PIT and TTC matrices adjusted by add-on for incorporation of various economic scenarios.

For LGD models of the portfolios where the VUB Group uses internal models, the modelling approach consists of the following steps:

- Calculation of nominal LGD;
- Incorporation of forward looking information using coefficients calculated based on Path-generator issued by the European Banking Authority ('EBA');
- Obtaining the final LGD values by discounting the recovery rates using effective interest rate and average time to recovery.

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

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

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

Days past due ('DPD') methodology

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

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

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

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

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

The absolute threshold is exceeded when:

overdue exposure > absolute threshold

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

The relative threshold is exceeded when:

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

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

Staging methodology

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

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

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

The 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 30 June 2022 and 30 June 2021 the VUB Group did not classify any financial assets as Purchased or Originated Credit Impaired ('POCI').

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

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

Stage 2 criterion: Forborne performing exposures

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

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

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

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

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

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

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

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

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

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

Stage 3 criterion

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

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

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

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

Staging criteria for debt securities

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

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

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

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

- at origination financial instruments are classified in Stage 1;
- if there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2.

Staging criteria for Low Default Portfolio and Intragroup exposures

Low Default Portfolio consists of exposures with the following parties:

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

Intragroup exposures are exposures with the following parties:

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

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

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

Expected credit loss calculation

Stage 1

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

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

where:

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

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

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

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

Stage 2

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

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

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

For exposures with remaining maturity greater than one year :

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

where:

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

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

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

where:

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

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

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

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

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

Stage 3

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

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

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

where:

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

Incorporation of forward-looking information

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

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

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

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

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

	GDP, (constant prices, % change)			**Unemployment rate (Labour Force Sample Survey, %)**			**Consumer prices index (quarterly average, % change)**			**EURIBOR 3M (end of period)**		
	Base scenario	**Best scenario**	**Worst scenario**	**Base scenario**	**Best scenario**	**Worst scenario**	**Base scenario**	**Best scenario**	**Worst scenario**	**Base scenario**	**Best scenario**	**Worst scenario**
1Q 2022	6,20	7,55	4,70	6,80	6,50	7,40	4,30	4,50	3,80	(0,55)	(0,55)	(0,55)
2Q 2022	5,40	6,75	3,90	6,80	6,40	7,30	3,70	3,90	3,20	(0,55)	(0,55)	(0,55)
3Q 2022	4,30	5,65	2,80	6,70	6,40	7,30	3,00	3,20	2,50	(0,54)	(0,54)	(0,54)
4Q 2022	4,20	5,55	2,70	6,70	6,30	7,20	2,60	2,80	2,10	(0,54)	(0,54)	(0,54)
1Q 2023	4,01	5,11	2,71	6,60	6,20	7,10	2,40	2,60	2,10	(0,54)	(0,54)	(0,54)
2Q 2023	3,82	4,92	2,52	6,60	6,20	7,00	2,40	2,60	2,10	(0,53)	(0,53)	(0,53)
3Q 2023	3,90	5,00	2,60	6,50	6,20	7,00	2,60	2,70	2,20	(0,52)	(0,39)	(0,52)
4Q 2023	4,28	5,38	2,98	6,50	6,10	6,90	2,20	2,30	2,00	(0,52)	(0,27)	(0,52)
1Q 2024	2,93	3,73	1,58	6,40	6,00	6,90	2,10	2,20	2,00	(0,49)	(0,24)	(0,49)
2Q 2024	2,24	3,04	0,89	6,40	6,00	6,80	2,10	2,20	2,00	(0,47)	(0,10)	(0,47)
3Q 2024	1,63	2,43	0,28	6,30	6,00	6,70	2,10	2,20	2,00	(0,47)	(0,03)	(0,47)
4Q 2024	1,00	1,80	(0,35)	6,20	5,90	6,60	2,00	2,10	2,00	(0,40)	(0,19)	(0,43)

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

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

	Portfolio assessed			Individually assessed		
June 2022 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 1						
Financial assets at AC:						
Due from other banks	1 765 641	(17)	1 765 624	-	-	-
Due from customers:						
Public administration	202 716	(1 596)	201 120	-	-	-
Corporate	5 717 165	(27 464)	5 689 701	-	-	-
Retail	9 902 253	(20 066)	9 882 187	-	-	-
	15 822 134	(49 126)	15 773 008	-	-	-
	17 587 775	(49 143)	17 538 632	-	-	-
Financial assets at FVOCI – debt securities	1 485 798	(296)	1 485 502	-	-	-
Financial commitments and contingencies	5 657 803	(4 769)	5 653 034	-	-	-

December 2021 **€ '000**	**Portfolio assessed** **Gross amount**	**Impairment losses**	**Net amount**	**Individually assessed** **Gross amount**	**Impairment losses**	**Net amount**
Stage 1						
Financial assets at AC:						
Due from other banks	1 818 800	(90)	1 818 710	-	-	-
Due from customers:						
Public administration	198 572	(1 598)	196 974	-	-	-
Corporate	5 667 010	(29 951)	5 637 059	-	-	-
Retail	9 868 834	(11 634)	9 857 200	-	-	-
	15 734 416	(43 183)	15 691 233	-	-	-
	17 553 216	(43 273)	17 509 943	-	-	-
Financial assets at FVOCI – debt securities	1 664 143	(329)	1 663 814	-	-	-
Financial commitments and contingencies	5 219 620	(4 848)	5 214 772	-	-	-

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

	Portfolio assessed			Individually assessed		
June 2022 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 2						
Financial assets at AC:						
Due from other banks	80 846	(241)	80 605	-	-	-
Due from customers:						
Public administration	6 881	(252)	6 629	-	-	-
Corporate	600 636	(23 308)	577 328	-	-	-
Retail	575 407	(34 665)	540 742	-	-	-
	1 182 924	(58 225)	1 124 699	-	-	-
	1 263 770	(58 466)	1 205 304	-	-	-
Financial commitments and contingencies	96 141	(4 897)	91 244	-	-	-

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

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

	Portfolio assessed			Individually assessed		
June 2022 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	9 558	(5 976)	3 582	74 825	(49 066)	25 759
Retail	245 827	(182 702)	63 125	5 196	(3 979)	1 217
	255 385	(188 678)	66 707	80 021	(53 045)	26 976
Financial commitments and contingencies	5 956	(1 912)	4 044	16 051	(4 950)	11 101

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

4.1.3. Non-performing loan classification

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

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

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

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

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

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

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

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

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

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

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

June 2022 **€ '000**	**Category**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from other banks				
	Performing	1 846 487	(258)	1 846 229
Due from customers:				
Public administration				
	Performing	209 597	(1 848)	207 749
Corporate				
	Performing	6 317 801	(50 772)	6 267 029
	Past due	3 343	(686)	2 657
	Unlikely to pay	40 978	(17 520)	23 458
	Doubtful	40 062	(36 836)	3 226
		6 402 184	(105 814)	6 296 370
Retail				
	Performing	10 477 660	(54 731)	10 422 929
	Past due	41 678	(25 070)	16 608
	Unlikely to pay	35 902	(25 257)	10 645
	Doubtful	173 443	(136 354)	37 089
		10 728 683	(241 412)	10 487 271
		17 340 464	(349 074)	16 991 390
		19 186 951	(349 332)	18 837 619
Financial assets at FVOCI – debt securities				
	Performing	1 485 798	(296)	1 485 502
Financial commitments and contingencies				
	Performing	5 753 944	(9 666)	5 744 278
	Past due	2 767	(608)	2 159
	Unlikely to pay	15 222	(4 200)	11 022
	Doubtful	4 018	(2 054)	1 964
		5 775 951	(16 528)	5 759 423

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

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

June 2022 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from other banks			
No delinquency	1 845 531	(238)	1 845 293
1 – 30 days	956	(20)	936
	1 846 487	(258)	1 846 229
Due from customers:			
Public administration			
No delinquency	209 188	(1 847)	207 341
1 – 30 days	350	-	350
31 – 60 days	59	(1)	58
	209 597	(1 848)	207 749
Corporate			
No delinquency	6 322 901	(64 359)	6 258 542
1 – 30 days	29 371	(1 624)	27 747
31 – 60 days	4 328	(738)	3 590
61 – 90 days	788	(252)	536
91 – 180 days	6 604	(3 692)	2 912
Over 181 days	38 192	(35 149)	3 043
	6 402 184	(105 814)	6 296 370
Retail			
No delinquency	10 451 635	(72 629)	10 379 006
1 – 30 days	70 123	(10 716)	59 407
31 – 60 days	14 308	(3 618)	10 690
61 – 90 days	8 885	(2 427)	6 458
91 – 180 days	24 198	(18 803)	5 395
Over 181 days	159 534	(133 219)	26 315
	10 728 683	(241 412)	10 487 271
	17 340 464	(349 074)	16 991 390
	19 186 951	(349 332)	18 837 619
Financial assets at FVOCI - debt securities			
No delinquency	1 485 798	(296)	1 485 502
Financial commitments and contingencies			
No delinquency	5 775 951	(16 528)	5 759 423

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

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 2022	**Stage 1**			**Stage 2**			**Stage 3**		
€ '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:									
Due from other banks	1 765 641	(17)	1 765 624	80 846	(241)	80 605	-	-	-
Due from customers:									
Public administration									
Single Resolution Fund	-	-	-	-	-	-	-	-	-
State administration	100 240	(731)	99 509	-	-	-	-	-	-
Municipalities	102 091	(864)	101 227	6 881	(252)	6 629	-	-	-
Municipalities – Leasing	385	(1)	384	-	-	-	-	-	-
	202 716	(1 596)	201 120	6 881	(252)	6 629	-	-	-
Corporate									
Large Corporates	2 310 492	(1 367)	2 309 125	300 596	(10 927)	289 669	232	(213)	19
Large Corporates – debt securities	116 184	(73)	116 111	27 544	(591)	26 953	-	-	-
Specialized Lending	869 284	(23 212)	846 072	30 115	(7 050)	23 065	5 275	(4 473)	802
SME	1 626 115	(2 576)	1 623 539	222 816	(4 662)	218 154	75 357	(48 731)	26 626
Other Non-banking Financial Institutions	402 596	(112)	402 484	2	-	2	-	-	-
Other Non-banking Financial Institutions – debt securities	217 631	(56)	217 575	-	-	-	-	-	-
Public Sector Entities	4 199	(1)	4 198	484	-	484	1	-	1
Leasing	9 847	(5)	9 842	4 222	(75)	4 147	547	(472)	75
Factoring	160 818	(62)	160 756	14 857	(3)	14 854	2 970	(1 153)	1 817
	5 717 166	(27 464)	5 689 702	600 636	(23 308)	577 328	84 382	(55 042)	29 340

(Table continues on the next page)

June 2022 **€ '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	363 029	(8 971)	354 058	137 390	(9 544)	127 846	28 876	(21 236)	7 640
Small Business – Leasing	29 925	(194)	29 731	9 340	(436)	8 904	4 674	(3 238)	1 436
Consumer Loans	1 006 623	(9 108)	997 515	166 926	(17 141)	149 785	127 345	(107 318)	20 027
Mortgages	8 346 657	(997)	8 345 660	233 310	(5 996)	227 314	71 799	(37 655)	34 144
Credit Cards	71 875	(130)	71 745	8 392	(698)	7 694	12 018	(11 465)	553
Overdrafts	39 538	(313)	39 225	19 919	(840)	19 079	6 217	(5 694)	523
Leasing	5 411	(23)	5 388	129	(11)	118	95	(77)	18
Flat Owners Associations	39 195	(327)	38 868	-	-	-	-	-	-
	9 902 253	(20 063)	9 882 190	575 406	(34 666)	540 740	251 024	(186 683)	64 341
	15 822 135	(49 123)	15 773 012	1 182 923	(58 226)	1 124 697	335 406	(241 725)	93 681
	17 587 776	(49 140)	17 538 636	1 263 769	(58 467)	1 205 302	335 406	(241 725)	93 681
Financial assets at FVOCI – debt securities	1 485 798	(296)	1 485 502	-	-	-	-	-	-
Financial commitments and contingencies	5 657 803	(4 769)	5 653 034	96 141	(4 897)	91 244	22 007	(6 862)	15 145

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

(Table continues on the next page)

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

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 2022		**Stage 1**			**Stage 2**			**Stage 3**	
€ '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:									
Due from other banks									
No delinquency	1 764 685	3	1 764 688	80 846	(241)	80 605	-	-	-
1 – 30 days	956	(20)	936	-	-	-	-	-	-
	1 765 641	(17)	1 765 624	80 846	(241)	80 605	-	-	-
Due from customers:									
Public administration									
No delinquency	202 366	(1 596)	200 770	6 822	(251)	6 571	-	-	-
1 – 30 days	350	-	350	-	-	-	-	-	-
31 – 60 days	-	-	-	59	(1)	58	-	-	-
	202 716	(1 596)	201 120	6 881	(252)	6 629	-	-	-
Corporate									
No delinquency	5 697 611	(27 354)	5 670 257	588 334	(23 114)	565 220	36 956	(13 891)	23 065
1 – 30 days	18 751	(97)	18 654	8 563	(167)	8 396	2 057	(1 360)	697
31 – 60 days	-	-	-	3 463	(27)	3 436	865	(711)	154
61 – 90 days	-	-	-	276	-	276	512	(252)	260
91 – 180 days	-	-	-	-	-	-	6 604	(3 692)	2 912
Over 181 days	804	(13)	791	-	-	-	37 388	(35 136)	2 252
	5 717 166	(27 464)	5 689 702	600 636	(23 308)	577 328	84 382	(55 042)	29 340

(Table continues on the next page)

June 2022 **€ '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	9 882 082	(19 345)	9 862 737	520 990	(27 349)	493 641	48 563	(25 935)	22 628
1 – 30 days	20 169	(718)	19 451	38 002	(4 551)	33 451	11 952	(5 447)	6 505
31 – 60 days	-	-	-	9 892	(1 605)	8 287	4 416	(2 013)	2 403
61 – 90 days	-	-	-	6 522	(1 161)	5 361	2 363	(1 266)	1 097
91 – 180 days	2	-	2	-	-	-	24 196	(18 803)	5 393
Over 181 days	-	-	-	-	-	-	159 534	(133 219)	26 315
	9 902 253	(20 063)	9 882 190	575 406	(34 666)	540 740	251 024	(186 683)	64 341
	15 822 135	(49 123)	15 773 012	1 182 923	(58 226)	1 124 697	335 406	(241 725)	93 681
	17 587 776	(49 140)	17 538 636	1 263 769	(58 467)	1 205 302	335 406	(241 725)	93 681
Financial assets at FVOCI – debt securities									
No delinquency	1 485 798	(296)	1 485 502	-	-	-	-	-	-
Financial commitments and contingencies									
No delinquency	5 657 803	(4 769)	5 653 034	96 141	(4 897)	91 244	22 007	(6 862)	15 145

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

(Table continues on the next page)

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

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 2022 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Due from banks	80 141	(221)	79 920	-	-	-
Due from customers:						
Corporate	72 216	(5 872)	66 344	47 119	(21 143)	25 976
Retail	94 897	(4 283)	90 614	26 891	(20 729)	6 162
	167 113	(10 155)	156 958	74 010	(41 872)	32 138
Financial commitments and contin-gencies	4 426	(11)	4 415	1 289	(447)	842

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

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 € 13 512 thousand (31 December 2021: € 35 247 thousand).

4.1.6. Collateral Policy

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

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

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

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

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

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

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

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

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

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.

4.1.8. 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 2022 **€ '000**	**Gross amount**	**Impairment losses/ provisions**	**Net amount**
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	170 948	(1 133)	169 815
Corporate	3 806 712	(89 921)	3 716 787
Retail	10 564 636	(238 467)	10 326 169
	14 542 296	(329 525)	14 212 771
Financial assets at FVOCI - debt securities	582 052	(83)	581 969
Financial commitments and contingencies	3 783 771	(15 673)	3 768 098
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	1 025 248	(6 898)	1 018 350
Retail	21 236	(2 002)	19 234
	1 046 484	(8 900)	1 037 584
Financial commitments and contingencies	1 314 204	(585)	1 313 619
Other European countries			
Financial assets at AC:			
Due from other banks	1 754 990	(35)	1 754 955
Due from customers:			
Corporate	1 473 195	(8 982)	1 464 213
Retail	123 630	(814)	122 816
	1 596 825	(9 796)	1 587 029
	3 351 815	(9 831)	3 341 984
Financial assets at FVOCI - debt securities	809 472	(212)	809 260
Financial commitments and contingencies	602 721	(190)	602 531

(Table continues on the next page)

June 2022 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	68	-	68
Retail	2 538	(2)	2 536
	2 606	(2)	2 604
Financial assets at FVOCI - debt securities	94 275	(2)	94 273
Financial commitments and contingencies	168	-	168
Asia			
Financial assets at AC:			
Due from other banks	11 543	(2)	11 541
Due from customers:			
Corporate	96 796	(13)	96 783
Retail	13 543	(70)	13 473
	121 882	(85)	121 797
Financial commitments and contingencies	74 639	(80)	74 559
Rest of the World			
Financial assets at AC:			
Due from other banks	79 954	(221)	79 733
Due from customers:			
Public administration	38 649	(715)	37 934
Corporate	165	-	165
Retail	3 100	(57)	3 043
	41 914	(772)	41 142
	121 868	(993)	120 875
Financial commitments and contingencies	448	-	448

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

(Table continues on the next page)

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

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

June 2022 € '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	-	59	178 743	26 673	-	112 144
Mining and quarrying	-	-	51 229	439	-	61 125
Manufacturing	-	-	1 021 289	40 890	-	873 787
Electricity, gas, steam and air conditioning supply	-	-	628 899	1 059	-	629 645
Water supply	-	-	58 925	2 968	-	28 859
Construction	-	-	317 822	46 349	-	619 141
Wholesale and retail trade	-	-	1 099 575	124 791	-	500 691
Transport and storage	-	310	651 101	152 147	-	264 264
Accommodation and food service activities	-	-	30 520	13 690	-	4 268
Information and communication	-	9	134 759	9 250	-	114 300
Financial and insurance activities**	1 846 229	-	620 723	491	290 177	738 366
Real estate activities	-	-	654 135	59 256	-	202 704
Professional, scientific and technical activities	-	10	214 486	37 768	-	187 620
Administrative and support service activities	-	-	113 020	13 094	-	44 874
Public administration and defense, compulsory social security	-	207 341	698	181	1 195 324	206 330
Education	-	-	3 556	1 156	-	949
Human health services and social work activities	-	-	17 223	27 919	-	14 390
Arts, entertainment and recreation	-	20	18 357	10 795	-	1 289
Other services	-	-	481 310	5 091	-	93 941
Consumer Loans	-	-	-	1 306 146	-	296 998
Mortgage Loans	-	-	-	8 607 118	-	763 738
	1 846 229	207 749	6 296 370	10 487 271	1 485 501	5 759 423

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

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

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

4.1.9. Internal and external ratings

The overview of the internal rating scales according to the risk profile applicable for the corporate exposures, 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

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

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

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

Capital requirement calculation

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

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

June 2022 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	8 808	(1)	8 807
	Low	50 023	(15)	50 008
	Lower - Intermediate	2 736	(1)	2 735
	Unrated	1 704 074	-	1 704 074
		1 765 641	(17)	1 765 624
Due from customers:				
Public administration				
	Very low	58 184	(10)	58 174
	Low	56 398	(25)	56 373
	Intermediate	45 389	(721)	44 668
	Upper - Intermediate	14 256	(62)	14 194
	High	389	(15)	374
	Unrated	28 100	(763)	27 337
		202 716	(1 596)	201 120
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	813 897	(108)	813 789
	Low	1 535 041	(421)	1 534 620
	Lower - Intermediate	1 064 140	(717)	1 063 423
	Intermediate	757 247	(1 222)	756 025
	Upper - Intermediate	306 713	(1 133)	305 580
	High	27 040	(547)	26 493
	Unrated	343 802	(104)	343 698
Specialized Lending - SPV, RED				
	Strong	289 402	(2 016)	287 386
	Good	262 138	(3 299)	258 839
	Satisfactory	271 938	(12 995)	258 943
	Weak	45 807	(4 902)	40 905
		5 717 165	(27 464)	5 689 701

(Table continues on the next page)

June 2022 € '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	22 012	(10)	22 002
	Low	34 796	(47)	34 749
	Lower - Intermediate	107 808	(7 066)	100 742
	Intermediate	191 851	(1 043)	190 808
	Upper - Intermediate	74 231	(1 067)	73 164
	High	2 123	(259)	1 864
	Unrated	4 740	(23)	4 717
Mortgages				
	Very Low	7 738 256	(319)	7 737 937
	Lower - Intermediate	571 692	(320)	571 372
	Intermediate	25 149	(146)	25 003
	High	6 362	(211)	6 151
	Unrated	5 198	(1)	5 197
Unsecured Retail				
	Very Low	355 055	(274)	354 781
	Low	112 990	(174)	112 816
	Lower - Intermediate	464 837	(2 504)	462 333
	Intermediate	82 187	(1 207)	80 980
	Upper - Intermediate	39 750	(1 945)	37 805
	High	5 934	(1 103)	4 831
	Unrated	57 282	(2 347)	54 935
		9 902 253	(20 066)	9 882 187
		15 822 134	(49 126)	15 773 008
Financial assets at FVOCI - debt securities				
	Unrated	1 485 798	(296)	1 485 502

(Table continues on the next page)

June 2022 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Lower - Intermediate	261 038	(16)	261 022
	Unrated	9 912	-	9 912
		270 950	(16)	270 934
Due from customers:				
Public administration				
	Very Low	105 216	(4)	105 212
	Low	34 163	(10)	34 153
	Intermediate	61 969	(5)	61 964
	Upper - Intermediate	4 596	(13)	4 583
	High	20	-	20
	Unrated	53	-	53
		206 017	(32)	205 985
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 238 943	(89)	1 238 854
	Low	1 212 488	(149)	1 212 339
	Lower - Intermediate	442 530	(253)	442 277
	Intermediate	361 087	(542)	360 545
	Upper - Intermediate	78 391	(209)	78 182
	High	5 667	(154)	5 513
	Unrated	488 641	(251)	488 390
Specialized Lending - SPV, RED				
	Strong	134 460	(699)	133 761
	Good	55 066	(578)	54 488
	Satisfactory	35 708	(915)	34 793
	Unrated	20	-	20
		4 053 001	(3 839)	4 049 162
Retail				
	Very Low	854 270	(73)	854 197
	Low	41 783	(24)	41 759
	Lower - Intermediate	184 948	(279)	184 669
	Intermediate	32 338	(151)	32 187
	Upper - Intermediate	5 894	(82)	5 812
	High	6 542	(269)	6 273
	Unrated	2 060	(4)	2 056
		1 127 835	(882)	1 126 953
		5 386 853	(4 753)	5 382 100

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

(Table continues on the next page)

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

(Table continues on the next page)

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

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

June 2022 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Stage 2				
Financial assets at AC:				
Due from other banks	High	80 846	(241)	80 605
Due from customers:				
Public administration				
	Intermediate	421	(2)	419
	Upper - Intermediate	5 752	(199)	5 553
	High	639	(46)	593
	Unrated	69	(5)	64
		6 881	(252)	6 629
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	424	-	424
	Low	1 901	(2)	1 899
	Lower - Intermediate	21 714	(118)	21 596
	Intermediate	179 545	(3 202)	176 343
	Upper - Intermediate	198 985	(6 285)	192 700
	High	152 613	(6 647)	145 966
	Unrated	15 340	(4)	15 336
Specialized Lending - SPV, RED				
	Satisfactory	13 099	(1 694)	11 405
	Weak	17 015	(5 356)	11 659
		600 636	(23 308)	577 328

(Table continues on the next page)

June 2022 **€ '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	161	-	161
	Low	1 136	(4)	1 132
	Lower - Intermediate	16 330	(1 817)	14 513
	Intermediate	36 113	(990)	35 123
	Upper - Intermediate	76 781	(4 711)	72 070
	High	16 235	(2 458)	13 777
	Unrated	103	(11)	92
Mortgages				
	Very Low	34 516	(169)	34 347
	Lower - Intermediate	110 550	(1 250)	109 300
	Intermediate	43 587	(932)	42 655
	High	44 657	(3 645)	41 012
Unsecured Retail				
	Very Low	1 822	(9)	1 813
	Low	1 151	(10)	1 141
	Lower - Intermediate	50 290	(1 175)	49 115
	Intermediate	48 616	(2 110)	46 506
	Upper - Intermediate	46 625	(4 417)	42 208
	High	46 729	(10 957)	35 772
	Unrated	5	-	5
		575 407	(34 665)	540 742
		1 182 924	(58 225)	1 124 699

(Table continues on the next page)

June 2022 € '000	Risk profile	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from other banks:	Lower - Intermediate	50	-	50
Due from customers:				
Public administration	Upper - Intermediate	42	(1)	41
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	576	-	576
	Low	2 870	(1)	2 869
	Lower - Intermediate	3 661	(85)	3 576
	Intermediate	22 334	(127)	22 207
	Upper - Intermediate	17 135	(326)	16 809
	High	5 211	(191)	5 020
	Unrated	25 096	(2 857)	22 239
Specialized Lending - SPV, RED				
	Satisfactory	1	-	1
	Weak	23	(6)	17
		76 907	(3 593)	73 314
Retail				
	Very Low	1 022	(23)	999
	Low	69	-	69
	Lower - Intermediate	5 097	(75)	5 022
	Intermediate	4 790	(269)	4 521
	Upper - Intermediate	5 588	(351)	5 237
	High	2 413	(566)	1 847
	Unrated	163	(19)	144
		19 142	(1 303)	17 839
		96 091	(4 897)	91 194

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

(Table continues on the next page)

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

(Table continues on the next page)

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

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

June 2022 **€ '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	79 108	(50 569)	28 539
Specialized Lending - SPV, RED	Default	5 275	(4 473)	802
		84 383	(55 042)	29 341
Retail				
Small Business, Flat Owners Associations	Default	33 644	(24 551)	9 093
Mortgages	Default	71 799	(37 655)	34 144
Unsecured Retail	Default	145 580	(124 475)	21 105
		251 023	(186 681)	64 342
		335 406	(241 723)	93 683
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing	Default	17 151	(5 266)	11 885
Retail	Default	4 856	(1 596)	3 260
		22 007	(6 862)	15 145

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

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

June 2022 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from other banks				
	Very Low	8 808	(1)	8 807
	Low	50 023	(15)	50 008
	Lower - Intermediate	2 736	(1)	2 735
	High	80 846	(241)	80 605
	Unrated	1 704 074	-	1 704 074
		1 846 487	(258)	1 846 229
Due from customers:				
Public administration				
	Very Low	58 184	(10)	58 174
	Low	56 398	(25)	56 373
	Intermediate	45 810	(723)	45 087
	Upper - Intermediate	20 008	(261)	19 747
	High	1 028	(61)	967
	Unrated	28 169	(768)	27 401
		209 597	(1 848)	207 749
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	814 321	(108)	814 213
	Low	1 536 942	(423)	1 536 519
	Lower - Intermediate	1 085 854	(835)	1 085 019
	Intermediate	936 792	(4 424)	932 368
	Upper - Intermediate	505 698	(7 418)	498 280
	High	179 653	(7 194)	172 459
	Default	79 108	(50 569)	28 539
	Unrated	359 142	(108)	359 034
Specialized Lending - SPV, RED				
	Strong	289 402	(2 016)	287 386
	Good	262 138	(3 299)	258 839
	Satisfactory	285 037	(14 689)	270 348
	Weak	62 822	(10 258)	52 564
	Default	5 275	(4 473)	802
		6 402 184	(105 814)	6 296 370

(Table continues on the next page)

June 2022 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	22 173	(10)	22 163
	Low	35 932	(51)	35 881
	Lower - Intermediate	124 138	(8 883)	115 255
	Intermediate	227 964	(2 033)	225 931
	Upper - Intermediate	151 012	(5 778)	145 234
	High	18 358	(2 717)	15 641
	Default	33 644	(24 551)	9 093
	Unrated	4 843	(34)	4 809
Mortgages				
	Very Low	7 772 772	(488)	7 772 284
	Lower - Intermediate	682 242	(1 570)	680 672
	Intermediate	68 736	(1 078)	67 658
	High	51 019	(3 856)	47 163
	Default	71 799	(37 655)	34 144
	Unrated	5 198	(1)	5 197
Unsecured Retail				
	Very Low	356 877	(283)	356 594
	Low	114 141	(184)	113 957
	Lower - Intermediate	515 127	(3 679)	511 448
	Intermediate	130 803	(3 317)	127 486
	Upper - Intermediate	86 375	(6 362)	80 013
	High	52 663	(12 060)	40 603
	Default	145 580	(124 475)	21 105
	Unrated	57 287	(2 347)	54 940
		10 728 683	(241 412)	10 487 271
		17 340 464	(349 074)	16 991 390
Financial assets at FVOCI - debt securities				
	Unrated	1 485 798	(296)	1 485 502

(Table continues on the next page)

June 2022 **€ '000**	**Risk Profile**	**Gross amount**	**Provisions**	**Net amount**
Financial commitments and contingencies: Due from other banks				
	Lower - Intermediate	261 088	(16)	261 072
	Unrated	9 912	-	9 912
		271 000	(16)	270 984
Due from customers: Public administration				
	Very Low	105 216	(4)	105 212
	Low	34 163	(10)	34 153
	Intermediate	61 969	(5)	61 964
	Upper - Intermediate	4 638	(14)	4 624
	High	20	-	20
	Unrated	53	-	53
		206 059	(33)	206 026
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 239 519	(89)	1 239 430
	Low	1 215 358	(150)	1 215 208
	Lower - Intermediate	446 191	(338)	445 853
	Intermediate	383 421	(669)	382 752
	Upper - Intermediate	95 526	(535)	94 991
	High	10 878	(345)	10 533
	Default	17 151	(5 266)	11 885
	Unrated	513 737	(3 108)	510 629
Specialized Lending - SPV, RED				
	Strong	134 460	(699)	133 761
	Good	55 066	(578)	54 488
	Satisfactory	35 709	(915)	34 794
	Weak	23	(6)	17
	Unrated	20	-	20
		4 147 059	(12 698)	4 134 361
Retail				
	Very Low	855 292	(96)	855 196
	Low	41 852	(24)	41 828
	Lower - Intermediate	190 045	(354)	189 691
	Intermediate	37 128	(420)	36 708
	Upper - Intermediate	11 482	(433)	11 049
	High	8 955	(835)	8 120
	Default	4 856	(1 596)	3 260
	Unrated	2 223	(23)	2 200
		1 151 833	(3 781)	1 148 052
		5 504 951	(16 512)	5 488 439

December 2021 **€ '000**	**Risk Profile**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:				
Due from other banks				
	Very Low	2 966	-	2 966
	Low	132 684	(87)	132 597
	Lower - Intermediate	701	(22)	679
	Unrated	1 683 150	-	1 683 150
		1 819 501	(109)	1 819 392
Due from customers:				
Public administration				
	Very low risk	153 860	(1 858)	152 002
	Low risk	13 518	(6)	13 512
	Higher risk	24 218	(12)	24 206
	High risk	7 461	(6)	7 455
	Unrated	6 941	(4)	6 937
		205 998	(1 886)	204 112
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	547 315	(72)	547 243
	Low	1 936 073	(522)	1 935 551
	Lower - Intermediate	991 507	(830)	990 677
	Intermediate	589 524	(1 217)	588 307
	Upper - Intermediate	400 845	(3 668)	397 177
	High	78 719	(2 635)	76 084
	Default	77 764	(47 236)	30 528
	Unrated	567 572	(2 558)	565 014
		5 189 319	(58 738)	5 130 581
Specialized Lending - SPV, RED				
	Strong	167 549	(1 183)	166 366
	Good	369 159	(5 585)	363 574
	Satisfactory	265 398	(14 234)	251 164
	Weak	63 565	(10 179)	53 386
	Default	5 011	(3 862)	1 149
	Unrated	6 544	(67)	6 477
		6 066 545	(93 848)	5 972 697

(Table continues on the next page)

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

(Table continues on the next page)

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

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortised cost: due from other banks is in the rating scale from Aaa to Baa3 (31 December 2021: Aaa to Baa3). The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on Moody's ratings.

June 2022 **€ '000**	**External rating**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at FVOCI - debt securities				
	Aaa	210 694	(11)	210 683
	Aa1	79 497	(2)	79 495
	Aa2	4 997	-	4 997
	Aa3	-	-	-
	A2	527 844	(82)	527 763
	Baa1	169 044	(12)	169 032
	Baa2	94 071	(62)	94 010
	Baa3	399 651	(128)	399 523
		1 485 798	(296)	1 485 502

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

4.1.12. Credit risk of financial derivatives

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

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

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

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

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

€ '000	**June 2022**	**December 2021**
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	64 958	47 277
Derivatives – Hedge accounting	254 255	107 954
	319 213	155 231

4.1.13. The impact of the COVID-19 pandemic

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

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

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

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

Till 31 December 2021 the VUB Group received 23 452 requests for deferral of repayments of corporate and retail loans, of which 21 394 was granted in the total gross amount of € 1 012 865 thousand. Out of these, expired € 1 012 860 thousand. Due to immateriality, this indicator is no longer followed by the VUB Group in 2022 for the purposes of financial statements.

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

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 2022 the VUB Group provided 1 821 newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis to enterprises in the total gross amount of € 261 370 thousand.

June 2022 € '000	Performing Gross amount	Performing Impairment losses	Performing Net amount	Non-performing Gross amount	Non-performing Impairment losses	Non-performing Net amount
Financial assets at AC:						
Corporate	204 938	(1 201)	203 737	2 079	(411)	1 668
Retail	53 386	(1 328)	52 058	967	(497)	470
	258 324	(2 529)	255 795	3 046	(908)	2 138

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

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 2022				December 2021			
€ '000	**Balance**	**Avg**	**Max**	**Min**	**Balance**	**Avg**	**Max**	**Min**
Foreign currency risk	134	80	195	12	68	49	125	12
Interest rate risk	511	329	546	73	109	88	251	35
Total VaŔ	581	371	650	71	96	109	278	39
Total sVaR	624	477	977	153	338	498	1 466	195

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.

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 30 June 2022, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2 939) thousand (31 December 2021: € (2 601) thousand).

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').

The biggest impact on the internal IT systems is coming from the discontinuation of the LIBOR rates, which will be replaced by different type of rates as well as a different calculation logic. Currently a project is underway at the bank to address the adjustments of the systems and the implementation is planned during the second half of 2022.

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.

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

The departments of the VUB Group responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department. These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process. ALM Department is responsible for liquidity management and the Enterprise Risk Management Department responsible for monitoring indicators and verifying the observation of limits.

The Short term Liquidity Policy includes a set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management. The main regulatory indicator used for monitoring and managing short term liquidity is the Liquidity coverage ratio. It is required by the CRR Regulation, more precisely defined in Delegated Regulation (EU) 2015/61. Main content of the Liquidity coverage ratio: Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows.

The Structural Liquidity Policy of the VUB Group incorporates a set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.

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

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

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

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

June 2022 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and cash equivalents	3 115 522	-	3 115 522
Financial assets at FVTPL	11 974	41 907	53 881
Derivatives – Hedge accounting	3 906	191 363	195 269
Financial assets at FVOCI	413 349	1 079 680	1 493 029
Financial assets at AC:			
Due from other banks	1 724 478	121 751	1 846 229
Due from customers	3 057 442	13 933 944	16 991 386
Fair value changes of the hedged items in portfolio hedge of IRR	-	(47 456)	(47 456)
Investments in subsidiaries, joint ventures and associates	-	10 436	10 436
Property and equipment	-	113 059	113 059
Intangible assets	-	127 689	127 689
Goodwill	-	29 305	29 305
Current income tax assets	52	-	52
Deferred income tax assets	-	57 156	57 156
Other assets	25 142	-	25 142
Non-current assets and disposal groups classified as held for sale	5 946	-	5 946
	8 357 812	15 658 833	24 016 645
Liabilities			
Financial liabilities at FVTPL	(16 040)	(30 265)	(46 305)
Derivatives – Hedge accounting	(4 162)	(190 971)	(195 133)
Financial liabilities measured at AC:			
Due to banks	(256 721)	(3 115 930)	(3 372 651)
Due to customers	(2 110 709)	(12 036 933)	(14 147 642)
Lease liabilities	(6 319)	(13 240)	(19 559)
Subordinated debt	(152)	(200 000)	(200 152)
Debt securities in issue	(409 244)	(3 741 991)	(4 151 235)
Fair value changes of the hedged items in portfolio hedge of IRR	-	11 420	11 420
Current income tax liabilities	(19 888)	-	(19 888)
Deferred income tax liabilities	-	-	-
Provisions	-	(20 669)	(20 669)
Other liabilities	(81 667)	(5 009)	(86 676)
	(2 904 902)	(19 343 588)	(22 248 490)
Net position	5 452 910	(3 684 754)	1 768 155

December 2021 **€ '000**	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and cash equivalents	2 612 787	–	2 612 787
Financial assets at FVTPL	4 789	32 591	37 380
Derivatives – Hedge accounting	2 368	53 206	55 574
Financial assets at FVOCI	574 713	1 096 690	1 671 403
Financial assets at AC:			
Due from other banks	1 703 049	116 343	1 819 392
Due from customers	3 330 681	13 329 195	16 659 876
Fair value changes of the hedged items in portfolio hedge of IRR	–	3 301	3 301
Investments in subsidiaries, joint ventures and associates	–	18 090	18 090
Property and equipment	–	122 597	122 597
Intangible assets	–	131 776	131 776
Goodwill	–	29 305	29 305
Current income tax assets	1 594	–	1 594
Deferred income tax assets	–	55 471	55 471
Other assets	23 794	–	23 794
Non-current assets classified as held for sale	515	–	515
	8 254 290	14 988 565	23 242 855
Liabilities			
Financial liabilities at FVTPL	(8 596)	(22 267)	(30 863)
Derivatives – Hedge accounting	(1 310)	(30 200)	(31 510)
Financial liabilities measured at AC:			
Due to banks	(280 482)	(3 034 466)	(3 314 948)
Due to customers	(1 934 185)	(12 018 580)	(13 952 765)
Lease liabilities	(5 767)	(13 366)	(19 133)
Subordinated debt	(150)	(200 000)	(200 150)
Debt securities in issue	(354 265)	(3 474 791)	(3 829 056)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(2 816)	(2 816)
Current income tax liabilities	(12 018)	–	(12 018)
Provisions	–	(25 061)	(25 061)
Other liabilities	(84 602)	(5 009)	(89 611)
	(2 681 375)	(18 826 556)	(21 507 931)
Net position	5 572 915	(3 837 991)	1 734 924

4.4. Operational risk

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

4.4.1. Operational risk management strategies and processes

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

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

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of Anti-Money Laundering Department; permanent invitees without voting rights**:** Head of Corporate & SME Division, Head of Retail Division, Head of Enterprise Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Information Security sub-department), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

4.4.2. Organisational structure of the associated risk management function

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

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

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

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

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

4.4.4. Policies for hedging and mitigating risk

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

5. Estimated fair value of financial assets and financial liabilities

See accounting policy in note 3.4.7.

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

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

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

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

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

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

(a) Cash and cash equivalents

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

(b) Due from other banks

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

(c) Due from customers

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

(d) Due to banks and Due to customers

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

(e) Subordinated debt

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

(f) Debt securities in issue

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

June 2022 € '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	3 115 522	-	3 115 522	-	3 115 522	-	3 115 522
Financial assets at FVTPL	8	-	53 881	53 881	6 762	47 119	-	53 881
Derivatives – Hedge accounting	9	-	195 269	195 269	-	195 269	-	195 269
Financial assets at FVOCI	10	-	1 493 029	1 493 029	1 433 598	59 429	-	1 493 027
Financial assets at AC:	11							
Due from other banks		1 846 229	-	1 846 229	-	1 846 229	-	1 846 229
Due from customers		16 991 390	-	16 991 390	-	148 213	17 823 866	17 972 079
		21 953 141	1 742 179	23 695 320	1 440 360	5 411 781	17 823 866	24 676 007
Financial liabilities								
Financial liabilities at FVTPL	8	-	46 305	46 305	-	46 305	-	46 305
Derivatives – Hedge accounting	9	-	195 133	195 133	-	195 133	-	195 133
Financial liabilities at AC:	11							
Due to banks		3 372 651	-	3 372 651	-	3 372 651	-	3 372 651
Due to customers		14 147 642	-	14 147 642	-	14 142 138	-	14 142 138
Lease liabilities		19 559	-	19 559	-	19 559	-	19 559
Subordinated debt		200 152	-	200 152	-	225 553	-	225 553
Debt securities in issue		4 151 235	-	4 151 235	-	4 052 264	-	4 052 264
		21 891 239	241 438	22 132 677	-	22 053 603	-	22 053 603

December 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	2 612 785	–	2 612 785	–	2 612 787	–	2 612 787
Financial assets at FVTPL	8	–	37 380	37 380	7 316	30 064	–	37 380
Derivatives – Hedge accounting	9	–	55 574	55 574	–	55 574	–	55 574
Financial assets at FVOCI	10	–	1 671 403	1 671 403	1 610 548	60 855	–	1 671 403
Financial assets at AC:	11							
Due from other banks		1 819 392	–	1 819 392	–	1 819 392	–	1 819 391
Due from customers		16 659 876	–	16 659 876	–	152 485	18 376 823	18 529 308
		21 092 055	1 764 357	22 856 412	1 617 864	4 731 157	18 376 823	24 725 844
Financial liabilities								
Financial liabilities at FVTPL	8	–	30 863	30 863	–	30 863	–	30 863
Derivatives – Hedge accounting	9	–	31 510	31 510	–	31 510	–	31 510
Financial liabilities at AC:	11							
Due to banks		3 314 948	–	3 314 948	–	3 314 948	–	3 314 948
Due to customers		13 952 765	–	13 952 765	–	13 956 907	–	13 956 907
Lease liabilities		19 133		19 133	–	19 133	–	19 133
Subordinated debt		200 150	–	200 150	–	228 948	–	228 948
Debt securities in issue		3 829 056	–	3 829 056	–	3 858 052	–	3 858 052
		21 316 052	62 373	21 378 425	–	21 440 361	–	21 440 361

There were no transfers of financial instruments among the levels during 2022 and 2021.

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.

June 2022 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Total reportable segments**	**Other**	**Total**
External revenue:						
Interest and similar income	93 840	76 106	(3 865)	166 081	16 620	182 701
Interest and similar expense	(2 479)	(10 394)	(3 698)	(16 571)	(18 371)	(34 942)
Inter-segment revenue	(3 574)	(10 639)	16 099	1 886	(1 886)	-
Net interest income	87 787	55 073	8 536	151 396	(3 637)	147 759
Net fee and commission income (note 25)	63 322	20 798	298	84 418	(1 796)	82 622
Dividend income	-	-	-	-	-	-
Net trading result	3 003	3 952	(450)	6 505	200	6 705
Other operating income	(1 638)	3 203	(856)	709	2 997	3 706
Other operating expense	(15 809)	(1 149)	19	(16 939)	(4 828)	(21 767)
Salaries and employee benefit	(22 265)	(6 069)	(332)	(28 666)	(31 101)	(59 767)
Other administrative expenses*	-	527	(96)	431	(37 486)	(37 055)
Amortisation	(3 469)	(274)	-	(3 743)	(5 276)	(9 019)
Depreciation	(1 690)	(996)	6	(2 680)	(4 500)	(7 180)
Profit before provisions, impairment and tax	109 241	75 065	7 125	191 431	(85 427)	106 004
Net modification gains or losses*	-	-	-	-	(17)	(17)
Provisions*	-	-	-	-	(63)	(63)
Impairment losses	(23 040)	(7 911)	(113)	(31 064)	144	(30 920)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	8 057	317	-	8 374	13	8 387
Profit before tax	94 258	67 471	7 012	168 741	(85 350)	83 391
Segment assets	10 175 340	7 005 378	6 295 631	23 476 349	540 299	24 016 648
Segment liabilities	8 933 113	4 726 588	8 224 126	21 883 827	364 667	22 248 494

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

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*	(22 157)	(6 864)	(330)	(29 351)	(31 223)	(60 574)
Salaries and employee benefits	-	1 204	(781)	423	(35 762)	(35 339)
Other administrative expenses*	(3 193)	(207)	-	(3 400)	(4 672)	(8 072)
Amortisation	(1 461)	(1 240)	44	(2 657)	(5 318)	(7 975)
Depreciation	108 039	67 066	717	175 822	(79 933)	95 889
Profit before provisions, impairment and tax	-	-	-	-	(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

December 2021 **€ ‘000**						
Segment assets	10 443 053	6 201 646	6 084 620	22 729 319	513 536	23 242 855
Segment liabilities	8 913 870	4 889 742	7 3460 323	21 163 935	343 996	21 507 931

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

7. Cash and cash equivalents

'Cash and cash equivalents' comprise the following balances:

€ '000	**June 2022**	**December 2021**
Cash in hand	216 392	175 676
Balances at central banks:		
Compulsory minimum reserves	2 471 698	2 109 981
Current accounts	7	2
Term deposits	32 342	96 548
Loans and advances	355 982	213 304
	2 860 029	2 419 835
Due from other banks:		
Current accounts	39 101	17 276
	3 115 522	2 612 787

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 2021**
Financial assets held for trading:		
Trading derivatives	46 225	27 158
Equity instruments	-	-
Government debt securities of European Union countries	894	2 906
	47 119	30 064
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	6 762	7 316
Financial liabilities held for trading:		
Trading derivatives	46 305	30 863

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

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and 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.

€ '000	**June 2022 Assets**	**December 2021 Assets**	**June 2022 Liabilities**	**December 2021 Liabilities**
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	32 825	16 173	31 647	17 744
Foreign currency instruments:				
Forwards and swaps	7 189	5 232	8 450	7 398
Options	109	103	119	103
	7 298	5 335	8 569	7 501
Equity and commodity instruments:				
Commodity forwards and swaps	6 102	5 650	6 089	5 618
	46 225	27 158	46 305	30 863

€ '000	**June 2022 Assets**	**December 2021 Assets**	**June 2022 Liabilities**	**December 2021 Liabilities**
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	5 272 763	1 848 475	5 272 763	1 848 475
Futures	43 544	-	43 544	-
	5 316 307	1 957 740	5 316 307	1 957 740
Foreign currency instruments:				
Forwards and swaps	847 825	721 750	855 570	726 204
Options	8 061	5 211	8 033	5 211
	855 886	726 961	863 603	731 415
Equity and commodity instruments:				
Commodity forwards and swaps	2 631	6 867	2 631	6 867
	6 174 824	2 691 568	6 182 541	2 696 022

9. Derivatives – Hedge accounting

€ '000	June 2022 Assets	December 2021 Assets	June 2022 Liabilities	December 2021 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	195 269	55 574	195 133	31 510

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

The VUB Group used 17 interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The VUB Group used 27 interest rate swaps to hedge the interest rate risk of a pool of current accounts. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The VUB Group used 34 interest rate swaps to hedge the interest rate risk of 10 fixed rate state bonds from the FVOCI portfolio. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used 17 interest rate swaps to hedge the interest rate risk of 15 fixed rate financial institutions bonds from the FVOCI portfolio. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

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

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

The VUB Group used 1 interest rate swap to hedge the interest rate risk of 1 loan received from European Investment 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 34 interest rate swaps to hedge the interest rate risk arising from the issuance of 17 fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

The VUB Group used 2 interest rate swaps to hedge the interest rate risk arising from the issuance of 1 loan in form of reverse repo deal with INTESA SANPAOLO. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

The VUB Group used 10 interest rate swaps to hedge the interest rate risk of 10 internal loans to VÚB Branch Prague. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of this loans in relation to changes of interest rates.

June 2022 **€ '000**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Change in fair value used for calculating hedge ineffective -ness**	**Ineffectiv-ness recogni-sed in profit or loss**
	Fair values	**Fair values**	**Notional values**	**Notional values**		
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	79 970	18 081	1 288 100	1 288 100	58 017	-
Hedge of corporate loans	24 009	183	433 404	433 404	18 197	(44)
Hedge of loans received from EIB	-	4 020	50 000	50 000	(3 419)	8
Hedge of covered bonds	40 934	153 483	2 992 400	2 992 400	(133 384)	-
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	62	5 865	87 606	93 887	5 879	-
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	50 294	486	2 636 400	2 636 400	50 292	(184)
Hedge of current accounts	-	12 249	506 500	506 500	(14 113)	122
Hedge of reverse REPO	-	766	1 650 000	1 650 000	(616)	70

December 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	6 178	1 873	1 138 100	1 138 100	23 164	–
Hedge of corporate loans	7 415	1 981	399 770	399 770	8 427	–
Hedge of loans received from EIB	–	584	50 000	50 000	(1 124)	15
Hedge of covered bonds	29 859	11 409	2 192 400	2 192 400	(44 194)	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	–	7 714	87 606	89 868	5 200	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	5 845	6 972	2 290 000	2 290 000	14 566	(29)
Hedge of current accounts	4 012	977	506 500	506 500	(4 102)	73
Hedge of reverse REPO	2 265	–	1 650 000	1 650 000	(150)	(230)

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

June 2022 € '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	911 949	-	(58 017)	258
Corporate loans	Financial assets at AC: Due from customers	521 010	(31 361)	(24 120)	65
Loans received from EIB	Financial assets at AC: Due to banks	50 000	(3 791)	(3 427)	-
Covered bonds	Financial liabilities at AC: Debt securities in issue	1 831 879	(114 809)	(133 384)	10 636
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	2 636 400	(48 606)	(50 476)	384
Current accounts	Financial liabilities at AC: Due to customers	506 500	(11 420)	(14 235)	-
Reverse REPO	Financial assets at AC: Loans and advances to banks	1 650 000	766	686	-

* 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.

December 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	1 114 512	–	(23 164)	(113)
Corporate loans	Financial assets at AC: Due from customers	397 119	7 240	(13 627)	131
Loans received from EIB	Financial assets at AC: Due to banks	50 000	(544)	(1 139)	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1 582 705	17 611	(44 194)	40 572
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	1 975 000	1 869	(14 595)	1 352
Current accounts	Financial liabilities at AC: Due to customers	452 500	2 816	(4 175)	–
Reverse REPO	Financial assets at AC: Loans and advances to banks	1 650 248	80	(80)	–

10. Financial assets at fair value through other comprehensive income

€ '000	**June 2022**	**December 2021**
Government debt securities of European Union countries	1 195 325	1 347 770
of which Italian government debt securities	*399 523*	*301 022*
Bank debt securities	259 919	283 081
Other debt securities	30 258	32 962
Equity instruments:		
Visa Inc. Series A Preferred Stock	7 393	7 462
Intesa Sanpaolo S.p.A.	32	43
S.W.I.F.T.	102	85
	7 527	7 590
	1 493 029	1 671 403

As at 30 June 2022, the bonds in the total nominal amount of € 1 651 100 thousand were pledged by the Bank to secure collateralized transactions (31 December 2021: € 1 516 100 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 2021
Term deposits		(1)	28
Loans and advances		1 795 652	1 786 002
Cash collateral		50 836	33 471
Impairment losses	21	(258)	(109)
		1 846 229	1 819 392

11.2. Due from customers

June 2022 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
State administration	100 240	(731)	99 509
Municipalities	108 972	(1 116)	107 856
Municipalities – Leasing	385	(1)	384
	209 597	(1 848)	207 749
Corporate			
Large Corporates	2 611 320	(12 507)	2 598 813
Large Corporates – debt securities	143 728	(664)	143 064
Specialized Lending	904 674	(34 735)	869 939
SME	1 924 288	(55 969)	1 868 319
Other Non-banking Financial Institutions	402 598	(112)	402 486
Other Non-banking Financial Institutions – debt securities	217 631	(56)	217 575
Public Sector Entities	4 684	(1)	4 683
Leasing	14 616	(552)	14 064
Factoring	178 645	(1 218)	177 427
	6 402 184	(105 814)	6 296 370
Retail			
Small Business	529 295	(39 751)	489 544
Small Business – Leasing	43 939	(3 868)	40 071
Consumer Loans	1 300 894	(133 567)	1 167 327
Mortgages	8 651 766	(44 648)	8 607 118
Credit Cards	92 285	(12 293)	79 992
Overdrafts	65 674	(6 847)	58 827
Leasing	5 635	(111)	5 524
Flat Owners Associations	39 195	(327)	38 868
	10 728 683	(241 412)	10 487 271
	17 340 464	(349 074)	16 991 390

December 2021 **€ '000**	**Gross amount**	**Impairment losses (note 21)**	**Carrying amount**
Public administration			
State administration	95 147	(676)	94 471
Municipalities	110 358	(1 206)	109 152
Municipalities – Leasing	493	(4)	489
	205 998	(1 886)	204 112
Corporate			
Large Corporates	2 562 680	(1 811)	2 560 869
Large Corporates – debt securities	102 402	(97)	102 305
Specialized Lending	877 226	(35 110)	842 116
SME	1 661 526	(49 949)	1 611 577
Other Non-banking Financial Institutions	363 910	(99)	363 811
Other Non-banking Financial Institutions – debt securities	183 154	(65)	183 089
Public Sector Entities	3 795	(4)	3 791
Leasing	163 309	(5 526)	157 783
Factoring	148 543	(1 187)	147 356
	6 066 545	(93 848)	5 972 697
Retail			
Small Business	488 432	(27 834)	460 598
Small Business – Leasing	62 581	(9 163)	53 418
Consumer Loans	1 366 178	(144 025)	1 222 153
Mortgages	8 613 914	(47 216)	8 566 698
Credit Cards	92 619	(15 169)	77 450
Overdrafts	67 034	(7 079)	59 955
Leasing	4 678	(36)	4 642
Flat Owners Associations	38 474	(321)	38 153
	10 733 910	(250 843)	10 483 067
	17 006 453	(346 577)	16 659 876

11.3. Due to banks

€ '000	**June 2022**	**December 2021**
Due to central banks:		
Current accounts	768	913
Loans received from central banks	2 478 451	2 490 778
	2 479 219	2 491 691
Due to other banks:		
Current accounts	86 101	89 915
Term deposits	6 664	5 862
Loans received from other banks	794 247	699 824
Revaluation of fair value hedged loans received	(3 971)	(544)
Cash collateral received	10 391	28 200
	893 432	823 257
	3 372 651	3 314 948

11.4. Due to customers

€ '000	June 2021	December 2021
Current accounts	10 579 123	10 508 478
Term deposits	2 171 377	2 345 852
Government and municipal deposits	947 732	772 184
Savings accounts	190 280	212 319
Loans received	-	-
Other deposits	259 130	113 932
	14 147 642	13 952 765

11.5. Lease liabilities

€ '000	June 2021	December 2021
Lease liabilities	19 559	19 133

11.6. Subordinated debt

€ '000	June 2021	December 2021
Subordinated debt	200 152	200 150

At 30 June 2022, the balance of subordinated debt comprised of one ten-year loan in the nominal amount of € 200,000 thousand (31 December 2021: € 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	June 2022	December 2021
Covered bonds	2 423 489	2 584 897
Covered bonds subject to fair value hedges	1 831 879	1 185 976
	4 255 368	3 770 873
Revaluation of fair value hedged covered bonds	(114 809)	17 611
Unamortized part of revaluation related to terminated fair value hedges	10 676	40 572
	4 151 235	3 829 056

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

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

€ '000	**June 2022**	**December 2021**
Financial assets at AC:		
Due from other banks:		
Loans and advances	766	80
Due from customers:		
Retail		
Mortgages	(48 222)	3 221
Financial liabilities at AC:		
Due to customers	(11 420)	2 816

13. Investments in joint ventures and associates

June 2022 € '000	**Share**	**Cost**	**Revaluation**	**Carrying amount**
Monilogi	30,00 %	75	-	75
VÚB Generali	50,00 %	16 597	(6 334)	10 263
SBCB	33,33 %	3	95	98
		16 675	(6 239)	10 436

December 2021 € '000	**Share**	**Cost**	**Revaluation**	**Carrying amount**
VÚB Generali	50.00%	16 597	1 406	18 003
SBCB	33.33%	3	84	87
		16 600	1 490	18 090

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.

SBCB is associates of the VUB Group for which equity method of consolidation is used.

All companies are incorporated in the Slovak Republic.

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

June 2022 **€ '000**	**Owned and used**	**Owned and leased**	**Right-of-use**	**Total**
Buildings and land	74 676	-	16 712	91 388
Equipment	5 943	9	-	5 952
Other tangibles	1 086	12 955	2 648	16 689
Assets in progress	4 939	37	-	4 976
	86 644	13 001	19 360	119 005

December 2021 **€ '000**	**Owned and used**	**Owned and leased**	**Right-of-use**	**Total**
Buildings and land	76 596	-	16 718	93 314
Equipment	6 133	53	–	6 186
Other tangibles	1 200	13 694	2 248	17 142
Assets in progress	6 470	-	–	6 470
	90 399	13 747	18 966	123 112

June 2022 **€ '000**	**Buildings and land**	**Equipment**	**Other tangibles**	**Assets in progress**	**Total**
Cost or fair value					
As at 1 January	113 201	46 372	45 665	6 470	211 708
Additions	3 161	-	613	1 379	5 153
Disposals	(1 889)	(3 411)	(2 272)	(811)	(8 383)
Revaluation	-	-	-	-	-
Transfers	62	626	1 374	(2 062)	-
Exchange differences	2	1	-	-	3
As at 30 June	114 537	43 588	45 380	4 976	208 481
Accumulated depreciation					
As at 1 January	(19 561)	(40 186)	(28 161)	-	(87 908)
Depreciation for the period	(4 609)	(865)	(1 706)	-	(7 180)
Disposals	1 270	3 416	1 545	-	6 231
Revaluation	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange differences	-	(1)	(1)	-	(2)
As at 30 June	(22 900)	(37 636)	(28 323)	-	(88 859)
Impairment losses (note 21)					
As at 1 January	(326)	-	(362)	-	(688)
Creation	77	-	(23)	-	54
Release	-	-	17	-	17
As at 30 June	(249)	-	(368)	-	(617)
Carrying amount					
As at 1 January	93 314	6 186	17 142	6 470	123 112
As at 30 June	91 388	5 952	16 689	4 976	119 005

15. Intangible assets

June 2022 **€ '000**	**Software**	**Other intangible assets**	**Assets in progress**	**Total**
Cost				
As at 1 January	305 778	10 729	61 753	378 082
Additions from merger	1 965	-	178	2 143
Additions	-	-	4 931	4 931
Disposals	(1 115)	-	-	(1 115)
Transfers	6 250	-	(6 250)	-
Exchange differences	4	1	-	5
As at 30 June	312 882	10 730	60 434	384 046
Accumulated depreciation				
As at 1 January	(236 760)	(10 474)	-	(247 234)
Additions from merger	(1 215)	-	-	(1 215)
Depreciation for the period/year	(9 006)	(13)	-	(9 019)
Disposals	1 115	-	-	1 115
Exchange differences	(3)	(1)	-	(4)
As at 30 June	(245 869)	(10 488)	-	(256 357)
Carrying amount				
As at 1 January	69 018	255	61 575	130 848
As at 30 June	67 013	242	60 434	127 689

16. Goodwill

€ '000	**June 2022**	**December 2021**
VÚB Leasing, a. s.	-	10 434
Retail Banking	29 305	18 871
	29 305	29 305

The VUB Group identified three cash generating units – Retail Banking, Corporate Banking and Central Treasury, which also representing the operating segment considered for segment reporting (note 6). Each of them 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 2022 and 2021. The calculation is based on the same procedures as for the impairment testing of the investments in subsidiaries, joint ventures and associates (note 13).

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 include 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. During the split of VÚB Leasing, a.s. (note 2.3), goodwill was transferred from VÚB Leasing to the Bank. This goodwill is further assessed within the Corporate Banking segment.

17. Current and deferred income tax assets and liabilities

€ '000	June 2022	December 2021
Current income tax assets	52	1 594
Deferred income tax assets	57 156	55 471
Current income tax liabilities	19 888	12 018

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2021: 21%) as follows:

€ '000	June 2022	Profit/ (loss) (note 33)	Equity	FTA/ VUBL Merger	Exchange diff.	December 2021
Financial assets at FVOCI	4 893	-	5 105	1 684	-	(1 896)
Financial assets at AC:						
Due from other banks	53	31	-	-	-	22
Due from customers	48 188	(249)	-	2 821	2	45 614
Property and equipment	(12 117)	106	-	-	-	(12 223)
Other assets	7	-	-	-	-	7
Financial liabilities at AC:						
Lease liabilities	4 116	(180)	-	-	-	4 296
Provisions	3 284	(625)	-	-	-	3 909
Other liabilities	8 743	(1 054)	-	(91)	-	9 888
Other	(11)	(1 458)	7	(4 414)	-	5 854
	57 156	(3 429)	5 112	-	2	55 471

18. Other assets

€ '000	Note	June 2022	December 2021
Operating receivables and advances		16 920	14 185
Prepayments and accrued income		4 876	10 661
Inventories		1 596	1 175
Other tax receivables		3 797	964
Receivables from termination of leasing		228	273
Settlement of operations with financial instruments		1 302	7
Other		83	513
Impairment losses	21	(3 660)	(3 984)
		25 142	23 794

19. Provisions

€ '000	Note	June 2022	December 2021
Financial guarantees and commitments	21	16 528	20 446
Litigation	23	3 777	3 715
Restructuring provision		368	900
Other provisions		-	–
		20 673	25 061

June 2022 € '000	Note	31 Dec. 2021	Merger VÚB Leasing	1 January	Čistá tvorba	Použitie	Exchange difference	30 June
Litigation	23, 31	462	3 253	3 715	66	(3)	(1)	3 777
Restructuring provision	31	900	-	900	-	(532)	-	368
		1 362	3 253	4 615	66	(535)	(1)	4 145

20. Other liabilities

€ '000	June 2022	December 2021
Various creditors	43 406	45 402
Settlement with employees	26 515	28 012
Severance and Jubilee benefits	5 009	5 009
Settlement of operations with financial instruments	3 835	4 108
VAT payable and other tax payables	3 440	1 888
Accruals and deferred income	2 196	1 659
Settlement with shareholders	686	846
Investment certificates	359	622
Share remuneration scheme	91	526
Other	1 139	1 539
	86 676	89 611

At 30 June 2022 and 31 December 2021 there were no overdue balances within ‘Other liabilities’.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to yield curve on Slovak government bonds with a fifteen years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the Projected Unit Credit Method. For the calculation the VUB Group used an average turnover rate which is based on historical data on employees’ turnover at the VUB Group for the last three years. The average age-specific turnover rate is calculated as the ratio of number of terminations and the average number of employees. All employees of the VUB Group are covered by the retirement and jubilee employee benefits program.

The calculation for the respective program takes into account the following parameters:

	December 2021	
	Jubilee benefits	Retirement benefits
Discount rate	0,32%	(0,48)%
Growth of wages*	-	0,00%
Future growth of wages*	2%	3%
Turnover rate (based on age)	4,6% – 42,6%	4,6% – 42,6%
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

2022 € '000	Note	31. Dec. 2021	FTA/ Merger at beginning of the year	1 January	Merger during the year	Net creation/ (release) (note 32)	Assets written-off/sold	Exchange difference	Other*	30 June
Financial assets at FVOCI		329		329	-	(32)	–	(1)	-	296
Financial assets at AC:	11									
Due from other banks		109		109	-	148	–	1	-	258
Due from customers		346 580	6	346 586	-	35 169	(32 282)	(399)	-	349 074
Impairment losses according to IFRS 9		347 018	6	347 024	-	35 285	(32 282)	(399)	-	349 332
Financial guarantees and commitments	19	20 446	1	20 447	-	(4 557)	–	638	-	16 528
Impairment losses and provisions according to IFRS 9		367 464	7	367 471	-	30 728	(32 282)	239	-	365 860
Property and equipment and Non-current assets classified as held for sale	14	687		687	-	6	(77)	1	-	617
Other assets	18	3 984	(511)	3 473	-	186	–	1	-	3 660
Total impairment losses and provisions for financial guarantees and commitments		372 135	(504)	371 631		30 920	(32 359)	241	-	370 433

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

22. Equity

€ '000	**June 2022**	**December 2021**
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	92 155	114 062
Retained earnings (excluding net profit for the period)	1 167 697	1 062 985
	1 704 390	1 621 585

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 2022	**December 2021**
Net profit for the period attributable to shareholders in € '000	63 765	113 339

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 2022**	**December 2021**
Intesa Sanpaolo Holding International S. A.	100,00%	100,00 %
Domestic shareholders	0,00%	0,00 %
Foreign shareholders	0,00%	0,00 %
	100,00%	100,00 %

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

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

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

€ '000	**June 2022**	**December 2021**
Tier 1 capital		
Share capital	430 819	430 819
Share premium	13 719	13 719
Retained earnings*	1 159 233	1 053 780
Profit or loss eligible	-	90 440
Legal reserve fund	87 493	89 778
Other capital funds	8 464	8 464
Accumulated other comprehensive income	4 662	25 025
(-) Value adjustments due to the requirements for prudent valuation	(98)	(56)
Other transitional adjustments to CET1 Capital	11 219	22 438
CET1 capital elements or deductions — other	(6 400)	(6 400)
Less goodwill and intangible assets	(135 723)	(137 793)
Less IRB shortfall of credit risk adjustments to expected losses	-	–
(-) Insufficient coverage for non-performing exposures	(1 001)	(336)
	1 572 387	1 589 878
Tier 2 capital		
IRB excess of provisions over expected losses eligible	2 829	14 502
Subordinated debt	179 831	200 000
Other transitional adjustments to T2 Capital	(2 570)	(5 141)
	180 090	209 361
Total regulatory capital	1 752 476	1 799 239

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

€ '000	**June 2022**	**December 2021**
Retained earnings	1 231 462	1 175 583
Net profit for the period/year	(63 765)	(113 339)
Other capital funds	(8 464)	(8 464)
	1 159 233	1 053 780

€ '000	**June 2021**	**December 2021**	**June 2021 Required**	**December 2021 Required**
Tier 1 capital	1 572 387	1 589 878	773 099	737 602
Tier 2 capital	180 090	209 361	180 090	209 361
Total regulatory capital	1 752 476	1 799 239	773 099	737 602
Total Risk Weighted Assets	9 663 731	9 220 027	9 663 731	9 220 027
CET 1 capital ratio	16.27%	17.24%	11.84%	11.84%
Total capital ratio	18.13%	19.51%	16.00%	15.00%

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 2021 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.

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 2022	December 2021
Issued guarantees	1 051 852	1 003 796
Commitments and undrawn credit facilities	4 724 099	4 425 762
of which revocable	*1 704 645*	*1 535 398*
	5 775 951	5 429 558

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 2022. Pursuant to this review, management has recorded total provisions of € 3 777 thousand (31 December 2021: € 3 715 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 € 31 471 thousand, as at 30 June 2022 (31 December 2021: € 32 516 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 2022	June 2021
Interest and similar income		
Financial assets at FVTPL	1	18
Financial assets at FVOCI	1 033	(99)
Financial assets at AC:		
Due from other banks	5 296	1 969
Due from customers	169 562	162 174
Derivatives - Hedge accounting	(7 295)	(9 223)
Interest income on liabilities	14 104	609
	182 701	155 448
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(2 158)	(864)
Due to customers and Subordinated debt	(15 834)	(6 372)
Lease liabilities	(82)	*(79)*
Debt securities in issue	(17 960)	(11 436)
Derivatives - Hedge accounting	10 380	5 052
Interest expense on assets	(9 288)	(1 781)
	(34 942)	(15 401)
	147 759	140 047

€ '000	June 2022	June 2021
Interest and similar income		
Total interest income calculated using the effective interest method	180 386	152 673
Other interest income - interest income on finance leases	1	18
Other interest income - interest income on financial assets at FVTPL	2 314	2 757
	182 701	155 448

€ '000	June 2022	June 2021
Net interest income		
Financial assets at FVOCI	1 033	(99)
Financial assets at AC	163 256	159 605
	164 289	159 506
Financial liabilities at AC	(21 848)	(18 063)

25. Net fee and commission income

June 2022 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
Fee and commission income					
Current accounts	19 475	2 403	-	4	21 882
Cards	15 986	361	-	13	16 360
Loans	10 745	5 355	-	114	16 214
Payments and cash management	7 312	8 415	-	-	15 727
Indirect deposits	12 393	20	-	-	12 413
Insurance	6 814	-	-	-	6 814
Trade finance	6	808	788	-	1 602
Factoring	-	1 055	-	-	1 055
Structured finance	-	1 408	-	-	1 408
Other	370	990	542	5	1 907
	73 101	20 815	1 330	136	95 382
Fee and commission expense					
Cards	(8 528)	(37)	-	-	(8 565)
Payments and cash management	(980)	(3 188)	-	-	(4 168)
Current accounts	-	-	(501)	(357)	(858)
Insurance	(186)	-	-	-	(186)
Factoring	-	(179)	-	-	(179)
Indirect deposits	-	-	-	-	-
Other	(85)	(2)	(531)	(1 575)	(2 193)
	(9 779)	(3 406)	(1 032)	(1 932)	(16 149)
Net fee and commission income under IFRS 15	63 322	17 409	298	(1 796)	79 233
Income from guarantees under IFRS 9	-	3 389	-	-	3 389
Total net fee and commission income	63 322	20 798	298	(1 796)	82 622

June 2021 **€ '000**	**Retail Banking**	**Corporate Banking**	**Central Treasury**	**Other**	**Total**
Fee and commission income					
Current accounts	18 318	1 780	-	6	20 104
Cards	12 890	104	-	29	13 023
Payments and cash management	6 752	4 031	380	1	11 164
Indirect deposits	10 242	21	-	-	10 263
Loans	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

26. Net trading result

€ '000	**June 2022**	**June 2021**
Customer foreign exchange margins	4 993	3 485
Interest rate derivatives	3 154	733
Foreign currency derivatives and transactions	1 909	5 923
Financial assets measured at FVOCI	1 343	6 139
Other derivatives	114	70
Dividends from equity shares FVOCI	91	46
Net result from hedging transactions	(28)	(126)
Non-trading financial assets measured at FVTPL	(99)	135
Financial assets held for trading - debt securities	(725)	400
Cross currency swaps	(4 047)	(3 741)
	6 705	13 064

27. Other operating income

€ '000	**June 2022**	**June 2021**
Income from operating leasing	2 030	2 181
Financial revenues	444	440
Net profit from sale of fixed assets	729	274
Services	5	3
Other	498	619
	3 706	3 517

28. Other operating expenses

€ '000	**June 2022**	**June 2021**
Contribution to the Single Resolution Fund*	(9 666)	(7 424)
Contribution to the Deposit Protection Fund**	(6 083)	(5 267)
Costs of product support – credit cards	(846)	(700)
Court fees and expenses and out-of-court settlements	(295)	(607)
Other damages	(95)	(168)
Other	(4 782)	(3 994)
	(21 767)	(18 160)

* Starting from 1 January 2015 the new Bank Recovery and Resolution Directive No 2014/59/EU ('BRRD') is effective for all EU member states. The Directive was implemented to Slovak legislation by Act No 371/2014 on Resolution. The Directive sets an obligation for banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of a bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023.

** The annual contribution for 2021 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2021, the VUB Group expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2020 was set at 0,0075% p. q. of the amount of protected deposits.

29. Salaries and employee benefits

€ '000	June 2022	June 2021
Remuneration	(42 944)	(43 484)
Social security costs	(16 704)	(16 445)
Social fund	(651)	(645)
Termination benefit	532	-
Severance and Jubilee benefits	-	-
	(59 767)	(60 574)

At 30 June 2022, the total number of employees of the VUB Group was 3 359 (31 December 2021: 3 417). The average number of employees of the VUB Group during the period ended as at 30 June 2022 was 3 364 (31 December 2021: 3 503).

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.

30. Other administrative expenses

€ '000	June 2022	June 2021
Third parties' services	(10 130)	(9 083)
Information technologies systems maintenance	(7 284)	(7 086)
Maintenance and repairs	(2 947)	(2 726)
Advertising and sponsorship	(2 788)	(2 500)
Energy costs	(1 764)	(1 113)
Rental of buildings and related expenses	(1 764)	(1 865)
Postage costs	(1 628)	(1 925)
Telephone and telecommunication costs	(1 472)	(1 596)
Forms and office supplies	(1 136)	(1 192)
Electronic data processing system leasing	(961)	(976)
Indirect personnel costs and compensation	(819)	(442)
Transport	(778)	(721)
Cleaning of premises	(681)	(789)
Security	(541)	(660)
Other rentals	(529)	(416)
Insurance	(502)	(609)
Archives and documents	(370)	(488)
Cost of legal services	(305)	(451)
Consultations and other fees*	(285)	(357)
Information and research	(74)	(106)
Other expenses**	(872)	(949)
Value added tax and other taxes	(45)	(165)
Reinvoicing	620	876
	(37 055)	(35 339)

31. Provisions

€ '000	Note	June 2022	June 2021
Net release and use of provisions for litigations	19	(63)	(82)
Net release and use of provisions for other provisions	19	-	-
		(63)	(82)

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

€ '000	Note	June 2022	June 2021
Net creation of impairment losses	21	(35 477)	(20 559)
Net (creation)/release of provisions for financial guarantees and commitments	21	4 557	(15)
		(30 920)	(20 574)
Net loss arising from the derecognition of financial assets at AC		8 387	(1 631)

33. Income tax expense

€ '000	Note	June 2022	June 2021
Current income tax	17	(17 503)	(11 699)
Deferred income tax	17	(3 429)	(5 721)
		(20 932)	(17 420)

34. Other comprehensive income

€ '000	**June 2022**	**June 2021**
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	(686)	501
Reclassification adjustment for profit on sale of FVOCI equities within equity	-	110
	(686)	611
Net revaluation gain from property and equipment	-	-
Reversal of deferred income tax on disposed property and equipment	-	-
	(686)	611
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	(28 981)	6 997
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	4 006	(13 723)
	(24 975)	(6 726)
Exchange difference on translation foreign operation	(92)	(22)
	(25 067)	(6 748)
Total other comprehensive income	(25 753)	(6 137)
Income tax relating to components of other comprehensive income (note 36)	5 390	1 262
Other comprehensive income for the year after tax	(20 363)	(4 875)

35. Income tax effects relating to other comprehensive income

€ '000	June 2022 Before tax amount	June 2022 Tax (expense)/ benefit	June 2022 Net of tax amount	June 2021 Before tax amount	June 2021 Tax (expense)/ benefit	June 2021 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)	(686)	145	(541)	611	(151)	460
Items that may be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (debt instruments)	(24 975)	5 245	(19 730)	(6 726)	1 413	(5 313)
Exchange differences on translation foreign operations	(92)	-	(92)	(22)	-	(22)
	(25 067)	5 245	(19 822)	(6 748)	1 413	(5 335)
	(25 753)	5 390	(20 363)	(6 137)	1 262	(4 875)

36. 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.

As at 30 June 2022, 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	-	-	-	25 598	1 539	27 137
Financial assets at FVTPL:						
Financial assets held for trading	-	-	-	31 279	-	31 279
Non-trading financial assets at FVTPL	-	-	-	91	-	91
Derivatives - Hedge accounting	-	-	-	195 206	-	195 206
Financial assets at FVOCI	-	-	-	33	-	33
Financial assets at AC:						
Due from other banks	-	-	-	1 695 819	-	1 695 819
Due from customers	965	3	-	-	30 005	30 973
Other assets	-	-	-	108	3 007	3 115
	965	3	-	1 948 134	34 551	1 983 653
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	-	-	-	28 545	237	28 782
Derivatives - Hedge accounting	-	-	-	189 267	-	189 267
Financial liabilities at AC:						
Due to banks	-	-	-	760 035	36 956	796 991
Due to customers	1 298	-	272	-	9 208	10 778
Subordinated debt	-	-	-	-	200 152	200 152
Provisions	-	-	-	9	-	9
Other liabilities	91	-	-	2 993	17	3 101
	1 389	-	272	980 849	246 570	1 229 080

As at 31 December 2021, the outstanding balances with related parties comprised:

€ '000	Key management personnel (‘KMP’)	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Cash and cash equivalents	-	-	-	35 165	388	35 553
Financial assets at FVTPL:						
Financial assets held for trading	-	-	-	8 925	7	8 932
Non-trading financial assets at FVTPL	-	-	-	622	–	622
Derivatives - Hedge accounting	-	-	-	55 574	–	55 574
Financial assets at FVOCI	-	-	-	43	–	43
Financial assets at AC:						
Due from other banks	-	-	-	1 649 885	–	1 649 885
Due from customers	312	3	-	–	19 988	20 303
Other assets	-	-	-	1	1 186	1 187
	312	3	-	1 750 215	21 569	1 772 099
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	-	-	-	16 317	–	16 317
Derivatives - Hedge accounting	-		-	23 787	–	23 787
Financial liabilities at AC:						
Due to banks	-	-	-	322 788	33 161	355 949
Due to customers	954	-	230	350 885	3 423	355 392
Subordinated debt	-	-	-	–	200 150	200 150
Provisions	-	-	-	10	–	10
Other liabilities	622	-	-	1 766	–	2 388
	1 476	-	230	715 553	236 734	953 993

As at 30 June 2022, the outstanding off-balance sheet balances with related parties comprised:

€ '000	**KMP**	**Joint ventures**	**Associates**	**Intesa Sanpaolo**	**ISP Group companies**	**Total**
Commitments and undrawn credit facilities	57	18	-	202 869	-	202 944
Issued guarantees	-	-	-	-	118	118
Received guarantees	-	-	-	1 700	-	1 700
Derivative transactions (notional amount – receivable)	-	-	-	14 579 189	12 593	14 591 782
Derivative transactions (notional amount – payable)	-	-	-	14 578 234	12 831	14 591 065

As at 31 December 2021, the outstanding off-balance sheet balances with related parties comprised:

€ '000	**KMP**	**Joint ventures**	**Associates**	**Intesa Sanpaolo**	**ISP Group companies**	**Total**
Commitments and undrawn credit facilities	57	18	-	201 167	-	201 242
Issued guarantees	-	-	-	25 193	117	25 310
Received guarantees	-	-	-	6 408	-	6 408
Derivative transactions (notional amount – receivable)	-	-	-	9 991 301	6 907	9 998 208
Derivative transactions (notional amount – payable)	-	-	-	9 989 521	6 903	9 996 424

For the year ended 30 June 2022, the outstanding balances with related parties comprised:

€ '000	**KMP**	**Joint ventures**	**Associates**	**Intesa Sanpaolo**	**ISP Group companies**	**Total**
Income and expense items						
Interest and similar income	3	-	-	68	163	234
Interest and similar expense	(1)	-	-	(5 801)	(2 766)	(8 568)
Fee and commission income	-	-	1	89	10 445	10 535
Fee and commission expense	-	-	-	(267)	(3)	(270)
Net trading result	-	-	-	(25 710)	491	(25 219)
Other operating income	-	-	-	250	65	315
Other operating expenses	-	-	-	(283)	-	(283)
Other administrative expenses	-	-	-	(2 301)	(5 328)	(7 629)
Impairment losses	-	-	-	-	-	-
	2	-	1	(33 955)	3 067	(30 885)

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. Events after the end of the reporting period

From 30 June 2022, 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 15 August 2022.

Alexander Resch
predseda predstavenstva

Darina Kmeťová
člen predstavenstva