



**Interim consolidated financial statements
for the six months ended 30 June 2020**

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

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Consolidated statement of financial position as at 30 June 2020
(In thousands of euro)

	Note	June 2020	December 2019
Assets			
Cash and cash equivalents	7	1,096,515	996,446
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		149,231	23,454
Non-trading financial assets at fair value through profit or loss		649	584
Derivatives – Hedge accounting	9	115,824	82,501
Financial assets at fair value through other comprehensive income of which pledged as collateral	10	1,830,206	1,574,549
Financial assets at amortised cost:	11		
Due from other banks		187,483	180,491
Due from customers of which pledged as collateral		14,694,261	14,377,014
		50,000	190,060
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	21,333	13,840
Investments in joint ventures and associates	13	9,523	11,635
Property and equipment	14	118,048	120,150
Intangible assets	15	116,602	112,583
Goodwill	16	29,305	29,305
Current income tax assets	17	51,052	28,342
Deferred income tax assets	17	62,726	66,118
Other assets	18	20,831	22,839
Non-current assets classified as held for sale	14	-	645
		<u>18,503,589</u>	<u>17,640,496</u>
Liabilities			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		32,732	24,750
Derivatives – Hedge accounting	9	82,808	59,833
Financial liabilities at amortised cost:	11		
Due to banks		748,962	551,967
Due to customers		12,203,654	11,951,017
Subordinated debt		200,126	200,143
Debt securities in issue		3,501,345	3,120,695
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	6,800	4,580
Provisions	19	14,830	13,625
Other liabilities	20	78,322	100,889
		<u>16,869,579</u>	<u>16,027,499</u>
Equity			
	22		
Share capital		430,819	430,819
Share premium		13,719	13,719
Legal reserve fund		89,350	88,986
Retained earnings		1,082,250	1,057,794
Equity reserves		17,872	21,679
		<u>1,634,010</u>	<u>1,612,997</u>
		<u>18,503,589</u>	<u>17,640,496</u>

The accompanying notes on pages 7 to 153 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 2020
(In thousands of euro)**

	Note	June 2020	June 2019
Interest income calculated using the effective interest method		166,770	203,941
Other interest income		3,054	69
Interest and similar expense		(20,843)	(25,125)
Net interest income	24	148,981	178,885
Fee and commission income		78,285	75,385
Fee and commission expense		(13,894)	(14,762)
Net fee and commission income	25	64,391	60,623
Net trading result	26	5,205	(8,094)
Other operating income	27	3,963	3,515
Other operating expenses	28	(12,291)	(12,750)
Special levy of selected financial institutions	29	(31,038)	(14,462)
Salaries and employee benefits	30	(61,647)	(62,961)
Other administrative expenses	31	(38,305)	(39,270)
Amortisation	15	(6,904)	(6,442)
Depreciation	14	(7,779)	(6,565)
Profit before provisions, impairment and tax		64,576	92,479
Provisions	19, 32	44	5,543
Impairment losses	21, 33	(33,472)	(16,279)
Net loss arising from the derecognition of financial assets at amortised cost	33	(1,728)	(9,900)
		29,420	71,843
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method		2,247	1,612
Profit before tax		31,667	73,455
Income tax expense	34	(7,632)	(16,111)
NET PROFIT FOR THE SIX MONTHS		24,035	57,344
Other comprehensive income for the six months, after tax: <i>Items that shall not be reclassified to profit or loss in the future:</i>	35, 36		
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		219	760
Reversal of deferred income tax on disposed property and equipment		99	-
		318	760
<i>Items that may be reclassified to profit or loss in the future:</i>			
Change in value of cash flow hedges		-	6
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		(3,547)	(1,551)
Exchange difference on translation of foreign operations		(360)	328
		(3,907)	(1,217)
Other comprehensive income for the six months, net of tax		(3,589)	(457)
TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS		20,446	56,887

The accompanying notes on pages 7 to 153 form an integral part of these financial statements.

Consolidated statement of changes in equity for the six months ended 30 June 2020
(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2020	430,819	13,719	88,986	1,057,794	14,073	7,276	-	330	1,612,997
Total comprehensive income for the six months, net of tax	-	-	-	24,035	99	(3,328)	-	(360)	20,446
Gain on disposal of property and equipment	-	-	-	472	(472)	-	-	-	-
Losses on the sale of shares at FVOCI	-	-	-	(254)	-	254	-	-	-
Transfers	-	-	364	(364)	-	-	-	-	-
Exchange difference	-	-	-	371	-	-	-	-	371
Transactions with owners, recorded directly in equity									
<i>Reversal of dividends distributed but not collected</i>	-	-	-	196	-	-	-	-	196
At 30 June 2020	<u>430,819</u>	<u>13,719</u>	<u>89,350</u>	<u>1,082,250</u>	<u>13,700</u>	<u>4,202</u>	<u>-</u>	<u>(30)</u>	<u>1,634,010</u>
At 1 January 2019	430,819	13,719	88,986	1,052,943	21,967	5,569	(6)	(44)	1,613,953
Total comprehensive income for the six months, net of tax	-	-	-	57,344	-	(791)	6	328	56,887
Exchange difference	-	-	-	(2)	-	-	-	-	(2)
Transactions with owners, recorded directly in equity									
<i>Dividends to shareholders</i>	-	-	-	(125,049)	-	-	-	-	(125,049)
<i>Reversal of dividends distributed but not collected</i>	-	-	-	215	-	-	-	-	215
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,834)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,834)</u>
At 30 June 2019	<u>430,819</u>	<u>13,719</u>	<u>88,986</u>	<u>985,451</u>	<u>21,967</u>	<u>4,778</u>	<u>-</u>	<u>284</u>	<u>1,546,004</u>

The accompanying notes on pages 7 to 153 form an integral part of these financial statements.

Consolidated statement of cash flows for the six months ended 30 June 2020
(In thousands of euro)

	Note	June 2020	June 2019
Cash flows from operating activities:			
Profit before tax		31,667	73,455
Adjustments for:			
Interest income	24	(169,824)	(204,010)
Interest expense	24	20,843	25,125
Gain from sale/revaluation of financial assets at fair value through other comprehensive income		(17,390)	(24,067)
Gain on sale of intangible assets and property and equipment	28	(295)	(331)
Loss from revaluation of debt securities in issue		34,796	54,333
Amortisation	15	6,904	6,442
Depreciation	14	7,779	6,565
Impairment losses and similar charges	32, 33	46,337	16,279
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method and related items		2,112	127
Exchange difference on translation of foreign operations	35, 36	11	328
Interest received		170,131	206,775
Interest paid		(20,436)	(33,584)
Tax paid		(26,950)	(23,140)
Increase in financial assets at fair value through profit or loss		(125,850)	(74,887)
Increase in derivatives – hedge accounting (assets)		(33,323)	(60,676)
Financial assets at amortised cost:			
Increase in due from other banks		(7,929)	(35,910)
Increase in due from customers		(358,184)	(531,202)
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		(7,493)	(16,502)
Decrease in other assets		2,929	2,584
Increase in financial liabilities at fair value through profit or loss		7,982	57,690
Increase in derivatives – hedge accounting (liabilities)		22,975	42,502
Financial liabilities measured at amortised cost:			-
Increase/(decrease) in due to banks		195,936	(546,188)
Increase in due to customers		251,412	500,100
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		2,220	4,886
Increase/(decrease) in provisions		493	(5,102)
Decrease in other liabilities		(22,371)	(18,322)
<i>Net cash from/(used in) operating activities</i>		14,482	(576,730)
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(894,033)	(689,878)
Disposal of financial assets at fair value through other comprehensive income		337,450	250,641
Repayments of financial assets at fair value through other comprehensive income		310,000	310,935
Purchase of intangible assets and property and equipment		(17,389)	(11,892)
Disposal of intangible assets and property and equipment		1,845	2,052
<i>Net cash used in investing activities</i>		(262,127)	(138,142)

(Table continues on the next page)

The accompanying notes on pages 7 to 153 form an integral part of these financial statements.

Consolidated statement of cash flows for the six months ended 30 June 2020
(In thousands of euro)
(continued)

	Note	June 2020	June 2019
Cash flows from financing activities:			
Proceeds from issue of debt securities		500,000	1,000,000
Repayments of debt securities in issue		(152,539)	(185,935)
Proceeds from lease liabilities		4,233	-
Repayments of lease liabilities		(3,980)	(2,256)
Dividends paid		-	(125,049)
<i>Net cash from financing activities</i>		<u>347,714</u>	<u>686,760</u>
Net change in cash and cash equivalents		100,069	(28,112)
Cash and cash equivalents at the beginning of the period	7	<u>996,446</u>	<u>1,769,134</u>
Cash and cash equivalents at 30 June	7	<u><u>1,096,515</u></u>	<u><u>1,741,022</u></u>

The accompanying notes on pages 7 to 153 form an integral part of these financial statements.

1. Basis of preparation

1.1. Reporting entity - general information

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

At 30 June 2020, the VUB Group had a network of 203 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2019: 203). The VUB Group also has one branch in the Czech Republic (31 December 2019: 1).

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

At 30 June 2020, the members of the Management Board are Alexander Resch (Chairman), Antonio Bergalio (until 30 June 2020), Marie Kovářová (from 3 April 2020), Peter Magala, Martin Techman, Roberto Vercelli and Andrej Viceník.

At 30 June 2020, the members of the Supervisory Board are Ignacio Jaquotot (Chairman), Elena Kohútiková (Vice Chairman), Marco Fabris, Peter Gutten, Christian Schaack and Róbert Szabo. Another member of the Supervisory Board was Paolo Sarcinelli (until 24 April 2020).

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

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

1. Basis of preparation (continued)

1.3. Basis of accounting

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

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

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

1.4. Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Joint ventures

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

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

1. Basis of preparation (continued)

1.5. Functional and presentation currency

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

Negative balances are presented in brackets.

1.6. Use of judgements and estimates

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

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

1.6.1. Judgements

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

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

1.6.2. Assumptions and estimation uncertainties

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

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, 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.

- 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.

1. Basis of preparation (continued)

- Valuation of lease liabilities (note 11.4) and right-of-use assets (note 14)
The application of 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 previously estimated the length of the contract to be equal to notice period which was usually three months. The VUB Group has reassessed its estimation of the non-cancellable period of such types of leases to be five years. The above described changes were considered as change in estimate and were applied prospectively and resulted in an increase of the lease liabilities balance of approximately 278% compared to non-cancellable leases reported under IAS 17. The VUB Group will continue to monitor these assumptions in the future as a result of a review of the industry practice and the evolution of the accounting interpretations in relation to estimation of the lease terms among peer financial entities and 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.

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

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

2.1. Changes in presentation

'Interest and similar income' in the statement of profit or loss and other comprehensive income was divided into two new line items 'Interest income calculated using the effective interest method' and 'Other interest income'. Interest income from financial assets held for trading and interest income on finance leases were transferred to 'Other interest income'. The comparatives were restated.

€ '000	Note	June 2019	Changes	Restated June 2019
Interest and similar income		204,010	(204,010)	-
Interest income calculated using the effective interest method	24	-	200,689	200,689
Other interest income	24	-	3,321	3,321

3. Significant accounting policies

3.1. Foreign currency transactions

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

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

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

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

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

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

3.2. Foreign operations

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

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

3.3. Cash and cash equivalents

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

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

3. Significant accounting policies (continued)

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

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

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

3.4.2. Classification

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

3. Significant accounting policies (continued)

Business model assessment

The VUB Group uses the following business models:

- Hold to collect,
- Hold 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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment of whether contractual cash flows are SPPI

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

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

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

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

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

Reclassifications

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

3. Significant accounting policies (continued)

3.4.3. Subsequent measurement

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

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

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

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

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

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

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

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

3. Significant accounting policies (continued)

3.4.5. Modifications

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

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

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

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

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

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

3.4.6. Offsetting

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

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

3.4.7. Fair value measurement

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

3. Significant accounting policies (continued)

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

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

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

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

3.5.2. Financial assets at fair value through profit or loss

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

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

3. Significant accounting policies (continued)

3.6. Financial assets at fair value through other comprehensive income

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

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

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

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

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

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

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

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

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

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

3.7. Financial assets and financial liabilities at amortised costs

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

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

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

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

3. Significant accounting policies (continued)

Due from other banks

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

Due from customers

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

Impairment

The detailed description of policy is in the note 4.1.2.

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

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

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

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

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

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

3.8. Repurchase and reverse repurchase agreements

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

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

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

3. Significant accounting policies (continued)

3.9. Derivatives – Hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

3. Significant accounting policies (continued)

3.10. Investments in joint ventures and associates

'Investments in joint ventures and associates' are recorded at cost less impairment losses. The impairment loss is measured using the 'Dividend discount model'.

Dividend discount model

The Management of the companies which are subject to the impairment test provide projection of dividends which are reviewed by the Management 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 interest rate resulting from the Capital Asset Pricing Model ('CAPM'). Cash flows after the period of five years are determined by the present value of the perpetuity with the particular estimated growth rate, determined at the ISP Group level specifically for the Slovak market.

3.11. Transactions under common control

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

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

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

3.12. Property and equipment

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

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

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

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7

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. (note 2.1)

Leases in which the VUB Group is a lessee

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

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

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

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

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

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

3. Significant accounting policies (continued)

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

	Years
Buildings	2 – 6
Other tangibles	2 – 5

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

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

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

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

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

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

The lease term determined by the VUB Group comprises:

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

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

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

Leases in which the VUB Group is a lessor

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

3. Significant accounting policies (continued)

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

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

3.18. Provisions

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

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

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

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

Provision for financial guarantees are recognised based on stage of financial instrument (three-stage approach) which affects expected loss calculation for the financial guarantee. Any increase or decrease in the provision relating to financial guarantees is recorded in the statement of profit or loss in 'Impairment losses'. In case of conversion of the financial guarantee into Financial assets at amortised cost along with creation of a liability towards the holder, the provision is converted into Impairment losses on Financial Assets at amortised cost along with the movement, if any, within 'Impairment losses'.

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

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

3.19. Provisions for employee benefits

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

3.20. Equity reserves

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

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

3. Significant accounting policies (continued)

3.21. Net interest income

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

3.22. Net fee and commission income

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

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

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

3.23. Net trading result

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

3.24. Dividend income

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

3.25. Special levy of selected financial institutions

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

3.26. Current and deferred income tax

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

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

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

4. Financial and operational risk management

The VUB Group has exposure to the following risks from its use of financial instruments:

- Credit risk,
- Market risk,
- Liquidity risk,
- Operational risk.

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

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

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

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

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

4. Financial and operational risk management (continued)

4.1. Credit risk

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

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

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

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

4.1.1. Management of credit risk

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

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

4.1.2. Impairment losses

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

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

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

4. Financial and operational risk management (continued)

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

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

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

Inputs, assumptions and techniques used for estimating impairment

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

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

The methodology of risk parameters used by ECL calculation is compliant with the ISP Group methodology provided by Parent Company and is based on the availability of regulatory or managerial risk parameters for each portfolio.

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

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

4. Financial and operational risk management (continued)

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

- Calculation of nominal LGD;
- Incorporation of forward looking information using coefficients 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.

Days past due ('DPD') methodology

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

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

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

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

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

The absolute threshold is exceeded when:

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

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

The relative threshold is exceeded when:

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

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

4. Financial and operational risk management (continued)

Staging methodology

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

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

- Stage 1 includes financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date.
- Stage 2 includes financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) 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 deteriorated 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;
- At the date of acquisition all defaulted loans are classified in Stage 3.

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

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

Stage 2 criterion: Forborne performing exposures

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

4. Financial and operational risk management (continued)

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

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

The main goal is to align definition of default and NPL classification. Default definition is primary used for model development where long history is required. The starting point is year 2010. However for Non-performing classification the starting point is 1 November 2019. These causes main differences between the definitions which in time will decrease. Also default algorithm is calculated on daily bases and Non-performing classification on monthly basis. This time discrepancy also causes slight difference in the results as of the end of month.

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

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

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

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

4. Financial and operational risk management (continued)

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

Stage 3 criterion

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

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

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

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

Staging criteria for debt securities

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

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

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

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

- at origination financial instruments are classified in Stage 1;
- if there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2;
- at the date of acquisition all defaulted bonds are classified in Stage 3.

Staging criteria for Low Default Portfolio and Intragroup exposures

Low Default Portfolio consists of exposures with the following parties:

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

4. Financial and operational risk management (continued)

Intragroup exposures are exposures with the following parties:

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

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

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

Expected loss calculation

Stage 1

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

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

where:

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

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

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

where n is the number of months to maturity.

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

Stage 2

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

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

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

For exposures with remaining maturity greater than one year :

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

where:

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

4. Financial and operational risk management (continued)

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

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

where:

- EAD₁, EAD₂, EAD₃ are exposure at default at the beginning of each residual year;
- PD₁ is probability that exposure enters in default during the first year of residual maturity;
- PD₂ – PD₁ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- PD₃ – PD₂ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- LGD₁, LGD₂, LGD₃ 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:

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

where:

- PCBS is the provision calculated based on scenarios determined by the VUB Group on NPLs;
- Add-on_{Performing} is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, Mots-Likely and Worst scenarios from satellite models or obtained with scenarios given by EBA Stress Test coefficients.

4. Financial and operational risk management (continued)

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 coefficient issued by EBA. Other scenarios are incorporated in the form of „add-on“.

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, 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 issued by EBA. Since EBA issues the coefficients only for Adverse and Baseline scenario, 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 2020 and 2021 by the satellite model development in 2018.

	GDP, (constant prices, % change)		Unemployment rate (Labour Force Sample Survey, %)		Consumer prices index (quarterly average, % change)		EURIBOR 3M (end of period)	
	Base scenario	Range	Base scenario	Range	Base scenario	Range	Base scenario	Range
3Q 2020	3.8	(4.3) – 8.3	6.5	5.5 – 11.9	2.3	(0.3) – 5.4	0.19	(1.1) – 1.25
4Q 2020	3.6	(2.3) – 7.0	6.5	5.5 – 11.9	2.3	(0.3) – 4.6	0.34	(1.1) – 1.50
1Q 2021	3.1	(1.2) – 6.0	6.2	5.5 – 12.4	2.0	(0.3) – 4.8	0.37	(1.1) – 1.75
2Q 2021	2.7	(0.7) – 5.6	6.2	5.4 – 12.5	2.0	(0.3) – 5.1	0.54	(1.1) – 2.00
3Q 2021	2.6	(0.4) – 5.3	6.5	5.2 – 12.5	2.0	(0.3) – 5.4	0.62	(1.1) – 2.25
4Q 2021	2.6	0.0 – 5.1	6.3	5.2 – 12.5	2.0	(0.3) – 4.6	0.74	(1.1) – 2.50

Predicted relationships between the relevant drivers and default rates for various segments have been developed based on analysing historical data over the past seven to thirteen years. The range represents the values of the variables under the different scenarios.

4. Financial and operational risk management (continued)

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

June 2020 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	138,338	(430)	137,908	-	-	-
Due from customers:						
Public Administration	99,123	(1,144)	97,979	-	-	-
Corporate	4,545,348	(19,212)	4,526,136	-	-	-
Retail	8,736,543	(12,602)	8,723,941	-	-	-
	<u>13,381,014</u>	<u>(32,958)</u>	<u>13,348,056</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>13,519,352</u>	<u>(33,388)</u>	<u>13,485,964</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial assets at FVOCI – debt securities	1,818,663	(254)	1,818,409	-	-	-
Financial commitments and contingencies	3,870,006	(4,384)	3,865,622	-	-	-

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	50,023	(448)	49,575	-	-	-
Due from customers:						
Public Administration	30,888	(1,804)	29,084	-	-	-
Corporate	556,077	(13,661)	542,416	-	-	-
Retail	633,309	(45,835)	587,474	-	-	-
	<u>1,220,274</u>	<u>(61,300)</u>	<u>1,158,974</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,270,297</u>	<u>(61,748)</u>	<u>1,208,549</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial commitments and contingencies	186,907	(1,818)	185,089	-	-	-

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	13,057	(4,088)	8,969	67,666	(42,599)	25,067
Retail	335,939	(189,090)	146,849	17,039	(10,693)	6,346
	<u>348,996</u>	<u>(193,178)</u>	<u>155,818</u>	<u>84,705</u>	<u>(53,292)</u>	<u>31,413</u>
	<u>348,996</u>	<u>(193,178)</u>	<u>155,818</u>	<u>84,705</u>	<u>(53,292)</u>	<u>31,413</u>
Financial commitments and contingencies	5,939	(1,288)	4,651	17,952	(2,978)	14,974

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Due from other banks	188,361	(878)	187,483	-	-	-
Due from customers:						
Public Administration	130,011	(2,948)	127,063	-	-	-
Corporate	5,114,482	(36,961)	5,077,521	67,666	(42,599)	25,067
Retail	9,705,791	(247,527)	9,458,264	17,039	(10,693)	6,346
	<u>14,950,284</u>	<u>(287,436)</u>	<u>14,662,848</u>	<u>84,705</u>	<u>(53,292)</u>	<u>31,413</u>
	<u>15,138,645</u>	<u>(288,314)</u>	<u>14,850,331</u>	<u>84,705</u>	<u>(53,292)</u>	<u>31,413</u>
Financial assets at FVOCI – debt securities	1,818,663	(254)	1,818,409	-	-	-
Financial commitments and contingencies	4,062,852	(7,490)	4,055,362	17,952	(2,978)	14,974

4. Financial and operational risk management (continued)

December 2019 € '000	Portfolio assessed			Individually assessed		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Due from other banks	180,979	(488)	180,491	-	-	-
Due from customers:						
Public Administration	135,600	(2,262)	133,338	-	-	-
Corporate	5,372,315	(43,175)	5,329,140	87,868	(55,043)	32,825
Retail	9,123,893	(243,485)	8,880,408	6,086	(4,783)	1,303
	<u>14,631,808</u>	<u>(288,922)</u>	<u>14,342,886</u>	<u>93,954</u>	<u>(59,826)</u>	<u>34,128</u>
	<u>14,812,787</u>	<u>(289,410)</u>	<u>14,523,377</u>	<u>93,954</u>	<u>(59,826)</u>	<u>34,128</u>
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	-	-	-
Financial commitments and contingencies	3,882,771	(6,997)	3,875,774	18,284	(2,373)	15,911

4. Financial and operational risk management (continued)

4.1.3. Non-performing loan classification

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

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

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

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

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

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

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

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

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

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks	Performing	188,361	(878)	187,483
Due from customers:				
Public Administration	Performing	130,011	(2,948)	127,063
Corporate				
	Performing	5,101,425	(32,873)	5,068,552
	Past due	3,540	(1,005)	2,535
	Unlikely to pay	45,995	(21,129)	24,866
	Doubtful	31,188	(24,553)	6,635
		<u>5,182,148</u>	<u>(79,560)</u>	<u>5,102,588</u>
Retail				
	Performing	9,369,852	(58,437)	9,311,415
	Past due	54,478	(23,125)	31,353
	Unlikely to pay	63,170	(31,278)	31,892
	Doubtful	235,330	(145,380)	89,950
		<u>9,722,830</u>	<u>(258,220)</u>	<u>9,464,610</u>
		<u>15,034,989</u>	<u>(340,728)</u>	<u>14,694,261</u>
		<u>15,223,350</u>	<u>(341,606)</u>	<u>14,881,744</u>
Financial assets at FVOCI – debt securities				
	Performing	1,818,663	(254)	1,818,409
Financial commitments and contingencies				
	Performing	4,056,913	(6,202)	4,050,711
	Past due	1,710	(289)	1,421
	Unlikely to pay	18,405	(2,848)	15,557
	Doubtful	3,776	(1,129)	2,647
		<u>4,080,804</u>	<u>(10,468)</u>	<u>4,070,336</u>

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	188,361	(878)	187,483
Due from customers:			
Public Administration			
No delinquency	129,364	(2,948)	126,416
1 – 30 days	647	-	647
	<u>130,011</u>	<u>(2,948)</u>	<u>127,063</u>
Corporate			
No delinquency	5,111,479	(44,158)	5,067,321
1 – 30 days	17,453	(244)	17,209
31 – 60 days	2,648	(521)	2,127
61 – 90 days	2,462	(234)	2,228
91 – 180 days	14,611	(8,224)	6,387
Over 181 days	33,495	(26,179)	7,316
	<u>5,182,148</u>	<u>(79,560)</u>	<u>5,102,588</u>
Retail			
No delinquency	9,350,357	(64,892)	9,285,465
1 – 30 days	62,814	(9,355)	53,459
31 – 60 days	13,368	(3,079)	10,289
61 – 90 days	11,948	(2,776)	9,172
91 – 180 days	28,762	(15,656)	13,106
Over 181 days	255,581	(162,462)	93,119
	<u>9,722,830</u>	<u>(258,220)</u>	<u>9,464,610</u>
	<u>15,034,989</u>	<u>(340,728)</u>	<u>14,694,261</u>
	<u>15,223,350</u>	<u>(341,606)</u>	<u>14,881,744</u>
Financial assets at FVOCI - debt securities			
No delinquency	1,818,663	(254)	1,818,409
Financial commitments and contingencies			
No delinquency	4,080,804	(10,468)	4,070,336

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from other banks	188,361	(878)	187,483	-	-	-	-	-	-
Due from customers:									
Public Administration									
Single Resolution Fund	3,876	-	3,876	-	-	-	-	-	-
Municipalities	124,817	(2,945)	121,872	647	-	647	-	-	-
Municipalities – Leasing	671	(3)	668	-	-	-	-	-	-
	129,364	(2,948)	126,416	647	-	647	-	-	-
Corporate									
Large Corporates	2,104,011	(2,356)	2,101,655	3	-	3	4,538	(1,475)	3,063
Large Corporates – debt securities	121,657	(211)	121,446	-	-	-	-	-	-
Specialized Lending	856,522	(24,138)	832,384	22	-	22	5,323	(5,034)	289
SME	1,324,024	(4,765)	1,319,259	3,742	(101)	3,641	56,657	(34,525)	22,132
Other Non-banking									
Financial Institutions	400,226	(232)	399,994	-	-	-	6	(4)	2
Other Non-banking									
Financial Institutions - debt securities	25,235	(27)	25,208	-	-	-	-	-	-
Public Sector Entities	2,193	(52)	2,141	6	-	6	6	(1)	5
Leasing	154,859	(769)	154,090	8,717	(180)	8,537	9,549	(4,443)	5,106
Factoring	92,041	(7)	92,034	8,167	(35)	8,132	4,644	(1,205)	3,439
	5,080,768	(32,557)	5,048,211	20,657	(316)	20,341	80,723	(46,687)	34,036

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2020 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	353,198	(5,791)	347,407	9,145	(586)	8,559	21,596	(12,858)	8,738
Small Business - Leasing	53,972	(383)	53,589	1,813	(47)	1,766	13,321	(6,992)	6,329
Consumer Loans	1,380,554	(30,385)	1,350,169	42,416	(6,936)	35,480	201,943	(126,118)	75,825
Mortgages	7,302,676	(9,498)	7,293,178	10,002	(651)	9,351	85,116	(32,382)	52,734
Credit Cards	104,929	(2,125)	102,804	3,335	(552)	2,783	23,641	(16,579)	7,062
Overdrafts	65,978	(1,025)	64,953	1,291	(193)	1,098	7,310	(4,829)	2,481
Leasing	4,055	(14)	4,041	61	(2)	59	51	(25)	26
Flat Owners Associations	36,427	(249)	36,178	-	-	-	-	-	-
	<u>9,301,789</u>	<u>(49,470)</u>	<u>9,252,319</u>	<u>68,063</u>	<u>(8,967)</u>	<u>59,096</u>	<u>352,978</u>	<u>(199,783)</u>	<u>153,195</u>
	<u>14,511,921</u>	<u>(84,975)</u>	<u>14,426,946</u>	<u>89,367</u>	<u>(9,283)</u>	<u>80,084</u>	<u>433,701</u>	<u>(246,470)</u>	<u>187,231</u>
	<u>14,700,282</u>	<u>(85,853)</u>	<u>14,614,429</u>	<u>89,367</u>	<u>(9,283)</u>	<u>80,084</u>	<u>433,701</u>	<u>(246,470)</u>	<u>187,231</u>
Financial assets at FVOCI – debt securities	1,818,663	(254)	1,818,409	-	-	-	-	-	-
Financial commitments and contingencies	4,056,913	(6,202)	4,050,711	-	-	-	23,891	(4,266)	19,625

4. Financial and operational risk management (continued)

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

(Table continues on the next page)

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from customers:			
Public Administration			
1 – 30 days	647	-	647
Corporate			
1 – 30 days	16,719	(106)	16,613
31 – 60 days	1,863	(72)	1,791
61 – 90 days	2,075	(138)	1,937
	<u>20,657</u>	<u>(316)</u>	<u>20,341</u>
Retail			
1 – 30 days	50,746	(5,511)	45,235
31 – 60 days	8,780	(1,624)	7,156
61 – 90 days	8,537	(1,832)	6,705
	<u>68,063</u>	<u>(8,967)</u>	<u>59,096</u>
	<u>89,367</u>	<u>(9,283)</u>	<u>80,084</u>
	<u>89,367</u>	<u>(9,283)</u>	<u>80,084</u>
December 2019 € '000			
Financial assets at AC:			
Due from customers:			
Public Administration			
1 – 30 days	625	(1)	624
Corporate			
1 – 30 days	54,198	(573)	53,625
31 – 60 days	3,494	(249)	3,245
61 – 90 days	3,118	(248)	2,870
	<u>60,810</u>	<u>(1,070)</u>	<u>59,740</u>
Retail			
1 – 30 days	74,024	(9,849)	64,175
31 – 60 days	12,580	(2,648)	9,932
61 – 90 days	11,947	(3,013)	8,934
	<u>98,551</u>	<u>(15,510)</u>	<u>83,041</u>
	<u>159,986</u>	<u>(16,581)</u>	<u>143,405</u>
	<u>159,986</u>	<u>(16,581)</u>	<u>143,405</u>

4. Financial and operational risk management (continued)

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

June 2020 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	Net amount
Financial assets at AC:									
Due from other banks	138,338	(430)	137,908	50,023	(448)	49,575	-	-	-
Due from customers:									
Public Administration									
Single Resolution Fund	3,876	-	3,876	-	-	-	-	-	-
Municipalities	94,576	(1,141)	93,435	30,888	(1,804)	29,084	-	-	-
Municipalities – Leasing	671	(3)	668	-	-	-	-	-	-
	99,123	(1,144)	97,979	30,888	(1,804)	29,084	-	-	-
Corporate									
Large Corporates	1,874,274	(1,444)	1,872,830	229,740	(912)	228,828	4,538	(1,475)	3,063
Large Corporates – debt securities	113,334	(86)	113,248	8,323	(125)	8,198	-	-	-
Specialized Lending	797,600	(15,176)	782,424	58,944	(8,962)	49,982	5,323	(5,034)	289
SME	1,077,451	(1,428)	1,076,023	250,315	(3,439)	246,876	56,657	(34,524)	22,133
Other Non-banking Financial Institutions	400,226	(232)	399,994	-	-	-	6	(4)	2
Other Non-banking Financial Institutions – debt securities	25,235	(27)	25,208	-	-	-	-	-	-
Public Sector Entities	2,199	(52)	2,147	-	-	-	6	(1)	5
Leasing	159,711	(733)	158,978	3,865	(216)	3,649	9,549	(4,443)	5,106
Factoring	95,318	(34)	95,284	4,890	(8)	4,882	4,644	(1,205)	3,439
	4,545,348	(19,212)	4,526,136	556,077	(13,662)	542,415	80,723	(46,686)	34,037

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4. Financial and operational risk management (continued)

June 2020 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	286,249	(1,552)	284,697	76,094	(4,825)	71,269	21,596	(12,858)	8,738
Small Business – Leasing	54,325	(304)	54,021	1,460	(126)	1,334	13,321	(6,992)	6,329
Consumer Loans	1,185,477	(8,432)	1,177,045	237,493	(28,889)	208,604	201,943	(126,118)	75,825
Mortgages	7,029,092	(1,046)	7,028,046	283,586	(9,103)	274,483	85,116	(32,382)	52,734
Credit Cards	93,226	(693)	92,533	15,038	(1,984)	13,054	23,641	(16,579)	7,062
Overdrafts	47,646	(310)	47,336	19,623	(908)	18,715	7,310	(4,829)	2,481
Leasing	4,100	(15)	4,085	16	(1)	15	51	(25)	26
Flat Owners Associations	36,427	(249)	36,178	-	-	-	-	-	-
	<u>8,736,542</u>	<u>(12,601)</u>	<u>8,723,941</u>	<u>633,310</u>	<u>(45,836)</u>	<u>587,474</u>	<u>352,978</u>	<u>(199,783)</u>	<u>153,195</u>
	<u>13,381,013</u>	<u>(32,957)</u>	<u>13,348,056</u>	<u>1,220,275</u>	<u>(61,302)</u>	<u>1,158,973</u>	<u>433,701</u>	<u>(246,469)</u>	<u>187,232</u>
	<u>13,519,351</u>	<u>(33,387)</u>	<u>13,485,964</u>	<u>1,270,298</u>	<u>(61,750)</u>	<u>1,208,548</u>	<u>433,701</u>	<u>(246,469)</u>	<u>187,232</u>
Financial assets at FVOCI – debt securities	1,818,663	(254)	1,818,409	-	-	-	-	-	-
Financial commitments and contingencies	3,870,006	(4,384)	3,865,622	186,907	(1,818)	185,089	23,891	(4,266)	19,625

4. Financial and operational risk management (continued)

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

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4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	138,338	(430)	137,908	50,023	(448)	49,575	-	-	-
Due from customers:									
Public Administration									
No delinquency	98,476	(1,144)	97,332	30,888	(1,804)	29,084	-	-	-
1 – 30 days	647	-	647	-	-	-	-	-	-
91 – 180 days	-	-	-	-	-	-	-	-	-
	99,123	(1,144)	97,979	30,888	(1,804)	29,084	-	-	-
Corporate									
No delinquency	4,530,076	(19,132)	4,510,944	550,693	(13,426)	537,267	30,710	(11,600)	19,110
1 – 30 days	15,259	(80)	15,179	1,460	(26)	1,434	734	(138)	596
31 – 60 days	13	-	13	1,856	(72)	1,784	779	(449)	330
61 – 90 days	-	-	-	2,068	(138)	1,930	394	(96)	298
91 – 180 days	-	-	-	-	-	-	14,611	(8,224)	6,387
Over 181 days	-	-	-	-	-	-	33,495	(26,179)	7,316
	4,545,348	(19,212)	4,526,136	556,077	(13,662)	542,415	80,723	(46,686)	34,037

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4. Financial and operational risk management (continued)

June 2020 € '000	Gross amount	Stage 1 Impairment losses	Net amount	Gross amount	Stage 2 Impairment losses	Net amount	Gross amount	Stage 3 Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	8,717,847	(12,132)	8,705,715	583,941	(37,337)	546,604	48,569	(15,423)	33,146
1 – 30 days	18,695	(469)	18,226	32,052	(5,043)	27,009	12,067	(3,843)	8,224
31 – 60 days	-	-	-	8,780	(1,624)	7,156	4,588	(1,455)	3,133
61 – 90 days	-	-	-	8,537	(1,832)	6,705	3,411	(944)	2,467
91 – 180 days	-	-	-	-	-	-	28,762	(15,656)	13,106
Over 181 days	-	-	-	-	-	-	255,581	(162,462)	93,119
	<u>8,736,542</u>	<u>(12,601)</u>	<u>8,723,941</u>	<u>633,310</u>	<u>(45,836)</u>	<u>587,474</u>	<u>352,978</u>	<u>(199,783)</u>	<u>153,195</u>
	<u>13,381,013</u>	<u>(32,957)</u>	<u>13,348,056</u>	<u>1,220,275</u>	<u>(61,302)</u>	<u>1,158,973</u>	<u>433,701</u>	<u>(246,469)</u>	<u>187,232</u>
	<u>13,519,351</u>	<u>(33,387)</u>	<u>13,485,964</u>	<u>1,270,298</u>	<u>(61,750)</u>	<u>1,208,548</u>	<u>433,701</u>	<u>(246,469)</u>	<u>187,232</u>
Financial assets at FVOCI – debt securities									
No delinquency	1,818,663	(254)	1,818,409	-	-	-	-	-	-
Financial commitments and contingencies									
No delinquency	3,870,006	(4,384)	3,865,622	186,907	(1,818)	185,089	23,891	(4,266)	19,625

4. Financial and operational risk management (continued)

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

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4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

4.1.4. Loans with renegotiated terms and forbearance policy

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

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

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

June 2020 € '000	Performing forborne			Non-performing forborne		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	42,458	(1,048)	41,410	39,497	(26,085)	13,412
Retail	52,920	(2,905)	50,015	25,521	(15,266)	10,255
	<u>95,378</u>	<u>(3,953)</u>	<u>91,425</u>	<u>65,018</u>	<u>(41,351)</u>	<u>23,667</u>
Financial commitments and contingencies	413	(1)	412	4,214	(887)	3,327
December 2019 € '000	Performing forborne			Non-performing forborne		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Corporate	53,011	(4,280)	48,731	50,316	(35,608)	14,708
Retail	47,307	(2,249)	45,058	19,897	(10,954)	8,943
	<u>100,318</u>	<u>(6,529)</u>	<u>93,789</u>	<u>70,213</u>	<u>(46,562)</u>	<u>23,651</u>
Financial commitments and contingencies	1,038	(4)	1,034	1,822	(271)	1,551

4.1.5. Write-off Policy

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

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

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

4. Financial and operational risk management (continued)

4.1.6. Collateral Policy

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

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

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

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

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

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

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

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

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

4. Financial and operational risk management (continued)

4.1.7. Offsetting financial assets and financial liabilities

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

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

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

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

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

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

4. Financial and operational risk management (continued)

4.1.8. Concentrations of credit risk

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

June 2020 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public Administration	126,135	(2,948)	123,187
Corporate	3,390,170	(73,313)	3,316,857
Retail	9,624,190	(255,753)	9,368,437
	<u>13,140,495</u>	<u>(332,014)</u>	<u>12,808,481</u>
Financial assets at FVOCI - debt securities	1,078,595	(78)	1,078,517
Financial commitments and contingencies	3,206,588	(9,811)	3,196,777
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	609,719	(1,826)	607,893
Retail	19,843	(1,749)	18,094
	<u>629,562</u>	<u>(3,575)</u>	<u>625,987</u>
Financial commitments and contingencies	454,337	(390)	453,947
Other European countries			
Financial assets at AC:			
Due from other banks	113,366	(514)	112,852
Due from customers:			
Public Administration	3,876	-	3,876
Corporate	1,137,467	(4,401)	1,133,066
Retail	70,048	(650)	69,398
	<u>1,211,391</u>	<u>(5,051)</u>	<u>1,206,340</u>
	<u>1,324,757</u>	<u>(5,565)</u>	<u>1,319,192</u>
Financial assets at FVOCI - debt securities	639,553	(160)	639,393
Financial commitments and contingencies	371,048	(184)	370,864

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2020 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	8,942	(4)	8,938
Retail	1,435	(3)	1,432
	<u>10,377</u>	<u>(7)</u>	<u>10,370</u>
Financial assets at FVOCI - debt securities	100,516	(17)	100,499
Financial commitments and contingencies	78	-	78
Asia			
Financial assets at AC:			
Due from other banks	2,591	-	2,591
Due from customers:			
Corporate	35,812	(16)	35,796
Retail	5,330	(43)	5,287
	<u>41,142</u>	<u>(59)</u>	<u>41,083</u>
	<u>43,733</u>	<u>(59)</u>	<u>43,674</u>
Financial commitments and contingencies	45,205	(76)	45,129
Rest of the World			
Financial assets at AC:			
Due from other banks	72,404	(364)	72,040
Due from customers:			
Corporate	38	-	38
Retail	1,984	(22)	1,962
	<u>2,022</u>	<u>(22)</u>	<u>2,000</u>
	<u>74,426</u>	<u>(386)</u>	<u>74,040</u>
Financial commitments and contingencies	3,548	(7)	3,541

4. Financial and operational risk management (continued)

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

(Table continues on the next page)

4. Financial and operational risk management (continued)

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Financial assets at AC:				Financial assets at FVOCI - debt securities	Financial commit- ments and contingencies
	Banks	Public admini- stration	Corporate	Retail*		
Agriculture, forestry and fishing	-	-	162,936	25,669	-	91,586
Mining and quarrying	-	-	48,535	649	-	37,465
Manufacturing	-	8	790,117	32,800	-	694,653
Electricity, gas, steam and air conditioning supply	-	-	582,723	1,032	-	478,516
Water supply	-	-	95,133	2,204	-	12,991
Construction	-	-	202,415	31,058	-	439,312
Wholesale and retail trade	-	1,053	825,776	107,702	-	432,828
Transport and storage	-	1,362	452,048	122,148	-	311,574
Accommodation and food service activities	-	-	27,494	13,230	-	5,898
Information and communication	-	-	122,949	7,430	-	49,646
Financial and insurance activities**	187,483	-	536,993	190	368,294	232,276
Real estate activities	-	-	503,769	52,403	-	68,536
Professional, scientific and technical activities	-	8	179,453	31,456	-	179,332
Administrative and support service activities	-	-	197,824	8,299	-	25,221
Public Administration and defense, compulsory social security	-	124,632	243	174	1,450,115	33,221
Education	-	-	470	1,077	-	250
Human health services and social work activities	-	-	38,768	16,878	-	10,400
Arts, entertainment and recreation	-	-	35,618	7,627	-	2,595
Other services	-	-	299,324	4,668	-	51,829
Consumer Loans	-	-	-	1,642,653	-	330,617
Mortgage Loans	-	-	-	7,355,263	-	581,590
	<u>187,483</u>	<u>127,063</u>	<u>5,102,588</u>	<u>9,464,610</u>	<u>1,818,409</u>	<u>4,070,336</u>

4. Financial and operational risk management (continued)

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

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

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

4. Financial and operational risk management (continued)

4.1.9. Internal and external ratings

The overview of the internal rating scales applicable for corporate and retail exposures is shown below.

Large Corporates above € 500 million turnover	Large Corporates below € 500 million turnover and SME	Retail Small Business ('SB') and Flat Owners Associations ('FOA')	Risk Profile	Description
LC_I1 – LC_I4	I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
LC_I5 – LC_I6	I5 – I6	I5 – I6	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.
LC_M1 – LC_M2	M1 – M2	M1 – M2	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.
LC_M3 – LC_M4	M3 – M4	M3 – M4	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.
LC_R1 – LC_R3	R1 – R3	R1 – R3	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.
LC_R4 – LC_R5	R4 – R5	R4 – R5	High	In addition to riskiness features for R1 – R3 rating, there are evident difficulties as well as problematic debt management.
D	D	D	Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: <ul style="list-style-type: none"> the obligor is past due more than 90 days (Days past due methodology) on any material credit obligation to the Bank, the Parent Company undertaking or any of its subsidiaries; the Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held).

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

Specialized Lending – SPV and RED

- Strong
- Good
- Satisfactory
- Weak
- Default

4. Financial and operational risk management (continued)

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

Retail Mortgages	Unsecured Retail	Risk Profile	Description
L1a – L4	U01a – U02	Very Low	High level of client's socio-demographic information and financial discipline.
N1	U03	Low	Above average level of client's socio-demographic information and financial discipline.
N2 – W1	U04 – U07	Lower – Intermediate	Acceptable level of client's socio-demographic information and financial discipline.
W2	U08 – U09	Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there are some signals of worsening credit quality.
-	U10 – U11	Upper – Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there is worsening credit quality.
W3	U12	High	Acceptable level of client's socio-demographic information and financial discipline, but there is negative credit behaviour.
D	D	Default	A default is considered to have occurred with regard to a particular mortgage/obligor when either or both of the two following events have taken place: <ul style="list-style-type: none"> • The obligor is past due more than 90 days on any material credit obligation to the VUB Group (absolute threshold is set according to NBS directive); • The VUB Group considers that the obligor is unlikely to pay its credit obligations to the VUB Grouping group in full, without recourse by the VUB Group to actions such as realizing security (if held).

Capital requirement calculation

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

4. Financial and operational risk management (continued)

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

June 2020 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks	Unrated	138,338	(430)	137,908
Due from customers:				
Public Administration	Unrated	99,123	(1,144)	97,979
Corporate				
Large Corporates, SME	LC_I1 – LC_I6	849,379	(444)	848,935
	LC_M1 – LC_M4	474,212	(728)	473,484
	LC_R1 – LC_R5	1,110	(6)	1,104
	I1 – I6	721,640	(136)	721,504
	M1 – M4	666,602	(477)	666,125
	R1 – R5	206,831	(694)	206,137
	Unrated	145,283	(473)	144,810
Specialized Lending – SPV, RED				
	Strong	323,759	(1,759)	322,000
	Good	243,978	(2,689)	241,289
	Satisfactory	197,080	(6,985)	190,095
	Weak	31,577	(3,738)	27,839
	Unrated	1,206	(5)	1,201
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	248,311	(117)	248,194
	LC_M1 - LC_M4	12,506	(45)	12,461
	I1 – I6	124,823	(22)	124,801
	M1 – M4	14,524	(47)	14,477
	Unrated	27,497	(80)	27,417
Factoring, Leasing				
	Unrated	255,030	(767)	254,263
		4,545,348	(19,212)	4,526,136

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2020 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	35,878	(33)	35,845
	M1 – M4	145,265	(644)	144,621
	R1 – R5	26,487	(355)	26,132
	Unrated	115,046	(770)	114,276
Mortgages				
	L1 – L4	6,405,896	(375)	6,405,521
	N1	313,053	(118)	312,935
	N2 – W1	285,379	(334)	285,045
	W2	15,858	(100)	15,758
	W3	3,931	(118)	3,813
	Unrated	4,974	-	4,974
Unsecured Retail				
	U01a – U02	348,647	(403)	348,244
	U3	106,637	(234)	106,403
	U04 – U07	403,756	(2,070)	401,686
	U08 – U09	72,954	(1,327)	71,627
	U10 – U11	17,284	(826)	16,458
	U12	4,325	(720)	3,605
	Unrated	372,748	(3,858)	368,890
Small Business – Leasing, Leasing				
	Unrated	58,425	(317)	58,108
		<u>8,736,543</u>	<u>(12,602)</u>	<u>8,723,941</u>
		<u>13,381,014</u>	<u>(32,958)</u>	<u>13,348,056</u>
		<u>13,519,352</u>	<u>(33,388)</u>	<u>13,485,964</u>
Financial assets at FVOCI - debt securities				
	Unrated	1,818,663	(254)	1,818,409

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2020
€ '000

Stage 1

Financial commitments
and contingencies

Internal rating	Gross amount	Provisions	Net amount
LC_I1 – LC_I6	1,101,707	(269)	1,101,438
LC_M1 – LC_M4	122,762	(112)	122,650
LC_R1 – LC_R5	23,941	(171)	23,770
I1 – I6	850,427	(117)	850,310
M1 – M4	439,712	(362)	439,350
R1 – R5	76,517	(308)	76,209
Strong	19,881	(78)	19,803
Good	95,348	(817)	94,531
Satisfactory	43,717	(1,324)	42,393
Weak	2,632	(227)	2,405
L1 – L4	473,448	(38)	473,410
N1	40,089	(19)	40,070
N2 – W1	58,451	(97)	58,354
W2	1,732	(14)	1,718
W3	85	(5)	80
U01a – U02	242,796	(32)	242,764
U3	20,034	(12)	20,022
U04 – U07	34,154	(60)	34,094
U08 – U09	1,560	(13)	1,547
U10 – U11	286	(6)	280
U12	177	(23)	154
Unrated	220,550	(280)	220,270
	<u>3,870,006</u>	<u>(4,384)</u>	<u>3,865,622</u>

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks	Unrated	180,136	(482)	179,654
Due from customers:				
Public Administration	Unrated	117,047	(1,072)	115,975
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,252,046	(630)	1,251,416
	LC_M1 – LC_M4	421,166	(1,053)	420,113
	LC_R1 – LC_R5	13,820	(100)	13,720
	I1 – I6	689,500	(96)	689,404
	M1 – M4	649,003	(513)	648,490
	R1 – R5	181,637	(607)	181,030
	Unrated	243,565	(1,429)	242,136
Specialized Lending - SPV, RED				
	Strong	262,763	(1,468)	261,295
	Good	297,234	(3,459)	293,775
	Satisfactory	193,450	(6,925)	186,525
	Weak	17,281	(2,039)	15,242
Other Non-banking				
Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	205,567	(82)	205,485
	LC_R1 – LC_R5	12,832	(126)	12,706
	I1 – I6	136,300	(28)	136,272
	M1 – M4	11,328	(26)	11,302
	Unrated	26,401	(66)	26,335
Factoring, Leasing				
	Unrated	312,485	(1,145)	311,340
		<u>4,926,378</u>	<u>(19,792)</u>	<u>4,906,586</u>

(Table continues on the next page)

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	37,567	(33)	37,534
	M1 – M4	142,111	(631)	141,480
	R1 – R5	32,285	(430)	31,855
	Unrated	29,185	(123)	29,062
Mortgages				
	L1 – L4	5,986,179	(357)	5,985,822
	N1	279,305	(105)	279,200
	N2 – W1	277,961	(331)	277,630
	W2	15,895	(110)	15,785
	W3	1,405	(38)	1,367
	Unrated	1,492	-	1,492
Unsecured Retail				
	U01a – U02	338,726	(416)	338,310
	U3	105,062	(244)	104,818
	U04 – U07	427,142	(2,272)	424,870
	U08 – U09	83,470	(1,530)	81,940
	U10 – U11	22,633	(1,187)	21,446
	U12	5,636	(972)	4,664
	Unrated	301,757	(4,059)	297,698
Small Business – Leasing, Leasing				
	Unrated	113,062	(1,712)	111,350
		<u>8,200,873</u>	<u>(14,550)</u>	<u>8,186,323</u>
		<u>13,244,298</u>	<u>(35,414)</u>	<u>13,208,884</u>
		<u>13,424,434</u>	<u>(35,896)</u>	<u>13,388,538</u>
Financial assets at FVOCI - debt securities				
	Unrated	1,562,762	(224)	1,562,538

(Table continues on the next page)

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,232,825	(300)	1,232,525
	LC_M1 – LC_M4	92,185	(121)	92,064
	LC_R1 – LC_R5	11,333	(117)	11,216
	I1 – I6	707,466	(70)	707,396
	M1 – M4	440,659	(327)	440,332
	R1 – R5	84,847	(403)	84,444
	Strong	13,147	(56)	13,091
	Good	96,623	(837)	95,786
	Satisfactory	42,444	(1,291)	41,153
	Weak	25	(2)	23
	L1 – L4	491,139	(45)	491,094
	N1	51,572	(25)	51,547
	N2 – W1	79,904	(138)	79,766
	W2	11,560	(101)	11,459
	W3	486	(19)	467
	U01a – U02	236,228	(34)	236,194
	U3	14,192	(9)	14,183
	U04 – U07	50,103	(78)	50,025
	U08 – U09	2,158	(20)	2,138
	U10 – U11	515	(12)	503
	U12	258	(31)	227
	Unrated	83,947	(196)	83,751
		<u>3,743,616</u>	<u>(4,232)</u>	<u>3,739,384</u>

4. Financial and operational risk management (continued)

The following table shows the quality of the VUB Group's stage 2 credit portfolio in terms of internal ratings used for IRB purposes:

June 2020 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks	Unrated	50,023	(448)	49,575
Due from customers:				
Public Administration	Unrated	30,888	(1,804)	29,084
Corporate				
Large Corporates, SME	LC_I1 – LC_I6	80,507	(118)	80,389
	LC_M1 – LC_M4	80,559	(297)	80,262
	LC_R1 – LC_R5	10,087	(85)	10,002
	LC_I1 – LC_I6			
	I1 – I6	2,793	(6)	2,787
	M1 – M4	45,003	(312)	44,691
	R1 – R5	261,307	(3,187)	258,120
	Unrated	8,122	(470)	7,652
Specialized Lending - SPV, RED				
	Strong	3,367	(12)	3,355
	Good	16,607	(2,995)	13,612
	Satisfactory	25,041	(1,597)	23,444
	Weak	13,929	(4,358)	9,571
Factoring, Leasing				
	Unrated	8,755	(224)	8,531
		556,077	(13,661)	542,416

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2020 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	43	-	43
	M1 – M4	21,676	(503)	21,173
	R1 – R5	49,578	(3,650)	45,928
	Unrated	4,797	(672)	4,125
Mortgages				
	L1 – L4	14,930	(84)	14,846
	N1	6,671	(43)	6,628
	N2 – W1	131,073	(2,119)	128,954
	W2	66,540	(1,989)	64,551
	W3	64,373	(4,869)	59,504
Unsecured Retail				
	U01a – U02	1,177	(7)	1,170
	U3	799	(9)	790
	U04 – U07	59,579	(1,479)	58,100
	U08 – U09	58,259	(3,186)	55,073
	U10 – U11	58,548	(6,013)	52,535
	U12	63,079	(14,654)	48,425
	Unrated	30,712	(6,430)	24,282
Small Business – Leasing, Leasing				
	Unrated	1,475	(128)	1,347
		<u>633,309</u>	<u>(45,835)</u>	<u>587,474</u>
		<u>1,220,274</u>	<u>(61,300)</u>	<u>1,158,974</u>
		<u>1,270,297</u>	<u>(61,748)</u>	<u>1,208,549</u>

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2020
€ '000

Stage 2

Financial commitments
and contingencies

Internal rating	Gross amount	Provisions	Net amount
LC_I1 – LC_I6	13,121	(5)	13,116
LC_M1 – LC_M4	82,417	(116)	82,301
LC_R1 – LC_R5	577	(3)	574
I1 – I6	1,207	(3)	1,204
M1 – M4	9,679	(51)	9,628
R1 – R5	38,314	(514)	37,800
Satisfactory	901	(59)	842
L1 – L4	456	(9)	447
N2 – W1	2,984	(82)	2,902
W2	618	(32)	586
W3	2,654	(187)	2,467
U01a – U02	3	-	3
U3	12	-	12
U04 – U07	4,752	(34)	4,718
U08 – U09	1,689	(35)	1,654
U10 – U11	940	(36)	904
U12	526	(214)	312
Unrated	26,057	(438)	25,619
	<u>186,907</u>	<u>(1,818)</u>	<u>185,089</u>

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks	Unrated	843	(6)	837
Due from customers:				
Public Administration	Unrated	18,503	(1,182)	17,321
Corporate				
Large Corporates, SME	LC_M1 – LC_M4	67,803	(139)	67,664
	I1 – I6	293	-	293
	M1 – M4	9,520	(40)	9,480
	R1 – R5	246,288	(2,973)	243,315
	Unrated	6,489	(759)	5,730
Specialized Lending - SPV, RED				
	Strong	4,612	(308)	4,304
	Good	35,344	(4,285)	31,059
	Satisfactory	32,066	(1,999)	30,067
	Weak	14,646	(4,605)	10,041
Factoring, Leasing				
	Unrated	6,745	(270)	6,475
		<u>423,806</u>	<u>(15,378)</u>	<u>408,428</u>

(Table continues on the next page)

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	351	-	351
	M1 – M4	20,172	(453)	19,719
	R1 – R5	41,986	(2,539)	39,447
	Unrated	1,667	(180)	1,487
Mortgages				
	L1 – L4	17,753	(83)	17,670
	N1	6,484	(48)	6,436
	N2 – W1	111,162	(1,821)	109,341
	W2	55,614	(1,633)	53,981
	W3	62,185	(5,167)	57,018
Unsecured Retail				
	U01a – U02	982	(5)	977
	U3	484	(4)	480
	U04 – U07	61,021	(1,404)	59,617
	U08 – U09	56,706	(2,914)	53,792
	U10 – U11	57,406	(5,465)	51,941
	U12	64,497	(15,870)	48,627
	Unrated	27,928	(6,358)	21,570
Small Business – Leasing, Leasing				
	Unrated	7,327	(1,316)	6,011
		<u>593,725</u>	<u>(45,260)</u>	<u>548,465</u>
		<u>1,036,034</u>	<u>(61,820)</u>	<u>974,214</u>
		<u>1,036,877</u>	<u>(61,826)</u>	<u>975,051</u>

(Table continues on the next page)

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies				
	LC_M1 – LC_M4	72,545	(103)	72,442
	LC_R1 – LC_R5	578	(18)	560
	I1 – I6	430	-	430
	M1 – M4	4,819	(20)	4,799
	R1 – R5	36,669	(455)	36,214
	Strong	8	-	8
	Satisfactory	1,560	(102)	1,458
	N2 – W1	924	(36)	888
	W2	578	(40)	538
	W3	1,084	(73)	1,011
	U3	11	-	11
	U04 – U07	5,167	(38)	5,129
	U08 – U09	1,826	(36)	1,790
	U10 – U11	1,151	(44)	1,107
	U12	1,118	(392)	726
	Unrated	6,324	(353)	5,971
		<u>134,792</u>	<u>(1,710)</u>	<u>133,082</u>

4. Financial and operational risk management (continued)

The following table shows the quality of the VUB Group's stage 3 credit portfolio in terms of internal ratings used for IRB purposes:

June 2020 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Corporate				
Large Corporates, SME	D (default)	61,197	(36,000)	25,197
Specialized Lending - SPV, RED	D (default)	5,323	(5,034)	289
Other Non-banking Financial Institutions, Public Sector Entities	D (default)	11	(5)	6
Factoring, Leasing	D (default)	14,192	(5,648)	8,544
		<u>80,723</u>	<u>(46,687)</u>	<u>34,036</u>
Retail				
Small Business, Flat Owners Associations	D (default)	21,597	(12,858)	8,739
Mortgages	D (default)	85,116	(32,382)	52,734
Unsecured Retail	D (default)	232,893	(147,526)	85,367
Small Business – Leasing, Leasing	D (default)	13,372	(7,017)	6,355
		<u>352,978</u>	<u>(199,783)</u>	<u>153,195</u>
		<u>433,701</u>	<u>(246,470)</u>	<u>187,231</u>
		<u>433,701</u>	<u>(246,470)</u>	<u>187,231</u>
Financial commitments and contingencies				
	D (default)	23,891	(4,266)	19,625

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Public Administration	D (default)	50	(8)	42
Corporate				
Large Corporates, SME	D (default)	65,817	(37,016)	28,801
Specialized Lending - SPV, RED	D (default)	14,586	(13,348)	1,238
Other Non-banking Financial Institutions, Public Sector Entities				
	D (default)	8	(1)	7
Factoring, Leasing	D (default)	29,588	(12,683)	16,905
		<u>109,999</u>	<u>(63,048)</u>	<u>46,951</u>
Retail				
Small Business, Flat Owners Associations	D (default)	14,471	(9,221)	5,250
Mortgages	D (default)	82,188	(29,147)	53,041
Unsecured Retail	D (default)	230,250	(144,811)	85,439
Small Business – Leasing, Leasing	D (default)	8,472	(5,279)	3,193
		<u>335,381</u>	<u>(188,458)</u>	<u>146,923</u>
		<u>445,430</u>	<u>(251,514)</u>	<u>193,916</u>
		<u>445,430</u>	<u>(251,514)</u>	<u>193,916</u>
Financial commitments and contingencies	D (default)	22,647	(3,428)	19,219

4. Financial and operational risk management (continued)

The following table shows the quality of the VUB Group's total credit portfolio in terms of internal ratings used for IRB purposes:

June 2020 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks	Unrated	188,361	(878)	187,483
Due from customers:				
Public Administration	Unrated	130,011	(2,948)	127,063
Corporate				
Large Corporates, SME	LC_I1 – LC_I6	929,886	(562)	929,324
	LC_M1 – LC_M4	554,771	(1,025)	553,746
	LC_R1 – LC_R5	11,197	(91)	11,106
	I1 – I6	724,433	(142)	724,291
	M1 – M4	711,605	(789)	710,816
	R1 – R5	468,138	(3,881)	464,257
	D (default)	61,197	(36,000)	25,197
	Unrated	153,405	(943)	152,462
Specialized Lending - SPV, RED				
	Strong	327,126	(1,771)	325,355
	Good	260,585	(5,684)	254,901
	Satisfactory	222,121	(8,582)	213,539
	Weak	45,506	(8,096)	37,410
	D (default)	5,323	(5,034)	289
	Unrated	1,206	(5)	1,201
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	248,311	(117)	248,194
	LC_M1 – LC_M4	12,506	(45)	12,461
	I1 – I6	124,823	(22)	124,801
	M1 – M4	14,524	(47)	14,477
	D (default)	11	(5)	6
	Unrated	27,497	(80)	27,417
Factoring, Leasing				
	D (default)	14,192	(5,648)	8,544
	Unrated	263,785	(991)	262,794
		5,182,148	(79,560)	5,102,588

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2020 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	35,921	(33)	35,888
	M1 – M4	166,941	(1,147)	165,794
	R1 – R5	76,065	(4,005)	72,060
	D (default)	21,597	(12,858)	8,739
	Unrated	119,843	(1,442)	118,401
Mortgages				
	L1 – L4	6,420,826	(459)	6,420,367
	N1	319,724	(161)	319,563
	N2 – W1	416,452	(2,453)	413,999
	W2	82,398	(2,089)	80,309
	W3	68,304	(4,987)	63,317
	D (default)	85,116	(32,382)	52,734
	Unrated	4,974	-	4,974
Unsecured Retail				
	U01a – U02	349,824	(410)	349,414
	U3	107,436	(243)	107,193
	U04 – U07	463,335	(3,549)	459,786
	U08 – U09	131,213	(4,513)	126,700
	U10 – U11	75,832	(6,839)	68,993
	U12	67,404	(15,374)	52,030
	D (default)	232,893	(147,526)	85,367
	Unrated	403,460	(10,288)	393,172
Small Business – Leasing, Leasing				
	D (default)	13,372	(7,017)	6,355
	Unrated	59,900	(445)	59,455
		<u>9,722,830</u>	<u>(258,220)</u>	<u>9,464,610</u>
		<u>15,034,989</u>	<u>(340,728)</u>	<u>14,694,261</u>
		<u>15,223,350</u>	<u>(341,606)</u>	<u>14,881,744</u>
Financial assets at FVOCI - debt securities				
	Unrated	1,818,663	(254)	1,818,409

(Table continues on the next page)

4. Financial and operational risk management (continued)

June 2020 € '000	Internal rating	Gross amount	Provisions	Net amount
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,114,828	(274)	1,114,554
	LC_M1 – LC_M4	205,179	(228)	204,951
	LC_R1 – LC_R5	24,518	(174)	24,344
	I1 – I6	851,634	(120)	851,514
	M1 – M4	449,391	(413)	448,978
	R1 – R5	114,831	(822)	114,009
	Strong	19,881	(78)	19,803
	Good	95,348	(817)	94,531
	Satisfactory	44,618	(1,383)	43,235
	Weak	2,632	(227)	2,405
	L1 – L4	473,904	(47)	473,857
	N1	40,089	(19)	40,070
	N2 – W1	61,435	(179)	61,256
	W2	2,350	(46)	2,304
	W3	2,739	(192)	2,547
	U01a – U02	242,799	(32)	242,767
	U3	20,046	(12)	20,034
	U04 – U07	38,906	(94)	38,812
	U08 – U09	3,249	(48)	3,201
	U10 – U11	1,226	(42)	1,184
	U12	703	(237)	466
	D (default)	23,891	(4,266)	19,625
	Unrated	246,607	(718)	245,889
		<u>4,080,804</u>	<u>(10,468)</u>	<u>4,070,336</u>

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks	Unrated	180,979	(488)	180,491
Due from customers:				
Public Administration	D (default)	50	(8)	42
	Unrated	135,550	(2,254)	133,296
		135,600	(2,262)	133,338
Corporate				
Large Corporates, SME	LC_I1 – LC_I6	1,252,046	(630)	1,251,416
	LC_M1 – LC_M4	488,969	(1,192)	487,777
	LC_R1 – LC_R5	13,820	(100)	13,720
	I1 – I6	689,793	(96)	689,697
	M1 – M4	658,523	(553)	657,970
	R1 – R5	427,925	(3,580)	424,345
	D (default)	65,817	(37,016)	28,801
	Unrated	250,054	(2,188)	247,866
Specialized Lending - SPV, RED				
	Strong	267,375	(1,776)	265,599
	Good	332,578	(7,744)	324,834
	Satisfactory	225,516	(8,924)	216,592
	Weak	31,927	(6,644)	25,283
	D (default)	14,586	(13,348)	1,238
Other Non-banking				
Financial Institutions, Public Sector Entities	LC_I1 – LC_I6	205,567	(82)	205,485
	LC_R1 – LC_R5	12,832	(126)	12,706
	I1 – I6	136,300	(28)	136,272
	M1 – M4	11,328	(26)	11,302
	D (default)	8	(1)	7
	Unrated	26,401	(66)	26,335
Factoring, Leasing				
	D (default)	29,588	(12,683)	16,905
	Unrated	319,230	(1,415)	317,815
		5,460,183	(98,218)	5,361,965

(Table continues on the next page)

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	37,918	(33)	37,885
	M1 – M4	162,283	(1,084)	161,199
	R1 – R5	74,271	(2,969)	71,302
	D (default)	14,471	(9,221)	5,250
	Unrated	30,852	(303)	30,549
Mortgages				
	L1 – L4	6,003,932	(440)	6,003,492
	N1	285,789	(153)	285,636
	N2 – W1	389,123	(2,152)	386,971
	W2	71,509	(1,743)	69,766
	W3	63,590	(5,205)	58,385
	D (default)	82,188	(29,147)	53,041
	Unrated	1,492	-	1,492
Unsecured Retail				
	U01a – U02	339,708	(421)	339,287
	U3	105,546	(248)	105,298
	U04 – U07	488,163	(3,676)	484,487
	U08 – U09	140,176	(4,444)	135,732
	U10 – U11	80,039	(6,652)	73,387
	U12	70,133	(16,842)	53,291
	D (default)	230,250	(144,811)	85,439
	Unrated	329,685	(10,417)	319,268
Small Business – Leasing, Leasing				
	D (default)	8,472	(5,279)	3,193
	Unrated	120,389	(3,028)	117,361
		<u>9,129,979</u>	<u>(248,268)</u>	<u>8,881,711</u>
		<u>14,725,762</u>	<u>(348,748)</u>	<u>14,377,014</u>
		<u>14,906,741</u>	<u>(349,236)</u>	<u>14,557,505</u>
Financial assets at FVOCI - debt securities				
	Unrated	1,562,762	(224)	1,562,538

(Table continues on the next page)

4. Financial and operational risk management (continued)

December 2019 € '000	Internal rating	Gross amount	Provisions	Net amount
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,232,825	(300)	1,232,525
	LC_M1 – LC_M4	164,730	(224)	164,506
	LC_R1 – LC_R5	11,911	(135)	11,776
	I1 – I6	707,896	(70)	707,826
	M1 – M4	445,478	(347)	445,131
	R1 – R5	121,516	(858)	120,658
	Strong	13,155	(56)	13,099
	Good	96,623	(837)	95,786
	Satisfactory	44,004	(1,393)	42,611
	Weak	25	(2)	23
	L1 – L4	491,139	(45)	491,094
	N1	51,572	(25)	51,547
	N2 – W1	80,828	(174)	80,654
	W2	12,138	(141)	11,997
	W3	1,570	(92)	1,478
	U01a – U02	236,228	(34)	236,194
	U3	14,203	(9)	14,194
	U04 – U07	55,270	(116)	55,154
	U08 – U09	3,984	(56)	3,928
	U10 – U11	1,666	(56)	1,610
	U12	1,376	(423)	953
	D (default)	22,647	(3,428)	19,219
	Unrated	90,271	(549)	89,722
		<u>3,901,055</u>	<u>(9,370)</u>	<u>3,891,685</u>

In the tables above, only portfolios for which the VUB Group received the authorisation to use internal models for capital requirements and retail unsecured portfolio (where the VUB Group aims to obtain the authorisation in the future) are listed with internal ratings. The other portfolios are listed as unrated.

4. Financial and operational risk management (continued)

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortised cost: due from other banks is in the rating scale from Aa1 to Caa1 (31 December 2018: Aa3 to Ba1). The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on Moody's ratings.

June 2020 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI - debt securities				
	Aaa	264,670	(35)	264,635
	Aa1	57,467	(45)	57,422
	Aa3	51,633	(12)	51,621
	A2	1,019,593	(71)	1,019,522
	Baa3	425,300	(91)	425,209
		<u>1,818,663</u>	<u>(254)</u>	<u>1,818,409</u>
December 2019 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI - debt securities				
	Aaa	268,633	(34)	268,599
	Aa1	34,409	(6)	34,403
	Aa3	51,710	(11)	51,699
	A2	508,674	(41)	508,633
	Baa1	209,389	(15)	209,374
	Baa3	489,947	(117)	489,830
		<u>1,562,762</u>	<u>(224)</u>	<u>1,562,538</u>

4. Financial and operational risk management (continued)

4.1.10. Credit risk of financial derivatives

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

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

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

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 2020	December 2019
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	53,374	40,070
Derivatives – Hedge accounting	171,913	137,860
	<u>225,287</u>	<u>177,930</u>

4. Financial and operational risk management (continued)

4.2. Market risk

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

€ '000	June 2020				December 2019			
	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	94	50	180	3	31	49	133	5
Interest rate risk	364	217	489	22	98	570	1,956	71
Total VaR	415	267	633	30	101	573	1,966	80
Total sVaR	576	471	1,265	135	184	1,534	3,073	184

4. Financial and operational risk management (continued)

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

- VaR does not measure the worst case loss, since a 99% confidence interval means that in 1% of cases the loss is expected to be greater than the VaR amount;
- VaR calculated using a one day holding period assumes hedge or disposal of a position within one day, which might not be realistic in the case of a longer illiquid situation on the market;
- For calculating VaR of a portfolio, the return, the volatility but also the correlation between various assets needs to be recognized which might represent a difficult task when taking into account the growing number and diversity of positions in a given portfolio.

These limitations are recognized, by supplementing VaR limits with other position limit structures. 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 VUB Group' which are approved by the Management Board and are consistent with ISP Group IRRBB Guidelines and Rules.

The main risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to a change in market interest rates. Interest rate risk is managed mainly through the monitoring of interest rate gaps. Financial instruments are mapped to re-pricing gaps 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 these 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. Six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision, have been introduced in 2017. All scenarios are applied on monthly basis as from September 2019.

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

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

4. Financial and operational risk management (continued)

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

Each financial and non-financial instrument is mapped to a gap based on its contractual or behavioural re-pricing 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 re-pricing will take place (e.g. current accounts). There are also some items where the maturity or re-pricing period is known but it can be assumed that they will behave differently (e.g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the most probable behaviour of these items. The assumptions are based on a detailed analysis of the VUB Group's historical time series data and statistical models.

At 30 June 2020, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (1,850) thousand (31 December 2019: € (1,274) thousand).

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

	June 2020	December 2019
Financial assets		
Cash and cash equivalents	0.07%	1.32%
Financial assets at FVTPL	0.39%	1.10%
Financial assets at FVOCI	(0.05)%	0.47%
Financial assets at AC:		
Due from other banks	1.96%	2.42%
Due from customers	2.25%	2.49%
Financial liabilities		
Financial liabilities at AC:		
Due to banks	0.33%	0.34%
Due to customers	0.16%	0.19%
Debt securities in issue	0.61%	0.79%

4. Financial and operational risk management (continued)

4.3. Liquidity risk

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

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

The basic principles underpinning the Liquidity Policy of the VUB Group are:

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

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

The departments of the VUB Group responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department responsible for liquidity management and the Enterprise Risk Management Department responsible for monitoring indicators and verifying the observation of limits. 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.

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

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

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

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

4. Financial and operational risk management (continued)

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

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

June 2020 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	1,096,515	-	1,096,515
Financial assets at FVTPL	97,112	52,768	149,880
Derivatives – Hedge accounting	799	115,025	115,824
Financial assets at FVOCI	627,291	1,202,915	1,830,206
Financial assets at AC:			
Due from other banks	65,959	121,524	187,483
Due from customers	2,589,663	12,104,598	14,694,261
Fair value changes of the hedged items in portfolio hedge of IRR	-	21,333	21,333
Investments in subsidiaries, joint ventures and associates	-	9,523	9,523
Property and equipment	-	118,048	118,048
Intangible assets	-	116,602	116,602
Goodwill	-	29,305	29,305
Current income tax assets	51,052	-	51,052
Deferred income tax assets	-	62,726	62,726
Other assets	20,831	-	20,831
	<u>4,549,222</u>	<u>13,954,367</u>	<u>18,503,589</u>
Liabilities			
Financial liabilities at FVTPL	(4,203)	(28,529)	(32,732)
Derivatives – Hedge accounting	(2,071)	(80,737)	(82,808)
Financial liabilities measured at AC:			
Due to banks	(201,921)	(547,041)	(748,962)
Due to customers	(1,547,077)	(10,656,577)	(12,203,654)
Subordinated debt	(126)	(200,000)	(200,126)
Debt securities in issue	(159,359)	(3,341,986)	(3,501,345)
Fair value changes of the hedged items in portfolio hedge of IRR	-	(6,800)	(6,800)
Provisions	-	(14,830)	(14,830)
Other liabilities	(72,689)	(5,633)	(78,322)
	<u>(1,987,446)</u>	<u>(14,882,133)</u>	<u>(16,869,579)</u>
Net position	<u>2,561,776</u>	<u>(927,766)</u>	<u>1,634,010</u>

4. Financial and operational risk management (continued)

December 2019 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	996,446	-	996,446
Financial assets at FVTPL	2,058	21,980	24,038
Derivatives – Hedge accounting	252	82,249	82,501
Financial assets at FVOCI	544,623	1,029,926	1,574,549
Financial assets at AC:			
Due from other banks	53,795	126,696	180,491
Due from customers	2,647,812	11,729,202	14,377,014
Fair value changes of the hedged items in portfolio hedge of IRR	-	13,840	13,840
Investments in subsidiaries, joint ventures and associates	-	11,635	11,635
Property and equipment	-	120,150	120,150
Intangible assets	-	112,583	112,583
Goodwill	-	29,305	29,305
Current income tax assets	28,342	-	28,342
Deferred income tax assets	-	66,118	66,118
Other assets	22,839	-	22,839
Non-current assets classified as held for sale	645	-	645
	<u>4,296,812</u>	<u>13,343,684</u>	<u>17,640,496</u>
Liabilities			
Financial liabilities at FVTPL	(3,611)	(21,139)	(24,750)
Derivatives – Hedge accounting	(472)	(59,361)	(59,833)
Financial liabilities measured at AC:			
Due to banks	(177,025)	(374,942)	(551,967)
Due to customers	(1,897,293)	(10,053,724)	(11,951,017)
Subordinated debt	(143)	(200,000)	(200,143)
Debt securities in issue	(270,232)	(2,850,463)	(3,120,695)
Fair value changes of the hedged items in portfolio hedge of IRR	-	(4,580)	(4,580)
Provisions	-	(13,625)	(13,625)
Other liabilities	(95,256)	(5,633)	(100,889)
	<u>(2,444,032)</u>	<u>(13,583,467)</u>	<u>(16,027,499)</u>
Net position	<u>1,852,780</u>	<u>(239,783)</u>	<u>1,612,997</u>

4. Financial and operational risk management (continued)

4.4. Operational risk

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

4. Financial and operational risk management (continued)

4.5. Interest rate benchmark reform ('IBOR reform')

The Interbank offered rate ('IBOR') replacement represents one of the major undertakings for the financial services industry in the coming years. For the VUB Group the impact is not expected to be material and can be split into three main categories:

- Replacement of Euro OverNight Index Average ('EONIA');
- Change of Euro Interbank Offered Rate ('EURIBOR') calculation;
- Replacement of London Interbank Offered Rate ('LIBOR').

Replacement of EONIA

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

VUB has few interbank derivatives which are linked to EONIA. Majority will mature before end of 2021. For the remaining swaps the VUB Group will look how the market will adjust to this change and how the existing contracts will be amended – as we expect some general approach from the market. Potentially, these swaps might be closed.

No impact on hedge accounting is expected.

Change of EURIBOR calculation

Change of the calculation of EURIBOR by the panel banks doesn't represent any issue for the VUB Group.

In case Euribor will be fixed instead of T+2 just T+1, the contracts with the customers will be amended and the VUB Group will adjust its internal IT systems to be compliant with the mentioned change.

Replacement of LIBOR

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

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

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

4. Financial and operational risk management (continued)

4.6. The impact of the COVID-19 pandemic

The COVID-19 outbreak affected materially operations, disclosures, financial position and performance of the VUB Group.

The VUB Group implemented organizational solutions that enabled it to function properly and prevent the interruption of services to clients.

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

The significant financial effects of the COVID-19 outbreak concerns fair value measurement and expected credit loss measurement.

Fair value measurement

The first half of 2020 was characterized by higher instability, distrust, worries and fears on global markets and economics affected by unexpected COVID-19 crisis, which resulted in the material impact on the fair value of financial instruments.

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

June 2020
€ '000

Change in the fair value for the six months

Financial assets at FVTPL:

Financial assets held for trading:

Trading derivatives

Interest rate instruments:

Forwards and swaps

Foreign currency instruments:

Forwards and swaps

Options

Equity and commodity instruments:

Equity options

Commodity forwards and swaps

	Assets	Liabilities
	8,069	8,554
	3,074	4,244
	422	371
	<u>3,496</u>	<u>4,615</u>
	(28)	(28)
	1,287	1,125
	<u>1,259</u>	<u>1,097</u>
	<u>12,824</u>	<u>14,266</u>

4. Financial and operational risk management (continued)

In the first quarter of 2020 the decrease of FVTPL and FVOCI debt securities revaluation has been influenced by rising of the credit spreads on government, bank and corporate debt securities reflecting the possible unpredictable events. This situation resulted also in decrease of FVTPL and FVOCI equities revaluation (market price of Intesa Sanpaolo S.p.A. equities decreased from € 2.3485 at the end of the year to € 1.4708 at the end of the first quarter). After the peak of COVID-19 crisis during March and April 2020, the second quarter of the year was characterized by gradually but prudent improving of market sentiment. A series of post COVID-19 recovery plans have helped to improve the situation on markets (Pandemic Emergency Purchase Programme, US coronavirus bail-out package,...). FVTPL and FVOCI equities and debt securities revaluation has increased and portfolios recorded positive results in profit or loss (market price of ISP equities has changed from € 1.4708 € to € 1.702). The credit spreads on European government, bank and corporate bonds have decreased).

€ '000	June 2020
Change in the fair value for the six months	
Financial assets at FVTPL:	
Financial assets held for trading:	
Government debt securities of European Union countries	959
Non-trading financial assets at fair value through profit or loss:	
Equity instruments:	
Intesa Sanpaolo S.p.A.	(137)
Financial assets at FVOCI:	
Government debt securities of European Union countries	14,044
<i>of which Italian government debt securities</i>	(60)
Bank debt securities	3,009
Other debt securities	341
Equity instruments:	
VISA Inc. Seria C	142
Intesa Sanpaolo S.p.A.	(110)
S.W.I.F.T.	4
	<u>17,166</u>

During the first six months of 2020, there were also the significant changes in the fair value of hedging derivatives, which were substantially offset the changes in fair value of hedged items.

June 2020 € '000	Assets	Liabilities
Change in the fair value for the six months		
Derivatives – Hedge accounting	41,168	30,619

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

€ '000	June 2020
Change in the fair value for the six months	
Financial assets at AC:	
Due from customers	6,021
Financial liabilities at AC:	
Due to banks	(4,216)
Due to customers	(315)
Subordinated debt	(42,464)
	<u>(46,995)</u>

4. Financial and operational risk management (continued)

Expected credit loss measurement

During second quarter of 2020 the VUB Group has updated its PD models by new economic predictions which leads to additional creation of provisions in the amount of approximately 5 million €. More to that, due to deterioration of credit quality as indicated by rating downgrade, some portions of portfolios has been classified to stage 2 with additional impact on the level of provisions mainly in the segments of consumer loans and small business. This phenomenon can be observed for both clients with and without rescheduling of payments (but in case of rescheduling impact is more sovereign area of PD deterioration).

Till 30 June 2020 the VUB Group received 27,693 requests for deferral of repayments of corporate and retail loans, of which was granted 26,194 in the total gross amount of € 1,339,381 thousand.

June 2020 € '000	Gross amount	Performing Impairment losses	Net amount	Gross amount	Non-performing Impairment losses	Net amount
Financial assets at AC:						
Corporate	284,017	(4,530)	279,487	1,933	(701)	1,232
Retail	1,047,126	(19,212)	1,027,914	6,305	(1,872)	4,433
	<u>1,331,143</u>	<u>(23,742)</u>	<u>1,307,401</u>	<u>8,238</u>	<u>(2,573)</u>	<u>5,665</u>

Till 30 June 2020 the Bank provided 109 newly originated loans in cooperation with Slovak Investment Holding ('SIH') subject to public guarantee schemes in the context of the COVID-19 crisis to small and medium-sized enterprises in the total gross amount of € 19 013 thousand.

June 2020 € '000	Gross amount	Performing Impairment losses	Net amount	Gross amount	Non-performing Impairment losses	Net amount
Financial assets at AC:						
Corporate	18,217	(41)	18,176	-	-	-
Retail	796	(15)	781	-	-	-
	<u>19,013</u>	<u>(56)</u>	<u>18,957</u>	<u>-</u>	<u>-</u>	<u>-</u>

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, balances at central banks

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

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

(c) Due from customers

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

(d) Due to banks and Due to customers

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

(e) Subordinated debt

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

(f) Debt securities in issue

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

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

June 2020 € '000	Note	Carrying amount			Fair value			Total fair value
		At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	
Financial assets								
Cash and cash equivalents	7	1,096,515	-	1,096,515	-	1,096,515	-	1,096,515
Financial assets at FVTPL	8	-	149,880	149,880	649	149,231	-	149,880
Derivatives – Hedge accounting	9	-	115,824	115,824	-	115,824	-	115,824
Financial assets at FVOCI	10	-	1,830,206	1,830,206	740,182	1,090,024	-	1,830,206
Financial assets at AC:	11							
Due from other banks		187,483	-	187,483	-	187,483	-	187,483
Due from customers		14,694,261	-	14,694,261	-	75,424	15,177,813	15,253,237
		<u>15,978,259</u>	<u>2,245,790</u>	<u>18,224,049</u>	<u>741,480</u>	<u>2,863,732</u>	<u>15,177,813</u>	<u>18,783,025</u>
Financial liabilities								
Financial liabilities at FVTPL	8	-	32,732	32,732	-	32,732	-	32,732
Derivatives – Hedge accounting	9	-	82,808	82,808	-	82,808	-	82,808
Financial liabilities at AC:	11							
Due to banks		748,962	-	748,962	-	748,962	-	748,962
Due to customers		12,203,654	-	12,203,654	-	12,198,761	-	12,198,761
Subordinated debt		200,126	-	200,126	-	190,880	-	190,880
Debt securities in issue		3,501,345	-	3,501,345	-	3,502,371	-	3,502,371
		<u>16,654,087</u>	<u>115,540</u>	<u>16,769,627</u>	<u>-</u>	<u>16,756,514</u>	<u>-</u>	<u>16,756,514</u>

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

December 2019 € '000	Note	Carrying amount			Fair value			Total fair value
		At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	
Financial assets								
Cash and cash equivalents	7	996,446	-	996,446	-	996,446	-	996,446
Financial assets at FVTPL	8	-	24,038	24,038	584	23,454	-	24,038
Derivatives – Hedge accounting	9	-	82,501	82,501	-	82,501	-	82,501
Financial assets at FVOCI	10	-	1,574,549	1,574,549	950,619	623,930	-	1,574,549
Financial assets at AC:	11							
Due from other banks		180,491	-	180,491	-	180,491	-	180,491
Due from customers		14,377,014	-	14,377,014	-	75,252	14,854,717	14,929,969
		<u>15,553,951</u>	<u>1,681,088</u>	<u>17,235,039</u>	<u>951,203</u>	<u>1,982,074</u>	<u>14,854,717</u>	<u>17,787,994</u>
Financial liabilities								
Financial liabilities at FVTPL	8	-	24,750	24,750	-	24,750	-	24,750
Derivatives – Hedge accounting	9	-	59,833	59,833	-	59,833	-	59,833
Financial liabilities at AC:	11							
Due to banks		551,967	-	551,967	-	555,542	-	555,542
Due to customers		11,951,017	-	11,951,017	-	11,958,097	-	11,958,097
Subordinated debt		200,143	-	200,143	-	192,743	-	192,743
Debt securities in issue		3,120,695	-	3,120,695	-	3,164,185	-	3,164,185
		<u>15,823,822</u>	<u>84,583</u>	<u>15,908,405</u>	<u>-</u>	<u>15,955,150</u>	<u>-</u>	<u>15,955,150</u>

There were no transfers of financial instruments among the levels during 2019 and 2018.

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 loans, deposits and other transactions and balances with SME (company revenue in the range of € 1 million to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes loans, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

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

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

6. Segment reporting (continued)

June 2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	111,582	60,173	(5,163)	3,232	169,824
Interest and similar expense	(5,372)	(2,736)	(9,002)	(3,733)	(20,843)
Inter-segment revenue	(9,784)	(12,915)	22,735	(36)	-
Net interest income	96,426	44,522	8,570	(537)	148,981
Net fee and commission income (note 25)	49,640	14,904	1,120	(1,273)	64,391
Dividend income	-	-	-	-	-
Net trading result	1,968	2,276	938	23	5,205
Other operating income	171	2,488	3	1,301	3,963
Other operating expense	(9,549)	(1,439)	-	(1,303)	(12,291)
Special levy of selected financial institutions*	-	-	-	(31,038)	(31,038)
Salaries and employee benefits*	-	-	-	(61,647)	(61,647)
Other administrative expenses*	-	-	-	(38,305)	(38,305)
Amortisation	(2,918)	(169)	(1)	(3,816)	(6,904)
Depreciation	(1,424)	(1,196)	(2)	(5,157)	(7,779)
Profit before provisions, impairment and tax	134,314	61,386	10,628	(141,752)	64,576
Provisions*	-	(68)	-	112	44
Impairment losses	(26,443)	(7,516)	512	(25)	(33,472)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(3,030)	1,921	-	(619)	(1,728)
Profit before tax	104,841	55,723	11,140	(142,284)	29,420
Segment assets	9,364,826	5,431,518	3,107,959	599,286	18,503,589
Segment liabilities	7,850,345	4,576,378	4,393,198	49,658	16,869,579

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

6. Segment reporting (continued)

June 2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	126,707	58,810	11,514	6,979	204,010
Interest and similar expense	(6,169)	(3,277)	(11,334)	(4,345)	(25,125)
Inter-segment revenue	<u>(12,625)</u>	<u>(12,344)</u>	<u>25,235</u>	<u>(266)</u>	<u>-</u>
Net interest income	107,913	43,189	25,415	2,368	178,885
Net fee and commission income (note 25)	48,003	13,553	860	(1,793)	60,623
Net trading result	2,090	3,000	(13,292)	108	(8,094)
Other operating income	178	3,362	(827)	802	3,515
Other operating expense	(8,812)	(1,504)	-	(2,434)	(12,750)
Special levy of selected financial institutions*	-	-	-	(14,462)	(14,462)
Salaries and employee benefits*	-	-	-	(62,961)	(62,961)
Other administrative expenses*	-	-	-	(39,270)	(39,270)
Amortisation	(2,584)	(227)	(3)	(3,628)	(6,442)
Depreciation	<u>(1,547)</u>	<u>(1,225)</u>	<u>(1)</u>	<u>(3,792)</u>	<u>(6,565)</u>
Profit before provisions, impairment and tax	145,241	60,148	12,152	(125,062)	92,479
Provisions*	-	-	-	5,543	5,543
Impairment losses	(13,409)	(3,633)	175	588	(16,279)
Net gain/(loss) arising from the derecognition of financial assets at AC	<u>(4,629)</u>	<u>(5,271)</u>	<u>-</u>	<u>-</u>	<u>(9,900)</u>
Profit before tax	<u>127,203</u>	<u>51,244</u>	<u>12,327</u>	<u>(118,931)</u>	<u>71,843</u>
December 2019 € '000					
Segment assets	8,820,626	5,684,316	2,571,592	563,962	17,640,496
Segment liabilities	7,325,048	4,429,522	4,184,034	88,895	16,027,499

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

7. Cash and cash equivalents

'Cash and cash equivalents' comprise the following balances:

€ '000	June 2020	December 2019
Cash in hand	157,952	161,622
Balances at central banks:		
Compulsory minimum reserves	895,114	690,985
Current accounts	38	4
Term deposits	18,699	47,227
Loans and advances	-	78,749
	913,851	816,965
Due from other banks:		
Current accounts	24,712	17,859
	1,096,515	996,446

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

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation. The compliance with the 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 2020	December 2019
Financial assets held for trading:		
Trading derivatives	30,258	21,251
Government debt securities of European Union countries	118,973	2,203
	149,231	23,454
Non-trading financial assets at fair value through profit or loss:		
Equities	649	584
Financial liabilities held for trading:		
Trading derivatives	32,732	24,750

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

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

€ '000	June 2020 Assets	December 2019 Assets	June 2020 Liabilities	December 2019 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	25,094	17,919	26,848	19,318
Foreign currency instruments:				
Forwards and swaps	2,968	2,614	3,942	4,781
Options	486	93	436	95
	3,454	2,707	4,378	4,876
Equity and commodity instruments:				
Equity options	201	229	200	229
Commodity forwards and swaps	1,509	396	1,306	327
	1,710	625	1,506	556
	30,258	21,251	32,732	24,750
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	2,101,373	1,764,501	2,101,373	1,764,501
Options	178,933	184,435	178,933	184,435
Futures	23,684	12,072	23,684	12,072
	2,303,990	1,961,008	2,303,990	1,961,008
Foreign currency instruments:				
Forwards and swaps	526,551	473,297	527,534	475,958
Options	112,505	17,872	111,603	17,872
	639,056	491,169	639,137	493,830
Equity and commodity instruments:				
Equity options	2,100	2,100	2,100	2,100
Commodity forwards and swaps	43,791	26,284	43,791	26,284
	45,891	28,384	45,891	28,384
	2,988,937	2,480,561	2,989,018	2,483,222

9. Derivatives – Hedge accounting

€ '000	June 2020 Assets	December 2019 Assets	June 2020 Liabilities	December 2019 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	115,824	82,501	82,808	59,833

9. Derivatives – Hedge accounting (continued)

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

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

The VUB Group used twenty six 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 eighteen interest rate swaps to hedge the interest rate risk of eleven 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 three interest rate swap to hedge the inflation and interest rate risk of two inflation bond from the FVOCI portfolio. The changes in fair value of interest rate swap substantially offset the changes in fair value of inflation bond in relation to both changes of interest rates and inflation reference index.

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

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

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

The VUB Group used one interest rate swap to hedge the interest rate risk of one loan received from European Investment Bank ('EIB'). The changes in fair value of this interest rate swap substantially offset the changes in fair value of this loan in relation to changes of interest rates.

The VUB Group used thirty four interest rate swaps to hedge the interest rate risk arising from the issuance of eighteen fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

9. Derivatives – Hedge accounting (continued)

June 2020
€ '000

	Assets	Liabilities	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
	Fair values	Fair values	Notional values	Notional values		
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	318	38,196	1,185,400	1,185,400	(20,934)	-
Hedge of corporate loans	89	4,541	429,585	429,585	(4,022)	356
Hedge of loans received from EIB	212	-	50,000	50,000	1,027	7
Hedge of covered bonds	105,997	7,683	2,418,200	2,418,200	36,614	-
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	88	11,148	92,000	91,759	(4,617)	-
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	1,516	20,491	2,775,000	2,775,000	(7,183)	584
Hedge of current accounts	7,604	749	612,500	612,500	2,181	(38)

9. Derivatives – Hedge accounting (continued)

December 2019
€ '000

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

9. Derivatives – Hedge accounting (continued)

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

June 2020 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffectiveness	Accumulated amount of fair value adjustment after termination of hedging relationship
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1,244,979	-	20,934	(133)
Corporate loans	Financial assets at AC: Due from customers	521,344	9,178	8,995	1,030
Loans received from EIB	Financial assets at AC: Due to banks	50,000	307	1,020	-
Covered bonds	Financial liabilities at AC: Debt securities in issue	1,204,294	93,826	36,614	16,550
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	2,775,000	20,455	7,767	878
Current accounts	Financial liabilities at AC: Due to customers	612,500	6,800	2,219	-

9. Derivatives – Hedge accounting (continued)

December 2019 € '000	Line item in SOFP	Carrying amount	Accumu- lated amount of fair value adjust- ments included in carrying amount	Change in fair value used for calculating hedge ineffecti- veness	Accumu- lated amount of fair value adjust- ment after termina- tion of hedging relation- ship
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	987,302	-	5,836	-
Corporate loans	Financial assets at AC:				
	Due from customers	495,597	184	2,178	1,131
Loans received from EIB	Financial assets at AC:				
	Due to banks	50,000	712	(712)	-
Covered bonds	Financial liabilities at AC:				
	Debt securities in issue	1,334,575	57,211	53,077	18,369
Macro hedges					
Corporate loans	Financial assets at AC:				
	Due from customers	-	-	194	-
Mortgage loans	Financial assets at AC:				
	Due from customers	2,740,000	12,688	5,318	1,152
TLTROs	Financial liabilities at AC:				
	Due to banks	-	-	18	-
Current accounts	Financial liabilities at AC:				
	Due to customers	612,500	4,580	3,063	-

10. Financial assets at fair value through other comprehensive income

€ '000	June 2020	December 2019
Government debt securities of European Union countries	1,450,115	1,174,127
<i>of which Italian government debt securities</i>	425,209	489,830
Bank debt securities	337,740	357,806
Other debt securities	30,554	30,605
Equity instruments:		
VISA Inc. Seria C	11,428	11,139
Intesa Sanpaolo S.p.A.	289	797
S.W.I.F.T.	80	75
	<u>11,797</u>	<u>12,011</u>
	<u>1,830,206</u>	<u>1,574,549</u>

At 30 June 2020, bonds in the total nominal amount of € 718,500 thousand were pledged by the Bank to secure collateralized transactions (31 December 2019: € 725,500 thousand). These bonds were pledged in favor of the ECB within the pool of assets which can be immediately used as collateral for received funds needed for liquidity management purposes.

11. Financial assets and financial liabilities at amortised cost

11.1. Due from other banks

€ '000	Note	June 2020	December 2019
Loans and advances: with contractual maturity over 90 days		138,305	136,788
Cash collateral		50,056	44,191
Impairment losses	21	(878)	(488)
		<u>187,483</u>	<u>180,491</u>

11.2. Due from customers

June 2020 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public Administration			
Single resolution fund	3,876	-	3,876
Municipalities	125,464	(2,945)	122,519
Municipalities – Leasing	671	(3)	668
	<u>130,011</u>	<u>(2,948)</u>	<u>127,063</u>
Corporate			
Large Corporates	2,108,552	(3,831)	2,104,721
Large Corporates – debt securities	121,657	(211)	121,446
Specialized Lending	861,867	(29,172)	832,695
SME	1,384,423	(39,391)	1,345,032
Other Non-banking Financial Institutions	400,232	(236)	399,996
Other Non-banking Financial Institutions – debt securities	25,235	(27)	25,208
Public Sector Entities	2,205	(53)	2,152
Leasing	173,125	(5,392)	167,733
Factoring	104,852	(1,247)	103,605
	<u>5,182,148</u>	<u>(79,560)</u>	<u>5,102,588</u>
Retail			
Small Business	383,939	(19,235)	364,704
Small Business – Leasing	69,106	(7,422)	61,684
Consumer Loans	1,624,913	(163,439)	1,461,474
Mortgages	7,397,794	(42,531)	7,355,263
Credit Cards	131,905	(19,256)	112,649
Overdrafts	74,579	(6,047)	68,532
Leasing	4,167	(41)	4,126
Flat Owners Associations	36,427	(249)	36,178
	<u>9,722,830</u>	<u>(258,220)</u>	<u>9,464,610</u>
	<u>15,034,989</u>	<u>(340,728)</u>	<u>14,694,261</u>

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

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

11.3. Due to banks

€ '000	June 2020	December 2019
Due to central banks:		
Current accounts	1,103	920
Loans received from central banks	32,564	148,219
	<u>33,667</u>	<u>149,139</u>
Due to other banks:		
Current accounts	17,332	22,811
Term deposits	5,011	5,019
Loans received from other banks	662,275	353,471
Revaluation of fair value hedged loans received	307	(712)
Cash collateral received	30,370	22,239
	<u>715,295</u>	<u>402,828</u>
	<u>748,962</u>	<u>551,967</u>

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

11.4. Due to customers

€ '000	June 2020	December 2019
Current accounts	8,486,614	8,016,211
Term deposits	2,771,374	2,633,491
Government and municipal deposits	514,512	904,185
Savings accounts	236,278	245,816
Lease liabilities	20,322	20,068
Loans received	9,043	26,188
Other deposits	165,511	105,058
	<u>12,203,654</u>	<u>11,951,017</u>

11.5. Subordinated debt

€ '000	June 2020	December 2019
Subordinated debt	200,126	200,143

At 30 June 2020 the balance of subordinated debt comprised of one ten-year loan drawn on 22 December 2016, in the nominal amount of € 200,000 thousand (31 December 2019: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. 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.

11.6. Debt securities in issue

€ '000	June 2020	December 2019
Covered bonds	2,186,676	1,710,540
Covered bonds subject to fair value hedges	1,204,293	1,334,575
	<u>3,390,969</u>	<u>3,045,115</u>
Revaluation of fair value hedged covered bonds	93,826	57,211
Unamortized part of revaluation related to terminated fair value hedges	16,550	18,369
	<u>3,501,345</u>	<u>3,120,695</u>

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

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

Name	Interest rate (%)	Currency	Number in circulation as at 30 June 2020	Nominal value in original currency per piece	Issue date	Maturity date	June 2020 € '000	December 2019 € '000
Mortgage bonds VÚB, a. s. XX.	4.300	EUR	50	331,939	9.3.2006	9.3.2021	16,818	17,176
Mortgage bonds VÚB, a. s. XXX.	5.000	EUR	1,000	33,194	5.9.2007	5.9.2032	34,333	33,494
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	20,247	19,752
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	-	33,194	31.3.2008	31.3.2020	-	19,239
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,733	16,262
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50,000	29.11.2011	29.11.2030	15,473	15,071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	24,917	25,496
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	51,952	50,881
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	70,911	72,061
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	-	10,000	3.3.2014	3.3.2020	-	9,213
Mortgage bonds VÚB, a. s. 79.	2.000	EUR	10,000	1,000	24.3.2014	24.9.2020	10,054	10,154
Mortgage bonds VÚB, a. s. 80.	1.850	EUR	31	1,000,000	27.3.2014	27.3.2021	31,211	31,539
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	38,744	39,294
Mortgage bonds VÚB, a. s. 82.	1.650	EUR	1,701	1,000	16.6.2014	16.12.2020	1,702	1,716
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	50,262	49,676
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	-	100,000	27.4.2015	27.4.2020	-	100,083
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	98,220	98,655
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	716	100,000	11.9.2015	11.9.2020	71,895	96,673
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	100,247	99,584
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	99,256	98,368
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	99,904	100,160
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	248,761	249,142
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	247,575	248,662
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	249,841	249,178
Covered bonds VÚB, a. s. 1	0.500	EUR	2,500	100,000	26.6.2018	26.6.2023	249,326	249,836
Covered bonds VÚB, a. s. 2	1.500	EUR	500	100,000	5.10.2018	15.12.2027	50,325	49,945
Covered bonds VÚB, a. s. 3	0.250	EUR	5,000	100,000	26.3.2019	26.3.2024	497,025	497,215
Covered bonds VÚB, a. s. 4	0.500	EUR	5,000	100,000	26.6.2019	26.6.2029	495,554	496,590
Covered bonds VÚB, a. s. 5	0.010	EUR	5,000	100,000	23.6.2020	23.6.2025	499,681	-
							3,390,969	3,045,115

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

€ '000	June 2020	December 2019
Financial assets at AC:		
Due from customers:		
Retail		
Mortgages	21,333	13,840
Financial liabilities at AC:		
Due to customers	6,800	4,580

13. Investments in joint ventures and associates

June 2020 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50.00%	16,597	(7,150)	9,447
SBCB	33.33%	3	73	76
		<u>16,600</u>	<u>(7,077)</u>	<u>9,523</u>
December 2019 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50.00%	16,597	(5,045)	11,552
SBCB	33.33%	3	80	83
		<u>16,600</u>	<u>(4,965)</u>	<u>11,635</u>

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

VÚB Generali is a joint arrangement in which the Group has a joint control and a 50% ownership interest. The company was founded in 2004 by VUB Bank and Generali Poistovňa, a. s. and it is structured as a separate vehicle in which the Group has a residual share on net assets. Accordingly, the Group has classified its interest in VÚB Generali as a joint venture which is also equity-accounted.

VÚB Generali and SBCB are incorporated in the Slovak Republic.

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

June 2020 € '000	Owned and used	Owned and leased	Right-of-use	Total
Buildings and land	70,337	-	20,321	90,658
Equipment	4,435	209	-	4,644
Other tangibles	1,563	14,362	26	15,951
Assets in progress	6,540	255	-	6,795
	<u>82,875</u>	<u>14,826</u>	<u>20,347</u>	<u>118,048</u>

December 2019 € '000	Owned and used	Owned and leased	Right-of-use	Total
Buildings and land	72,424	-	20,101	92,525
Equipment	4,773	265	-	5,038
Other tangibles	1,618	14,588	-	16,206
Assets in progress	6,155	871	-	7,026
	<u>84,970</u>	<u>15,724</u>	<u>20,101</u>	<u>120,795</u>

June 2020 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	106,640	56,006	47,910	7,026	217,582
Additions	4,092	2	36	2,583	6,713
Disposals	(1,884)	(2,559)	(2,435)	-	(6,878)
Transfers	92	580	2,142	(2,814)	-
Exchange differences	(14)	(10)	(10)	-	(34)
At 30 June	<u>108,926</u>	<u>54,019</u>	<u>47,643</u>	<u>6,795</u>	<u>217,383</u>
Accumulated depreciation					
At 1 January	(11,787)	(50,968)	(31,379)	-	(94,134)
Depreciation for the period	(5,191)	(974)	(1,614)	-	(7,779)
Disposals	126	2,558	1,599	-	4,283
Exchange differences	-	9	10	-	19
At 30 June	<u>(16,852)</u>	<u>(49,375)</u>	<u>(31,384)</u>	<u>-</u>	<u>(97,611)</u>
Impairment losses (note 21)					
At 1 January	(2,328)	-	(325)	-	(2,653)
Creation	-	-	(52)	-	(52)
Release	912	-	69	-	981
At 30 June	<u>(1,416)</u>	<u>-</u>	<u>(308)</u>	<u>-</u>	<u>(1,724)</u>
Carrying amount					
At 1 January	<u>92,525</u>	<u>5,038</u>	<u>16,206</u>	<u>7,026</u>	<u>120,795</u>
At 30 June	<u>90,658</u>	<u>4,644</u>	<u>15,951</u>	<u>6,795</u>	<u>118,048</u>

15. Intangible assets

June 2020 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	276,790	10,931	43,738	331,459
Additions	-	-	11,157	11,157
Disposals	(277)	(56)	-	(333)
Transfers	7,260	-	(7,260)	-
At 31 December	283,773	10,875	47,635	342,283
Accumulated amortisation				
At 1 January	(208,544)	(10,332)	-	(218,876)
Amortization for the period	(6,826)	(78)	-	(6,904)
Disposals	78	22	-	100
Exchange differences	(1)	-	-	(1)
At 31 December	(215,293)	(10,388)	-	(225,681)
Carrying amount				
At 1 January	68,246	599	43,738	112,583
At 31 December	68,480	487	47,635	116,602

16. Goodwill

€ '000	June 2020	December 2019
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a. s.	18,871	18,871
	29,305	29,305

17. Current and deferred income tax assets and liabilities

€ '000	June 2020	December 2019
Current income tax assets	51,052	28,342
Deferred income tax assets	62,726	66,118

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2019: 21%) as follows:

€ '000	June 2020	Profit/ (loss) (note 34)	Equity	December 2019
Financial assets at FVOCI	(1,038)	-	731	(1,769)
Financial assets at AC:				
Due from other banks	177	82	-	95
Due from customers	57,330	(1,550)	-	58,880
Property and equipment	(11,007)	(2,517)	99	(8,589)
Other assets	7	-	-	7
Financial liabilities at AC:				
Due to customers	4,268	4	-	4,264
Provisions	2,072	216	-	1,856
Other liabilities	8,306	(743)	-	9,049
Other	2,611	289	(3)	2,325
	<u>62,726</u>	<u>(4,219)</u>	<u>827</u>	<u>66,118</u>

18. Other assets

€ '000	Note	June 2020	December 2019
Operating receivables and advances		15,552	15,279
Prepayments and accrued income		5,022	8,959
Inventories		2,305	1,303
Other tax receivables		788	731
Receivables from termination of leasing		38	27
Settlement of operations with financial instruments		7	25
Other		576	893
Impairment losses	21	(3,457)	(4,378)
		<u>20,831</u>	<u>22,839</u>

19. Provisions

€ '000	Note	June 2020	December 2019
Financial guarantees and commitments	21	10,468	9,370
Litigation	23	3,877	3,920
Restructuring provision		484	334
Other provisions		1	1
		<u>14,830</u>	<u>13,625</u>

2020 € '000	Note	1 January	Net (release)/ creation	Use	Other	30 June
Litigation	23, 32	3,920	(44)	-	1	3,877
Restructuring provision	32	334	150	-	-	484
Other provisions	32	1	-	-	-	1
		<u>4,255</u>	<u>106</u>	<u>-</u>	<u>1</u>	<u>4,362</u>

20. Other liabilities

€ '000	June 2020	December 2019
Various creditors	36,625	53,321
Settlement with employees	27,585	32,024
Severance and Jubilee benefits	5,633	5,633
Accruals and deferred income	2,149	2,673
Settlement with shareholders	1,464	1,753
VAT payable and other tax payables	1,398	3,333
Investment certificates	881	641
Share remuneration scheme	649	584
Settlement of operations with financial instruments	200	5
Other	1,738	922
	<u>78,322</u>	<u>100,889</u>

At 30 June 2020 and 31 December 2019 there were no overdue balances within 'Other liabilities'.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to current rates of return 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:

	Jubilee benefits	Retirement benefits
Discount rate	(0.28%)	0.55%
Growth of wages*	-	3.00%
Future growth of wages*	-	4.50%
Turnover rate (based on age)	5.9% – 41.3%	5.9% – 41.3%
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

2020 € '000	Note	1 January	Net creation/ (release) (note 33)	Assets written- off/sold	Exchange difference	Other*	30 June
Financial assets at FVOCI		224	30	-	-	-	254
Financial assets at AC:	11						
Due from other banks		488	390	-	-	-	878
Due from customers		348,748	33,278	(36,992)	(729)	(3,577)	340,728
Property and equipment and Non-current assets classified as held for sale	14	2,653	(17)	(912)	-	-	1,724
Other assets	18	4,378	(921)	-	-	-	3,457
		<u>356,491</u>	<u>32,760</u>	<u>(37,904)</u>	<u>(729)</u>	<u>(3,577)</u>	<u>347,041</u>
Financial guarantees and commitments	19	9,370	712	-	386	-	10,468
		<u>365,861</u>	<u>33,472</u>	<u>(37,904)</u>	<u>(343)</u>	<u>(3,577)</u>	<u>357,509</u>

* 'Other' represents:

- The interest portion (unwinding of interest).

22. Equity

€ '000	June 2020	December 2019
Share capital - authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	<u>430,819</u>	<u>430,819</u>
Share premium	13,719	13,719
Reserves	107,222	110,665
Retained earnings (excluding net profit for the period)	1,058,215	937,723
	<u>1,609,975</u>	<u>1,492,926</u>

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 2020	June 2019
Net profit for the period attributable to shareholders in € '000	24,035	57,344

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 2020	December 2019
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.15%	2.16%
Foreign shareholders	0.82%	0.81%
	<u>100.00%</u>	<u>100.00%</u>

22. Equity (continued)

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

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

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

€ '000	June 2020	December 2019
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings*	1,049,751	929,259
Other reserves	97,814	97,450
Accumulated other comprehensive income	17,872	21,679
(-) Value adjustments due to the requirements for prudent valuation	(52)	(57)
Other transitional adjustments to CET1 Capital	31,413	38,102
CET1 capital elements or deductions — other	(5,090)	(3,876)
Less goodwill and intangible assets	(145,907)	(141,888)
Less IRB shortfall of credit risk adjustments to expected losses	(12,030)	(8,958)
	<u>1,478,309</u>	<u>1,376,249</u>
Tier 2 capital		
Subordinated debt	200,000	200,000
Other transitional adjustments to T2 Capital	(7,197)	(8,739)
	<u>192,803</u>	<u>191,261</u>
Total regulatory capital	<u>1,671,112</u>	<u>1,567,510</u>

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

€ '000	June 2020	December 2019
Retained earnings	1,082,250	1,057,794
Net profit for the period/year	(24,035)	(120,071)
Other capital funds	(8,464)	(8,464)
	<u>1,049,751</u>	<u>929,259</u>

€ '000	June 2020	December 2019	June 2020 Required	December 2019 Required
Tier 1 capital	1,478,309	1,376,249	735,712	721,529
Tier 2 capital	192,803	191,261	192,803	191,261
Total regulatory capital	1,671,112	1,567,510	735,712	721,529
Total Risk Weighted Assets	9,196,403	9,019,114	9,196,403	9,019,114
CET 1 capital ratio	16.07%	15.26%	12.34%	13.00%
Total capital ratio	18.17%	17.38%	16.50%	15.50%

22. Equity (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, accumulated other comprehensive income, foreign currency translation and reserves. The deducted amounts in Tier 1 capital are goodwill, intangible assets and irrevocable payment commitments (contribution to Single Resolution Fund) and IRB shortfall. Certain adjustments are made to IFRS-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 2019 and 31 December 2018 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 VUB Group must comply with on sub-consolidated and individual level. Starting from 1 January 2019, the overall capital requirement the VUB Group has to meet in terms of Common Equity Tier 1 ratio is 10.5%. This is the result of:

- 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% and since 1 August 2019 at 1.5% (bringing the total CET1 capital requirement to 12.75% since 1 January 2019 and 13.0% since 1 August 2019 including Pillar 2 Capital Guidance buffer of 1%).

The Overall Capital Requirement was as of 1 January 2019 set at 15.25% and from 1 August 2019 at 15.5%.

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

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

22. Equity (continued)

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) No 2017/2395 amending the CRR Regulation as regard transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, integrating the CRR Regulation with Article 473 "Introduction of IFRS 9". The new Article allows banks to re-introduce in their Common Equity Tier 1 ('CET 1') a decreasing quota of the impact of IFRS 9 in a five-year transitional period (2018 – 2022). That amount shall be determined using the static approach which will be adopted by the VUB Group. It refers only to the impact of FTA resulting from the comparison of IAS 39 impairments as at 31 December 2017 and IFRS 9 impairments as at 1 January 2018 – including both performing loans classified in Stages 1 and 2 and adjustments to non-performing loans (Stage 3) – to which is applied a decreasing factor (95% for 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022) to set the amount to be included in CET 1. The static transitional approach is not applicable to the changes in valuation reserves deriving from re-classification of financial instruments during FTA (impact resulting from classification and measurement).

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

Furthermore, under paragraph 7 of Article 473 of the CRR Regulation, ISP Group companies adopting the transitional approach shall update calculation of the following components relevant to the determination of supervisory capital requirements, so as to avoid inappropriate benefits:

- Deferred tax assets deducted from CET 1 relating to Standard and Internal ratings-based ('IRB') exposures;
- Determination of Exposure At Default using the scaling factor to assess the Risk Weighted Assets of Standard exposures;
- Tier 2 elements relating to IRB weighted exposures.

The impact on own funds of the first-time adoption of IFRS 9 and the adoption of the "static" approach during the transitional period (2018 – 2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios (with and without applying the transitional provisions for IFRS 9) following:

- the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9,
- the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the aforementioned Regulation, aimed at mitigating the impact of FTA;
- the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
- the reduction of the risk-weighted assets (RWA) on standard exposures 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.

23. Financial commitments and contingencies

23.1. Issued guarantees and commitments and undrawn credit facilities

€ '000	June 2020	December 2019
Issued guarantees	747,875	762,567
Commitments and undrawn credit facilities	3,332,929	3,138,488
<i>of which revocable</i>	<u>500,891</u>	<u>464,586</u>
	<u>4,080,804</u>	<u>3,901,055</u>

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

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

23.2. 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 2020. Pursuant to this review, management has recorded total provisions of € 3,877 thousand (31 December 2019: € 3,920 thousand) in respect of such legal proceedings (note 19). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 29,624 thousand, as at 30 June 2020 (31 December 2019: € 30,902 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the VUB Group.

24. Net interest income

€ '000	June 2020	June 2019
Interest and similar income		
Financial assets at FVTPL	150	69
Financial assets at FVOCI	1,403	5,967
Financial assets at AC:		
Due from other banks	1,940	12,601
Due from customers	173,086	189,927
Derivatives - Hedge accounting	(7,414)	(5,788)
Interest income on liabilities	659	1,234
	<u>169,824</u>	<u>204,010</u>
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(1,039)	(1,171)
Due to customers and Subordinated debt <i>of which lease liabilities</i>	(10,259)	(11,252)
Debt securities in issue	(40)	(38)
Derivatives - Hedge accounting	(15,066)	(16,689)
Interest expense on assets	5,798	4,438
	(277)	(451)
	<u>(20,843)</u>	<u>(25,125)</u>
	<u>148,981</u>	<u>178,885</u>
€ '000		
Interest and similar income		
Total interest income calculated using the effective interest method	166,770	200,689
Other interest income - interest income on finance leases	2,904	3,252
Other interest income - interest income on financial assets at FVTPL	150	69
	<u>169,824</u>	<u>204,010</u>
€ '000		
Net interest income		
Financial assets at FVOCI	1,403	5,967
Financial assets at AC	171,845	198,825
	<u>173,248</u>	<u>204,792</u>
Financial liabilities at AC	(25,705)	(27,878)

25. Net fee and commission income

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

Current accounts	Fees for ongoing account management are charged to the customer's account on a monthly basis. The VUB Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.
Cards	Credit card and debit card fees relate to both fees for issuance of credit card for the period of card's validity as well as fees for specific transactions.
Payments and cash management	Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.
Loans	<p>Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration.</p> <p>They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the VUB Group.</p>
Indirect deposits	These fees mainly relate to providing Bank's retail network for the mediation of investments into funds. These fees are paid to the VUB Group by VUB Asset Management, správ. spol., a. s. Since the VUB Group does not have any ongoing performance obligation regarding these fees, they are recognised in full when charged.
Insurance	<p>The VUB Group provides insurance mediation along with selling its products. Except for life insurance mediation, only aliquote part of commission is sent by the insurance company on monthly basis, therefore the VUB Group only recognises aliquot part of commission as income with the passage of time. In case client cancels insurance contract with insurance company, the insurance company stops paying the aliquot part of the commission and the VUB Group therefore stops to recognise these fees. The VUB Group is not liable to return aliquote part of commissions recognised in fees to insurance company.</p> <p>Regarding life insurance mediation the VUB Group is exposed to clawbacks if client cancels the insurance contract within certain periods. The VUB Group calculated effect of IFRS 15 impact and evaluated this impact as non-material and continues to recognise income on these fees as the related mediation service is provided.</p>
Trade finance, Structured finance	<p>Fees for loan commitments which are not expected to result in the draw-down of a loan are recognised on a straight-line basis over the commitment period.</p> <p>Administration of a loan syndication, execution of client transactions with exchanges and securities underwriting, charges for premature termination of loans and other are charged when transaction takes place.</p>
Factoring	<p>Services related to factoring include:</p> <ul style="list-style-type: none"> • Facility commitment, where fee is recognised on a straight-line basis over the commitment period; • Invoice processing fee, where fixed amount for each processed invoice is charged; • Factoring fee, where fee represent a percentage on a total receivable amount factored.

25. Net fee and commission income (continued)

Revenue recognition under IFRS 15:

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

25. Net fee and commission income (continued)

June 2020 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	19,330	1,481	-	4	20,815
Cards	6,777	5,932	1,193	10	13,912
Payments and cash management	12,963	153	-	20	13,136
Indirect deposits	4,881	3,896	-	290	9,067
Loans	8,154	22	-	-	8,176
Insurance	5,931	2	-	-	5,933
Trade finance	5	3,536	796	-	4,337
Factoring	-	565	-	-	565
Structured finance	-	452	-	-	452
Other	397	1,342	118	35	1,892
	<u>58,438</u>	<u>17,381</u>	<u>2,107</u>	<u>359</u>	<u>78,285</u>
Fee and commission expense					
Cards	(7,587)	-	-	-	(7,587)
Payments and cash management	(815)	(2,358)	(221)	(246)	(3,640)
Current accounts	-	-	-	(241)	(241)
Insurance	(222)	-	-	-	(222)
Factoring	-	(119)	-	-	(119)
Other	(174)	-	(766)	(1,145)	(2,085)
	<u>(8,798)</u>	<u>(2,477)</u>	<u>(987)</u>	<u>(1,632)</u>	<u>(13,894)</u>
Net fee and commission income	<u>49,640</u>	<u>14,904</u>	<u>1,120</u>	<u>(1,273)</u>	<u>64,391</u>
June 2019 € '000					
	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	19,153	1,593	-	4	20,750
Cards	18,808	172	-	-	18,980
Payments and cash management	5,016	3,199	221	1	8,437
Indirect deposits	7,177	-	-	-	7,177
Loans	3,649	3,157	-	319	7,125
Insurance	5,684	683	-	-	6,367
Trade finance	9	3,388	891	-	4,288
Factoring	-	745	-	-	745
Structured finance	-	400	-	-	400
Other	377	463	174	102	1,116
	<u>59,873</u>	<u>13,800</u>	<u>1,286</u>	<u>426</u>	<u>75,385</u>
Fee and commission expense					
Cards	(11,575)	-	-	-	(11,575)
Payments and cash management	(15)	(3)	(288)	(224)	(530)
Current accounts	-	-	-	(285)	(285)
Insurance	(197)	(58)	-	-	(255)
Factoring	-	(121)	-	-	(121)
Indirect deposits	(3)	(1)	-	-	(4)
Other	(80)	(64)	(138)	(1,710)	(1,992)
	<u>(11,870)</u>	<u>(247)</u>	<u>(426)</u>	<u>(2,219)</u>	<u>(14,762)</u>
Net fee and commission income	<u>48,003</u>	<u>13,553</u>	<u>860</u>	<u>(1,793)</u>	<u>60,623</u>

26. Net trading result

€ '000	June 2020	June 2019
Customer foreign exchange margins	3,150	3,488
Cross currency swaps	2,344	(3,365)
Financial assets held for trading - debt securities	1,669	388
Net result from hedging transactions	909	69
Financial assets measured at FVOCI	270	706
Other derivatives	195	49
Dividends from equity shares measured at FVOCI	36	120
Dividends from equity shares held in FVTPL	-	37
Equity derivatives	-	(4)
Non-trading financial assets measured at FVTPL	(172)	117
Interest rate derivatives	(1,494)	904
Foreign currency derivatives and transactions	(1,702)	(10,603)
	<u>5,205</u>	<u>(8,094)</u>

27. Other operating income

€ '000	June 2020	June 2019
Income from operating leasing	2,214	2,550
Financial revenues	1,112	36
Net profit from sale of fixed assets	338	331
Services	4	4
Other	295	594
	<u>3,963</u>	<u>3,515</u>

28. Other operating expenses

€ '000	June 2020	June 2019
Resolution fund*	(6,880)	(5,701)
Contribution to the Deposit Protection Fund**	(605)	(547)
Other damages	(12)	(126)
Other	(4,794)	(6,376)
	<u>(12,291)</u>	<u>(12,750)</u>

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

** The annual contribution for 2020 was determined by the Deposit Protection Fund under the valid methodology. As at 30 June 2020, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2019 was set at 0.0075% p. q. of the amount of protected deposits.

29. Special levy of selected financial institutions

€ '000	June 2020	June 2019
Special levy of selected financial institutions	(31,038)	(14,462)

The special levy of selected financial institutions was set to 0.4% p. a. of selected liabilities for the year 2020 (2019: 0.2% p. a.).

30. Salaries and employee benefits

€ '000	June 2020	June 2019
Remuneration	(43,731)	(44,983)
Social security costs	(17,113)	(17,338)
Social fund	(653)	(640)
Termination benefit	(150)	-
	<u>(61,647)</u>	<u>(62,961)</u>

At 30 June 2020, the total number of employees of the VUB Group was 3,698 (31 December 2019: 3,742). The average number of employees of the VUB Group during the period ended as at 30 June 2020 was 3,710 (31 December 2019: 3,772).

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

31. Other administrative expenses

€ '000	June 2020	June 2019
Third parties' services	(9,384)	(8,909)
Information technologies systems maintenance	(7,214)	(6,983)
Maintenance and repairs	(2,976)	(2,735)
Advertising and sponsorship	(2,942)	(3,580)
Postage costs	(2,297)	(1,949)
Rental of buildings and related expenses	(1,840)	(1,696)
Telephone and telecommunication costs	(1,404)	(1,545)
Energy costs	(1,386)	(1,639)
Forms and office supplies	(1,338)	(1,588)
Electronic data processing system leasing	(916)	(676)
Cleaning of premises	(910)	(906)
Transport	(728)	(838)
Security	(692)	(743)
Archives and documents	(574)	(615)
Indirect personnel costs and compensation	(501)	(1,241)
Insurance	(499)	(623)
Other rentals	(464)	(552)
Cost of legal services	(368)	(564)
Consultations and other fees*	(360)	(512)
Information and research	(85)	(74)
Other expenses	(2,174)	(1,306)
Value added tax and other taxes	(50)	(289)
Reinvoicing	797	293
	<u>(38,305)</u>	<u>(39,270)</u>

* 'Consultations and other fees' includes the fee for the statutory audit of € 60 thousand (June 2019: € 182 thousand). Other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the VUB Group's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the VUB Group's compliance with the covenants of the loan agreement between the VUB Group and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h – 71k of the Act No. 566/2001 Coll on securities, assurance work related to the Bank's obligations towards the NBS regarding information on loans and advances used as collateral within the monetary operations of the Eurosystem, assurance work and agreed upon procedures in respect of issuance of covered bonds and agreed-upon procedures on the merger of a Bank's subsidiary with the VUB Group amounted to € 296 thousand (June 2019: € 273 thousand).

32. Provisions

€ '000	Note	June 2020	June 2019
Net release and use of provisions for litigations	19	44	5,537
Net release and use of provisions for other provisions	19	-	6
		<u>44</u>	<u>5,543</u>

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

€ '000	Note	June 2020	June 2019
Net creation of impairment losses	21	(32,760)	(18,433)
Net (creation)/release of provisions for financial guarantees and commitments	21	(712)	2,154
		<u>(33,472)</u>	<u>(16,279)</u>
Net loss arising from the derecognition of financial assets at AC		(1,728)	(9,900)

34. Income tax expense

€ '000	Note	June 2020	June 2019
Current income tax	17	(3,413)	(10,203)
Deferred income tax	17	(4,219)	(5,908)
		<u>(7,632)</u>	<u>(16,111)</u>

35. Other comprehensive income

€ '000	June 2020	June 2019
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation (loss)/gain arising during the period	(173)	962
Reclassification adjustment for profit on sale of FVOCI equities within equity	614	-
	441	962
Reversal of deferred income tax on disposed property and equipment	99	-
	540	962
Items that may be reclassified to statement of profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation gain arising during the period	-	8
Change in value of financial assets at FVOCI (debt instruments):		
Revaluation loss arising during the period	(4,315)	(1,343)
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(175)	(620)
	(4,490)	(1,963)
Exchange difference on translation foreign operation	(360)	328
	(4,850)	(1,627)
Total other comprehensive income	(4,310)	(665)
Income tax relating to components of other comprehensive income (note 36)	721	208
Other comprehensive income for the period after tax	(3,589)	(457)

36. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	June 2020 Tax (expense)/ benefit	Net of tax amount	Before tax amount	June 2019 Tax (expense)/ benefit	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)	441	(222)	219	962	(202)	760
Reversal of deferred income tax on disposed property and equipment	99	-	99	-	-	-
	<u>540</u>	<u>(222)</u>	<u>318</u>	<u>962</u>	<u>(202)</u>	<u>760</u>
Items that may be reclassified to statement of profit or loss in the future						
Change in value of cash flow hedges	-	-	-	8	(2)	6
Change in value of financial assets at FVOCI (debt instruments)	(4,490)	943	(3,547)	(1,963)	412	(1,551)
Exchange differences on translation foreign operations	(360)	-	(360)	328	-	328
	<u>(4,850)</u>	<u>943</u>	<u>(3,907)</u>	<u>(1,627)</u>	<u>410</u>	<u>(1,217)</u>
	<u>(4,310)</u>	<u>721</u>	<u>(3,589)</u>	<u>(665)</u>	<u>208</u>	<u>(457)</u>

37. Related parties

Related parties are those counterparties that represent:

- (a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;
- (b) Associates – enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the 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.

37. Related parties (continued)

As at 30 June 2020, the outstanding balances with related parties comprised:

€ '000	Key manage- ment personnel (‘KMP’)	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Financial assets at FVTPL:						
Financial assets held for trading	-	-	-	316	11,358	11,674
Non-trading financial assets at FVTPL	-	-	-	649	-	649
Derivatives - Hedge accounting	-	-	-	-	115,737	115,737
Financial assets at FVOCI	-	-	-	289	-	289
Financial assets at AC:						
Due from other banks	-	-	-	8,502	45,904	54,406
Due from customers	423	1	-	-	-	424
Other assets	-	-	-	-	1,091	1,091
	<u>423</u>	<u>1</u>	<u>-</u>	<u>9,756</u>	<u>174,090</u>	<u>184,270</u>
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	-	-	-	293	23,450	23,743
Derivatives - Hedge accounting	-	-	-	-	61,410	61,410
Financial liabilities at AC:						
Due to banks	-	-	-	503,459	31,594	535,053
Due to customers	1,726	-	248	-	10,238	12,212
Subordinated debt	-	-	-	-	20,126	20,126
Provisions	-	-	-	17	-	17
Other liabilities	649	-	-	2,640	-	3,289
	<u>2,375</u>	<u>-</u>	<u>248</u>	<u>506,409</u>	<u>146,818</u>	<u>655,850</u>

37. Related parties (continued)

As at 31 December 2019, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Financial assets at FVTPL:						
Financial assets held for trading	-	-	-	590	8,332	8,922
Non-trading financial assets at FVTPL	-	-	-	584	-	584
Derivatives - Hedge accounting	-	-	-	-	82,501	82,501
Financial assets at FVOCI	-	-	-	797	-	797
Financial assets at AC:						
Due from other banks	-	-	-	5,411	40,675	46,086
Due from customers	285	5	-	-	-	290
Other assets	-	-	-	6	1,221	1,227
	<u>285</u>	<u>5</u>	<u>-</u>	<u>7,388</u>	<u>132,729</u>	<u>140,407</u>
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	-	-	-	510	17,293	17,803
Derivatives - Hedge accounting	-	-	-	-	37,065	37,065
Financial liabilities at AC:						
Due to banks	-	-	-	189,100	28,075	217,175
Due to customers	1,600	-	257	-	27,255	29,112
Subordinated debt	-	-	-	-	200,143	200,143
Provisions	-	-	-	14	2	16
Other liabilities	584	-	-	2,615	-	3,199
	<u>2,184</u>	<u>-</u>	<u>257</u>	<u>192,239</u>	<u>309,833</u>	<u>504,513</u>

37. Related parties (continued)

As at 30 June 2020, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	61	20	-	2,629	1,683	4,393
Issued guarantees	-	-	-	13,304	84	13,388
Received guarantees	-	-	-	16,288	-	16,288
Derivative transactions (notional amount – receivable)	-	-	-	60,020	8,985,623	9,045,643
Derivative transactions (notional amount – payable)	-	-	-	59,814	8,985,615	9,045,429

As at 31 December 2019, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	323	-	-	2,596	-	2,919
Issued guarantees	-	-	-	14,317	1,877	16,194
Received guarantees	-	-	-	18,000	-	18,000
Derivative transactions (notional amount – receivable)	-	-	-	150,387	8,552,538	8,702,925
Derivative transactions (notional amount – payable)	-	-	-	149,116	8,552,540	8,701,656

37. Related parties (continued)

For the year ended 30 June 2020, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	2	-	-	9	4	15
Interest and similar expense	(1)	-	-	(678)	(2,941)	(3,620)
Fee and commission income	1	-	-	104	7,140	7,245
Fee and commission expense	-	-	-	(281)	(622)	(903)
Net trading result	-	-	-	1,542	2,050	3,592
Other operating income	-	-	-	-	78	78
Other operating expenses	-	-	-	(189)	-	(189)
Other administrative expenses	-	-	-	(5,862)	(202)	(6,064)
Impairment losses	-	-	-	(5)	2	(3)
	<u>2</u>	<u>-</u>	<u>-</u>	<u>(5,360)</u>	<u>5,509</u>	<u>151</u>

37. Related parties (continued)

For the year ended 30 June 2019, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	1	-	-	15	3	19
Interest and similar expense	(1)	-	-	(318)	(4,063)	(4,382)
Fee and commission income	-	-	-	142	6,530	6,672
Fee and commission expense	-	-	-	(311)	(8)	(319)
Net trading result	-	-	-	(9,918)	29,336	19,418
Other operating income	-	-	-	105	56	161
Other operating expenses	-	-	-	(189)	-	(189)
Other administrative expenses	-	22	-	(6,544)	(157)	(6,679)
Impairment losses	-	-	-	2	-	2
	-	22	-	(17,016)	31,697	14,703

38. Events after the end of the reporting period

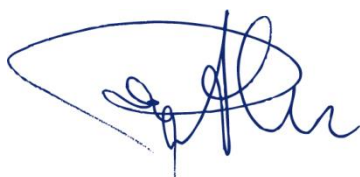
The VUB Group very carefully monitors the actual situation around COVID-19 pandemic and assesses its potential impact on operations, disclosures, financial position and performance of the VUB Group.

As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective, includes, inter alia, measures in the area of special levy of selected financial institutions, repayments of which are not reimbursed from the effective date until the end of 2020.

At present, it is still very difficult to anticipate further developments, but the VUB Group's efforts will be approached with caution, taking into account all available information. Despite the improving sentiment on global markets, concerns still remain about a possible second wave of COVID-19 disease.

From 30 June 2020, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue on 10 August 2020.



Alexander Resch
Chairman of the Management Board



Roberto Vercelli
Member of the Management Board