ANNUAL REPORT 2022

Consolidated

VÚB BANKA
Intesa Sanpaolo Group

FOR ALL THAT COUNTS

www.vub.sk

Contents

Address by the Chairman of the VUB Supervisory Board
Address by the Chairman of the VUB Management Board
VUB Management Board Report on the business activities of the Company
- Development of the External Environment
- VUB's 2022 Commercial Performance
- Review of VUB's Economic and Financial Position
- Information on the Expected Economic and Financial Situation for 2023
- Registered Share Capital and the Structure of VUB Shareholders
- Subsidiaries of VÚB, a.s.
- Statement on Compliance with the Corporate Governance Code for Slovakia

Non-financial statement
Basic indicators
Consolidated financial statements
Separate financial statements
Information on Securities issued by the Bank
List of VUB Retail Branches
List of VUB Corporate branches
Organization Chart of VUB as at 31 December 2022

Address by the Chairman of the VUB Supervisory Board

Dear Shareholders, Clients and Business Partners, Employees

VUB had in 2022 a very good year. The Group has succeeded to continue grow its balance sheet even amidst the difficult economic situation marred by the war in the neighbouring Ukraine and dramatic increases in costs of energy imports, which Slovak economy critically depends on. VUB also delivered nice financial results, exceeding expectations. Indeed, net profit grew almost by half over the preceding year. Increase in profitability was driven both by external factors such as an increase in interest rates, but also by further improvements in operation efficiency and prudent approach to risk, which are critically important to set VUB's performance apart from peers and competitors.

VUB's superior performance on the market has also been noted by outside observers, such as Global Finance magazine, which also in 2022 recognized VUB as the Best Bank in Slovakia. On behalf of Supervisory Board, I would like to thank the management and employees for these excellent achievements.

Besides fine quantitative results, I nonetheless view VUB's success also in a different context. In particular, I see VUB as an upstanding corporate and public citizen, who has launched and participated in several initiatives to help and support people from Ukraine seeking safety from the war. I also see VUB as a proud and responsible member of the community, who has implemented the principles of ESG and sustainability in its day-to-day operations as well as strategic positioning. I also see contribution of VUB Foundation, through which the Group organised a donation program, gave away Atlas prizes, supported environmental organizations, young painters, restoration of monuments and much more with various grants. VUB's approach and impact in sustainability stands apart, which is a fact noted also by outside observers. The Global Finance magazine, for example, presented VUB with the Sustainable Finance Award for the year 2022.

Looking ahead to 2023, I realize it will be difficult to sustain commercial performance of the past years. Slovak economy, much as the broader Eurozone economy will be flirting with recession. Asset quality will inevitably worsen and appetite for further financial leverage weaken. Operating costs will have to adjust to still very high inflation, while the remaining ECB monetary stimulus to bank funding, for example, via TLTROs will gradually be withdrawn. Still, I remain convinced that with the continued trust of clients and business partners, VUB will continue to deliver. And I attest that Intesa Sanpaolo remains committed to help VUB in any respect.

Ignacio Jaquotot,
Chairman of the Supervisory Board

Address by the Chairman of the VUB Management Board

Dear Shareholders, Clients and Business Partners,

the year 2022 has been successful for VUB. We have grown volumes of loans and deposits at a pace exceeding expectations. Better than expected also were financial results and I am also particularly pleased with the operational efficiency and the quality of our loan portfolio.

To be sure though, our commercial results have been uneven, with some segments overfilling the set targets, while others falling behind. This owed to a large extent to a sudden change in economic and political environment brought by the invasion of Russian forces into Ukraine on February 24. This invasion brought the nightmare of war on Slovakia's doorsteps, frightening ordinary people and spoiling confidence of businesses and investors world-wide. As a result, households withdrew deposits from the banks and downscaled also their expectations on further investments into the housing market. Demand for mortgages dropped to three year-low and retail lending thus turned from surging at the beginning of the year to near-flat toward year-end. Corporate lending, by contrast, accelerated and even overtook retail loan growth, for the first time ever. The downturn in financial markets meanwhile sapped assets under management and pension funds, exacerbating further the struggle of retail clients to maintain the value of their personal financial assets.

The war and concomitant energy crisis in Europe have besides pushed inflation to new highs and forced also the European Central Bank (ECB) to dramatically increase interest rates from June on. The turnaround in interest rates has improved core profitability, allowing net interest income of the banking sector to finally start recovering. The improvement in profitability, nonetheless, is to a large extent temporary as economic slowdown and increasing hardship of debtors will eventually force banks to increase provisioning for bad loans.

Now, starting the detailed review of VUB's performance on the commercial front, let me begin with the mortgage market, which accounts for more than half of VUB's loan portfolio. This key market underwent a dramatic change during 2022. In the first part of the year, namely, the market has been surging to yet new record highs thanks to both refinancing and genuine new demand for housing. People, aware of the forthcoming increase in interest rates, namely tried to secure low-interest rates loans for as long as possible. From the summer on, however, this pre-emptive demand for mortgages and residential property ran out its course. People instead began to adjust their spending and borrowing decisions to new reality of higher costs of living and increasing debt burden. Before the market came to a standstill, however, many properties and even many more mortgage contracts switched hands in a very aggressive refinancing battle. We were at the giving end of this battle due, admittedly, to our belief in a fair and transparent pricing of our products and adherence to shareholder value. Our share of mortgage-type loans thus decreased by nearly two percentage points, to 21.6% in December 2022 from 23.4% in December 2021.

At this stage, nonetheless, I would like to emphasize that we will continue to systematically care for this segment and remain the reference mortgage bank for anyone serious about acquiring new home or renovating their standing one. The fact that we care about all our upstanding retail clients, including those in acute financial needs, is borne by the development of our consumer loan portfolio, which in 2022 increased twice as fast as the market's. Our share of consumer loans thus increased to 22.4% by December 2022 from 21.8% in December 2021. Still, given the dominant weight of mortgages in our retail loan book, VUB's share of the overall retail loan market in December 2022 slid to 20.9% from 22.1% in December 2021.

In the corporate loan market, by contrast, we have seen our share to increase, to 19.5% in December 2022 from 18.9% in December 2021, resp. Part of this growth, to be sure, owed to a recent incorporation of the financial leasing part of our leasing subsidiary VUB Leasing into the VUB bank. Growth of loans, however, has also been significant when adjusted for this organization change. Indeed, in 2022, we have grown volumes of bank loans to large companies by 8.3% (vs 5.1% in 2021) and to small and medium-sized enterprises by 10.4% (vs. 10.7% in 2021) resp. As for the leasing part of our corporate business, in 2022, we mainly focused on the successful implementation of the processes of the former VUB Leasing into banking processes, organizational integration into banking structures and the fulfillment of established plans. The latter was exceeded by 12.6% mainly thanks to financing in the field of corporate leasing, that is, financing other than passenger and commercial vehicles. As for the newly created company VUB Operating leasing, the operating leasing part of the VUB Leasing, a strategic cooperation agreement was signed with the company Business Lease to enable VUB clients have access to a comprehensive range of leasing products. Financial results of the new entity nonetheless have been very successful already in its first year of operation, posting profit before tax worth € 1.5 million. Finally, the range of our services to corporate clients includes also factoring services. In this market, VUB has confirmed once again its leading role, posting a 38% increase in purchased receivables (to over a billion euro, for the first time ever), compared to the market's 32% growth. From among the banks and factoring companies within the Association of Factoring Companies, VUB Factoring thus improved its market share from 35% to more than 37%, resp.

The strong commercial performance of the corporate unit has to an extent compensated for the decline in mortgage market share on our share of total loans. In December 2022, VUB's loan portfolio accounted for 20.6% share of all bank loans extended in the Slovak Republic. Compared to the corresponding share of 21.1% in December 2021, VUB's share thus declined by 0.5 percentage point.

Turning to the deposits side of our commercial activities, I am pleased to say that we have maintained positive increment of volumes, despite the adverse developments on the market, mentioned above. Indeed, we have succeeded to grow volumes of primary deposits, by 3.3%, comparably to 3.5% in the previous year. We continued to focus on household deposits and I am pleased to say that we succeeded to grow them, by 1.3% in December even as the market overall shrank, by 0.8%, resp. As result, our share of total household bank deposits in Slovakia increased to 17.0% by December 2022, from 16.7% in December 2021. Attracting household deposits, clearly, has been very difficult at the times of great uncertainty brought by the war, double-digit inflation, and saving rate plummeting to record low. Our achievement of a positive net balance in this market henceforth have been all the more important.

Compared to other market participants, we succeeded also in alternative products in which households store their savings and financial wealth, namely mutual funds and pension savings. To be sure, both of these markets have been hit hard by the dramatic declines in values of bonds and equities globally. Nonetheless, we have succeeded to bring in new clients and increase volumes of existing clients' money into our funds, compensating thus for the relentless downward market effect on the value of personal financial assets of our clients.

Let me start with mutual funds asset management, in which we operate with the strong support from Eurizon Capital, the leading European asset management company of Intesa Sanpaolo. In 2022, Eurizon Asset Management Slovakia itself managed to keep assets under management around the level € 1.4 bn and increase client base to about 150 ths clients, from 140 ths a year ago. Significant success was again achieved in sales of Eurizon Capital LUX funds, which recorded positive net inflow of € 140 million in 2022 and maintained the position of the best performing foreign Asset management company in Slovakia in terms of net sales. By November 2022, our aggregate volumes of SK and LUX funds grew 0.8% over December 2021, whereas the market as a whole shrank, by 1%, resp. As a result, the combined Eurizon share increased to 19.2% of the market, up from 18.8% in December 2021, resp. Besides the comparative success in total volumes, I would like to underscore our upstanding in terms of environmental, social and governance (ESG) principles, to which we remain strongly committed. Indeed, in 2022, our results underscored our leading role in this area. Total net sale of SFDR Art 8/Art 9 funds in VUB network reached € 125 million in 2022, which accounts for 65% market share of total net sale of ESG funds on the Slovak market. We also brought in new Eurizon Capital LUX funds, Absolute Green Bonds (first SFDR Art 9 fund in VUB product catalogue) and Circular Economy for private banking segment (SFDR Art 8).

In the pension market, in which we are active together with our joint venture partner Generali Slovensko, we become majority shareholder of the company by increasing our share by 5.26% to 55.26%. We have been successful in continued growth of the client base and funds. VUB Generali namely has accumulated total volume of funds under management of € 2.22 billion in 2022, which means that asset base remained stable in very difficult year for global financial markets. Its market share increased by 0.09 percentage point, to 18.84%. Importantly, the number of clients in our pension saving schemes increased by more than 14.1 thousand, one of the most from among all players on the market.

VUB's comparative success on the shrinking retail deposit front is nevertheless of little solace when it comes to overall liquidity management. Hence, I am all the more pleased with VUB's ability to attract significant volumes of wholesale funding, especially through corporate deposits and covered bond issuance. In particular, we have been able to increase volumes of deposits of nonfinancial companies, by 1.3% over a year ago in December 2022. Our share of the nonfinancial deposit market, while slipping from previous year, amounted to 22.2% in December, far above the pre-pandemic 19.4% in December 2019. And in terms of covered bonds, in March 2022, VUB was able to issue under very difficult market conditions its 5-year covered bond at very favorable conditions. The final spread was one of the lowest out of Central and Eastern European countries during the whole year and underpinned the formidable name recognition of VUB and its broad investor base.

Turning now to the financial performance, profitability, clearly, improved a lot thanks to the increase in interest rates. In particular, net interest income increased by 16.9%, allowing for the operating income of VUB Group to increase by 10% over a year ago, to € 503.8 million. Better than expected interest rate environment and revenue generation, nonetheless, did not led us loosen our grip on cost management. In fact, thanks to further review of resource allocation and savings achieved by lower headcount, we have managed to keep operating costs under control, having increased them by mere 1.7% over a year ago. Our cost-to-income ratio on consolidated basis thus decreased to 45% from 48% a year ago. Helpful to the net financial result also had been a better than expected development of asset quality, with the ratio of nonperforming loans to total falling to the lowest level ever. With provisioning covered more than adequately, we have thus been able to create less loan loss provisions in 2022 than a year ago. Adjusted for impairments, provisions, and taxes, the Group thus booked net profit of €169.5 million, 49.6% higher than a year ago.

Looking ahead, the operating environment for banking industry in Slovakia will remain challenging. The relief to banking sector profitability brought by the turnaround in interest rates will be offset by slowdown of business growth and prospective deterioration in asset quality due to the general economic malaise brought by the continuing war in Ukraine, steep energy prices, double-digit inflation, and stalling economy. Some of indebted households, liable to higher costs of their mortgage and consumer debt, will be put to financial strain. Especially vulnerable will be those families whose debt will be repriced during 2023, when mortgage rates will be approaching 5%, compared to lows of around 1% prevailing in prior years.

Resilience of corporate clients will also be tested. Faced with costs of electricity and natural gas at multiples of year-earlier levels, some companies have already been forced to shut production and many more indicate they will have to do so in the near future, unless government comes to a rescue. Such rescue in the form of energy subsidies has indeed been promised, but it will come at a cost, to the budgets of the public sector but also taxpayers'. And the latter may potentially also include the banking sector, which could be liable to additional tax as it already materialised is some countries in Europe.

Besides the challenges, nonetheless, I also see opportunities, for example in co-financing the prospective investment projects related to the Recovery and Resilience Plan as well as the regular EU-funded investments, which will peak in the upcoming year. Of particular importance are the opportunities related to green transition of the economy. Significance of accelerating such transition has only been underscored by the energy crisis in Europe brought by the Russian war. We at VUB have long been keen advocates of the need to move toward cleaner energy sources and other measures addressing climate change and sustainability. And I attest here that we stand ready to support such initiatives wholeheartedly.

Let me conclude by thanking our employees for their commitment, hard work, and results of this past year. I also would like to thank VUB clients and business partners for the trust they hold in the Bank, and the shareholders for their support. I wish all of us the best in the year 2023.

Alexander Resch,
CEO and Chairman of the Management Board

VUB Management Board Report on the business activities of the Company

Development of the External Environment

External environment

Last year brought unexpected new shocks to the world and Slovak economy, when the (post-)pandemic supply chain problems and high inflation were further intensified by the Russian war against Ukraine. With the resulting economic sanctions and countersanctions, this caused a massive spike in energy prices, particularly in Europe, which is more dependent on Russian energies than any other world region. In addition, the central banks started swiftly increasing their interest rates to fight record-high inflation rates. Thus, the economic environment markedly deteriorated during the year and the world's GDP growth slowed probably to 3.1% in 2022 according to OECD's November forecast.

Until the third quarter, nonetheless, the deterioration was evident primarily in sentiment indicators and expectations rather than real levels of economic activity, which were still reasonably resilient. Slovakia's real GDP in 3Q22 has still grown by 0.4% over the previous quarter, which was the same pace of growth as in the first half of the year. In the 4Q, however, the economy likely slipped into a mild contraction as indicated by partial activity indicators such as industrial output (-2.6% yoy), new orders, as well as the retail sales. Industrial companies were hit the most by the rising costs of energy, being their heavy users and purchasing them on the open market.

Some local firms have even been forced to shut down production and many more indicate they will have to do so in the upcoming year. Also, services are grappling with higher costs of energy. Hitherto they have been able to pass most of these higher input prices onto consumers, which were releasing lavishly their pent-up demand for goods and services they had to forego during covid lockdowns. As a result, consumer inflation stepped up to more than 15% by the end of the year, the highest level since 1994. The labor market over the year has begun to stall. Unemployment rate reported by labor offices has been only stagnating, at 6.7% since late Summer through November. Due to the high inflation, real wages were falling by almost 5% yoy. Economic sentiment managed to improve in December after a 20-month low in November.

Indebted households, liable to higher costs of mortgage and consumer debt, have already been put to financial strain. Average cost of a new mortgage has increased from all-time low of 1.1% at the start of the year to 3.6% by December and kept increasing. Such an increase in borrowing costs has already begun to impact the housing market. After many years of strong growth of residential house prices, their incipient freeze or even a reversal in some places from the later part of 2022 will have significant implications for household wealth, confidence, and new investments into the property market.

Also the public sector felt the impact of the changed macroeconomic and interest rate scenario. For 2023, Slovakia plans a budget deficit of as much as 6.4% of GDP, the highest from among the Eurozone members. To cover for the looming budget gap, the Ministry of Finance had to pay investors more than 4% on its new 10-year bond in mid-October, twice as much as two months earlier. The market in late 2022 has been demanding spread of more than one percentage point higher than at the beginning of the year vs. equivalent German bond. The outlook of Slovak sovereign rating has been changed from neutral to negative by all three major global rating agencies, which creates a risk of downgrade next year.

Financial sector

Due to the high and persisting inflation spilling over to the strong labor market via wage growth and thus threatening secondary inflationary effects, the major central banks hiked their short-term interest rates significantly over the year. The ECB went with its refinancing rate from 0.0 to 2.5% by December and will go on tightening its policy also in 2023. This has also significantly increased the above-mentioned bond yields, i.e., the long-term interest rates.

This change in the economic and financial environment has led to important changes in the banking volume trends as well. Lending growth in the retail sector, previously surging, has become flat as demand for mortgages dropped to three year-low amidst higher interest rates and deteriorating housing affordability. Corporate lending, by contrast, accelerated and even overtook retail loan growth, for the first time ever, mainly due to the inflationary higher demands for working capital.

On the deposit side, volumes have been negatively affected by uncertainty and war in the neighboring Ukraine as well as falling saving rate, which dropped from 10% in the previous year to record lows around 6%. Besides bank deposits, also other household financial assets declined in 2022, as the downturn in financial markets, both stock and bonds, sapped the value of assets under management and pension funds.

The liquidity situation in the local banking sector thus continued to deteriorate. The gap of primary deposits to gross loans widened to a new historic high of €10 billion (9.3% of GDP), while the loan-to-deposit ratio increased to 114%. This funding gap had to be mitigated by the increased bonds issuance, which has kept the adjusted LTD (loans over deposits and issued bonds) at close to 100%.

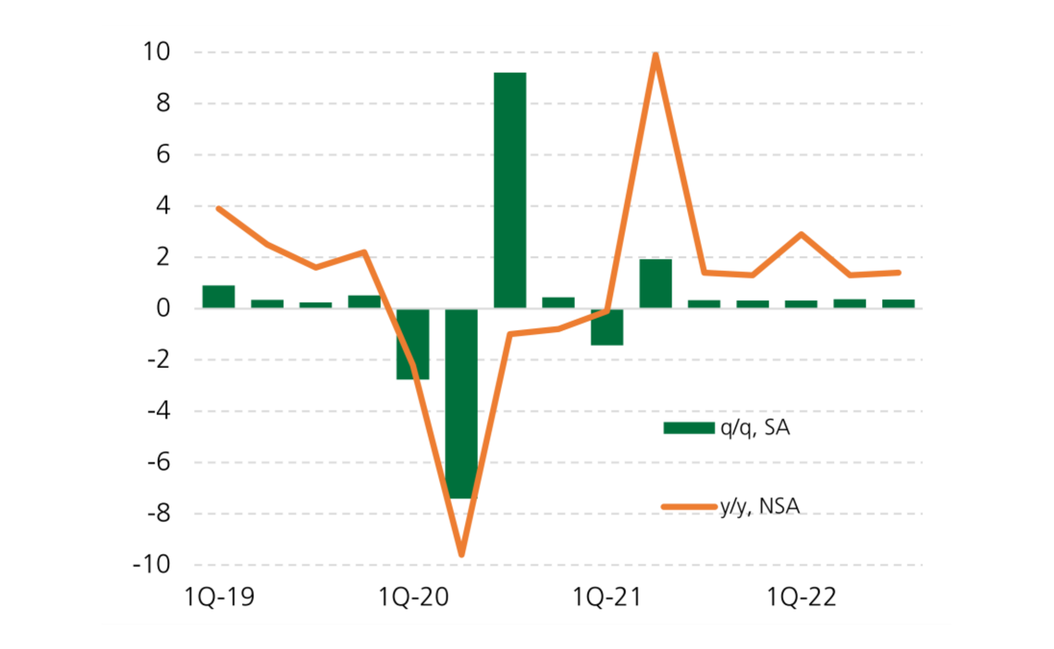
Profitability-wise, the turnaround in interest rates has improved core banking profitability, allowing NII to increase over a year ago by 6.5% yoy. In addition, the NFC income increased sizably, too. Yet banks, aware of the incipient risks from the forthcoming economic slowdown, have increased loan provisions, offsetting some of the improvement in core revenues. Still, given the strong rebound in revenues and costs kept under control, net profit of the sector increased 14% over a year ago, which was comparable to the inflation rate or nominal GDP growth.

Outlook for 2023

The world will surely continue to struggle with high uncertainty in the coming year, as the war in Ukraine does not seem to end any time soon and Russia’s energy (and other) blackmail against the West may continue, or indeed even escalate. Central European economies are most vulnerable to the shock resulting from Russian energy shock. European energy prices have on the one hand decreased markedly from August 2022, on the other, they are still at multiples of the first half of 2021. That is, the previous “normal” levels. We expect the Slovak economy to expand during the year by less than 1% mainly thanks to the expected large final drawing of EU funds from the programming period 2014-20.

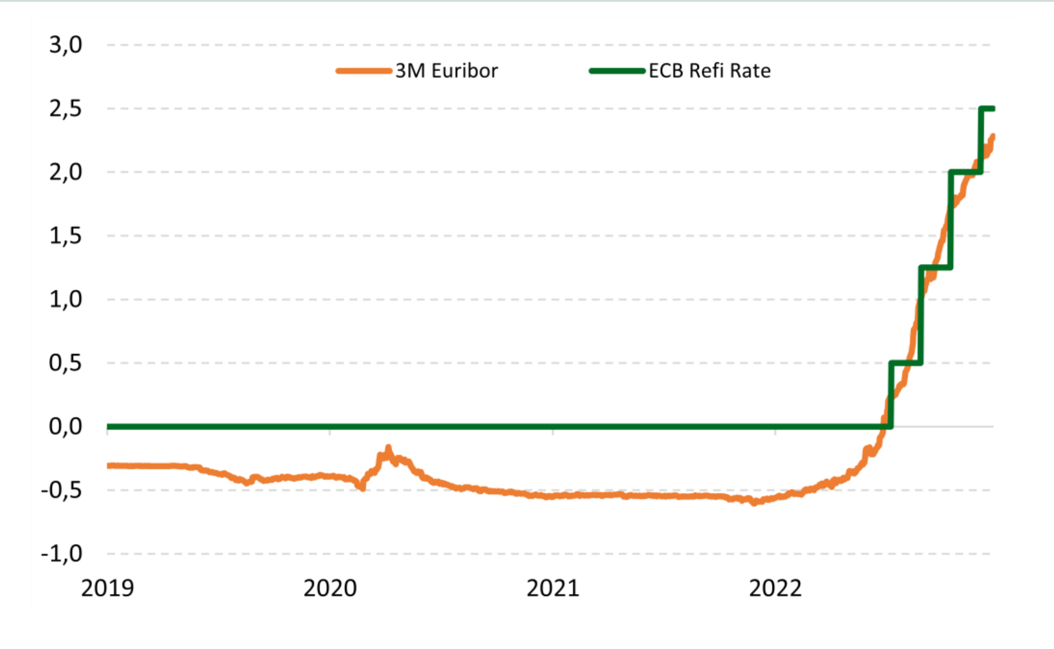
Short-term interest rates will have to go on rising to fight inflation, in the euro area perhaps to 4.0% by the 2Q23. Together with already higher long-term interest rate, this may not only slow the economy down, but also create solvency risks in some companies as well as sovereigns around the world. The good news is that European inflation may have peaked in October, but only time will show how far and how fast will it go down to ECB’s 2% target. In addition, Slovak households will have already depleted their forced pandemic savings and will have less means to meet their consumption plans, despite being shielded from soaring market energy prices by the government again in 2023. Still, the energy crisis also offers a stimulus to investment into alternative sources and supplies, energy efficiency and decarbonization in general.

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



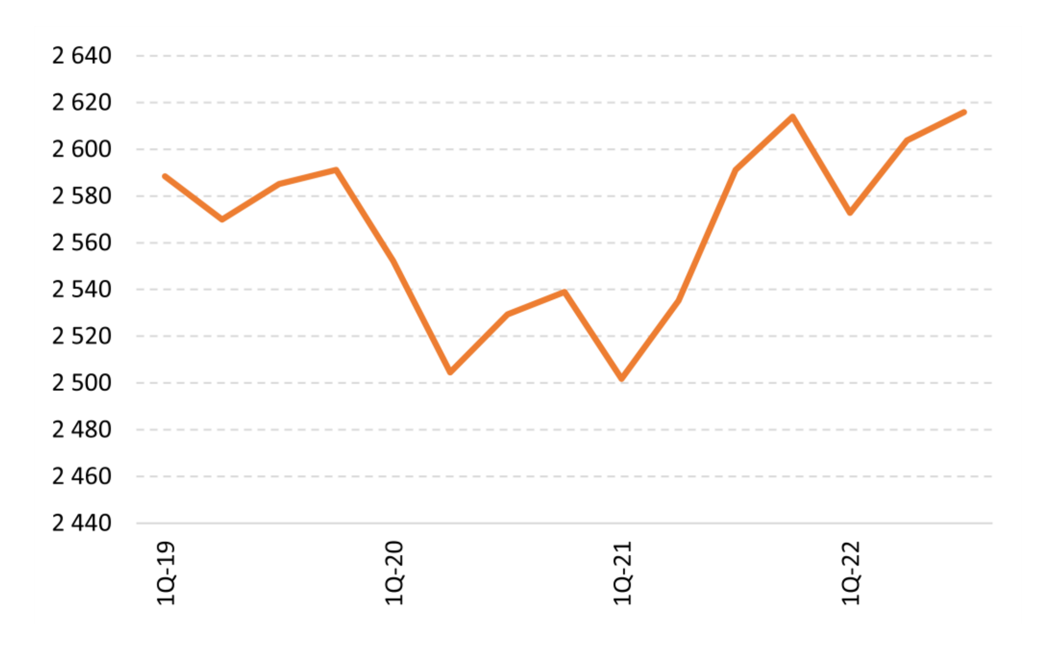
Source: Eurostat, VÚB

3M Euribor and ECB's Refi Rate



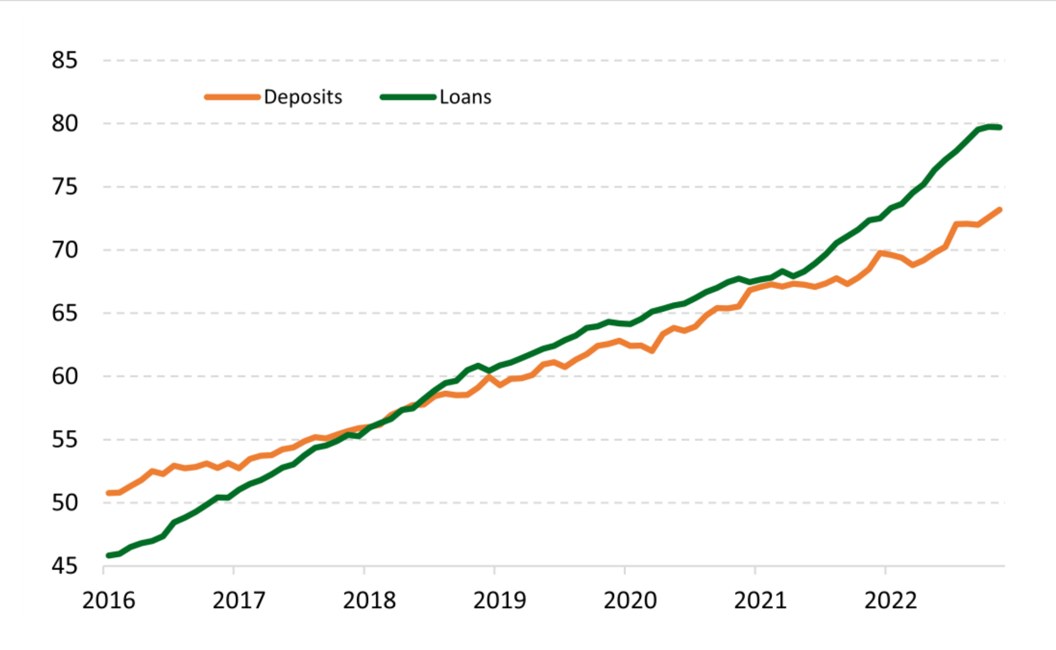
Source: Bloomberg, VÚB
Note: For non-trading intervals carry over last value

Employment: number of workers in thousands



Source: Macrobond, VÚB

Development of bank volumes (EUR bn)



Source: NBS, VÚB

Slovak government's 10Y bond yield, generic index

Source: Bloomberg, VÚB
Note: For non-trading intervals carry over last value. Missing values replaced by interpolation of different maturities

VUB's 2022 Commercial Performance

2022 was yet another challenging year, where we have experienced war in Europe, inflation crisis and huge uncertainty in the global economy. In Slovakia, the effect was even stronger as Ukraine is our neighbour country and at the same time, our dependency on Russian oil and gas was one of the highest in Europe.

VUB has not only achieved a very satisfactory performance in the commercial area. We have also played a great role in support of refugees from Ukraine. On the other hand, through the second half of year, the interest rates have risen continuously, which affected the profitability positively. In retail lending we managed to keep our market share at satisfactory level of 20,9%. In corporate lending, our market position went up from 18,9% in December 2021 to 19,5% in December 2022. On the deposit front, the great shock caused by the war affected the development, yet we still managed to keep our retail deposits stable (0,8% y/y increase in December compared to decrease on banking sector).

Deposits

The volume of bank deposits in VUB at the end of 2022 amounted to almost EUR 15.4 billion, 10.4% up against the previous year due to both retail deposits, but more importantly corporate deposits (on account of VUB Prague branch). On retail market, we managed to keep stable amount of deposits this year, even in spite the uncertainty stemming from the Russian invasion and inflation crisis. On the other hand, term deposits rose slightly over the year on account of beginning of the interest rates growth. Customers' assets under management posted decrease versus previous year (by 7% over the year incl. Eurizon), approximately in line with the market decrease (-6.1%). Market share in mutual funds thus weakened by 22 bps in 2022. The market share of total deposits received from clients incl. mutual funds amounted to 19.0%, which means y/y decrease. In corporate segment, VUB recorded increase over the year, however below the market growth, decreasing the market share by 2,5%.

Electronic Banking

We continued to introduce improvements in Mobile banking and Internet banking, such as digital biometric onboarding for non-clients (above 15 years of age), who wish to set up a product in the app. We have also introduced the app VUB Junior banking for the children and parents. This application helps children to increase their financial knowledge. The application is also a very good tool for acquiring new clients in the ages of 8 and 15. In 2022, as part of the bank's ESG projects, we introduced the possibility for clients to issue a plastic-free credit card. At the same time, we enabled clients to find all the card data needed for internet payment, in internet/mobile banking.

.

We also introduced several other improvements in the field of virtual branch and instant SEPA payments (among the first banks in Slovakia). Thanks to our focus on innovation and constant improvement, our Mobile Banking App has been awarded as the best in the Nay Techbox 2022. As of December 2022, VUB had almost 1,1 mil. online users.

Bank Cards

Even though the situation with the pandemic stabilised in 2022, the field of card transactions was significantly affected by the situation related to the emergence of the military conflict in Ukraine. Number of cash withdrawals in 2022 slightly increased by 3,5% against 2021 while volumes increased by 13,6%. Average cash withdrawal amount severely increased by 23 € and reached 257€. In card payments, we managed to grow with 23% increase in number of transactions and 26,6% increase in volumes. If we take special look on card payments via internet, we can see increase of transactions number by 14,7% and volumes by 18,5%. In December 2022 almost 95 000 unique VUB clients have used for the card payment tokenized type of card, which was recorded in an electronic wallet such ApplePay or GooglePay. The popularity of mobile phone payments is also evidenced by the year-on-year increase in the number of transactions by 96% and turnover by the same value. 2 of 3 transactions from mobile payments were executed by ApplePay.

In 2022, we also continued our support of charity Dobrý Anjel (Good Angel) with our co-branded card Maestro Good Angel. At the end of year, we had 65 200 of those cards issued. Total amount of support of charity Dobrý Anjel in 2022 generated by POS transaction done by Maestro Good Angel cards was 350 000 €.

ATMs and EFT POS

VUB ranks 2nd (20,3%) in the Slovak market share also in 2022 with its 563 ATMs which is decrease by 18 ATMs comparing to the previous year. This was caused by VUB decision to cancel non profitable and obsolete ATMs. The cash volume withdrawn from ATMs increased y/y by 23% (nr. of transaction increase by 10%). This change was caused by Ukrainian cardholders mostly, living temporally in the Slovakia after starting of war conflict. To support them in this difficult situation we have developed ATM solution that gave people the opportunity to donate funds to help Ukraine in the form of a card transaction.

The focus during the last year continued enhancement of ATMs supporting cash-in operations as well. At the end of 2022 we had together 116 ATMs with cash-in module, that means increase by 17 ATMs during year. Volume of cash inserted through ATMs increased by up to 36%. The increased interest of clients in depositing cash via ATM led the bank to the need for more effective management of cash handling. For this reason, in the 4th quarter, the bank introduced banknote recycling in its ATMs, which significantly saves the time of the staff who subsidize ATMs with cash.

We launched a new card acceptance through mobile phones (SoftPOS solution) which are running under Android. Especially our small business clients will benefit from this new service, because they can turn their phone into a POS terminal without additional hardware costs, including easy download of our application from Google play. This is a green solution – without paper receipts. SoftPOS solution takes customer experience to the next level so we bring the acceptance mobility closer to our clients.

During year 2022, we installed more than 2.800 new POS terminals including virtual terminals used in e-commerce and unattended terminals like parking kiosks or self-service fuel stations.

Contact center

In 2022 the Call Centre serviced approximately 504 thousand calls and 119 thousand processed e-mails. These interactions are approximately at the same level as in the previous year. But higher increase was in chats (17 thousand chats), where we can see 70% increase compared to 2021.

In 2022 we focused on remote sell in all Call centre teams. We started with pilot of Universal agent following the example of our parent company Intesa Sanpaolo. Universal agent is operator, who is able to service all types of incoming calls, and outcoming calls (campaign and non- campaign) as well. Thanks to this pilot and thanks to the continuous work with agents we increased in the volume of remote sell via Call centre, what was also reflected in higher labour productivity.

In 2022 we sale 2511 consumer loans in the volume 18,8 mil. EUR, what is increase more than 107% according to the 2021. We also did well in the sale of non-life insurance, where we saw the increase of 59%. This is our best historical result.

Loans

Individuals – Mortgage and Consumer Loans

In 2022, the substantial demand for mortgage loans continued in the first half of the year. Then sudden hike of interest rates took place because of ongoing inflation crisis. In VUB we recorded increase slightly below the market growth rate. Total mortgages of VUB (including 'American mortgages') grew by 4,1% over the year. With a market share 21,66% the Bank kept strong position on the mortgage loan market. Consumer loans decreased- significantly in both VUB Group and the market. On group level, consumer loans decreased by 5,2% year over year.

Corporate Financing

VUB bank outperformed the rest of the market in corporate loans segment. While corporate loans grew by 10,4% on the market, VUB increased by 13,9% on the bank level and 9,1% on Group level. Thus VUB’s market share in these loans went up to 18,9%. Real estate finance increased by 9%, project finance loans decreased by 22%, while trade finance loans grew by 4%. Leasing, former VUB’s subsidiary, recorded increase by 7%.

Review of VUB's Economic and Financial Position

In 2022, Russian invasion in Ukraine surprised whole world and caused, global uncertainty, inflation crisis and significantly affected macroeconomic growth. Slovakia recorded GDP growth around 1.6%.

On the consolidated basis, VUB posted operating revenues of € 510,5 million. Compared to previous year, bank results increased by approximately 17% mainly due to year-over-year increase of both interest and non-interest income. Operating costs have increased, however only marginally by 2.2% and reached amount of € 236,4 million at the end of 2022.

VUB Group achieved operating profit of € 274,2 million and kept its profit before tax on satisfactory level € 213,0 million. Net profit of the group has increased by approximately 50% and reached € 169,5 million. The extraordinary year over year increase of profitability was caused, by significantly better interest income compared to previous year, but also thanks to expansion of our fee business. Cost-income ratio of VUB group amounted to 46,29%.

Regarding business development, VUB delivered very good development with respect to net loan portfolio, which grew by 5,0%, resulting into strong market share at 20,6%. Total assets of the whole VUB group decreased slightly by 1,6% predominantly due to the end of TLTRO program (outstanding balance of 60 mil. € with maturity in 2024 connected to this is instrument still remains in our portfolio). Our portfolio quality remained strong and NPL ratio remained at very prudent levels. Moreover, VUB remained outperforming the market in terms of loan quality. Indeed, NPLs from banking operations on the group-level in VUB at end-2022 amounted to a mere 1,81% of the total gross loan volume, compared to markets. 1.9% (market data is based on individual statements from NBS).

At the same time, the bank was able to increase its primary deposits with by 10,4%, keeping sound liquidity position which is represented by the prudent loan to deposit ratio (including Debt securities in issue) of 91,2%.

To bolster stability of business growth onwards, capital of the group increased to one of the highest capital adequacies on the Slovak market with the ratio amounting to 19,21% high above the minimum requirements set by the central bank. This gives us a solid base for continued business growth.

Information on the Expected Economic and Financial Situation for 2023

As mentioned, year 2023 is one of the most challenging, full of uncertainty and risks, such as the unpredictable development of war. High inflation expectations shall continue in this year and the macroeconomic growth is about to be negatively affected.

Our long-term priority, which is building a long-term and positive relationship with our clients, remains unchanged. In the mid-term, we shall continue to focus on 3 main pillars, which are (i) employee engagement, (ii) digitization and (iii) allocation of resources. However, in terms of these priorities, the top focus is not only on performance, but also on fulfilling them in line with ESG principles. With respect to growth, we are focusing on sustainable growth in all segments.

In terms of the first priority, we are bound to focus on two priorities: (i) Employee experience improvement and (ii) Critical skills and leadership competencies improvement. In terms of the first we will lay a strong emphasis on supporting the work life balance and psychological safety. We would also like to introduce new agile principles of work and different ways of work flexibility. In terms of the latter, we are introducing Workforce and Talent Strategy in order to: Identify needs for the future based on business needs, Critical skills definition – not only critical roles and we will also implement Talent Analytics.

In line with the aim to keep everyday banking simple and efficient, we will continue to lay strong emphasis on digitalisation. In this regard are introducing further improvements such as: (i) improvement of digital onboarding using biometrics; (ii) digital implementation; (iii) further improvements and innovations following modern trends with aim for client's satisfaction.

The third pillar, allocation and simplification will lay strong emphasis on sustainability and minimization of impact on environment. In this area we will focus on cash management, IT processes, efficient use of premises, robotization.

Last but not least, VUB as responsible part of community will continue in bringing added value in other then business activities in line with ESG initiatives. Internally, we shall continue to challenge our employees to be even more responsible towards community and environment, but also externally we will continue with meaningful activities via both VUB Foundation and the "Green bank" projects, such as the environmental award ATLAS or financial and environmental education for youth.

Registered Share Capital and the Structure of VUB Shareholders

Registered Share Capital of VÚB, a.s.

The registered share capital of VÚB, a.s. amounts to € 430 819 063,81 and was created by the contribution of the founder designated in the deed of foundation as of the day of its establishment.

The registered share capital is divided into 4,078,108 book-entered registered shares, having the nominal value of € 33,20 each and 89 book-entered registered shares, having the nominal value of € 3 319 391,89 each.

Shareholders' rights

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

Structure of VUB Shareholders

Information regarding VUB shareholders is published quarterly within 30 days of the end of the relevant quarter. Below is the status as of 31 December 2022.

Structure by Owner Type	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – sole shareholder	430 819	100,00
Total Registered Share Capital of VÚB, a.s.	430,819	100,00

Structure by Nationality	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – sole shareholder	430 819	100,00
Total Registered Share Capital of VÚB, a.s.	430 819	100,00

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

There was one shareholder as at 31 December 2022.

A qualified participation in the company's registered capital is held by the sole shareholder Intesa Sanpaolo Holding International S.A. Luxemburg, with its Registered Office in Luxembourg L-1821, 28 Boulevard de Kockelscheuer that holds a 100.00% stake in the registered capital.

Further, the company during the accounting year 2022 held in its assets the shares of the parent company (Art. 22, sec. 3 of the Act no. 431/2002 Coll. on Accounting as amended), Intesa Sanpaolo S.p.A. (ISP), registered office Piazza San Carlo 156, Turin, Italy, ISIN IT0000072618, book-entered registered ordinary shares, with a nominal value of € 0,546 each, in a total number of 224 035 shares. This represents 0,03% of the nominal value of the Bank’s registered capital. These shares have been acquired by the Bank in order to adopt and implement ISP Group Remuneration Policies in line with the Capital Directive 'CRD V' (i.e. Directive 2019/878/EÚ amending the Capital Requirements Directives). In 2022, the Bank transferred 68 427 shares in accordance with ISP Group Remuneration Policies.

Subsidiaries of VÚB, a.s.

VÚB Operating Leasing, a.s.

Registered office:	Mlynské nivy 1, 820 05 Bratislava
Shareholders:	VÚB, a.s.
VUB's stake in registered capital:	100%
Core business:	Operating leasing
General Manager:	František Streit

VÚB Generali dôchodková správcovská spoločnosť, a.s.

Registered office:	Mlynské nivy 1, 820 04 Bratislava
Shareholders:	VÚB, a. s., Generali Česká pojišťovna a. s.
VUB's stake in registered capital:	55,26%
Core business:	Pension fund administration
General Manager:	Vladimír Mlynek

Statement on Compliance with the Corporate Governance Code for Slovakia

A. Company Organization

The structure of VÚB, a.s. bodies:

a) the General Meeting;

b) the Supervisory Board;

c) the Management Board.

General Meeting

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

The decision of the sole shareholder of the company performing the duties of the general meeting in 2022 was held on March 31, 2022, when the sole shareholder approved the Annual Report of VÚB, a. s., for the year 2021, Regular individual financial statements of VÚB, a. s., for the year 2021 and the Consolidated Financial Statements of VÚB, a. s., for the year 2021, both financial statements compiled according to International Financial Reporting Standards as adopted by the EU as presented by the bank's board of directors. The sole shareholder also decided on the distribution of the profit for the year 2021 in the total amount of €100,984,244.55, by approving part of the profit for the payment of dividends to the shareholder in the total amount of €10,533,871.34 and part of the profit in the amount of €90,450,373.21 approved € for allocation to retained earnings.

The sole shareholder also approved the amendment of the Articles of Association of VÚB, a. s., in the proposed wording, was approved by Ernst & Young Slovakia, spol. with r. o., for the external auditor VÚB, a. s., for the year 2023 and approved changes in the Supervisory Board of VÚB, a.s.

VUB Supervisory Board and Management Board in general

1. Supervisory Board members are elected by the General Meeting. The VUB, a.s. Management Board is elected by the Supervisory Board.
2. All relevant information is available to all members of the Management Board and Supervisory Board in time. In the course of the financial year 2022, the VUB, a.s. Management Board held 26 meetings and 11 via per rollam. The VUB, a.s. Supervisory Board held 16 meetings out of it 6 via per rollam during the 2022 financial year. Documents with detailed information are distributed sufficiently in advance – in the case of the Management Board no less than 3 working days, in the case of the Supervisory Board no less than 10 days prior to the meeting, ensuring the ability of members of the Supervisory and Management Boards to decide on individual matters competently.
3. None of the Supervisory Board members is a member of the VUB, a.s. Management Board nor holds any other top managerial position in the Bank. With the exception of members of the Supervisory Board elected by VUB employees, a Supervisory Board member may not be an employee of VUB.

Supervisory Board

Members of the Supervisory Board in 2022

Ignacio Jaquotot	Chairman of the Supervisory Board
Elena Kohútiková	Vice Chairwoman of the Supervisory Board
Marco Fabris	Member of the Supervisory Board
Luca Leoncini Bartoli	Member of the Supervisory Board
Christian Schaack	Member of the Supervisory Board
Peter Gutten	Member of the Supervisory Board, employee representative till December 19th 2022
Róbert Szabo	Member of the Supervisory Board, employee representative
Draginja Duric	Member of the Supervisory Board from September 29th 2022

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

a) reviews the annual report, the ordinary, extraordinary, individual and consolidated accounts and recommends the annual report, the ordinary, extraordinary, individual and consolidated accounts to the General Meeting for approval;

b) approves the proposed distribution of current and/or past profits;

c) approves rules for the creation and use of other funds created by VÚB, a.s.;

d) approves the draft plan for the settlement of unsettled loss and/or unsettled losses from past years;

e) approves proposed changes to the internal audit and internal control system;

f) approves the charter, annual audit plan of control activities and the annual report on the results of the activities of the Internal Audit Department;

g) reviews and approves the following matters before their submission to the General Meeting by the Management Board:

   i. proposals for changes to the Articles of Association; and

   ii. proposals for an increase or decrease in the registered share capital of VÚB, a.s. and/or for the issue of preference or convertible bonds, according to the relevant provisions of the Commercial Code;

h) elects members of VÚB, a.s., Management Board and approves agreements on the performance of function with the members of the Management Board;

i) approves any proposal for an increase or decrease in the registered capital of VÚB, a.s.;

j) approves any substantial change in the nature of the business of VÚB, a.s. or the way in which the business of VÚB, a.s. is carried out, if it is not already approved in the printed forecasts for the business and financial conditions in any relevant year;

k) approves remuneration policies for rewarding the managers who are directly under the responsibility of the Management Board and the Supervisory Board;

l) decides on other issues falling within the authority of the Supervisory Board under the cogent provisions of legal regulations and the Articles of Association;

m) approves the Bank Remuneration Policies;

n) approves major business transactions pursuant to Article 220ga of the Commercial Code.

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

a) a Management Board proposal regarding the termination of trading in Company securities on the stock exchange, and a decision on whether the Company should cease to operate as a public joint-stock company;

b) information from the Management Board on the major objectives related to the Company business management for the upcoming period, and expected development in VUB assets, liabilities and revenues;

c) the report by the Management Board on the business activities and assets of the Company, with related projected developments.

Committees of the Supervisory Board:

Audit Committee

The Audit Committee was comprised of three members (including the Chairwoman) as of 31 December 2022. The Audit Committee held five meetings (from which one per rollam) during the 2022 financial year. The issues discussed at the meetings mainly related to: preparation of the financial statements and observation of the special regulations; efficiency of internal control and risk management system at the Bank; compliance with regulatory requirements; the audit of the separate financial statements and the audit of the consolidated financial statements. Further, the Audit Committee examines and monitors the independence of the auditor, especially services provided by the auditor according to a special regulation, recommends the appointment of an auditor for carrying out the audit of the Bank, and sets a date for an auditor to submit a statutory declaration about his independence. The Audit Committee regularly invited an external auditor to attend its meetings.

The Internal Audit Department, the authorities and duties of which are defined by the Supervisory Board, excluding those defined by law, performs the control function in the Bank. The Head of the Internal Audit Department may be appointed to/removed from the position upon a recommendation and prior consent issued by the Supervisory Board. Furthermore, the Supervisory Board also defines the remuneration and compensation scheme for this position. In 2022, the Chairwoman of the Audit Committee (being also Vice Chairwoman of the Supervisory Board) and the Head of the Internal Audit and Control Department participated in the meetings of the Supervisory Board. The Chairwoman of the Audit Committee regularly informed the Supervisory Board of the most important issues discussed at the Audit Committee Meetings.

Members of the Audit Committee in 2022:

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

Remuneration Committee

Remuneration Committee as a body was established in VÚB a.s. by a decision of the Supervisory Board of VÚB, a.s. in July 2012, (hereinafter to as "VUB" or "Bank") in accordance with the Act on Banks and related legislation, the Bank´s Articles of association and the Parent Company´s Guidelines on Remuneration. Committee has 3 (three) members appointed and recalled by the VUB Supervisory Board. All of them must be Members of the Supervisory Board of the Bank. One Member of the Committee must be appointed as the Chairman of the Committee. The committee meets at least once a year. It has fundamental role in process of preparation, adoption, changes and control of implementation of the Bank Remuneration Policies of the selected positions (according to the Act on Banks). It provides support to the Supervisory and Management Board concerning the adoption and regular review of the general principles of VÚB, a.s. Policies. The Remuneration Committee shall be constituted in such a way as to enable it to exercise competent and independent judgment on remuneration policies and practices and the effects of remuneration on the management of risk, capital and liquidity.

Risk Committee

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

Management Board

Management Board Members in 2022

Alexander Resch	Chairman of the Management Board and Chief Executive Officer
Paolo Vivona	Member of the Management Board and Chief Financial Officer till April 6th 2022 Member of the Management Board and Deputy Chief Officer from April 7th 2022
Andrej Viceník	Member of the Management Board and Head of Corporate and SME Division
Peter Magala	Member of the Management Board and Head of Risk Management Division
Martin Techman	Member of the Management Board and Head of Retail Division
Marie Kovářová	Member of the Management Board and Chief Operating Officer
Darina Kmeťová	Member of the Management Board and Chief Financial Officer from April 7th 2022

Alexander Resch – Chairman of the Management Board and CEO of VUB bank

On 1 October 2013, Alexander Resch became CEO and Chairman of the Board of VUB Bank, acting as a member of its Board of Directors and Chief Risk Officer in 2008-2012, and formerly Deputy Chairman of Consumer Finance Holding, VUB's subsidiary focused on consumer finance. He returned to Slovakia from Albania, where he led Intesa Sanpaolo Bank Albania.

Alexander Resch has been working for Intesa Sanpaolo all his career. He started at Bankhaus Löbbecke & Co (Berlin), then he was a member of the Intesa Sanpaolo Group, where he was responsible for planning, controlling and risk management. He came to Slovakia in 2004 to coordinate the acquisition of TatraCredit Group instalment sale companies, which were subsequently transformed into Consumer Finance Holding, a.s.

Alexander Resch studied economics at the University of Cattolica del Sacro Cuore in Milan and has also Executive MBA degrees from the University of Minessota - Carlson School of Management and the Vienna University of Economics and Business.

Paolo Vivona – Member of the Management Board and DCEO of VUB bank

Paolo Vivona became Member of the Board of VUB Bank on 24 October 2020. As Deputy CEO is mainly responsible for the Bank's control and support departments. He previously held the position of CFO at VUB, a.s. and worked at the planning and control department of the international division of ISBD (International Subsidiary Banks Division) Intesa Sanpaolo subsidiaries, where he coordinated activities within the developing concept of CE HUB between VUB bank and the Hungarian CIB Group. He has worked for Intesa Sanpaolo for more than 30 years, of which he has spent about 20 years in various positions at foreign branches of the Intesa Sanpaolo Group including China, Japan, Albania, Egypt and Hungary. He started out in retail as an area manager at Sanpaolo IMI, Milan and Turin. Gradually, he worked his way through several management positions in retail banking, finance, risk and credit management. He also worked at the Hungarian CIB Bank Z.r.t. as CFO and member of the Board of Directors. Paolo Vivona studied political science specialising in finance at the Università Cattolica del Sacro Cuore in Milan.

Andrej Viceník– Member of the Management Board and Chief Executive Officer of Corporate Banking

Andrej Viceník has been working in VUB since 2006. He held the position of Director of Corporate Clients until 2010 and until November 2017 he ran the Small and Medium Enterprises Division.

Since December 2017, he has been a member of the Board of Directors and Chief Executive Officer of the Corporate Banking Division and Chairman of the Supervisory Board of VÚB Leasing a.s. Previously, he worked in the leading positions of the Czech Insurance Company, Zurich insurance company as well as HVB Bank Slovakia. He graduated from the Faculty of Business Management of the University of Economics in Bratislava and also broadened his education by getting the Executive MBA degree at Webster University.

Peter Magala – Member of the Management Board and Chief Executive Officer of Risk Management

In February 2012, the Supervisory Board of VUB appointed Peter Magala as a member of the Board of Directors and Chief Executive Officer of the Risk Management Division.

After graduating from the Faculty of Economics of the University of Economics in Bratislava, he began building his career at Deloitte & Touche in Bratislava where he worked as a senior auditor in the field of International Accounting Standards and statutory audits, due diligence projects and other specific projects focused on bank clients.

Peter Magala gained further banking experience as a relationship manager at Citibank in Bratislava, where he worked in 2002 - 2004. His key clients were from the area of consumer finance and insurance. Since 2004, he has continued his banking career at Tatrabanka/Raiffeisen International, particularly in the segment of international IT projects in Maribor (Slovenia) as a senior business analyst in charge of accounting.

In 2006, Peter Magala started working for VUB. Firstly, as Head of Corporate Credit Control in Internal Audit, and since 2007, as Head of the Internal Control and Internal Audit of the Bank, responsible for internal audit of the entire VUB Group.

Peter Magala has gained an internationally recognized qualification in Risk Management, the Financial Risk Manager (FRM), and is a member of the Certified Accountants' Association (FCCA).

Martin Techman Member of the Management Board and Chief Executive Officer of Retail Banking

A member of the Board of Directors of VUB Bank and the Chief Executive Officer of the Retail Banking Division became Martin Techman on 1 March 2015. He came to VUB from Česká spořitelna, where he worked as a director of the distribution network.

Martin Techman is responsible for branch office and customer relationship management, bank products for natural persons and small businesses, payment cards and private banking.

He has been involved in financial services and banking since 1994. He started at Multiservis, which was later acquired by GE Capital. He has gone through several key positions as consumer finance manager, product development manager, third party product manager, and mortgage credit manager. Between 2004 and 2005, he was Director of Product Development and Management at VUB Bank, where he was responsible for managing retail products, a network of mortgage centres, and for external sales. Since 2005, he has worked as a Director of Business Development at Česká spořitelna and since 2011 has managed a network of branches in Czech Republic.

Martin Techman got an MBA degree at Nottingham Trent University in the field of Managerial Studies and "Senior Executive" Managers.

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

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

Darina Kmeťová – Member of the Management Board

On April 7, 2022, Darina Kmeťová became a member of the Board of VUB Bank and the CFO.

Darina Kmeťová joined VUB Bank in October 2019 as the director of the planning and control department. Prior to that, she worked as a finance and controlling leader in various sectors (automotive, media, marketing and banking) of foreign companies. She has many years of experience in senior financial positions, in the field of controlling and also in managerial positions with international coverage. She studied Tax and Tax Consulting at the University of Economics in Bratislava.

Competencies of the Management Board

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

a) exercising the executive management of VÚB, a.s. and employer rights;

b) implementing decisions taken by the General Meeting and the Supervisory Board;

c) ensuring the accuracy of the mandatory bookkeeping and other records, trade books and other documentation of VÚB, a. s.;

d) after prior approval by and upon a proposal by the Supervisory Board, submitting the following matters to the General Meeting for approval:

   – amendments to the Articles of Association of the bank;
   – proposals for increasing / decreasing registered capital and bond issues;
   – proposals for issuing shares or redemption of shares;
   – ordinary, extraordinary, individual or consolidated financial statements;
   – proposals for distribution of current or retained profits and/or proposals for settlement of outstanding losses from the current and/or previous years; and the annual report;
   – a proposal for approval or withdrawal of the auditor of VÚB, a.s. for the relevant accounting period;

e) approval and regular investigation of Bank Remuneration Policies.

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

Committees of the Management Board

The Credit Committee

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

The Credit Risk Governance Committee

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

The Assets and Liabilities Committee

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

The Operational Risk Committee

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

Change Management Committee

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

Internal Control Coordination Committee

The aim of the Internal Control Coordination Committee is to strengthen coordination and the tools for cooperation among the various Bank´s control functions and to enable the integration of the risk management process.

The Problem Asset Committee

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

The Crisis Committee

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

B. Relations between the Company and its Shareholders

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

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

C. The Company's Approach to Shareholders

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

D. Disclosure of Information and Transparency

1. The Bank applies strict rules in the area of insider dealing, and continually maintains and updates a list of insiders.
2. Information about corporate governance is published on the VUB web site www.vub.sk in the section "About the bank". Information for shareholders is available on the VUB web site www.vub.sk in the "Information for VUB shareholders" section.
3. Members of the Management Board and Supervisory Board do not have any personal interest in the business activities of the Bank. The Bank strictly observes the provisions of the Banking Act No. 483/2001 Coll. (hereinafter the 'Banking Act') as amended, applicable to the provision of deals to the Bank's related parties. Under the Banking Act, the closing of such a deal requires the unanimous consent of all the Management Board members based on a written analysis of the deal concerned; a person with a personal interest in the given deal is excluded from a decision-making role. The Bank does not carry out with its related parties such deals, which owing to their nature, purpose or risk, would not be performed with other clients.
4. The Bank abides by the Corporate Governance Code for Slovakia, the rules of the Bratislava Stock Exchange and Luxemburg Stock Exchange governing disclosure of all substantial information. The fact that the company observes the mentioned regulations ensures that all the bondholders and potential bondholders have access to information on the financial standing, performance, ownership and management of the company, enabling them to take competent investment decisions. The Corporate Governance Code for Slovakia is available on The Slovak Association Corporate Governance web site:

   http://www.bsse.sk/Portals/2/Issuers%20Guide/2018/kodex_ENG_akt.pdf.

   The Bratislava Stock Exchange Rules are available on the Bratislava Stock Exchange web site www. bsse.sk and Luxemburg Stock Exchange Rules on web site www.luxse.com.
5. The Company actively supports a constructive dialogue with institutional investors.
6. The Bank applies changes arising from Act No. 566/2001 Coll. on Securities and Investment Services, as amended (hereinafter the 'Securities Act'), at a European level, and the MiFID directive (Markets in Financial Instruments Directive), and undertakes activities directed at investor protection and strengthening client trust in the provision of investment services. The main objective of the MiFID directive is to enhance financial consumer protection in the field of investment services. The essence of the MiFID directive lies in the new categorization of clients according to their knowledge and experience in the field of investment in order to provide clients with an adequate level of protection, and in the bank's obligation to act in the best interests of the client in carrying out their orders in relation to their financial instruments (best execution), in higher requirements as regards market transparency, and organization of the Bank as a securities trader, to be ensured by internal control systems and the prevention of conflict of interests. Information related to investment services is published on the VUB web site www.vub.sk in the section "Mission and values/Investor protection%".
7. The Bank continues to provide payment services according to the Act on Payment services No. 492/2009 Coll, as well as EU Directive 2015/2366 of the European Parliament and of the Council of 25 November 2015, on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC. The aim of this law is to provide high-level clear information about payment services for consumers to allow them to make well-informed choices and be able to shop around within the EU. In the interests of transparency, the harmonized requirements are laid down in order to ensure the necessary and sufficient information to payment service users with regard to the payment service contract and payment transactions.

Non-financial statement

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

Basic indicators

Selected Indicators (in € thousand)

	Separate financial statements prepared in accordance with IFRS as adopted by the EU			Consolidated financial statements prepared in accordance with IFRS as adopted by the EU		
	2022	2021	2020	2022	2021	2020
Loans and advances to customers	17 504 728	16 256 447	14 724 137	17 497 930	16 659 876	15 239 856
Due to customers (including lease liabilities)	15 427 835	13 973 238	13 000 818	15 427 185	13 971 898	13 005 382
Equity	1 841 062	1 709 722	1 693 246	1 870 095	1 734 924	1 706 939
Balance sheet total	22 805 330	22 861 219	18 741 414	22 873 363	23 242 855	19 228 219
Profit before provisions, impairment and tax	249 736	194 586	166 371	274 190	205 163	175 221
Profit before tax	185 635	130 155	110 121	212 969	143 881	109 141
Income tax expense	(44 543)	(29 169)	(25 082)	(43 219)	(30 542)	(26 447)
Net profit for the year	141 092	100 986	85 039	169 522	113 339	82 694
Commercial indicators	**2022**	**2021**	**2020**			
ATMs	563	581	598			
EFT POS Terminals	13 800	12 008	11 287			
Payment cards	1 001 800	992 605	1 004 785			
of which credit cards	98 050	101 528	108 072			
Mortgage loans (gross, € thousand, VUB Bank only)	8 965 879	8 613 915	7 847 341			
Consumer loans (gross, € thousand, VUB Bank only)	1 295 640	1 275 947	1 391 046			
Number of employees (VUB Group)	3 358	3 417	3 655			
Number of branches in Slovakia (VUB Bank)	170	179	197			
Key ratios of VUB Group				**2022**	**2021**	**2020**
Return on assets				0,74%	0,49%	0,43%
Cost-Income Ratio (without bank levy)				46,3%	53,01%	52,83%
Tier 1 capital ratio				16,68%	17,24%	16,66%
Total capital ratio				19,21%	19,51%	18,79%
Rating (status as at 31 December 2022)						
Moody's						
Long-term deposits	A2					
Short-term deposits Baseline	P-1					
credit assessment	baa2					
Negative outlook						

Consolidated financial statements

Consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2022

Contents

Independent Auditor´s report
Consolidated statement of financial position as at 31 December 2022
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022
Consolidated statement of changes in equity for the year ended 31 December 2022
Consolidated statement of cash flows for the year ended 31 December 2022
1. Basis of preparation
2. Changes in accounting policies
3. Significant accounting policies
4. Financial and operational risk management
5. Estimated fair value of financial assets and financial liabilities
6. Segment reporting
7. Cash and cash equivalents
8. Financial assets and financial liabilities at fair value through profit or loss
9. Derivatives - Hedge accounting
10.Financial assets at fair value through other comprehensive income
11.Financial assets and financial liabilities at amortised cost
12.Fair value changes of the hedged items in portfolio hedge of interest rate risk
13.Investments in joint ventures and associates
14.Property and equipment and Non-current assets classified as held for sale
15.Intangible assets
16.Goodwill
17.Current and deferred income tax assets and liabilities
18.Other assets
19.Provisions
20.Other liabilities
21.Movements in impairment losses and provisions for financial guarantees and commitments
22.Equity
23.Financial commitments and contingencies
24.Net interest income
25.Net fee and commission income
26.Net trading result
27.Other operating income
28.Other operating expenses
29.Special levy of selected financial institutions
30.Salaries and employee benefits
31.Other administrative expenses
32.Provisions
33.Impairment losses and Net loss arising from the derecognition of financial assets at amortised cost
34.Income tax expense
35.Other comprehensive income
36.Income tax effects relating to other comprehensive income
37.Related parties
38.Events after the end of the reporting period

EY
Building a better working world

Ernst & Young Slovakia, spol. s r.o.
Žižkova 9
811 02 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
www.ey.com/sk

Independent Auditor's Report

To the Shareholder, Supervisory Board, Management Board and to the Audit Committee of Všeobecná úverová banka, a.s.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Všeobecná úverová banka, a.s. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group give a true and fair view of the financial position of the Group as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment allowances for due from customers

Due from customers valued at amortized cost less impairment as at 31 December 2022 amount to EUR 17,497,930 thousand and represent a significant portion of the Group's total assets. As disclosed in Note 11.2 (Due from customers) to the consolidated financial statements, it included the gross book value of due from customers valued at amortized cost of EUR 17,865,745 thousand and impairment allowance of EUR 367,815 thousand.

Determining the amount and the moment of recognizing impairment allowances for expected credit losses requires significant judgments and complex estimates of the management disclosed in Note 4.1.2 (Impairment losses) to the consolidated financial statements. For performing exposures and non-performing exposures below EUR 500 thousand individually, it comprises assumptions built into statistical credit loss models, such as assessment of significant increase in credit risk, definition of default, incorporation of forward-looking information, calculation of the loss given default parameter and the recovery rates. For exposures above EUR 500 thousand individually, the Group performs an individual assessment based on the detailed review and analysis of the borrower's situation and for non-performing exposures, the judgments include identification of loss events other than overdue payments and estimation of timing and amount of expected cash flows from repayments and realization of collaterals.

The Covid-19 global pandemic, war in Ukraine, energy crisis, rising inflation and interest rates introduced additional estimation uncertainties as well as their increased complexity.

Due to the significance of due from customers in relation to the total assets and significance of the management's judgments and estimates and their complexity regarding the expected credit losses described above, we evaluated impairment allowances for due from customers as a key audit matter.

As part of our audit procedures, we documented our understanding of the Group's credit risk management policies. We obtained an understanding, evaluated the design and tested the operating effectiveness of the internal controls over the approval, recording and monitoring of the loans, identification of loss events and impairment triggers and the process of calculating impairment allowances for due from customers.

We involved credit risk specialists to assist us with assessment of the impairment allowances methodology, methods and results of the Group's tests of credit risk parameters (so called "back-testing") and models, their assumptions and implementation in the system in accordance with the IFRS 9 requirements.

We evaluated whether the Bank appropriately considered the impact of Covid-19 global pandemic, war in Ukraine, energy crisis, rising inflation and interest rates in its impairment allowances measurement assumptions.

We reconciled a register of due from customers with accounting records to assess completeness of the recognition of due from customers, which create the basis for the calculation of impairment allowances for expected credit losses. On a selected sample, we also reviewed the mathematical correctness of the impairment allowances calculation.

On a selected sample, we analyzed loan exposures assessed individually by the Group. For selected performing exposures, we analyzed the economic and financial situation of borrowers and fulfillment of the terms of loan agreements to evaluate appropriateness of the classification into risk categories, so-called 'staging'. In case of non-performing exposures, we assessed the reasonableness of the expected cash flows from repayments and recoverable amounts of collateral based on available financial and market data.

We performed analytical procedures on disaggregated data on the quarterly development of the impairment allowance per portfolios, products and stages related to the development of the structure and characteristics of the credit portfolio including the impairment allowances, reflecting the quality of the loan portfolio in the light of the impairment allowances for expected credit losses for loans to customers aimed at identifying portfolios of loans to customers with understated impairment provisions.

We involved specialists in the field of IT systems to assist us with the testing of effectiveness of the control mechanisms of IT systems, in which the Group calculates the credit risk parameters and the impairment allowances for expected credit losses.

We also assessed the disclosures in Note 4.1.2 (Impairment losses)and Note 11.2 (Due from customers) regarding expected credit losses for due from customers included in the consolidated financial statements in terms of their completeness and compliance with IFRS EU requirements.

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

Management is responsible for the preparation of the consolidated financial statements that give true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements including the presented information as well as whether the consolidated financial statements captures the underlying transactions and events in a manner that leads to their fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Consolidated Annual Report

Management is responsible for the information disclosed in the consolidated annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Accounting"). Our opinion on the consolidated financial statements expressed above does not apply to other information contained in the consolidated annual report.

In connection with audit of the consolidated financial statements it is our responsibility to understand the information disclosed in the consolidated annual report and to consider whether such information is not materially inconsistent with audited consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

We considered whether the Group's consolidated annual report contains information, disclosure of which is required by the Act on Accounting.

Based on procedures performed during the audit of consolidated financial statements, in our opinion:

- Information disclosed in the consolidated annual report prepared for 2022 is consistent with the consolidated financial statements for the relevant year,
- The consolidated annual report contains information based on the Act on Accounting.

Additionally, based on our understanding of the Group and its situation, obtained in the audit of the consolidated financial statements, we are required to disclose whether material misstatements were identified in the consolidated annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

Presentation of the Consolidated Financial Statements in Compliance with the Requirements of the European Single Electronic Format ("ESEF")

The management is responsible for the presentation of the consolidated financial statements for the year ended 31 December 2022 included in the Annual Financial Report that complies with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("the ESEF Regulation"). The presentation of the consolidated financial statements for the year ended 31 December 2022 in electronic XHTML format marked up using the XBRL markup language is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the compliance of the presentation of the accompanying consolidated financial statements with the requirements of the ESEF Regulation.

After management provides us with the electronic XHTML format of the accompanying consolidated financial statements marked up using the XBRL markup language, our responsibility will be to perform an engagement in accordance with the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits and Reviews of Historical Financial Information, with the objective to obtain reasonable assurance on the compliance of the consolidated financial statements with the requirements of the ESEF Regulation. Our updated auditor's report will either state that based on the procedures performed, the presentation of the consolidated financial statements complies, in all material respects, with the requirements of the ESEF Regulation, or we will describe any material non-compliance that we would identify in this respect.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

<u>Appointment of Auditor</u>

We were appointed as the statutory auditor by the General Meeting of Shareholder of the Bank on 19 April 2021. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 2 years.

<u>Consistence with Additional Report to Audit Committee</u>

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Group, which we issued on 23 February 2023.

Building a better working world

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated annual report and in the consolidated financial statements, no other services which were provided by us to the Group.

27 February 2023
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský, statutory auditor
SKAU Licence No. 893

Consolidated statement of financial position as at 31 December 2022

(In thousands of EUR)

	Note	2022	2021
Assets			
Cash and cash equivalents	7	3 060 496	2 612 787
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		60 404	30 064
Non-trading financial assets at fair value through profit or loss		3 991	7 316
Derivatives - Hedge accounting	9	352 265	55 574
Financial assets at fair value through other comprehensive income	10	1 427 578	1 671 403
of which pledged as collateral		*1 283 417*	*1 549 666*
Financial assets at amortized cost:	11		
Due from other banks		153 294	1 819 392
Due from customers		17 497 930	16 659 876
of which pledged as collateral		*77 233*	*1 649 805*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	(126 410)	3 301
Investments in joint ventures and associates	13	1 885	18 090
Property and equipment	14	121 404	122 597
Intangible assets	15	198 671	131 776
Goodwill	16	29 305	29 305
Current income tax assets	17	441	1 594
Deferred income tax assets	17	50 446	55 471
Other assets	18	35 717	23 794
Non-current assets classified as held for sale	14	5 946	515
		22 873 363	23 242 855
Liabilities			
Financial liabilities at fair value through profit or loss:			
Financial liabilities held for trading	8	61 463	30 863
Derivatives - Hedge accounting	9	316 157	31 510
Financial liabilities at amortized cost:	11		
Due to banks		1 005 068	3 314 948
Due to customers		15 407 863	13 952 765
Lease liabilities		19 322	19 133
Subordinated debt		250 368	200 150
Debt securities in issue		3 784 008	3 829 056
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	(19 536)	2 816
Current income tax liabilities	17	24 231	12 018
Provisions	19	18 888	25 061
Other liabilities	20	135 436	89 611
		21 003 268	21 507 931
Equity			
Share capital	22	430 819	430 819
Share premium		13 719	13 719
Legal reserve fund		87 493	89 778
Retained earnings		1 336 233	1 175 583
Equity reserves		1 831	25 025
		1 870 095	1 734 924
		22 873 363	23 242 855

The accompanying notes on pages 46 to 223 form an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022

(In thousands of EUR)

	Note	2022	2021
Interest income calculated using the effective interest method		431 969	319 637
Other interest income		4 645	5 166
Interest and similar expense		(100 670)	(37 345)
Net interest income	24	335 944	287 458
Fee and commission income		197 071	176 382
Fee and commission expense		(34 020)	(29 004)
Net fee and commission income	25	163 051	147 378
Net trading result	26	10 671	19 116
Other operating income	27	40 229	8 031
Other operating expenses	28	(39 354)	(25 393)
Special levy of selected financial institutions	29	-	-
Salaries and employee benefits	30	(127 453)	(126 078)
Other administrative expenses	31	(76 471)	(72 563)
Amortisation	15	(18 793)	(17 266)
Depreciation	14	(13 634)	(15 520)
Profit before provisions impairment and tax		274 190	205 163
Net modification gain/(loss)		14	(80)
Provisions	19, 32	(296)	(12)
Impairment losses	21, 33	(76 806)	(80 310)
Net gain arising from the derecognition of financial assets at amortized cost	33	13 729	8 980
		210 831	133 741
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method		2 138	10 140
Profit before tax		212 969	143 881
Income tax expense	34	(43 219)	(30 542)
Net profit before Minority Interest		169 750	113 339
Net profit attributable to Minority Interest		(228)	-
NET PROFIT FOR THE YEAR		169 522	113 339

(Table continues on the next page)

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022

(In thousands of EUR)

(continued)

	Note	2022	2021
Other comprehensive income for the year, after tax:	35, 36		
Items that shall not be reclassified to profit or loss in the future:			
Net revaluation gain from property and equipment		1 373	(22)
Reversal of deferred income tax on disposed property and equipment		-	22
Reversal of deferred income tax on FTA Reserve due to VUB Leasing merger into VUB Bank		-	(741)
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		(1 427)	37
		(54)	(704)
Items that may be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		(24 198)	(2 538)
Exchange difference on translation of foreign operations		75	79
		(24 123)	(2 459)
Other comprehensive income for the year, net of tax before Minority interest		(24 177)	(3 163)
Other comprehensive income for the year attributable to Minority Interest		(115)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		145 230	110 176

The accompanying notes on pages 46 to 223 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2022

(In thousands of EUR)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Translation of foreign operation	Total
At 1 January 2022	430 819	13 719	89 778	1 175 583	17 215	7 710	100	1 734 924
Total comprehensive income for the year, net of tax	-	-	-	169 522	1 373	(25 625)	75	145 345
Transfers	-	-	(2 285)	2 608	-	-	-	323
Losses on the sale of shares at FVOCI	-	-	-	(983)	-	983	-	-
Gain on disposal of property and equipment	-	-	-	-	-	-	-	-
Exchange difference				(107)				(107)
Transactions with owners, recorded directly in equity	-	-	-	(10 390)	-	-	-	(10 390)
Dividends to shareholders	-	-	-	*(10 534)*	-	-	-	*(10 534)*
Reversal of dividends distributed but not collected	-	-	-	*144*	-	-	-	*144*
At 31 December 2022	430 819	13 719	87 493	1 336 233	18 588	(16 932)	175	1 870 095

(Table continues on the next page)

Consolidated statement of changes in equity for the year ended 31 December 2022

(In thousands of EUR)

(continued)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Translation of foreign operation	Total
At 1 January 2021	430 819	13 719	89 350	1 145 632	17 297	10 101	21	1 706 939
Total comprehensive income for the year, net of tax	-	-	-	112 598	-	(2 501)	79	110 176
Gain on disposal of property and equipment	-	-	-	82	(82)	-	-	-
Losses on the sale of shares at FVOCI	-	-	-	(110)	-	110	-	-
Transfers	-	-	428	(428)	-	-	-	-
Exchange difference	-	-	-	27	-	-	-	27
Transactions with owners, recorded directly in equity	-	-	-	(82 218)	-	-	-	(82 218)
Dividends to shareholders	-	-	-	*(82 487)*	-	-	-	*(82 487)*
Reversal of dividends distributed but not collected	-	-	-	*269*	-	-	-	*269*
At 31 December 2021	430 819	13 719	89 778	1 175 583	17 215	7 710	100	1 734 924

The accompanying notes on pages 46 to 223 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2022

(In thousands of EUR)

	Note	2022	2021
Cash flows from operating activities:			
Profit before tax		212 969	143 881
Adjustments for:			
(Interest income)	24	(436 614)	(324 803)
Interest expense	24	100 670	37 345
Loss from sale/revaluation of financial assets at fair value through other comprehensive income		104 395	32 991
(Gain) on sale of intangible assets and property and equipment	28	(531)	(811)
(Gain) from revaluation of debt securities in issue		(247 844)	(52 996)
Amortisation	15	18 793	17 266
Depreciation	14	13 634	15 520
Impairment losses and similar charges	32, 33	129 279	145 054
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method and related items		22 511	(7 032)
Exchange difference on translation of foreign operations	35, 36	(32)	106
Interest received		425 360	348 699
(Interest paid)		(86 463)	(40 683)
Tax (paid)/received		(24 828)	1 579
(Increase)/Decrease in financial assets at fair value through profit or loss		(27 005)	48 754
(Increase)/Decrease in derivatives - hedge accounting (assets)		(296 691)	29 618
Financial assets at amortized cost:			
Decrease/(Increase) in due from other banks		1 669 679	(1 614 324)
Increase in due from customers		(955 511)	(1 568 123)
Decrease in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		129 711	16 715
(Increase)/Decrease in other assets		(11 387)	1 444
Increase/(Decrease) in financial liabilities at fair value through profit or loss		30 600	(56 514)
Increase/(Decrease) in derivatives - hedge accounting (liabilities)		284 647	(33 897)
Financial liabilities measured at amortized cost:			
(Decrease)/Increase in due to banks		(2 461 623)	2 571 282
Increase in due to customers		1 500 942	967 579
(Decrease) in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		(22 352)	(4 174)
Increase in provisions		1 153	2 136
Increase in other liabilities		45 969	7 883
Net cash from operating activities		119 431	684 495
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(983 835)	(1 047 698)
Disposal of financial assets at fair value through other comprehensive income		293 292	412 985
Repayments of financial assets at fair value through other comprehensive income		802 803	530 900
Purchase of intangible assets and property and equipment		(109 002)	(31 307)
Disposal of intangible assets and property and equipment		4 007	3 747
Investments in Monilogi, s.r.o.		(1 787)	-
Investments in VUB Generali d.s.s., a. s.		(4 519)	-
Net cash from/(used in) investing activities		959	(131 373)

(Table continues on the next page)

Consolidated statement of cash flows for the year ended 31 December 2022

(In thousands of EUR)

(continued)

	Note	2022	2021
Cash flows from financing activities:			
Proceeds from issue of debt securities		500 000	500 000
Repayments of debt securities in issue		(300 000)	(47 597)
Proceeds from loans received from other banks		350 000	251 562
Repayments of loans received from other banks		(205 294)	(129 073)
Repayments of lease liabilities		(6 853)	(4 382)
Dividends paid		(10 534)	(82 487)
Net cash from financing activities		327 319	488 023
Net change in cash and cash equivalents		447 709	1 041 145
Cash and cash equivalents at the beginning of the year	7	2 612 787	1 571 642
Cash and cash equivalents at 31 December	7	3 060 496	2 612 787

The accompanying notes on pages 46 to 223 form an integral part of these financial statements.

1. Basis of preparation

1.1. Reporting entity general information

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

At 31 December 2022, the VUB Group had a network of 170 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2021: 179). The VUB Group also has one branch in the Czech Republic (31 December 2020: 1).

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

At 31 December 2022, the members of the Management Board are Alexander Resch (Chairman), Paolo Vivona, Andrej Viceník, Peter Magala, Martin Techman, Marie Kovářová and Darina Kmeťová.

At 31 December 2022, the members of the Supervisory Board are Ignacio Jaquotot (predseda), Elena Kohútiková (podpredsedníčka), Marco Fabris, Luca Leoncini Bartoli, Christian Schaack, Róbert Szabo and Draginja Duric.

1.2. The VUB Group

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

	Share December 2022	Share December 2021	Main activity
Subsidiaries			
VÚB Leasing, a. s. ('VUB Leasing')	-	100%	Finance and operating leasing
VÚB Generali d. s. s., a. s. ('VUB Generali')	55,26%	50%	Pension fund administration
VÚB Operating Leasing, a. s.	100%	100%	Operating leasing
Joint ventures			
Monilogi, s.r.o. (Monilogi)	30%	-	Cash processing
Associates			
Slovak Banking Credit Bureau, s. r. o. ('SBCB')	33,33%	33,33%	Credit database administration

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

1.3. Basis of accounting

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

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

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

1.4. Basis of consolidation

(a) Subsidiaries

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

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

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

The excess of the cost of the acquisition over the fair value of the VUB Group’s share of the identifiable net assets acquired is recognized 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 recognized gains and losses of associates on an equity accounted basis, from the date when 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 recognized gains and losses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

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

1.5. Functional and presentation currency

The financial statements are presented in thousands of EUR ('€'), unless indicated otherwise. EUR is the functional and presentation 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 recognized prospectively.

1.6.1. Judgements

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

- Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ('SPPI') on the principal amount outstanding (note 3.4.2).
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL (note 4.1.2).
- Valuation of lease liabilities (note 11.5) and right-of-use assets (note 14).

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

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

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

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

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

1.6.2. Assumptions and estimation uncertainties

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

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

- Determination of the fair value of financial instruments with significant unobservable inputs. (note 5) Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the use of mathematical models. The inputs to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments.
- Impairment of financial instruments: determining inputs into the expected credil loss (ECL) measurement model, including incorporation of forward-looking information. (note 4.1.2)

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

- Recognition and measurement of legal claims: key assumptions about the likelihood and magnitude of an outflow of resources.
- Recognition of deferred tax assets: availability of future taxable profit against which deferred tax assets can be used.
- Impairment testing for cash generating units containing goodwill: key assumptions underlying recoverable amounts.

2. Changes in accounting policies

A number of the new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 but they do not have a material effect on the financial statements.

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

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

The following new and amended standards that are required to be applied by VUB Group do not have a significant impact on the Group's consolidated financial statements:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16),
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37),
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16),
- Reference to conceptual framework (Amendments to IFRS 3).

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

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

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17.

This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts.

The VUB Group does not issue contracts in scope of IFRS 17, therefore its application does not have an impact on the financial performance, financial position or cash flows of the VUB Group.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

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

The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

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

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

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

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

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

The VUB Group accounts for deferred tax on leases applying the ‘integrally linked’ approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the VUB Group will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2022, the taxable temporary difference in relation to the right-of-use asset is € 18 848 thousand and the deductible temporary difference in relation to the lease liability is € 19 110 thousand, resulting in a net deferred tax asset of € 262 thousand.

Under the amendments, the VUB Group will present a separate deferred tax liability of € 3 958 thousand and a deferred tax asset of € 4 013 thousand. There will be no impact on retained earnings on adoption of the amendments.

IFRS 16 Lease: Lease Liability in a Sale and Leaseback (Amendments)

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

Initially, the IFRS Interpretations Committee concluded that the right-of-use asset and lease liability are unlikely to be measured at zero. IFRS 16 requires a seller-lessee to estimate the variable lease payments it expects to make over the lease term. However, the Committee recommended that the International Accounting Standards Board consider amending IFRS 16 to address the subsequent accounting.

The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

Under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of IFRS 16. This means that it will need to identify and re-examine sale-and-leaseback transactions entered into since implementation of IFRS 16 in 2019, and potentially restate those that included variable lease payments.

The VUB Group enters into sale-and-leaseback agreements, but usually is able to measure right-of-use asset and lease liability reliably. Therefore the VUB Group expects that the standard, when initially applied, will not have a material impact on the financial statements of the VUB Group.

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

- Definition of Accounting Estimates (Amendments to IAS 8),
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1),
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures).

2.3. Changes in the Group structure

On 24 October 2022, VUB acquired 5,26% of VÚB Generali d.s.s., a.s. from Generali Česká pojišťovna a.s. (‘Generali’), whereby the Bank acquired a controlling interest in VUB Generali. The acquisition of the additional 5.26% will allow VUB to acquire full control (both strategic and operational) of the company, while allowing further integration of the ‘product factory-distribution network’ chain, allowing additional synergies with VUB and more generally with the ISP Group. For the purposes of the consolidated financial statements, we consider the date of acquisition of control in VUB Generali as of November 1, 2022, as we do not consider the gain in 7 days to be a material factor.

The accounting treatment for the acquisition of the controlling interest was as follows:

- Until the end of October 2022, VUB Generali was consolidated using the equity method, i.e., VUB recognized a 50% share of the company's profits from 1.1.2022 to 31. 10. 2022, less dividends paid. VUB has also recognized a 50% share of the revaluation of equity reserves for securities measured at fair value through other comprehensive income (‘FVOCI’) for the period. In the income statement, the equity method has been reflected in the line ‘Share of profit or loss from investments in joint ventures and associates accounted for using the equity method’.
- There was a revaluation of the 50% interest in VUB Generali, thus the value of the investment under the equity method was derecognized as at 31 October 2022 and the fair value of the share of the investment according to the valuation report was recognized. The total fair value of the company is valued at € 85.05 million. The difference from the revaluation of the 50% interest to fair value amounts is € 31.5 million before tax and is recognized within ‘Other operating income’. The deferred tax liability associated with the revaluation was not recognized, since VUB controls the company and does not plan to sell it.
- In the event of a sale of the company, the difference between the fair value and the original cost would be subject to tax payable.
- In the agreement between VUB and Generali, mechanisms and option schemes have been agreed which indicate a high probability that VUB will acquire the remaining 44.74% stake from Generali within four to seven years. For this reason, VUB has chosen the option of recognizing the fair value of the company at full 100%, i.e. including the minority interest. Put options held by non-controlling interests are recorded as a derecognition of non-controlling interest and recognition of a liability at the end of the reporting period. The liability is recognized within other liabilities at the present value of the amount payable on exercise of the option. Any difference between the amount of non-controlling interest derecognized and this liability is accounted for within equity. Subsequent changes to the present value of liability are recorded directly in equity. The entire excess of the extrapolated purchase price for 100% of the company over the book value of VUB Generali has been allocated to an identified intangible asset: the ‘Customer base’. The value of the customer base was quantified by an expert, considering the state of the customer portfolio as at 31 October 2022, assessing the most likely revenue scenario until the customer base disappears, and the cash flows in question were discounted to present value and compared against the investment. The amortization period of the customer base was set to 28 years.
- The VUB Generali profit as well as the revaluation of the equity reserve for November and December have been reflected in full in the consolidated accounts. The 44.74% share not owned by VUB has been reflected against the liability to Generali. Subsequently the other liability representing the 44.74% will continue to reflect share of profit attributable to the minority interest or if applicable revaluation to fair value.

The above accounting treatment is reflected in the following tables:

€ '000	VUB Group Consolidated FSs 31 October 2022	VUB Generali Separate FSs 31 October 2022	Consolidation Adjustments	VUB Group Consolidated FSs 1 November 2022
Assets				
Cash and cash equivalents	2 986 526	-	(4 520)	2 982 006
Financial assets at fair value through profit or loss:				
Financial assets held for trading	60 137	-	-	60 137
Non-trading financial assets at fair value through profit or loss	4 337	-	-	4 337
Derivatives – Hedge accounting	329 705	-	-	329 705
Financial assets at fair value through other comprehensive income	1 560 009	14 837	-	1 574 846
Financial assets at amortized cost:				
Due from other banks	1 836 423	944	-	1 837 367
Due from customers	17 578 811	-	-	17 578 811
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(113 451)	-	-	(113 451)
Investments in subsidiaries, joint ventures and associates	12 098	-	(11 023)	1 076
Property and equipment	111 343	299	-	111 642
Intangible assets	123 007	67	79 811	202 885
Goodwill	29 305	-	-	29 305
Current income tax assets	-	-	-	-
Deferred income tax assets	59 823	478	(16 760)	43 541
Other assets	276 851	5 990	-	282 841
Non-current assets classified as held for sale	5 946	-	-	5 946
	24 860 870	22 615	47 508	24 930 994

(Table continues on the next page)

€ '000	VUB Group Consolidated FSs 31 October 2022	VUB Generali Separate FSs 31 October 2022	Consolidation Adjustments	VUB Group Consolidated FSs 1 November 2022
Liabilities				
Financial liabilities at fair value through profit or loss:				
Financial liabilities held for trading	62 964	-	-	62 964
Derivatives – Hedge accounting	295 506	-	-	295 506
Financial liabilities measured at amortized cost:				-
Due to banks	3 576 891	5		3 576 895
Due to customers	14 757 703	210	-	14 757 913
Subordinated debt	200 964	-	-	200 964
Debt securities in issue	3 798 573	-	-	3 798 573
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(18 115)	-	-	(18 115)
Current income tax liabilities	16 188	(335)	-	15 854
Provisions	19 771		-	19 771
Other liabilities	88 212	690	38 052	126 953
	22 798 657	569	38 052	22 837 278
Equity				
Share capital	430 819	10 091	(10 091)	430 819
Share premium	13 719	-	-	13 719
Legal reserve fund	87 493	2 018	(2 018)	87 493
Retained earnings	1 418 129	7 256	(7 256)	1 418 129
Profit for the year	113 816	4 260	27 243	145 318
Equity reserves	(1 762)	(1 580)	1 580	(1 762)
	2 062 214	22 046	9 457	2 093 716
	24 860 870	22 615	47 509	24 930 994

3. Significant accounting policies

3.1. Foreign currency transactions

Transactions in foreign currencies are translated into the EUR 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 EUR 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 amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized 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 EUR 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 recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income ('OCI'):

- qualifying cash flow hedges to the extent that the hedge is effective; and
- equity instruments 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 EUR at the spot exchange rate at the reporting date. The income and expenses of foreign operations are translated to EUR at rates approximating the foreign exchange rates at the dates of the transactions.

Foreign currency differences arising on these translations are recognized 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 amortized cost in the statement of financial position (note 7).

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial **measurement**

The VUB Group initially recognises loans and advances (e.g. 'Due from other banks', 'Due from customers'), deposits (e.g. 'Due to banks', 'Due to customers'), debt securities issued and subordinated debt on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized 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'), (note 3.20)
– 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 amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (note 3.4.7).

Business model assessment

The VUB Group uses the following business models:

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

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

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

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

Assessment of whether contractual cash flows are SPPI

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

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

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

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

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

Reclassifications

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

3.4.3. Subsequent measurement

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

Any cumulative gain or loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized 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 recognized as a separate asset or liability.

The VUB Group enters into transactions whereby it transfers assets recognized 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 derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions. (note 3.8)

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

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

3.4.5. Modifications

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

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see above under Derecognition other than due to substantial modification) and a new financial asset is recognized 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 amortized 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 in ´Impairment losses´. For floating-rate as well as fixed-rate financial assets where reset to market is expected, 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. The effective interest rate is therefore altered. 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 amortized 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 hierarchy of valuation techniques is explained in note 5.

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

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

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

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

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

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized 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 comprise 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 recognized in 'Net trading result'. Interest income is recorded in 'Other interest income' and dividend income in 'Net trading result' according to the terms of the contract, or when the right to payment has been established.

3.6. Financial assets at fair value through other comprehensive income

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

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

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

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in equity. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets at amortized 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 recognized 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 recognized 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 amortized 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 recognized 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 recognized in profit or loss as 'Net trading result' when the right to the payment has been established, except when the VUB Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to any impairment assessment.

3.7. Financial assets and financial liabilities at amortized costs

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

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

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

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

Due from other banks

Due from other banks include receivables from current accounts in other than central banks, term deposits, loans provided and securities purchased from commercial banks. Balances are presented at amortized 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 amortized 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 amortized cost with the remaining part being written-off against profit or loss reported under 'Net loss arising from the derecognition of financial assets at amortized cost'. Any recoveries of written off loans are credited to the same line in the statement of profit or loss on receipt.

3.7.2. Financial liabilities at amortized 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 amortized cost using the effective interest rate method.

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

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

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

3.8. Repurchase and reverse repurchase agreements

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

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

3.9. Derivatives - Hedge accounting

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

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

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

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

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

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized in other comprehensive income as 'Cash flow hedges'. The ineffective portion of the gain or loss on the hedging instrument is recognized 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 and the hedged cash flows are still probable, any cumulative gain or loss that has been recognized 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 recognized. 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 recognized 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 recognized 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 amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate ('EIR'). If the hedged item is derecognized, the unamortised fair value adjustment is recognized immediately in profit or loss when the item is derecognized.

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments

If a hedging relationship is directly affected by IBOR reform, then certain exceptions can be applied (referred to as 'the Phase 1 amendments') to the general hedge accounting policy.

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

The Phase 2 amendments

Policies specific to non-contractually specified risk portions

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

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

Policies specific to cash flow hedges

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

3.10. Investments in joint ventures and associates

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

Free Cash Flow to Equity model

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

3.11. Transactions under common control

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

The VUB Group follows the accounting treatment of such transactions in continuity of values (pooling of interests) that consists of maintaining the book values of the acquiree in the financial statements of the acquirer. Assets and liabilities of the acquired company are recognized 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 recognized 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 recognized in the income statement. If the new fair value is lower than the carrying amount, the decrease is recognized in profit or loss. The ISP Group chose to apply the elimination approach, which means that the accumulated depreciation is eliminated against the gross carrying amount of the asset at revaluation date. The assets subject to the revaluation model are depreciated based on their revalued value.

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

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

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

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

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Property and equipment contains also right-of-use assets. (note 3.16).

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7 - 10

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

3.14. Goodwill

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

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

3.15. Non-current assets held for sale

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

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

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

The VUB Group is a party to lease contracts for:

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

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

Leases in which the VUB Group is a lessee

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

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

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

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

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

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

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

	Years
Buildings	2 - 6
Other tangibles	2 - 5

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

The VUB Group recognises 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 recognized in the statement of profit or loss in the line 'Interest and similar expenses'.

The lease term determined by the VUB Group comprises:

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

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

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

Leases in which the VUB Group is a lessor

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

Finance leases

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

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

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

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

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

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

Subsequent measurement:

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

The lease payments are applied against the gross investment in the lease and reduce both the principal and the unearned finance income.

The detailed description of impairment of the net investment in the lease is described in the note 4.1.2.

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

Operating leases

Recognition and measurement:

Lease payments from operating leases are recognized as income on a straight-line basis in profit or loss in 'Other operating income'.

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

Lease modifications:

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

3.17. Provisions

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

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

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

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

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

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

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

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

3.18. Provisions for employee benefits

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

3.19. Equity reserves

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

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

3.20. Net interest income

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest expense from TLTRO, presented under line "Interest Income".

3.21. Net fee and commission income

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

Fee and commission income and expense such as up-front and commitment fees that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 3.20).

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 recognized when the corresponding service is provided. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

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

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

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

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

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

Revenue recognition under IFRS 15:

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

3.22. Net trading result

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

3.23. Dividend income

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

3.24. Current and deferred income tax

Income tax is calculated in accordance with the regulations of the Slovak Republic and other jurisdictions, in which the VUB Group operates. Deferred income tax assets and liabilities are recognized, using the balance sheet method, for all temporary differences arising between the carrying amounts of assets and liabilities and their tax bases. Expected tax rates, applicable for the periods when assets and liabilities are realised, are used to determine deferred tax.

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

4. Financial and operational risk management

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

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

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

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

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

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:

– Authorised 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 VÚB Operating Leasing, a. s.) are considered to be individually impaired. For collective impairment (other than individually significant client), the VUB Group uses historical evidence of impairment and forward-looking information on a portfolio basis, mainly based on the payment discipline of the clients.

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

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

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

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

Inputs, assumptions and techniques used for estimating impairment

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

The VUB Group identified the following portfolios: Retail, Corporate - Small and Medium Enterprises ('SME'), SME

Retail, Large corporate above € 500 million turnover, Large corporate up to € 500 million turnover, Non-Banking Financial Institutions, Banks, Municipalities, Sovereigns and Public Sector Entities, Slotting models (for Special Purpose Vehicles ('SPV') and Real Estate Development ('RED')) and Group of flat owners.

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

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

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

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

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

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

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

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

Days past due ('DPD') methodology

The VUB Group follows Guidelines on the application of the definition of default EBA/GL/2016/07 according to Article 178 of Regulation (EU) No. 575/2013. The default methodology counts days past due on obligor level. For the purpose of assessing the materiality of past-due credit obligations, the bank takes into account any amount of principal, interest or fee that has not been paid at the date it was due. In case of modifications of the schedule of credit obligations, the counting of days past due is based on the modified schedule of payments.

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

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

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

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

The absolute threshold is exceeded when:

overdue exposure > absolute threshold

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

The relative threshold is exceeded when:

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

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

Staging methodology

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

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

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

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

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

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

In general following rules are applied:

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

As at 31 December 2022 and 31 December 2021 the Bank did not classify any financial assets as Purchased or Originated Credit Impaired ('POCI').

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

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

Stage 2 criterion: Forborne performing exposures

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

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

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

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

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

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

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

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

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

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

Stage 3 criterion

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

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

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

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

Staging criteria for debt securities

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

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

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

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

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

Staging criteria for Low Default Portfolio and Intragroup exposures

Low Default Portfolio consists of exposures with the following parties:

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

Intragroup exposures are exposures with the following parties:

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

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

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

Expected credit loss calculation

Stage 1

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

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

where:

– PD12m = 1 year prediction PD estimated at time 0 (time 0 is the reporting date);
– LGD12m = percentage of loss in case of default, estimated at time 0;
– EAD12m = exposure at default, estimated at the beginning of the observation period.

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

$$PD_n = 1 - {}^{12}/_n \sqrt{1 - PD_{1year}}$$

where n is the number of months to maturity.

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

Stage 2

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

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

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

For exposures with remaining maturity greater than one year:

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

where:

– PDt 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);
– LGDt is percentage of loss in case of default, estimated at time t;
– EADt is exposure at default, estimated at the beginning of the year t;
– EIR is Effective Interest Rate;
– M is residual maturity in years.

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

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

where:

- EAD1, EAD2, EAD3 are exposure at default at the beginning of each residual year;
- 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:

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

where:

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

Incorporation of forward-looking information

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

The VUB Group uses internally developed satellite models for the prediction of default rate for various segments. These models are based on relevant macroeconomic variables. The output of these models contains the model for the base scenario as well as the other scenarios, which are used to calculate the add-on. This approach is used for most of the PD models.

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

The satellite models for prediction of default rates are also used for other purpose such as stress testing. The base scenario represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the VUB Group carries out recalibration of the satellite models.
The VUB Group identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The predicted values of macro variables used in the models are delivered by Parent Company.

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

2022	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	72 612	(10)	72 602	-	-	-
Due from customers:						
Public administration	182 440	(1 310)	181 130	-	-	-
Corporate	5 669 272	(21 978)	5 647 294	-	-	-
Retail	10 101 000	(25 686)	10 075 314	-	-	-
	16 025 324	(48 984)	15 976 340	-	-	-
Financial assets at FVOCI - debt securities	1 427 714	(277)	1 427 437	-	-	-
Financial commitments and contingencies	5 641 325	(5 149)	5 636 176	-	-	-

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

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

2022	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	80 511	(88)	80 423	-	-	-
Due from customers:						
Public administration	7 976	(325)	7 651	-	-	-
Corporate	879 291	(37 340)	841 951	-	-	-
Retail	702 851	(65 106)	637 745	-	-	-
	1 670 629	(102 859)	1 567 770	-	-	-
Financial commitments and contingencies	155 049	(3 181)	151 868	-	-	-

2021	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairmen t losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	701	(19)	682	-	-	-
Due from customers:						
Public administration	7 426	(288)	7 138	-	-	-
Corporate	316 789	(12 799)	303 990	-	-	-
Retail	585 087	(35 683)	549 404	-	-	-
	910 003	(48 789)	861 214	-	-	-
Financial commitments and contingencies	186 417	(6 690)	179 727	-	-	-

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

2022	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:	-	-	-	536	(267)	269
Due from other banks						
Due from customers:						
Public administration	15	(4)	11	-	-	-
Corporate	5 347	(3 325)	2 022	71 080	(43 865)	27 215
Retail	239 935	(164 566)	75 369	6 538	(4 310)	2 228
	245 297	(167 895)	77 402	78 154	(48 442)	29 712
Financial commitments and contingencies	6 707	(1 325)	5 382	14 143	(4 752)	9 391

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

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

2022 € '000	1 January*	Origi-nation	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	Other	31 December
Stage 1										
Financial assets at FVOCI	329	84	(220)	108	-	-	(24)	-	-	277
Financial assets at AC:										
Due from other banks	90	23	(11)	-	(70)	-	(22)	-	-	10
Due from customers	73 056	42 923	(77 338)	45 808	(30 191)	(87)	(5 197)	-	-	48 974
	73 146	42 946	(77 349)	45 808	(30 261)	(87)	(5 219)	-	-	48 984
Financial commitments and contingencies	5 057	14 031	(12 028)	6 563	(6 200)	(7)	(2 267)	-	-	5 149
Stage 2										
Financial assets at AC:										
Due from other banks	19	-	20	-	70	(21)	-	-	-	88
Due from customers	45 174	-	98 629	(43 298)	35 178	(26 316)	(6 596)	-	-	102 771
	45 193	-	98 649	(43 298)	35 248	(26 337)	(6 596)	-	-	102 859
Financial commitments and contingencies	6 683	-	4 411	(6 444)	6 236	(4 023)	(3 682)	-	-	3 181
Stage 3										
Financial assets at AC:										
Due from other banks	-	-	246	-	-	21	-	-	-	267
Due from customers	228 356	-	26 933	(2 510)	(4 987)	26 403	(6 401)	(51 672)	(52)	216 070
	228 356	-	27 179	(2 510)	(4 987)	26 424	(6 401)	(51 672)	(52)	216 337
Financial commitments and contingencies	8 707	-	(2 677)	(119)	(36)	4 030	(3 828)	-	-	6 077

*The opening balances include previous year closing balances of VUB Leasing merged into VUB Bank at beginning of 2023

(Table continues on the next page)

2022 € '000	1 January	Origi-nation	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	Other	31 Decem-ber
Total										
Financial assets at FVOCI	329	84	(112)	-	-	-	(24)	-	-	277
Financial assets at AC:										
Due from other banks	109	23	255	-	-	-	(22)	-	-	365
Due from customers	346 586	42 923	48 224	-	-	-	(18 194)	(51 672)	(52)	367 815
	346 695	42 946	48 479	-	-	-	(18 216)	(51 672)	(52)	368 180
Financial commitments and contingencies	20 447	14 031	(10 294)	-	-	-	(9 777)	-	-	14 407

2021 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	306	151	(100)	-	-	-	(28)	-	329
Financial assets at AC:									
Due from other banks	706	19	(773)	446	(150)	-	(158)	-	90
Due from customers	40 523	37 724	(46 966)	43 957	(24 890)	(119)	(7 046)	-	43 183
	41 229	37 743	(47 739)	44 403	(25 040)	(119)	(7 204)	-	43 273
Financial commitments and contingencies	7 001	10 189	(12 843)	6 838	(3 493)	(14)	(2 830)	-	4 848
Stage 2									
Financial assets at AC:									
Due from other banks	-	-	315	(446)	150	-	-	-	19
Due from customers	52 768	-	36 899	(40 776)	32 038	(25 053)	(7 106)	-	48 770
	52 768	-	37 214	(41 222)	32 188	(25 053)	(7 106)	-	48 789
Financial commitments and contingencies	2 163	-	9 757	(6 295)	3 622	(2 053)	(504)	-	6 690
Stage 3									
Financial assets at AC:									
Due from customers	237 928	-	55 735	(3 181)	(7 148)	25 172	(221)	(53 661)	254 624
Financial commitments and contingencies	4 769	-	4 250	(543)	(129)	2 067	(1 506)	-	8 908

(Table continues on the next page)

2021 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	306	151	(100)	-	-	-	(28)	-	329
Financial assets at AC:									
Due from other banks	706	19	(458)	-	-	-	(158)	-	109
Due from customers	331 219	37 724	45 668	-	-	-	(14 373)	(53 661)	346 577
	331 925	37 743	45 210	-	-	-	(14 531)	(53 661)	346 686
Financial commitments and contingencies	13 933	10 189	1 164	-	-	-	(4 840)	-	20 446

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

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

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

2022 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1 670 857	649 792	119 913	(126 024)	-	(596 831)	(290 270)	1 427 437
Financial assets at AC:								
Due from other banks	2 191 690	10 123 874	-	(80 691)	-	(12 162 261)	-	72 612
Due from customers	15 936 220	7 240 963	1 540 096	(2 628 607)	(10 862)	(6 125 098)	-	15 952 712
	18 127 910	17 364 837	1 540 096	(2 709 298)	(10 862)	(18 287 359)	-	16 025 324
Financial commitments and contingencies	5 432 799	4 843 518	525 496	(571 295)	(4 362)	(4 584 831)	-	5 641 325
Stage 2								
Financial assets at FVOCI	-	-	(119 913)	126 024	-	(6 111)	-	-
Financial assets at AC:								
Due from other banks	701	-	-	80 691	(707)	(174)	-	80 511
Due from customers	909 303	2 667	(1 530 655)	2 646 234	(112 013)	(325 418)	-	1 590 118
	910 004	2 667	(1 530 655)	2 726 925	(112 720)	(325 592)	-	1 670 629
Financial commitments and contingencies	186 417	102 493	(522 553)	572 028	(12 486)	(170 850)	-	155 049
Stage 3								
Financial assets at AC:								
Due from other banks	-	-	-	-	707	(707)	-	-
Due from customers	369 164	-	(9 441)	(17 627)	122 875	(86 013)	(56 054)	322 915
Financial commitments and contingencies	23 521	11	(2 943)	(733)	16 848	(15 843)	-	20 850

(Table continues on the next page)

2022 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1 670 857	649 792	-	-	-	(602 942)	(290 270)	1 427 437
Financial assets at AC:								
Due from other banks	2 192 391	10 123 874	-	-	-	(12 163 142)	-	153 123
Due from customers	17 214 687	7 243 641	-	-	-	(6 536 529)	(56 054)	17 865 745
	19 407 078	17 367 515	-	-	-	(18 699 671)	(56 054)	18 018 868
Financial commitments and contingencies	5 642 737	4 946 011	-	-	-	(4 771 524)	-	5 817 224

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

2021 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1 610 709	782 032	-	-	-	(295 743)	(433 184)	1 663 814
Financial assets at AC:								
Due from other banks	206 126	5 455 215	84 955	(91 941)	-	(3 835 555)	-	1 818 800
Due from customers	13 943 909	7 731 569	1 093 513	(1 441 000)	(19 967)	(5 573 608)	-	15 734 416
	14 150 035	13 186 784	1 178 468	(1 532 941)	(19 967)	(9 409 163)	-	17 553 216
Financial commitments and contingencies	4 420 551	6 667 706	399 634	(513 277)	(20 365)	(5 734 629)	-	5 219 620
Stage 2								
Financial assets at AC:								
Due from other banks	-	-	(84 955)	91 941	-	(6 285)	-	701
Due from customers	1 216 910	-	(1 074 916)	1 469 010	(131 636)	(570 066)	-	909 302
	1 216 910	-	(1 159 871)	1 560 951	(131 636)	(576 351)	-	910 003
Financial commitments and contingencies	94 242	-	(374 942)	514 156	(19 632)	(27 407)	-	186 417
Stage 3								
Financial assets at AC:								
Due from customers	410 256	-	(18 597)	(28 010)	151 603	(87 773)	(64 744)	362 735
Financial commitments and contingencies	17 839	-	(24 692)	(879)	39 997	(8 744)	-	23 521

(Table continues on the next page)

2021 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1 610 709	782 032	-	-	-	(295 743)	(433 184)	1 663 814
Financial assets at AC:								
Due from other banks	206 126	5 455 215	-	-	-	(3 841 840)	-	1 819 501
Due from customers	15 571 075	7 731 569	-	-	-	(6 231 447)	(64 744)	17 006 453
	15 777 201	13 186 784	-	-	-	(10 073 287)	(64 744)	18 825 954
Financial commitments and contingencies	4 532 632	6 667 706	-	-	-	(5 770 780)	-	5 429 558

4.1.3. Non-performing loan classification

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

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

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

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

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

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

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

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

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

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

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

2022 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	153 123	(98)	153 025
	Past due	536	(267)	269
		153 659	(365)	153 294
Due from customers:				
Public administration				
	Performing	190 416	(1 635)	188 781
	Doubtful	15	(4)	11
		190 431	(1 639)	188 792
Corporate				
	Performing	6 548 563	(59 318)	6 489 245
	Past due	1 502	(283)	1 219
	Unlikely to pay	38 792	(14 260)	24 532
	Doubtful	36 133	(32 647)	3 486
		6 624 990	(106 508)	6 518 482
Retail				
	Performing	10 803 851	(90 792)	10 713 059
	Past due	40 487	(22 641)	17 846
	Unlikely to pay	38 233	(22 864)	15 369
	Doubtful	167 753	(123 371)	44 382
		11 050 324	(259 668)	10 790 656
		17 865 745	(367 815)	17 497 930
		18 019 404	(368 180)	17 651 224
Financial assets at FVOCI – debt securities				
	Performing	1 427 714	(277)	1 427 437
Financial commitments and contingencies				
	Performing	5 796 374	(8 330)	5 788 044
	Past due	2 693	(666)	2 027
	Unlikely to pay	14 402	(4 521)	9 881
	Doubtful	3 755	(890)	2 865
		5 817 224	(14 407)	5 802 817

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

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

2022 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	153 123	(98)	153 025
Over 181 days	536	-	-
	153 659	(365)	153 294
Due from customers:			
Public administration			
No delinquency	189 725	(1 637)	188 088
1 – 30 days	705	(2)	703
31 – 60 days	1	-	1
	190 431	(1 639)	188 792
Corporate			
No delinquency	6 551 935	(71 097)	6 480 838
1 – 30 days	28 244	(278)	27 966
31 – 60 days	2 439	(298)	2 141
61 – 90 days	4 441	(1 875)	2 566
91 – 180 days	4 099	(4 024)	75
Over 181 days	33 832	(28 936)	4 896
	6 624 990	(106 508)	6 518 482
Retail			
No delinquency	10 774 676	(99 708)	10 674 968
1 – 30 days	71 982	(13 713)	58 269
31 – 60 days	14 588	(4 086)	10 502
61 – 90 days	10 862	(3 689)	7 173
91 – 180 days	22 535	(15 526)	7 009
Over 181 days	155 681	(122 946)	32 735
	11 050 324	(259 668)	10 790 656
	17 865 745	(367 815)	17 497 930
	18 019 404	(368 180)	17 651 224
Financial assets at FVOCI – debt securities			
No delinquency	1 427 713	(276)	1 427 437
Financial commitments and contingencies			
No delinquency	5 817 224	(14 407)	5 802 817

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

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

2022		Stage 1			Stage 2			Stage 3	
€ '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	72 612	(10)	72 602	80 511	(88)	80 423	536	(267)	269
Due from customers:									
Public administration									
State administration	79 706	(647)	79 059	-	-	-	-	-	-
Municipalities	102 459	(662)	101 797	7 912	(325)	7 587	15	(4)	11
Municipalities - Leasing	274	(1)	273	65	-	65	-	-	-
	182 439	(1 310)	181 129	7 977	(325)	7 652	15	(4)	11
Corporate									
Large Corporates	2 183 197	(1 527)	2 181 670	502 801	(22 314)	480 487	237	(173)	64
Large Corporates - debt securities	103 145	(53)	103 092	43 887	(866)	43 021	-	-	-
Specialized Lending	883 705	(17 281)	866 424	40 483	(6 646)	33 837	4 886	(3 936)	950
SME	1 493 918	(2 644)	1 491 274	269 144	(7 069)	262 075	59 041	(34 355)	24 686
Other Non-banking Financial Institutions	450 371	(138)	450 233	2	-	2	-	-	-
Other Non-banking Financial Institutions - debt securities	261 018	(80)	260 938	-	-	-	-	-	-
Public Sector Entities	2 943	(1)	2 942	417	-	417	-	-	-
Leasing	132 117	(191)	131 926	22 558	(444)	22 114	9 896	(7 598)	2 298
Factoring	158 857	(65)	158 792	-	-	-	2 367	(1 127)	1 240
	5 669 271	(21 980)	5 647 291	879 292	(37 339)	841 953	76 427	(47 189)	29 238

(Table continues on the next page)

2022		Stage 1			Stage 2			Stage 3	
€ '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	359 623	(9 193)	350 430	147 423	(10 431)	136 992	31 204	(22 636)	8 568
Small Business – Leasing	27 755	(184)	27 571	10 031	(397)	9 634	4 956	(3 327)	1 629
Consumer Loans	976 846	(11 027)	965 819	195 344	(26 597)	168 747	123 451	(102 371)	21 080
Mortgages	8 572 225	(4 706)	8 567 519	323 500	(26 408)	297 092	70 154	(24 706)	45 448
Credit Cards	77 210	(165)	77 045	9 561	(845)	8 716	10 408	(9 909)	499
Overdrafts	44 136	(172)	43 964	16 274	(422)	15 852	6 163	(5 802)	361
Leasing	3 781	(7)	3 774	718	(6)	712	135	(125)	10
Flat Owners Associations	39 426	(232)	39 194	-	-	-	-	-	-
	10 101 002	(25 686)	10 075 316	702 851	(65 106)	637 745	246 471	(168 876)	77 595
	15 952 712	(48 976)	15 903 736	1 590 120	(102 770)	1 487 350	322 913	(216 069)	106 844
	16 025 324	(48 986)	15 976 338	1 670 631	(102 858)	1 567 773	323 449	(216 336)	107 113
Financial assets at FVOCI – debt securities	1 427 713	(276)	1 427 437	-	-	-	-	-	-
Financial commitments and contingencies	5 641 325	(5 149)	5 636 176	155 049	(3 181)	151 868	20 850	(6 077)	14 773

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

(Table continues on the next page)

2021		Stage 1			Stage 2			Stage 3	
€'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	353 757	(4 455)	349 302	111 033	(7 444)	103 589	23 642	(15 935)	7 707
Small Business-Leasing	49 217	(949)	48 268	2 597	(164)	2 433	10 767	(8 050)	2 717
Consumer Loans	1 038 101	(6 329)	1 031 772	181 837	(18 749)	163 088	146 240	(118 947)	27 293
Mortgages	8 284 451	(707)	8 283 744	252 409	(6 080)	246 329	77 054	(40 429)	36 625
Credit Cards	67 796	(156)	67 640	9 345	(775)	8 570	15 478	(14 238)	1 240
Overdrafts	39 866	(312)	39 554	20 379	(847)	19 532	6 789	(5 920)	869
Leasing	4 599	(28)	4 571	60	(1)	59	19	(7)	12
Flat Owners Associations	38 474	(321)	38 153	-	-	-	-	-	-
	9 876 261	(13 257)	9 863 004	577 660	(34 060)	543 600	279 989	(203 526)	76 463
	15 743 381	(45 420)	15 697 961	900 336	(46 535)	853 801	362 736	(254 622)	108 114
	17 562 181	(45 510)	17 516 671	901 037	(46 554)	854 483	362 736	(254 622)	108 114
Financial assets at FVOCI - debt securities	1 664 143	(329)	1 663 814	-	-	-	-	-	-
Financial commitments and contingencies	5 219 620	(4 848)	5 214 772	186 417	(6 690)	179 727	23 521	(8 908)	14 613

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

2022			Stage 1			Stage 2			Stage 3
€ '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	72 612	(10)	72 602	80 511	(88)	80 423	-	-	-
Over 181 days	-	-	-	-	-	-	536	(267)	269
	72 612	(10)	72 602	80 511	(88)	80 423	536	(267)	269
Due from customers:									
Public administration									
No delinquency	181 771	(1 310)	180 461	7 939	(323)	7 616	15	(4)	11
1 - 30 days	668	-	668	37	(2)	35	-	-	-
31 - 60 days	-	-	-	1	-	1	-	-	-
	182 439	(1 310)	181 129	7 977	(325)	7 652	15	(4)	11
Corporate									
No delinquency	5 645 383	(21 906)	5 623 477	872 425	(37 039)	835 386	34 127	(12 152)	21 975
1 - 30 days	22 703	(44)	22 659	5 025	(213)	4 812	516	(21)	495
31 - 60 days	383	(1)	382	1 510	(76)	1 434	546	(221)	325
61 - 90 days	5	-	5	332	(11)	321	4 104	(1 864)	2 240
91 - 180 days	-	-	-	-	-	-	4 099	(4 024)	75
Over 181 days	797	(29)	768	-	-	-	33 035	(28 907)	4 128
	5 669 271	(21 980)	5 647 291	879 292	(37 339)	841 953	76 427	(47 189)	29 238

(Table continues on the next page)

2022		Stage 1			Stage 2			Stage 3	
€ '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Impairment losses
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	10 077 875	(24 686)	10 053 189	648 904	(52 819)	596 085	47 897	(22 203)	25 694
1 - 30 days	23 127	(1 000)	22 127	36 364	(7 635)	28 729	12 491	(5 078)	7 413
31 - 60 days	-	-	-	10 190	(2 414)	7 776	4 398	(1 672)	2 726
61 - 90 days	-	-	-	7 393	(2 238)	5 155	3 469	(1 451)	2 018
91 - 180 days	-	-	-	-	-	-	22 535	(15 526)	7 009
Over 181 days	-	-	-	-	-	-	155 681	(122 946)	32 735
	10 101 002	(25 686)	10 075 316	702 851	(65 106)	637 745	246 471	(168 876)	77 595
	15 952 712	(48 976)	15 903 736	1 590 120	(102 770)	1 487 350	322 913	(216 069)	106 844
	16 025 324	(48 986)	15 976 338	1 670 631	(102 858)	1 567 773	323 449	(216 336)	107 113
Financial assets at FVOCI - debt securities									
No delinquency	15 238	-	15 238	-	-	-	-	-	-
Financial commitments and contingencies									
No delinquency	5 641 325	(5 149)	5 636 176	155 049	(3 181)	151 868	-	-	-

2021	Stage 1			Stage 2			Stage 3		
€'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	1 818 800	(90)	1 818 710	701	(19)	682	-	-	-
Due from customers:									
Public administration									
No delinquency	198 060	(1 596)	196 464	7 343	(288)	7 055	-	-	-
1 - 30 days	500	(2)	498	-	-	-	-	-	-
31 - 60 days	-	-	-	95	-	95	-	-	-
	198 560	(1 598)	196 962	7 438	(288)	7 150	-	-	-
Corporate									
No delinquency	5 655 094	(30 522)	5 624 572	309 663	(11 928)	297 735	39 062	(16 304)	22 758
1 - 30 days	12 794	(38)	12 756	3 809	(137)	3 672	191	(35)	156
31 - 60 days	72	(1)	71	1 690	(101)	1 589	2 832	(1 857)	975
61 - 90 days	-	-	-	76	(21)	55	1 814	(1 148)	666
91 - 180 days	-	-	-	-	-	-	3 168	(2 461)	707
Over 181 days	600	(4)	596	-	-	-	35 680	(29 291)	6 389
	5 668 560	(30 565)	5 637 995	315 238	(12 187)	303 051	82 747	(51 096)	31 651

(Table continues on the next page)

2021		Stage 1			Stage 2			Stage 3	
€'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	9 861 646	(12 943)	9 848 703	526 640	(26 566)	500 074	61 311	(33 085)	28 226
1 - 30 days	14 615	(314)	14 301	36 442	(4 893)	31 549	11 835	(5 015)	6 820
31 - 60 days	-	-	-	9 300	(1 581)	7 719	6 935	(4 540)	2 395
61 - 90 days	-	-	-	5 278	(1 020)	4 258	2 609	(1 164)	1 445
91 - 180 days	-	-	-	-	-	-	17 578	(12 987)	4 591
Over 181 days	-	-	-	-	-	-	179 721	(146 735)	32 986
	9 876 261	(13 257)	9 863 004	577 660	(34 060)	543 600	279 989	(203 526)	76 463
	15 743 381	(45 420)	15 697 961	900 336	(46 535)	853 801	362 736	(254 622)	108 114
	17 562 181	(45 510)	17 516 671	901 037	(46 554)	854 483	362 736	(254 622)	108 114
Financial assets at FVOCI - debt securities									
No delinquency	1 664 143	(329)	1 663 814	-	-	-	-	-	-
Financial commitments and contingencies									
No delinquency	5 219 620	(4 848)	5 214 772	186 417	(6 690)	179 727	23 521	(8 908)	14 613

4.1.4. Loans with renegotiated terms and forbearance policy

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

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

The VUB Group follows rules in ECB Guidance to VUB Groups on non-performing loans issued in March 2017.

Forborne exposures are those falling into the "Non-performing exposures with forbearance measures" and "Performing Forborne exposures" categories.

Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Forbearance measures entail:

- favourable contractual modifications granted to the debtor solely in consideration of its financial difficulties (**modification**);
- the granting, in favour of a debtor in financial difficulties, of a new loan to allow the fulfilment of the pre-existing obligation (**refinancing**);
- contractual modifications which may be requested by a debtor within the scope of a contract already subscribed and granted by the VUB Group in the knowledge that the debtor is in financial difficulties (so-called "**embedded forbearance clauses**").

Therefore, the definition of forborne exposure excludes the renegotiations made for commercial reasons/practices. The qualification of "Forborne Exposure" refers to the individual transactions subject to renegotiation and/or refinancing and should not be extended to the entire counterparty. The financial difficulty, however, shall be assessed at a debtor level.

During approval process it should be consider if a client in financial distress if:

- Light Blue or Red EWS synthetic indicator
- presence of 30 days past due (or greater) on the credit line (without considering compensation or materiality threshold) in the last 3 months and at least one of the following conditions is met:
- rating worsened in the last 3 months to a "high-risk" class;
- if rating and EWS are unavailable, the presence of at least one facility classified as Stage 2 according to IFRS9 standard should be checked instead.

The above list of presumptions is not exhaustive, and they are "relative" in their nature: contrary evidence is therefore admitted. As a consequence, it is allowed not to flag as forborne an exposure submitted to a modification/refinancing referred to a borrower who fulfils at least one of the above-mentioned conditions; in that case, however, it shall be mandatory to justify such a decision within the proposal/decision-making credit process.

Absence of financial distress requires a case by case assessment to analyze the borrower risk profile in order to establish whether the measure should be considered forborne.

The financial distress is always assumed if the counterparty is classified as non-performing (absolute presumption).

The aim of forborne exposures is to prevent potential financial difficulties of the debtor or to allow the return of the exposure to a situation of sustainable repayment. In case of performing borrowers, such a measure should not be used to delay the reclassification to non-performing statuses of a borrower whose financial conditions already justify a downgrade of its risk classification.

The extension of Forbearance Measures does not automatically lead to the classification of the forborne exposures as Non-Performing. Instead, a net present value (NPV) test is performed by Finevare to identify whether a forbearance measure leads to a diminished financial obligation according to:

$$DO = \frac{NPV_0 - NPV_1}{NPV_0}$$

where:

- DO is diminished financial obligation;
- NPV0 is net present value of cash flows (including unpaid interest and fees) expected under contractual obligations before the changes in terms and conditions of the contract discounted using the customer's original effective interest rate;
- NPV1 is net present value of the cash flows expected based on the new arrangement discounted using the customer's original effective interest rate.

Then, if the diminished financial obligation is higher than the threshold of 1%, the exposure is classified as Non-performing, otherwise it is Performing.

In order to identify forborne exposures, the European regulation envisages a distinction between absolute presumptions and relative presumptions (rebuttable). Absolute presumptions refer to circumstances which always fall within the concept of forborne, and don't admit contrary evidence. Relative presumptions refer to circumstances that fall within the concept of forborne until proven otherwise. Exclusively on the basis of specific analyses the VUB Group can prove that a certain circumstance does not give rise to a forbearance measure.

Listed below are some examples of the most common forms of contractual modifications which may be qualified as forbearance measures, when referred to counterparties in "financial difficulties" (the list is not exhaustive):

- Short term credit facilities subject to debt consolidation/debt rescheduling plan;
- Medium/long-term loans subject to:
  - restructuring of the amortization plan with reductions or temporary suspensions of the instalments;
  - extension of the maturity;
  - extension of the pre-amortization period;
  - conversion of the repayment terms from instalments into bullet repayment at maturity
  - consolidation.
- Contractual modification/renegotiation resulting from the breach of financial covenants (waiver, amendment, cancellation) refinancing;
- Restructuring of performing exposures, or past due exposures not yet classified as non-performing, involving a pool of VUB Groups
- Contractual modification of the economic conditions i.e. granting a borrower a new, more favorable interest rate ("off-market conditions");
- Refinancing of exposure, even short-term, with new financing that allow the debtor to postpone repayment to the VUB Group;
- Conversion of Debt to Equity;
- In case of the Sale and Repurchase Agreements (REPOs), the capitalization of outflows when mark to market is negative.

Furthermore, according to the European regulation, the following cases have to be recognized as forborne exposures (they therefore represent "absolute" presumptions):

- Contractual modifications that imply partial or total write-off of exposure;
- The exercise of clauses which, when enforced at the discretion of the debtor, enable him to change the terms of the contract ("embedded forbearance clauses");
- Providing new financing to the debtor simultaneously (or almost) to the payment of principal and/or interest on another exposure;

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

2022	Performing forborne			Non-performing forborne		
€ '000	Gros amount	Impair-ment	Net amount	Gros amount	Impair-ment	Net amount
Financial assets at AC:						
Due from other banks	80 511	(88)	80 423	-	-	-
Corporate	68 916	(4 480)	64 436	39 392	(28 177)	11 215
Retail	96 672	(8 548)	88 124	30 871	(22 205)	8 666
	246 099	(13 116)	232 983	70 263	(50 382)	19 881
Financial commitments and contingencies	1 690	1	1 691	3 928	1 140	5 068

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

4.1.5. Write-off Policy

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

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

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

The amount of loans written off during the year that are still subject to enforcement activity is € 4 015 thousand (31 December 2021: € 35 247 thousand).

4.1.6. Collateral Policy

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

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

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

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

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

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

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

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

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

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

		2 022		2 021
€ '000	Clients	Banks	Klienti	Banky
Property	10 128 795	-	9 741 266	-
of which covering mortgages:	9 026 361	-	8 687 728	-
LTV* lower than 60%	3 465 997	-	2 593 810	-
LTV higher than 60% and lower than 80%	4 279 547	-	4 671 711	-
LTV higher than 80% and lower than 100%	1 276 087	-	1 417 289	-
LTV higher than 100%	4 730	-	4 918	-
Debt securities	34 149	15 180	32 913	211 260
Other	580 950	78 043	1 067 671	78 198
	10 743 894	93 223	10 841 850	289 458

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

		2 022		2 021
€ '000	Clients	Banks	Clients	Banks
Property	117 925	-	137 936	-
of which covering mortgages:	94 779	-	105 640	-
LTV* lower than 60%	56 520	-	50 059	-
LTV higher than 60% and lower than 80%	33 269	-	46 318	-
LTV higher than 80% and lower than 100%	4 228	-	7 972	-
LTV higher than 100%	762	-	1 291	-
Other	9 885	5 096	23 586	-
	127 810	5 096	161 522	-

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

4.1.7. Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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

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

2022					Related amounts not offset in SOFP		
€ '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	7	373 437	-	373 437	(373 437)	-	-
Derivative financial instruments	8, 9	405 067	-	405 067	-	(2 360)	402 707

2022					Related amounts not offset in SOFP		
€ '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial liabilities							
Derivative financial instruments	8, 9	360 848	-	360 848	-	(10 327)	350 521

2021					Related amounts not offset in SOFP		
€ '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	7	213 304	-	213 304	(213 304)	-	-
Derivative financial instruments	8, 9	70 931	-	70 931	-	(28 200)	42 731

2021					Related amounts not offset in SOFP		
€ '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial liabilities							
Derivative financial instruments	8, 9	50 586	-	50 586	-	(35 882)	14 704

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

				2022			2021
€ '000	Note	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure
Financial assets							
Cash and cash equivalents	7	3 060 496	373 437	2 687 059	2 612 787	213 304	2 399 483
Financial assets at FVTPL:	8						
Financial assets held -for trading		58 872	52 802	6 070	30 064	15 357	14 707
Derivatives - Hedge accounting	9	352 265	352 265	-	55 574	55 574	-
Financial liabilities							
Financial liabilities at FVTPL:	8						
Financial liabilities -held for trading		61 463	44 691	16 772	30 863	19 076	11 787
Derivatives - Hedge accounting	9	316 157	316 157	-	31 510	31 510	-

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.

2022 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from other banks	1 013	-	1 013
Due from customers:			
Public administration	152 684	(1 011)	151 673
Corporate	3 977 058	(81 641)	3 895 417
Retail	10 866 415	(256 902)	10 609 513
	14 996 157	(339 554)	14 656 603
	14 997 170	(339 554)	14 657 616
Financial assets at FVOCI – debt securities	837 577	(106)	837 471
Financial commitments and contingencies	3 647 432	(13 439)	3 633 993
Czech republic			
Financial assets at AC:			
Due from other banks	124	-	124
Due from customers:			
Corporate	1 002 253	(6 525)	995 728
Retail	21 426	(1 661)	19 765
	1 023 679	(8 186)	1 015 493
Financial commitments and contingencies	1 556 512	(640)	1 555 872
Other European countries			
Financial assets at AC:			
Due from other banks	66 238	(277)	65 961
Due from customers:			
Corporate	1 469 905	(18 320)	1 451 585
Retail	140 416	(947)	139 469
	1 610 321	(19 267)	1 591 054
	1 676 559	(19 544)	1 657 015
Financial assets at FVOCI – debt securities	498 826	(169)	498 657
Financial commitments and contingencies	435 852	(291)	435 561

(Table continues on the next page)

2022 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	55	-	55
Retail	2 990	(4)	2 986
	3 045	(4)	3 041
Financial assets at FVOCI - debt securities	91 311	(1)	91 310
Financial commitments and contingencies	164	-	164
Asia			
Financial assets at AC:			
Due from other banks:	5 850	-	5 850
Due from customers			
Corporate	175 587	(22)	175 565
Retail	14 961	(83)	14 878
	190 548	(105)	190 443
	196 398	(105)	196 293
Financial commitments and contingencies	176 492	(35)	176 457
Rest of the World			
Financial assets at AC:			
Due from other banks	80 434	(88)	80 346
Due from customers:			
Public administration	37 747	(628)	37 119
Corporate	132	-	132
Retail	4 116	(71)	4 045
	41 995	(699)	41 296
	122 429	(787)	121 642
Financial commitments and contingencies	772	(2)	770

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

(Table continues on the next page)

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

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

€ '000	2022 Gross amount	2022 Impairment losses	2022 Net amount	2021 Gross amount	2021 Impairment losses	2021 Net amount
Europe						
Slovakia	837 578	(106)	837 471	863 253	(122)	863 131
Italy	214 036	(101)	213 936	301 022	(98)	300 924
Hungary	90 097	(59)	90 038	67 389	(44)	67 345
Spain	69 974	(1)	69 973	187 434	(13)	187 421
Poland	39 349	-	39 349	51 041	(12)	51 029
France	33 705	(8)	33 698	38 001	(5)	37 995
Great Britain	30 837	-	30 836	33 737	(4)	33 733
Estonia	20 827	-	20 827	22 516	(21)	22 496
	1 336 403	(276)	1 336 127	1 564 392	(319)	1 564 073
North America						
Canada	91 309	-	91 309	99 421	(10)	99 411

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

2022						
	Financial assets at AC:					
€ '000	Banks	Public administration	Corporate	Retail*	Financial assets at FVOCI - debt securities	Financial commitments and contingencies
Agriculture, forestry and fishing	-	53	205 688	26 946	114 587	-
Mining and quarrying	-	-	44 832	394	163 956	-
Manufacturing	-	-	902 415	37 973	896 901	-
Electricity, gas, steam and air conditioning supply	-	-	751 555	1 403	715 924	-
Water supply	-	-	77 611	2 580	16 101	-
Construction	-	-	321 643	43 358	602 359	-
Wholesale and retail trade	-	-	1 067 106	123 447	578 545	-
Transport and storage	-	272	676 345	153 254	219 635	-
Accommodation and food service activities	-	-	30 604	13 491	3 630	-
Information and communication	-	6	115 552	9 853	89 412	-
Financial and insurance activities**	153 294	-	805 123	445	708 621	278 014
Real estate activities	-	-	678 338	65 577	293 093	-
Professional, scientific and technical activities	-	8	215 609	37 862	206 839	-
Administrative and support service activities	-	-	145 868	13 943	50 983	-
Public administration and defense, compulsory social security	-	186 787	587	195	209 724	1 149 423
Education	-	1	3 348	1 427	970	-
Human health services and social work activities	-	-	17 533	29 610	12 589	-
Arts, entertainment and recreation	-	1 664	18 638	10 557	412	-
Other services	-	1	440 087	6 199	78 041	-
Consumer Loans	-	-	-	1 302 083	294 273	-
Mortgage Loans	-	-	-	8 910 059	546 222	-
	153 294	188 792	6 518 482	10 790 656	5 802 817	1 427 437

2021

€ '000	Banks	Public administration	Corporate	Retail*	Financial assets at FVOCI - debt securities	Financial commitments and contingencies
	Financial assets at AC:					
Agriculture, forestry and fishing	-	-	177 975	24 163	-	103 034
Mining and quarrying	-	-	49 832	485	-	37 680
Manufacturing	-	65	876 171	40 586	-	845 091
Electricity, gas, steam and air conditioning supply	-	-	791 757	941	-	464 699
Water supply	-	-	64 876	2 493	-	29 348
Construction	-	-	248 548	40 023	-	623 002
Wholesale and retail trade	-	-	1 007 026	104 069	-	492 768
Transport and storage	-	396	585 869	165 523	-	326 744
Accommodation and food service activities	-	-	32 745	14 333	-	3 295
Information and communication	-	11	126 641	9 559	-	75 103
Financial and insurance activities**	1 819 392	-	561 269	386	316 043	687 973
Real estate activities	-	-	562 413	61 667	-	367 244
Professional, scientific and technical activities	-	13	215 747	36 521	-	163 965
Administrative and support service activities	-	-	117 293	13 221	-	28 329
Public administration and defense, compulsory social security	-	203 626	809	154	1 347 770	191 905
Education	-	1	3 088	1 216	-	815
Human health services and social work activities	-	-	14 306	26 167	-	7 615
Arts, entertainment and recreation	-	-	36 706	9 625	-	1 112
Other services	-	-	499 626	5 676	-	64 898
Consumer Loans	-	-	-	1 359 558	-	300 612
Mortgage Loans	-	-	-	8 566 698	-	593 880
	1 819 392	204 112	5 972 697	10 483 067	1 663 813	5 409 112

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

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

4.1.9. Internal and external ratings

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

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

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

Specialized Lending - SPV and RED

- Strong
- Good
- Satisfactory
- Weak
- Default

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

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

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

Capital requirement calculation

The VUB Group generally uses the standardized 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. Since December 2022, VUB Group received authorisation to use IRB approach also for Unsecured retail segment. The Foundation IRB approach is used for corporate exposures where a LGD is not available, but they are assigned according to regulation. Slotting approach is used for portfolio of Specialised lending exposures. Simple IRB approach is used for equity exposures and methodology for this capital requirement is in line with Article 155 of the CRR Regulation. The VUB Group is also proceeding with the development of rating models for other segments, to which the standard methods are currently applied, and also with the extension of the scope to subsidiaries in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

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

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	1 014	-	1 014
	Unrated	71 598	(10)	71 588
		72 612	(10)	72 602
Due from customers:				
Public administration				
	Very Low	40 542	(9)	40 533
	Low	56 948	(29)	56 919
	Intermediate	50 565	(639)	49 926
	Upper - Intermediate	10 917	(42)	10 875
	High	1 255	(46)	1 209
	Unrated	22 213	(545)	21 668
		182 440	(1 310)	181 130
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 022 305	(187)	1 022 118
	Low	1 510 683	(583)	1 510 100
	Lower - Intermediate	812 148	(797)	811 351
	Intermediate	775 914	(1 616)	774 298
	Upper - Intermediate	265 513	(1 196)	264 317
	High	13 315	(192)	13 123
	Unrated	384 677	(117)	384 560
Specialized Lending – SPV, RED				
	Strong	301 520	(1 610)	299 910
	Good	289 141	(3 117)	286 024
	Satisfactory	265 186	(9 607)	255 579
	Weak	28 870	(2 956)	25 914
		5 669 272	(21 978)	5 647 294

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail:				
Small Business, Flat Owners Associations				
	Very Low	19 751	(6)	19 745
	Low	36 047	(33)	36 014
	Lower - Intermediate	107 450	(7 811)	99 639
	Intermediate	189 099	(716)	188 383
	Upper - Intermediate	75 468	(707)	74 761
	High risk	2 732	(343)	2 389
	Unrated	36	-	36
Mortgages				
	Very Low	6 012 939	(1 736)	6 011 203
	Low	1 425 715	(718)	1 424 997
	Lower - Intermediate	1 087 281	(1 725)	1 085 556
	Intermediate	39 009	(342)	38 667
	Upper - Intermediate	6 544	(137)	6 407
	High	713	(47)	666
	Unrated	24	-	24
Unsecured Retail				
	Very Low	162 443	(87)	162 356
	Low	78 981	(76)	78 905
	Lower - Intermediate	626 036	(2 508)	623 528
	Intermediate	117 546	(2 030)	115 516
	Upper - Intermediate	40 952	(1 721)	39 231
	High	8 704	(1 084)	7 620
	Unrated	63 530	(3 859)	59 671
		10 101 000	(25 686)	10 075 314
		15 952 712	(48 974)	15 903 738
Financial assets at FVOCI – debt securities				
	Unrated	1 427 714	(277)	1 427 437

(Table continues on the next page)

2022 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	12 006	(1)	12 005
	Lower - Intermediate	226 465	(7)	226 458
		238 471	(8)	238 463
Due from customers:				
Public administration				
	Very Low	123 526	(15)	123 511
	Low	10 027	(2)	10 025
	Intermediate	62 213	(5)	62 208
	Upper - Intermediate	704	(4)	700
	High	97	(1)	96
	Unrated	9 857	(183)	9 674
		206 424	(210)	206 214
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 856 369	(114)	1 856 255
	Low	970 932	(166)	970 766
	Lower - Intermediate	489 401	(294)	489 107
	Intermediate	497 840	(832)	497 008
	Upper - Intermediate	62 805	(281)	62 524
	High	5 103	(119)	4 984
	Unrated	225 958	(306)	225 652
Specialized Lending – SPV, RED				
	Strong	102 208	(413)	101 795
	Good	88 770	(726)	88 044
	Satisfactory	24 685	(705)	23 980
	Unrated	20	-	20
		4 324 091	(3 956)	4 320 135
Retail				
	Very Low	404 321	(111)	404 210
	Low	148 055	(60)	147 995
	Lower - Intermediate	262 672	(299)	262 373
	Intermediate	42 114	(249)	41 865
	Upper - Intermediate	12 413	(201)	12 212
	High	798	(52)	746
	Unrated	1 966	(3)	1 963
		872 339	(975)	871 364
		5 402 854	(5 141)	5 397 713

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

(Table continues on the next page)

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

(Table continues on the next page)

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

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

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from banks:				
	High	80 511	(88)	80 423
		80 511	(88)	80 423
Due from customers:				
Public administration				
	Low	492	(1)	491
	Intermediate	464	(2)	462
	Upper - Intermediate	5 142	(192)	4 950
	High	1 819	(127)	1 692
	Unrated	59	(3)	56
Corporate		7 976	(325)	7 651
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 868	(1)	1 867
	Low	44 358	(219)	44 139
	Lower - Intermediate	34 560	(114)	34 446
	Intermediate	361 677	(5 419)	356 258
	Upper - Intermediate	143 230	(2 673)	140 557
	High	251 022	(22 228)	228 794
	Unrated	492	(1)	491
Specialized Lending – SPV, RED				
	Strong	177	(1)	176
	Good	398	(17)	381
	Satisfactory	26 287	(2 986)	23 301
	Weak	15 222	(3 681)	11 541
		879 291	(37 340)	841 951

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	880	(1)	879
	Low	941	(7)	934
	Lower - Intermediate	17 783	(2 071)	15 712
	Intermediate	38 241	(911)	37 330
	Upper - Intermediate	83 073	(4 831)	78 242
	High risk	17 254	(3 013)	14 241
Mortgages				
	Very Low	23 595	(616)	22 979
	Low	13 532	(396)	13 136
	Lower - Intermediate	135 121	(6 474)	128 647
	Intermediate	82 019	(7 572)	74 447
	Upper - Intermediate	42 285	(5 636)	36 649
	High	26 948	(5 715)	21 233
Unsecured Retail				
	Very Low	748	(3)	745
	Low	1 370	(7)	1 363
	Lower - Intermediate	79 503	(1 885)	77 618
	Intermediate	45 289	(2 728)	42 561
	Upper - Intermediate	37 061	(4 486)	32 575
	High	57 190	(18 752)	38 438
	Unrated	18	(2)	16
		702 851	(65 106)	637 745
		1 590 118	(102 771)	1 487 347

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Provision	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	Low	621	(2)	619
	Intermediate	597	(1)	596
	Upper - Intermediate	1 932	(15)	1 917
	High	80	-	80
Corporate		3 230	(18)	3 212
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	605	-	605
	Low	9 476	(31)	9 445
	Lower - Intermediate	2 045	(27)	2 018
	Intermediate	37 589	(233)	37 356
	Upper - Intermediate	28 148	(407)	27 741
	High	10 442	(590)	9 852
	Unrated	7 601	(83)	7 518
Specialized Lending – SPV, RED				
	Good	3 772	(517)	3 255
	Satisfactory	980	(52)	928
	Weak	36	(7)	29
		100 694	(1 947)	98 747
Retail				
	Very Low	2 004	(83)	1 921
	Low	810	(33)	777
	Lower - Intermediate	35 766	(244)	35 522
	Intermediate	5 724	(284)	5 440
	Upper - Intermediate	5 077	(253)	4 824
	High	1 401	(314)	1 087
	Unrated	343	(5)	338
		51 125	(1 216)	49 909
		155 049	(3 181)	151 868

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

(Table continues on the next page)

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

(Table continues on the next page)

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

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

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from banks:				
	Default	536	(267)	269
Due from customers:				
Public administration				
	Default	15	(4)	11
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Default	74 154	(43 302)	30 852
Specialized Lending – SPV, RED				
	Default	2 273	(3 888)	(1 615)
		76 427	(47 190)	29 237
Retail				
Small Business, Flat Owners Associations				
	Default	36 297	(26 088)	10 209
Mortgages				
	Default	70 154	(24 706)	45 448
Unsecured Retail				
	Default	140 022	(118 082)	21 940
		246 473	(168 876)	77 597
		322 915	(216 070)	106 845
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Default	14 824	(5 144)	9 680
Specialized Lending – SPV, RED				
	Default	116	(116)	-
		14 940	(5 260)	9 680
Retail				
	Default	5 910	(817)	5 093
		20 850	(6 077)	14 773

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

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

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks:				
	Very Low	1 014	-	1 014
	High	80 511	(88)	80 423
	Default	536	(267)	269
	Unrated	71 598	(10)	71 588
		153 659	(365)	153 294
Due from customers:				
Public administration				
	Very Low	40 542	(9)	40 533
	Low	57 440	(30)	57 410
	Intermediate	51 029	(641)	50 388
	Upper - Intermediate	16 059	(234)	15 825
	High	3 074	(173)	2 901
	Default	15	(4)	11
	Unrated	22 272	(548)	21 724
		190 431	(1 639)	188 792
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 024 173	(188)	1 023 985
	Low	1 555 041	(802)	1 554 239
	Lower - Intermediate	846 708	(911)	845 797
	Intermediate	1 137 591	(7 035)	1 130 556
	Upper - Intermediate	408 743	(3 869)	404 874
	High	264 337	(22 420)	241 917
	Default	74 154	(43 302)	30 852
	Unrated	385 169	(118)	385 051
Specialized Lending – SPV, RED				
	Strong	301 697	(1 611)	300 086
	Good	289 539	(3 134)	286 405
	Satisfactory	291 473	(12 593)	278 880
	Weak	44 092	(6 637)	37 455
	Default	2 273	(3 888)	(1 615)
		6 624 990	(106 508)	6 518 482

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	20 631	(7)	20 624
	Low	36 988	(40)	36 948
	Lower - Intermediate	125 233	(9 882)	115 351
	Intermediate	227 340	(1 627)	225 713
	Upper - Intermediate	158 541	(5 538)	153 003
	High	19 986	(3 356)	16 630
	Default	36 297	(26 088)	10 209
	Unrated	36	-	36
Mortgages				
	Very Low	6 036 534	(2 352)	6 034 182
	Low	1 439 247	(1 114)	1 438 133
	Lower - Intermediate	1 222 402	(8 199)	1 214 203
	Intermediate	121 028	(7 914)	113 114
	Upper - Intermediate	48 829	(5 773)	43 056
	High	27 661	(5 762)	21 899
	Default	70 154	(24 706)	45 448
	Unrated	24	-	24
Unsecured Retail				
	Very Low	163 191	(90)	163 101
	Low	80 351	(83)	80 268
	Lower - Intermediate	705 539	(4 393)	701 146
	Intermediate	162 835	(4 758)	158 077
	Upper - Intermediate	78 013	(6 207)	71 806
	High	65 894	(19 836)	46 058
	Default	140 022	(118 082)	21 940
	Unrated	63 548	(3 861)	59 687
		11 050 324	(259 668)	10 790 656
		17 865 745	(367 815)	17 497 930
Financial assets at FVOCI – debt securities				
	Unrated	1 427 714	(277)	1 427 437

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	12 006	(1)	12 005
	Lower - Intermediate	226 465	(7)	226 458
		238 471	(8)	238 463
Due from customers:				
Public administration				
	Very Low	123 526	(15)	123 511
	Low	10 648	(4)	10 644
	Intermediate	62 810	(6)	62 804
	Upper - Intermediate	2 636	(19)	2 617
	High	177	(1)	176
	Unrated	9 857	(183)	9 674
		209 654	(228)	209 426
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates, Factoring and Leasing				
	Very Low	1 856 974	(114)	1 856 860
	Low	980 408	(197)	980 211
	Lower - Intermediate	491 446	(321)	491 125
	Intermediate	535 429	(1 065)	534 364
	Upper - Intermediate	90 953	(688)	90 265
	High	15 545	(709)	14 836
	Default	14 824	(5 144)	9 680
	Unrated	233 559	(389)	233 170
Specialized Lending – SPV, RED				
	Strong	102 208	(413)	101 795
	Good	92 542	(1 243)	91 299
	Satisfactory	25 665	(757)	24 908
	Weak	36	(7)	29
	Default	116	(116)	-
	Unrated	20	-	20
		4 439 725	(11 163)	4 428 562
Retail				
	Very Low	406 325	(194)	406 131
	Low	148 865	(93)	148 772
	Lower - Intermediate	298 438	(543)	297 895
	Intermediate	47 838	(533)	47 305
	Upper - Intermediate	17 490	(454)	17 036
	High	2 199	(366)	1 833
	Default	5 910	(817)	5 093
	Unrated	2 309	(8)	2 301
		929 374	(3 008)	926 366
		5 578 753	(14 399)	5 564 354

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

(Table continues on the next page)

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

(Table continues on the next page)

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

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortized cost: due from other banks is in the rating scale from Aaa to Caa1 (31 December 2021: Aaa to Caa1). The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on **Moody's** ratings.

2022 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI - debt securities				
	Aaa	202 609	(9)	202 601
	Aa1	60 177	(1)	60 176
	Aa2	4 982	(0)	4 982
	A2	785 838	(106)	785 732
	Baa1	69 974	(1)	69 973
	Baa2	90 097	(59)	90 038
	Baa3	198 799	(101)	198 699
		1 412 475	(276)	1 412 200

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

4.1.10. Sensitivity analysis of impairment losses

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

2022 € '000	Base scenario Impairment losses	Impairment losses	Decrease PD by 10% Absolute change	Relative change
Financial assets at AC:				
Due from other banks	365	355	(10)	(2,74)%
Due from customers:				
Public administration				
Public administration	1 638	1 474	(164)	(10,01)%
Public administration - leasing	1	-	(1)	(100,00)%
	1 639	1 474	(175)	(10,68)%
Corporate				
Large Corporates	24 014	21 630	(2 384)	(9,93)%
Large Corporates - debt securities	919	827	(92)	(10,01)%
Specialized Lending	27 863	25 470	(2 393)	(8,59)%
SME	44 068	43 096	(972)	(2,21)%
Other Non-banking Financial Institutions	138	126	(12)	(8,70)%
Other Non-banking Financial Institutions - debt securities	80	72	(8)	(10,00)%
Public Sector Entities	1	1	-	-
Leasing	8 233	8 169	(64)	(0,78)%
Factoring	1 192	1 185	(7)	(0,59)%
	106 508	100 576	(5 932)	(5,57)%
Retail				
Small Business	42 260	40 298	(1 962)	(4,64)%
Small Business - Leasing	3 908	3 951	-	-
Consumer Loans	139 995	136 232	(3 763)	(2,69)%
Mortgages	55 820	52 708	(3 112)	(5,58)%
Credit Cards	10 919	10 818	(101)	(0,92)%
Overdrafts	6 396	6 336	(60)	(0,94)%
Leasing	138	35	(103)	(74,64)%
Flat Owners Associations	232	209	(23)	(9,91)%
	259 668	250 587	(9 124)	(3,51)%
	367 815	352 637	(15 220)	(4,14)%
	368 180	352 992	(15 230)	(4,14)%
Financial assets at FVOCI - debt securities	276	248	(28)	(10,14)%

2021 € '000	Base scenario Impairment losses	Impairment losses	Absolute change	Decrease PD by 10% Relative change
Financial assets at AC:				
Due from other banks	109	96	(13)	(11,93)%
Due from customers:				
Public administration	1 886	1 695	(191)	(10,13)%
Corporate				
Large Corporates	1 811	1 654	(157)	(8,67)%
Large Corporates - debt securities	97	88	(9)	(9,28)%
Specialized Lending	35 110	31 982	(3 128)	(8,91)%
SME	49 949	49 140	(809)	(1,62)%
Other Non-banking Financial Institutions	99	94	(5)	(5,05)%
Other Non-banking Financial Institutions - debt securities	65	59	(6)	(9,23)%
Public Sector Entities	4	4	-	-
Leasing	5 526	5 376	(150)	(2,71)%
Factoring	1 187	1 180	(7)	(0,59)%
	93 848	89 577	(4 271)	(4,55)%
Retail				
Small Business	27 834	26 647	(1 187)	(4,26)%
Small Business - Leasing	9 163	9 051	(112)	(1,22)%
Consumer Loans	144 025	141 515	(2 510)	(1,74)%
Mortgages	47 216	46 536	(680)	(1,44)%
Credit Cards	15 169	15 076	(93)	(0,61)%
Overdrafts	7 079	6 964	(115)	(1,62)%
Leasing	36	33	(3)	(8,33)%
Flat Owners Associations	321	289	(32)	(9,97)%
	250 843	246 111	(4 732)	(1,89)%
	346 577	337 383	(9 194)	(2,65)%
	346 686	337 479	(9 207)	(2,66)%
Financial assets at FVOCI - debt securities	329	296	(33)	(10,03)%

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

2022 € '000	Base scenario Impairment losses	Impairment losses	Absolute change	Increase PD by 10% Relative change
Financial assets at AC:				
Due from other banks	365	375	10	2,74%
Due from customers:				
Public administration				
Public administration	1 638	1 802	164	10,01%
Public administration - leasing	1	1	-	-
	1 639	1 803	174	10,62%
Corporate				
Large Corporates	24 014	26 398	2 384	9,93%
Large Corporates - debt securities	919	1 011	92	10,01%
Specialized Lending	27 863	30 256	2 393	8,59%
SME	44 068	45 039	971	2,20%
Other Non-banking Financial Institutions	138	155	17	12,32%
Other Non-banking Financial Institutions - debt securities	80	88	8	10,00%
Public Sector Entities	1	1	-	-
Leasing	8 233	8 296	63	0,77%
Factoring	1 192	1 198	6	0,50%
	106 508	112 442	5 934	5,57%
Retail				
Small Business	42 260	44 223	1 963	4,65%
Small Business - Leasing	3 908	4 067	159	4,07%
Consumer Loans	139 995	143 757	3 762	2,69%
Mortgages	55 820	58 931	3 111	5,57%
Credit Cards	10 919	11 020	101	0,92%
Overdrafts	6 396	6 455	59	0,92%
Leasing	138	38	(100)	(72,46%)
Flat Owners Associations	232	255	23	9,91%
	259 668	268 746	9 078	3,50%
	367 815	382 991	15 186	4,13%
	368 180	383 366	15 196	4,13%
Financial assets at FVOCI - debt securities	276	303	27	9,78%

2021 € '000	Base scenario Impairment losses	Increase PD by 10% Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	109	117	8	7,34%
Due from customers:				
Public administration	1 886	2 071	185	9,81%
Corporate				
Large Corporates	1 811	1 969	158	8,72%
Large Corporates - debt securities	97	108	11	11,34%
Specialized Lending	35 110	38 232	3 122	8,89%
SME	49 949	50 762	813	1,63%
Other Non-banking Financial Institutions	99	114	15	15,15%
Other Non-banking Financial Institutions - debt securities	65	72	7	10,77%
Public Sector Entities	4	5	1	25,00%
Leasing	5 526	5 675	149	2,70%
Factoring	1 187	1 193	6	0,51%
	93 848	98 130	4 282	4,56%
Retail				
Small Business	27 834	29 028	1 194	4,29%
Small Business - Leasing	9 163	9 274	111	1,21%
Consumer Loans	144 025	146 530	2 505	1,74%
Mortgages	47 216	47 894	678	1,44%
Credit Cards	15 169	15 262	93	0,61%
Overdrafts	7 079	7 196	117	1,65%
Leasing	36	39	3	8,33%
Flat Owners Associations	321	353	32	9,97%
	250 843	255 576	4 733	1,89%
	346 577	355 777	9 200	2,65%
	346 686	355 894	9 208	2,66%
Financial assets at FVOCI - debt securities	329	362	33	10,03%

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

The behavior of the model is described by six possible scenarios simulating a worsening of the macroeconomic situation. The scenarios resulted in the increase of expected loss in both stage 1 and stage 2. The simulation was run on VUB Group level on the whole Retail segment excl. Small business, that includes: Mortgages, Consumer loans, Credit cards, Overdrafts, former CFH products (Quatro, Slovenská požičovňa, SKK credit cards, HRL) and former VUB Leasing retail products and QCAR retail.

If the predicted qq change of GDP growth will be decreased by 3 bps (30% of the last available value at the time of development of the model - the last available values as of 4Q2021: Δ_qq GDP y/y growth = 0.10% (= 1.40%-1.30%); Δ_qq Bank deposit q/q rate = 1.535% (= 4.55%-3.015%)) then the impact on the P&L effect will be 38 TEUR for Stage 1 and 94 TEUR for Stage 2. Other scenarios and their impact are depicted in the table below:

Scenarios and their impact:

2022 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	16 077	849	16 926
		Absolute change	-	-	-
		Relative change	-	-	-
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	16 090	849	16 939
		Absolute change	13	0	13
		Relative change	0,08%	0,00%	0,08%
UR stress 10%	UR increase by 15 bps				
		ECL	16 237	866	17 193
		Absolute change	250	17	267
		Relative change	1,56%	2,00%	1,58%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	16 344	867	17 211
		Absolute change	267	18	285
		Relative change	1,66%	2,12%	1,68%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	16 113	851	16 964
		Absolute change	36	2	38
		Relative change	0,22%	0,24%	0,22%
UR stress 30%	UR increase by 45 bps				
		ECL	16 849	903	17 752
		Absolute change	772	54	826
		Relative change	4,80%	6,36%	4,88%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	16 883	905	17 788
		Absolute change	806	56	862
		Relative change	5,01%	6,60%	5,09%

2021 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	707	110	817
		Absolute change	-	-	-
		Relative change	-	-	-
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	713	111	824
		Absolute change	6	1	7
		Relative change	0,88%	0,88%	0,88%
UR stress 10%	UR increase by 15 bps				
		ECL	711	111	822
		Absolute change	4	1	5
		Relative change	0,53%	0,53%	0,53%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	716	112	828
		Absolute change	9	2	11
		Relative change	1,23%	1,22%	1,23%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	723	113	836
		Absolute change	16	3	19
		Relative change	2,29%	2,27%	2,29%
UR stress 30%	UR increase by 45 bps				
		ECL	719	112	831
		Absolute change	12	2	14
		Relative change	1,76%	1,75%	1,76%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	734	115	849
		Absolute change	27	5	32
		Relative change	3,88%	3,85%	3,88%

2022 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	54 278	791	55 069
		Absolute change	-	-	-
		Relative change	-	-	-
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	54 304	792	55 096
		Absolute change	26	1	27
		Relative change	0,05%	0,13%	0,05%
UR stress 10%	UR increase by 15 bps				
		ECL	55 055	799	55 854
		Absolute change	777	8	785
		Relative change	1,43%	1,01%	1,43%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	55 093	800	55 893
		Absolute change	815	9	824
		Relative change	1,50%	1,14%	1,50%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	54 372	792	55 164
		Absolute change	94	1	95
		Relative change	0,17%	0,13%	0,17%
UR stress 30%	UR increase by 45 bps				
		ECL	56 672	816	57 488
		Absolute change	2 394	25	2 419
		Relative change	4,41%	3,16%	4,39%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	56 770	817	57 587
		Absolute change	2 492	26	2 518
		Relative change	4,59%	3,29%	4,57%

2021 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	6 080	175	6 255
		Absolute change	-	-	-
		Relative change	-	-	-
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	6 099	176	6 275
		Absolute change	19	1	20
		Relative change	0,31%	0,21%	0,31%
UR stress 10%	UR increase by 15 bps				
		ECL	6 095	175	6 270
		Absolute change	15	0	15
		Relative change	0,25%	0,17%	0,25%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	6 114	176	6 290
		Absolute change	34	1	35
		Relative change	0,55%	0,37%	0,54%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	6 134	176	6 310
		Absolute change	54	1	55
		Relative change	0,89%	0,61%	0,88%
UR stress 30%	UR increase by 45 bps				
		ECL	6 127	176	6 303
		Absolute change	47	1	48
		Relative change	0,77%	0,52%	0,76%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	6 181	177	6 358
		Absolute change	101	2	103
		Relative change	1,66%	1,12%	1,64%

4.1.12. Credit risk of financial derivatives

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

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

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

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

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

€ '000	2022	2021
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	(8 336)	47 277
Derivatives - Hedge accounting	419 583	107 954
	411 247	155 231

4.2. Market risk

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

4.2.1. Management of market risk

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

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. Financial instruments with non-trading purpose are part of the banking book.

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

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

4.2.2. Exposure to market risk - trading portfolios

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

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

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

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

€ '000	Balance	Avg	Max	2022 Min	Balance	Avg	Max	2021 Min
Foreign currency risk	118	103	197	12	68	49	125	12
Interest rate risk	87	297	546	73	109	88	251	35
Total VaR	154	339	650	71	96	109	278	39
Total with VaR	322	438	977	153	338	498	1 466	195

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

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

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

4.2.3. Exposure to interest rate risk of banking book

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 repricing time buckets either by maturity for fixed rate instruments, or by next re-pricing date for floating rate instruments. Assets and liabilities that do not have a contractual maturity date are mapped according to internal models based on behavioural assumptions.

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

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

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

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

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

Contractual

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

Behavioural

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

At 31 December 2022, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € (56 987) thousand (31 December 2021: € 57 014 thousand).

At 31 December 2022, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (47 819) thousand (31 December 2021: € (42 921) thousand).

At 31 December 2022, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (30 206) thousand (31 December 2021: € (19 680) thousand).

At 31 December 2022, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € 22 574 thousand (31 December 2021: € 9 452 thousand).

At 31 December 2022, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2 799) thousand (31 December 2021: € (2 601) thousand).

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

2022 €'000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	3 060 496	-	-	-	-	-	3 060 496
Financial assets at FVTPL (excluding Trading derivatives)	-	-	10	-	1 522	2 459	3 991
Financial assets at FVOCI	75 440	71 448	202 156	656 586	421 807	141	1 427 578
Financial assets at AC:							
Due from other banks	13 774	83 097	928	54 902	-	593	153 294
Due from customers	2 703 832	2 096 560	2 539 826	8 792 686	1 173 438	191 588	17 497 930
	5 853 542	2 251 105	2 742 920	9 504 174	1 596 767	194 781	22 143 289
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(266 851)	(554 301)	(34 607)	(149 309)	-	-	(1 005 068)
Due to customers	(8 003 536)	(988 649)	(2 245 285)	(3 733 251)	(437 142)	-	(15 407 863)
Lease liabilities	(566)	(1 142)	(4 775)	(12 044)	(795)	-	(19 322)
Subordinated debt	-	(250 368)	-	-	-	-	(250 368)
Debt securities in issue	(6 507)	(105 280)	(325 063)	(2 694 492)	(652 666)	-	(3 784 008)
	(8 277 460)	(1 899 740)	(2 609 730)	(6 589 096)	(1 090 603)	-	(20 466 629)
Net position of financial instruments	(2 423 918)	351 365	133 190	2 915 078	506 164	194 781	1 676 660
Cumulative net position of financial instruments	(2 423 918)	(2 072 553)	(1 939 363)	975 715	1 481 879	1 676 660	-
Cash inflow from derivatives	2 180 936	3 749 842	2 191 562	2 572 804	1 130 045	-	11 825 189
Cash outflow from derivatives	(1 494 126)	(3 016 504)	(2 298 591)	(3 908 383)	(1 171 246)	-	(11 888 850)
Net position from derivatives	686 810	733 338	(107 029)	(1 335 579)	(41 201)	-	(63 661)
Total net position	(1 737 108)	1 084 703	26 161	1 579 499	464 963	194 781	1 612 999
Cumulative total net position	(1 737 108)	(652 405)	(626 244)	953 255	1 418 218	1 612 999	-

2021 €'000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	2 612 787	-	-	-	-	-	2 612 787
Financial assets at FVTPL (excluding Trading derivatives)	-	-	-	-	2 906	4 410	7 316
Financial assets at FVOCI	276	70 109	504 328	655 065	434 036	7 589	1 671 403
Financial assets at AC:							
Due from other banks	(7 835)	83 458	1 654 286	50 856	-	38 627	1 819 392
Due from customers	2 607 288	1 977 012	1 841 372	9 518 711	557 830	157 663	16 659 876
	5 212 516	2 130 579	3 999 986	10 224 632	994 772	208 289	22 770 774
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(2 727 827)	(252 919)	(90 726)	(242 191)	(1 051)	(234)	(3 314 948)
Due to customers	(6 732 984)	(883 145)	(2 223 746)	(3 682 855)	(430 035)	-	(13 952 765)
Lease liabilities	(535)	(1 068)	(4 080)	(12 033)	(1 417)	-	(19 133)
Subordinated debt	-	(200 150)	-	-	-	-	(200 150)
Debt securities in issue	(44 012)	(2 217)	(307 636)	(2 425 283)	(1 049 908)	-	(3 829 056)
	(9 505 358)	(1 339 499)	(2 626 188)	(6 362 362)	(1 482 411)	(234)	(21 316 052)
Net position of financial instruments	(4 298 654)	791 080	1 373 798	3 862 270	(487 639)	213 867	1 454 722
Cumulative net position of financial instruments	(4 292 842)	791 080	1 373 798	3 862 270	(487 639)	208 055	1 454 722
Cash inflow from derivatives	(4 292 842)	(3 501 762)	(2 127964)	1 734 306	1 246 667	1 454 722	-
Cash outflow from derivatives	3 595 572	2 521 112	1 924 274	1 733 614	1 425 149	-	11 199 721
Net position from derivatives	(2 032 999)	(1 241 650)	(3 120 102)	(4 169 201)	(642 490)	-	(11 206 442)
Total net position	1 562 573	1 279 462	(1 195 828)	(2 435 587)	782 659	-	(6 721)
Cumulative total net position	(2 730 269)	2 070 542	177 970	1 426 683	295 020	208 055	1 448 001

4.2.4. Currency denominations of assets and liabilities

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

2022 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	2 549 366	4 007	501 879	5 244	3 060 496
Financial assets at FVTPL	55 953	5 025	3 417	-	64 395
Derivatives - Hedge accounting	337 450	-	12 206	2 609	352 265
Financial assets at FVOCI	1 427 578	-	-	-	1 427 578
Financial assets at AC:					
Due from other banks	148 092	999	(944)	5 147	153 294
Due from customers	16 246 404	365 104	691 199	195 223	17 497 930
Fair value changes of the hedged items in portfolio hedge of IRR	(126 410)	-	-	-	(126 410)
	20 638 433	375 135	1 207 757	208 223	22 429 548
Financial liabilities					
Financial liabilities at FVTPL	59 793	1 670	-	-	61 463
Derivatives - Hedge accounting	311 205	2 230	-	2 722	316 157
Financial liabilities at AC:					
Due to banks	910 292	1 153	93 623	-	1 005 068
Due to customers	13 921 240	384 953	1 046 521	74 471	15 427 185
Subordinated debt	250 368	-	-	-	250 368
Debt securities in issue	3 784 008	-	-	-	3 784 008
Fair value changes of the hedged items in portfolio hedge of IRR	(19 536)	-	-	-	(19 536)
	19 217 370	390 006	1 140 144	77 193	20 824 713
Net position	1 421 063	(14 871)	67 613	131 030	1 604 835

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

2022 € '000	EUR	USD	CZK	Other	Total
Receivables	288 290	110 935	75 907	56 793	531 925
Payables	-137 964	-110 056	-106 649	-187 092	-541 761
Net position from derivatives	150 326	879	-30 742	-130 299	-9 836

2021 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	2 276 977	3 644	326 986	5 180	2 612 787
Financial assets at FVTPL	26 848	10 279	(43)	296	37 380
Derivatives - Hedge accounting	48 476	-	7 098	-	55 574
Financial assets at FVOCI	1 589 943	81 460	-	-	1 671 403
Financial assets at AC:			-	-	
Due from other banks	1 821 093	6 824	(8 525)	-	1 819 392
Due from customers	15 576 098	321 008	573 822	188 948	16 659 876
Fair value changes of the hedged items in portfolio hedge of IRR	3 301	-	-	-	3 301
	21 342 736	423 215	899 338	194 424	22 859 713
Financial liabilities					
Financial liabilities at FVTPL	29 527	2 818	(1 542)	60	30 863
Derivatives - Hedge accounting	23 226	5 075	569	2 640	31 510
Financial liabilities at AC:					
Due to banks	3 261 981	6 997	45 931	39	3 314 948
Due to customers	13 051 798	231 015	606 503	82 582	13 971 898
Subordinated debt	200 150	-	-	-	200 150
Debt securities in issue	3 829 056	-	-	-	3 829 056
Fair value changes of the hedged items in portfolio hedge of IRR	2 816	-	-	-	2 816
	20 398 554	245 905	651 461	85 321	21 381 241
Net position	944 182	177 310	247 877	109 103	1 478 472

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

2021 € '000	EUR	USD	CZK	Other	Total
Receivables	590 582	56 675	87 000	63 223	797 480
Payables	(60 976)	(247 819)	(317 455)	(178 032)	(804 282)
Net position from derivatives	529 606	(191 144)	(230 455)	(114 809)	(6 802)

4.2.5. Interest rate benchmark reform

The Interbank offered rate ('IBOR') replacement represents one of the major undertakings for the financial services industry. For the VUB Group the impact is not material. The Bank is currently in the final stages of IT implementation, which would fully align the bank to the regulation. The full alignment is expected to be ready in the first half of 2023.

2022	Financial assets at AC		Financial liabilities at AC		Derivatives	
€ '000	Number of contracts	Net amount	Number of contracts	Net amount	Number of contracts	Notional amount
Referenced to:						
EONIA	-	-	-	-	-	-
EURIBOR	12 879	3 188 221	-	-	118	10 655 580
LIBOR	25	318 457	-	-	4	83 585
Of which: USD	25	318 457	-	-	4	83 585
Of which: GBP	-	-	-	-	-	-

2021	Financial assets at AC		Financial liabilities at AC		Derivatives	
€ '000	Number of contracts	Net amount	Number of contracts	Net amount	Number of contracts	Notional amount
Referenced to:						
EONIA	-	-	-	-	-	-
EURIBOR	5 400	3 305 273	-	-	193	9 926 636
LIBOR	24	199 869	-	-	4	89 469
Of which: USD	22	199 869	-	-	4	89 469
Of which: GBP	2	-	-	-	-	-

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

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

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

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

The Structural Liquidity Policy of the VUB Group incorporates a set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term. The main regulatory indicator used for monitoring and managing structural liquidity is the Net Stable Funding Ratio(NSFR). It is required by the CRR Regulation. The net stable funding shall be equal to the ratio of the institution's available stable funding to the institution's required stable funding, and shall be expressed as a percentage.

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

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

The liquidity position of the VUB Group is regularly presented by 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:

2022 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	3 060 496	-	3 060 496
Financial assets at FVTPL	11 505	52 890	64 395
Derivatives - Hedge accounting	22 504	329 761	352 265
Financial assets at FVOCI	247 741	1 179 837	1 427 578
Financial assets at AC:			
Due from other banks	39 941	113 353	153 294
Due from customers	3 274 076	14 223 854	17 497 930
Fair value changes of the hedged items in portfolio hedge of IRR	-	(126 410)	(126 410)
Investments in subsidiaries, joint ventures and associates	-	1 885	1 885
Property and equipment	-	121 404	121 404
Intangible assets	-	198 671	198 671
Goodwill	-	29 305	29 305
Current income tax assets	441	-	441
Deferred income tax assets	-	50 446	50 446
Other assets	35 717	-	35 717
Non-current assets classified as held for sale	5 946	-	5 946
	6 698 367	16 174 996	22 873 363
Liabilities			
Financial liabilities at FVTPL	-	-	-
Derivatives - Hedge accounting	(1 293)	(314 864)	(316 157)
Financial liabilities measured at AC:			
Due to banks	(216 589)	(788 479)	(1 005 068)
Due to customers	(2 104 912)	(13 302 951)	(15 407 863)
Lease liabilities	(6 359)	(12 963)	(19 322)
Subordinated debt	(368)	(250 000)	(250 368)
Debt securities in issue	(436 637)	(3 347 371)	(3 784 008)
Fair value changes of the hedged items in portfolio hedge of IRR	-	19 536	19 536
Current income tax liabilities	(24 231)	-	(24 231)
Provisions	-	(18 888)	(18 888)
Other liabilities	(131 023)	(4 413)	(135 436)
	(2 936 405)	(18 066 864)	(21 003 268)
Net position	3 761 962	(1 891 868)	1 870 094

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

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

2022 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	3 060 496	-	-	-	-	-	3 060 496
Financial assets at FVTPL (excl. Trading derivatives)	-	-	-	110	2 423	4 075	6 608
Financial assets at FVOCI	75 494	71 726	108 697	828 177	518 140	141	1 602 375
Financial assets at AC							
Due from other banks	39 532	12 957	11 722	120 846	576	-	185 633
Due from customers	1 392 618	511 674	1 579 896	7 233 255	10 976 605	18 163	21 712 211
	4 568 140	596 357	1 700 315	8 182 388	11 497 744	22 379	26 567 323
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(102 966)	(167 760)	(28 881)	(829 395)	(110 003)	-	(1 239 005)
Due to customers	(13 553 070)	(961 370)	(788 629)	(126 241)	-	-	(15 429 310)
Lease liabilities	(552)	(1 102)	(4 089)	(10 987)	(1 944)	-	(18 674)
Subordinated debt	-	(3 340)	(17 610)	(271 420)	(73 158)	-	(365 528)
Debt securities in issue	(3 589)	(107 238)	(340 095)	(2 859 825)	(801 390)	-	(4 112 137)
	(13 660 177)	(1 240 810)	(1 179 304)	(4 097 868)	(986 495)	-	(21 164 654)
Net position of financial instruments	(9 092 037)	(644 453)	521 011	4 084 520	10 511 249	22 379	5 402 669
Cash inflows from derivatives	210 827	45 320	84 339	94 632	-	-	435 118
Cash outflows from derivatives	(211 876)	(46 102)	(85 637)	(95 856)	-	-	(439 471)
Net position from derivatives	(1 049)	(782)	(1 298)	(1 224)	-	-	(4 353)
Net position from financial commitments and contingencies	(5 821 308)	-	-	-	-	-	(5 821 308)

2021 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	2 595 508	-	-	-	-	-	2 595 508
Financial assets at FVTPL (excl. Trading derivatives)	-	-	-	-	3 000	7 319	10 319
Financial assets at FVOCI	293	70 034	505 142	662 322	420 122	7 589	1 665 502
Financial assets at AC							
Due from other banks	48 014	11 398	1 653 428	115 463	7 445	-	1 835 748
Due from customers	1 226 298	632 910	1 452 665	6 196 676	9 308 311	60 946	18 877 806
	3 870 113	714 342	3 611 235	6 974 461	9 738 878	75 854	24 984 883
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(123 775)	(112 106)	(57 031)	(2 785 364)	(264 726)	-	(3 343 002)
Due to customers	(12 216 469)	(885 636)	(772 294)	(81 006)	-	-	(13 955 405)
Lease liabilities	(552)	(1 102)	(4 089)	(10 987)	(1 944)	-	(18 674)
Subordinated debt	-	(1 330)	(4 206)	(25 222)	(201 787)	-	(232 545)
Debt securities in issue	(3 589)	(2 871)	(321 237)	(2 500 422)	(1 089 592)	-	(3 917 711)
	(12 344 385)	(1 003 045)	(1 158 857)	(5 403 001)	(1 558 049)	-	(21 467 337)
Net position of financial instruments	(8 474 272)	(288 703)	2 452 378	1 571 460	8 180 829	75 854	3 517 546
Cash inflows from derivatives	409 085	97 107	111 535	63 651	-	-	681 378
Cash outflows from derivatives	(410 619)	(99 746)	(112 741)	(67 035)	-	-	(690 141)
Net position from derivatives	(1 534)	(2 639)	(1 206)	(3 384)	-	-	(8 763)
Net position from financial commitments and contingencies	(5 637 432)	-	-	-	-	-	(5 637 432)

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

4.4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, information and communication technology risk and financial reporting risk; strategic and reputational risks 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: CRO, CFO, COO, Head of Compliance and AML Department; permanent invitees without voting rights: Head of Corporate & SME Division, Head of Retail Division, Head of Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Information Security sub-department), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

4.4.2. Organisational structure of the associated risk management function

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

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

In February 2010 upon a VUB Group request, the Bank as part of the VUB Group received, from the relevant Supervisory authorities an approval for usage and thus adopted the Advanced Measurement Approach ('AMA'), for Operational Risk management and measurement. 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. 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. The dissolution of VUB Leasing effective as of January 1, 2022 (and the merger of the individual portfolios into VUB, a.s. and VUB Operating Leasing, a.s.) did not affect the consolidated AMA perimeter, as VUB Operating Leasing, a.s. as the successor company to VUB Leasing, a.s., has fully assumed the operational risk management framework, thus ensuring full compliance with internal and external regulatory requirements for the purposes of calculating the own funds requirement under the AMA approach.

For the use of the AMA, the VUB Group has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, a system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank and the subsidiary VUB Operating Leasing, a. s. that fall within the scope of AMA. This process is verified by the Internal Audit Department. Relevant reports are 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.

For VUB Generali VUB Group has applied the Basic Indicator Approach (BIA) as of December 2022.

4.4.4. Policies for hedging and mitigating risk

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

5. Estimated fair value of financial assets and financial liabilities

See accounting policy in note 3.4.7.
The VUB Group uses the following fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value:

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the VUB Group as at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and

Level 3: inputs unobservable for the asset or liability.

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

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

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

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

(a) Cash and cash equivalents

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

(b) Due from other banks

The fair value of due from other banks balances with maturities more than one year is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. For maturities up to one year and not significant balances, the carrying amounts of amounts due from other banks approximate their fair value.

(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) Purchased debt securities and equities

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

(e) Due to banks and Due to customers

The carrying amounts of due to banks approximate 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.

(f) Subordinated debt

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

(g) 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.

2022				Carrying amount				Fair value
	Note	At amortized cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and cash equivalents	7	3 060 496	-	3 060 496	-	3 060 496	-	3 060 496
Financial assets at FVTPL	8	-	64 395	64 395	3 991	60 404	-	64 395
Derivatives - Hedge accounting	9	-	352 265	352 265	-	352 265	-	352 265
Financial assets at FVOCI	10	-	1 427 578	1 427 578	1 412 238	102	-	1 412 340
Financial assets at AC:	11	-	-	-	-	-	-	-
Due from other banks		153 294	-	153 294	-	153 294	-	153 294
Due from customers		17 497 930	-	17 497 930	-	220 133	17 662 869	17 883 002
		20 711 720	1 844 238	22 555 958	1 416 229	3 846 694	17 662 869	22 925 792
Financial liabilities								
Financial liabilities at FVTPL	8	-	61 463	61 463	-	61 463	-	61 463
Derivatives - Hedge accounting	9	-	316 157	316 157	-	316 157	-	316 157
Financial liabilities at AC:	11							
Due to banks		1 005 068	-	1 005 068	-	1 005 068	-	1 005 068
Due to customers		15 407 863	-	15 407 863	-	15 394 552	-	15 394 552
Lease liabilities		19 322	-	19 322	-	19 322	-	19 322
Subordinated debt		250 368	-	250 368	-	289 008	-	289 008
Debt securities in issue		3 784 008	-	3 784 008	-	3 636 835	-	3 636 835
		20 466 629	377 620	20 844 249	-	20 722 405	-	20 722 405

2021				Carrying amount				Fair value
€ '000	Note	At amortized cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and cash equivalents	7	2 612 785	-	2 612 785	-	2 612 787	-	2 612 787
Financial assets at FVTPL	8	-	37 380	37 380	7 316	30 064	-	37 380
Derivatives - Hedge accounting	9	-	55 574	55 574	-	55 574	-	55 574
Financial assets at FVOCI	10	-	1 671 403	1 671 403	1 610 548	60 855	-	1 671 403
Financial assets at AC:	11							
Due from other banks		1 819 392	-	1 819 392	-	1 819 392	-	1 819 391
Due from customers		16 659 876	-	16 659 876	-	152 485	18 376 823	18 529 308
		21 092 055	1 764 357	22 856 412	1 617 864	4 731 157	18 376 823	24 725 844
Financial liabilities								
Financial liabilities at FVTPL	8	-	30 863	30 863	-	30 863	-	30 863
Derivatives - Hedge accounting	9	-	31 510	31 510	-	31 510	-	31 510
Financial liabilities at AC:	11							
Due to banks		3 314 948	-	3 314 948	-	3 314 948	-	3 314 948
Due to customers		13 952 765	-	13 952 765	-	13 956 907	-	13 956 907
Lease liabilities		19 133		19 133	-	19 133	-	19 133
Subordinated debt		200 150	-	200 150	-	228 948	-	228 948
Debt securities in issue		3 829 056	-	3 829 056	-	3 858 052	-	3 858 052
		21 316 052	62 373	21 378 425	-	21 440 361	-	21 440 361

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

6. Segment reporting

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

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

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

Most of the transactions of the VUB Group are related to the Slovak market however the group operates also on the Czech market via a foreign subsidiary in Prague performing activities especially in corporate banking and Treasury.

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

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

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

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

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

2022 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	200 719	187 603	27 680	416 002	20 612	436 614
Interest and similar expense	(6 522)	(42 062)	(26 749)	(75 333)	(25 337)	(100 670)
Inter-segment revenue	3 990	(16 468)	6 479	(5 999)	5 999	-
Net interest income	198 187	129 073	7 410	334 670	1 274	335 944
Net fee and commission income (note 25)	123 378	40 773	710	164 861	(1 810)	163 051
Dividend income	-	-	-	-	-	-
Net trading result	6 268	7 842	(3 968)	10 142	529	10 671
Other operating income	(4 859)	6 421	(1 602)	(40)	40 269	40 229
Other operating expense	(22 198)	(2 441)	19	(24 620)	(14 734)	(39 354)
Salaries and employee benefit	(49 604)	(12 770)	(705)	(63 079)	(64 374)	(127 453)
Other administrative expenses*	-	626	206	832	(77 303)	(76 471)
Amortisation	(7 044)	(563)	-	(7 607)	(11 186)	(18 793)
Depreciation	(2 579)	(2 015)	13	(4 581)	(9 053)	(13 634)
Profit before provisions,impairment and tax	241 549	166 946	2 083	410 578	(136 388)	274 190
Net modification gains or losses	-	-	-	-	14	14
Provisions*	-	-	-	-	(296)	(296)
Impairment losses	(53 449)	(13 337)	(257)	(67 043)	(9 763)	(76 806)
Net (loss)/ gain arising from the derecognition of financial assets at amortized cost	12 028	2 063	-	14 091	(362)	13 729
Profit before tax	200 128	155 672	1 826	357 626	(146 795)	210 831
Segment assets	10 485 304	7 201 298	4 585 021	22 271 623	601 740	22 873 363
Segment liabilities	9 646 340	6 622 254	4 314 731	20 583 325	419 943	21 003 268

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

2021 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	201 960	123 425	(19 399)	305 986	18 817	324 803
Interest and similar expense	(5 406)	(2 947)	(8 288)	(16 641)	(20 704)	(37 345)
Inter-segment revenue	(6 951)	(19 903)	29 299	2 445	(2 445)	-
Net interest income	189 603	100 575	1 612	291 790	(4 332)	287 458
Net fee and commission income (note 25)	113 101	36 160	1 321	150 582	(3 204)	147 378
Dividend income	-	-	-	-	-	-
Net trading result	4 747	6 090	8 152	18 989	127	19 116
Other operating income	(2 870)	6 423	(1 707)	1 846	6 185	8 031
Other operating expense	(12 845)	(2 917)	19	(15 743)	(9 650)	(25 393)
Salaries and employee benefit	(47 107)	(13 562)	(681)	(61 350)	(64 728)	(126 078)
Other administrative expenses*	-	(816)	1 596	780	(73 343)	(72 563)
Amortisation	(6 320)	(483)	(1)	(6 804)	(10 462)	(17 266)
Depreciation	(2 734)	(2 516)	131	(5 119)	(10 401)	(15 520)
Profit before provisions, impairment and tax	235 575	128 954	10 442	374 971	(169 808)	205 163
Net modification gains or losses					(80)	(80)
Provisions*	-	(142)	-	(142)	130	(12)
Impairment losses	(66 598)	(13 681)	461	(79 818)	(492)	(80 310)
Net (loss)/ gain arising from the derecognition of financial assets at amortized cost	8 026	1 079	-	9 105	(125)	8 980
Profit before tax	177 003	116 210	10 903	304 116	(170 375)	133 741
Segment assets	10 443 053	6 201 646	6 084 620	22 729 319	513 536	23 242 855
Segment liabilities	8 913 870	4 889 742	7 3460 323	21 163 935	343 996	21 507 931

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

7. Cash and cash equivalents

'Cash and cash equivalents' comprise the following balances:

€ '000	2022	2021
Cash in hand	188 375	175 676
Balances at central banks:		
Compulsory minimum reserves	169 104	2 109 981
Current accounts	1	2
Term deposits	2 303 949	96 548
Loans and advances	373 437	213 304
	2 846 491	2 419 835
Due from other banks:		
Current accounts	25 630	17 276
	3 060 496	2 612 787

The balance of "Loans and advances" as of December 31. December 2022 consists of five reverse repo transactions with a contractual maturity of up to three months with the Czech National Bank, secured by CNB treasury bills.

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

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

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

€ '000	2022	2021
Financial assets held for trading:		
Trading derivatives	58 872	27 158
Equity instruments	-	-
Government debt securities of European Union countries	1 532	2 906
	60 404	30 064
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	3 991	7 316
Financial liabilities held for trading:		
Trading derivatives	61 463	30 863

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

€ '000	2022 Assets	2021 Assets	2022 Liabilities	2021 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	55 616	16 173	54 596	17 744
Options	97	-	62	-
	55 713	16 173	54 658	17 744
Foreign currency instruments:				
Forwards and swaps	2 852	5 232	6 503	7 398
Options	92	103	91	103
	2 944	5 335	6 594	7 501
Equity and commodity instruments:				
Commodity forwards and swaps	215	5 650	211	5 618
	215	5 650	211	5 618
	58 872	27 158	61 463	30 863

€ '000	2022 Assets	2021 Assets	2022 Liabilities	2021 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	1 964 282	1 848 175	1 964 282	1 848 175
Options	73 073	109 565	73 073	109 565
Futures	1 556	-	1 556	-
	2 038 911	1 957 740	2 038 911	1 957 740
Foreign currency instruments:				
Forwards and swaps	406 523	721 750	411 118	726 204
Options	15 916	5 211	15 916	5 211
	422 439	726 961	427 034	731 415
Equity and commodity instruments:				
Commodity forwards and swaps	2 276	6 867	2 276	6 867
	2 276	6 867	2 276	6 867
	2 463 626	2 691 568	2 468 221	2 696 022

9. Derivatives - Hedge accounting

€ '000	2022 Assets	2021 Assets	2022 Liabilities	2021 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	352 265	55 574	316 157	31 510

9.1. Fair value hedges of interest rate, foreign currency and inflation risk as of date of preparation of the financial statements

The VUB Group used **21 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 **26 interest rate swaps** to hedge the interest rate risk of a pool of **current accounts**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The VUB Group used **38 interest rate swaps** to hedge the interest rate risk of **11 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 **15 interest rate swaps** to hedge the interest rate risk of **13 fixed rate financial institutions bonds from the FVOCI portfolio**. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The VUB Group used **4 interest rate swaps** hedge the interest rate risk of **4 corporate loans denominated in EUR**. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

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

The VUB Group used **1 interest rate swap** to hedge the interest rate risk of **1 loan received from European Investment VUB Group ('EIB')**. The change in fair value of this interest rate swap substantially offset the change in fair value of this loan in relation to changes of interest rates.

The VUB Group used **37 interest rate swaps** to hedge the interest rate risk arising from the issuance of **17 fixed rate covered bonds**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

The VUB Group used **1 cross currency swap** to hedge the interest rate and foreign currency risk arising from **1 corporate bond denominated in PLN**. The change in fair value of this swap substantially offset the change in fair value of the bond in relation to changes of both interest rates and foreign exchange rates.

The VUB Group used **11 interest rate swaps** to hedge the interest rate risk of **9 internal loans to VUB Branch Prague** The changes in fair value of these interest rate swaps substantially offset the changes in fair value of this loan in relation to changes of interest rates.

2022	Assets	Liabilities	Assets	Liabilities		
€ '000	Fair values	Fair values	Notional values	Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffectiveness recognized in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	126 491	24 211	1 408 200	1 408 200	96 703	-
Hedge of corporate loans	23 284	-	341 988	341 988	17 861	(46)
Hedge of loans received from EIB	-	6 330	50 000	50 000	(5 445)	15
Hedge of covered bonds	69 792	261 343	3 292 400	3 292 400	(211 307)	-
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	2 609	2 230	87 606	91 205	9 249	-
Hedge of corporate bonds at AC	-	2 722	38 817	40 378	(647)	-
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	130 089	-	3 830 400	3 830 400	127 783	(511)
Hedge of current accounts	-	19 321	166 500	166 500	(22 298)	53
Hedge of reverse REPO	-	-	-	-	150	70

2021 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffectiveness recognized in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	6 178	1 873	1 138 100	1 138 100	23 164	-
Hedge of corporate loans	7 415	1 981	399 770	399 770	8 427	-
Hedge of loans received from EIB	-	584	50 000	50 000	(1 124)	15
Hedge of covered bonds	29 859	11 409	2 192 400	2 192 400	(44 194)	-
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	-	7 714	87 606	89 868	5 200	-
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	5 845	6 972	2 290 000	2 290 000	14 566	(29)
Hedge of current accounts	4 012	977	506 500	506 500	(4 102)	73
Hedge of reverse REPO	2 265	-	1 650 000	1 650 000	(150)	(230)

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

2022 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 114 137	-	(96 703)	233
Corporate loans	Financial assets at AC:				
	Due from customers	433 193	(34 397)	(27 156)	(963)
Corporate bonds at AC	Financial assets at AC:				
	Due from customers	-	-	647	-
Loans received from EIB	Financial assets at AC:				
	Due to banks	50 000	(6 005)	(5 460)	-
Covered bonds	Financial liabilities at AC:				
	Debt securities in issue	2 308 346	(192 731)	(211 307)	3 070
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	3 830 400	(126 425)	(128 294)	15
Current accounts	Financial liabilities at AC:				
	Due to customers	-	(19 536)	(22 351)	-
Reverse REPO	Financial assets at AC:				
	Loans and advances to banks	166 500	-	(80)	-

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

2021 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Accumulated amount of fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 114 512	-	(23 164)	(113)
Corporate loans	Financial assets at AC: Due from customers	397 119	7 240	(13 627)	131
Loans received from EIB	Financial assets at AC: Due to banks	50 000	(544)	(1 139)	-
Covered bonds	Financial liabilities at AC: Debt securities in issue	1 582 705	17 611	(44 194)	40 572
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	1 975 000	1 869	(14 595)	1 352
Current accounts	Financial liabilities at AC: Due to customers	452 500	2 816	(4 175)	-
Reverse REPO	Financial assets at AC: Loans and advances to banks	1 650 248	80	(80)	-

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

€ '000	Less than 1 year	1 - 5 years	2022 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	80 200	531 900	490 100
	(0,39)%	(0,04)%	0,71%
Hedge of corporate loans	85 733	256 254	-
	0,26%	2,84%	-
Hedge of mortgage loans	1 277 000	2 472 000	81 400
	(0,16)%	0,57%	1,72%
Hedge of TLTRO	-	50 000	-
	-	(0,26) %	-
Hedge of current account	-	112 500	54 000
	-	0,64%	(0,01)%
Hedge of covered bonds	170 000	1 824 500	367 900
	0,78 %	1.02 %	0,88 %
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	-	91 206	-
	-	2,63%	-
Hedge of corporate bonds at AC	-	40 378	-
	-	0,00%	-

€ '000	Less than 1 year	1 - 5 years	2021 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	28 000	642 100	410 000
	(0,33)%	(0,22)%	0,00%
Hedge of REPO deal	1 650 000	-	-
	(0,54)%	-	-
Hedge of corporate loans	116 509	283 260	-
	0,03%	1,17%	-
Hedge of mortgage loans	-	2 290 000	-
	-	(0,21)%	-
Hedge of TLTRO	-	50 000	-
	-	(0,26)%	-
Hedge of current account	340 000	85 500	81 000
	(0,56)%	0,62%	-
Hedge of covered bonds	250 000	824 500	917 900
	(0,57)%	0,82%	0,89%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	-	89 868	-
	-	0,00%	-

10. Financial assets at fair value through other comprehensive income

€ '000	2022	2021
Government debt securities of European Union countries	1 149 424	1 347 770
of which Italian government debt securities	*198 699*	*301 022*
Bank debt securities	249 297	283 081
Other debt securities	28 716	32 962
Equity instruments:		
Visa Inc. Series A Preferred Stock	-	7 462
Visa Inc. Series C Preferred Stock	-	-
Intesa Sanpaolo S.p.A.	39	43
S.W.I.F.T.	102	85
	141	7 590
	1 427 578	1 671 403

At 31 December 2022, the bonds in the total nominal amount of € 1 404 950 thousand were pledged by the Bank to secure collateralized transactions (31 December 2021: € 1 516 100 thousand). These bonds were pledged in favour 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 amortized cost

11.1. Due from other banks

€ ’000	Note	2022	2021
Term deposits:			
with contractual maturity over 90 days		6 036	28
Loans and advances:			
with contractual maturity over 90 days		137 296	1 786 002
Cash collateral		10 327	33 471
Impairment losses	21	(365)	(109)
		153 294	1 819 392

11.2. Due from customers

2022 € ’000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
State administration	79 706	(647)	79 059
Municipalities	110 386	(991)	109 395
Municipalities - Leasing	339	(1)	338
	190 431	(1 639)	188 792
Corporate			
Large Corporates	2 686 235	(24 014)	2 662 221
Large Corporates - debt securities	147 032	(919)	146 113
Specialized Lending	929 074	(27 863)	901 211
SME	1 822 103	(44 068)	1 778 035
Other Non-banking Financial Institutions	450 373	(138)	450 235
Other Non-banking Financial Institutions - debt securities	261 018	(80)	260 938
Public Sector Entities	3 360	(1)	3 359
Leasing	164 571	(8 233)	156 338
Factoring	161 224	(1 192)	160 032
	6 624 990	(106 508)	6 518 482
Retail			
Small Business	538 250	(42 260)	495 990
Small Business - Leasing	42 742	(3 908)	38 834
Consumer Loans	1 295 641	(139 995)	1 155 646
Mortgages	8 965 879	(55 820)	8 910 059
Credit Cards	97 179	(10 919)	86 260
Overdrafts	66 573	(6 396)	60 177
Leasing	4 634	(138)	4 496
Flat Owners Associations	39 426	(232)	39 194
	11 050 324	(259 668)	10 790 656
	17 865 745	(367 815)	17 497 930

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

At 31 December 2022, the 20 largest corporate customers represented a total balance of € 1 418 666 thousand (31 December 2021: € 1 418 491 thousand), respectively 8,11% (31 December 2021: 8,51% of the total loan portfolio.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

€ '000	2022	2021
Up to one year	-	92 482
one to two years	84 013	55 679
two to three years	56 253	39 170
three to four years	41 365	24 928
four to five years	21 958	10 530
Over five years	9 876	9 772
	8 229	232 561
Unearned future finance income on finance leases	221 694	(1 501)
Impairment losses	(9 409)	(14 728)
	(12 279)	216 332

11.3. Due to banks

€ '000	2022	2021
Due to central banks:		
Current accounts	964	913
Loans received from central banks	59 610	2 490 778
	60 574	2 491 691
Due to other banks:		
Current accounts	100 060	89 915
Term deposits	8 639	5 862
Loans received from other banks	839 440	699 824
Revaluation of fair value hedged loans received	(6 005)	(544)
Cash collateral received	2 360	28 200
	944 494	823 257
	1 005 068	3 314 948

At 31 December 2022, 'Loans received from central banks' contains one loans from National Bank of Slovakia in the nominal amount of € 60 000 thousand. The interest rate for these loans was 2% and the maturity is in 2024. The principal and interests are due at maturity of the loans.

The breakdown of 'Loans received from other banks' according to the counterparty is presented below:

€ '000	2022	2021
Intesa Sanpaolo S.p.A.	751 459	601 596
European Investment Bank	83 294	91 660
European Bank for Reconstruction and Development	4 687	6 568
	839 440	699 824

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2022			Cash flow		Non-cash changes		
€ '000	1 January	Proceeds	Repayments	Accruals	Revaluation	Other	31 December
Loans received from other banks (including revaluation)	699 280	350 000	(205 294)	1 459	(6 005)	-	839 440

2021			Cash flow		Non-cash changes		
€ '000	1 January	Proceeds	Repayments	Accruals	Revaluation	Other	31 December
Loans received from other banks (including revaluation)	568 939	251 562	(129 073)	8 971	(1 119)	-	699 280

11.4. Due to customers

€ '000	2022	2021
Current accounts	10 828 356	10 508 478
Term deposits	3 475 387	2 345 852
Government and municipal deposits	812 724	772 184
Savings accounts	167 748	212 319
Loans received	-	-
Other deposits	123 648	113 932
	15 407 863	13 952 765

11.5. Lease liabilities

€ '000	2022	2021
Lease liabilities	19 322	19 133

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2022		Cash flow	Non-cash changes				
€ '000	1 January	Proceeds	New	Accruals	Revaluation	Other	31 December
Lease liabilities	19 133	(6 853)	7 042	-	-	-	19 322

2021		Cash flow	Non-cash changes				
€ '000	1 January	Proceeds	New	Accruals	Revaluation	Other	31 December
Lease liabilities	18 562	(4 382)	4 953	-	-	-	19 133

11.6. Subordinated debt

€ '000	2022	2021
Subordinated debt	250 368	200 150

At 31 December 2022, the balance of subordinated debt comprised of one ten-year loan from INTESA SANPAOLO SPA in the nominal amount of € 50,000 thousand with maturity in 2032 and interest rate of 5,552% and of one two-year loan from Intesa Sanpaolo Holding International in the nominal amount of € 200,000 thousand with maturity in 2026 and interest rate of 5,366%.

(At 31 December 2021, the balance of subordinated debt comprised of one ten-year loan in the nominal amount of € 200,000 thousand from Intesa Sanpaolo Holding International. Maturity is in 2026. The interest rate was 2,697% as at 31 December 2022.)

In accordance with the loan agreement, the loan as an unsecured obligation, can be used for the settlement of the debts of the Bank and shall not be repaid prior to repayment of all claims of the Bank's non-subordinated creditors.

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2022		Cash flow		Non-cash changes			
€ '000	1 January	Proceeds	Repayments	Accruals	Revaluation	Other	31 December
Subordinated debt	200 150	250 000	(200 000)	218	-	-	250 368

2021		Cash flow		Non-cash changes			
€ '000	1 January	Proceeds	Repayments	Accruals	Revaluation	Other	31 December
Subordinated debt	200 151	-	-	(1)	-	-	200 150

11.7. Debt securities in issue

€ '000	2022	2021
Covered bonds	1 665 323	2 584 897
Covered bonds subject to fair value hedges	2 308 346	1 185 976
	3 973 669	3 770 873
Revaluation of fair value hedged covered bonds	(192 731)	17 611
Unamortised part of revaluation related to terminated fair value hedges	3 070	40 572
	3 784 008	3 829 056

The repayment of covered bonds is funded by the mortgage loans denominated in EUR provided to customers of the VUB Group (note 11.2.) and debt securities in FVOCI portfolio (note 10).

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2022		Cash flow		Non-cash changes			
€ '000	1 January	Proceeds from issue	Repayments	Accruals	Revaluation	Other	31 December
Covered bonds	3 829 056	500 000	(300 000)	15 781	(260 829)	-	3 784 008

2021		Cash flow		Non-cash changes			
€ '000	1 January	Proceeds from issue	Repayments	Accruals	Revaluation	Other	31 December
Covered bonds	3 422 729	500 000	(47 597)	6 920	(52 996)	-	3 829 056

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

€ '000	2022	2021
Financial assets at AC:		
Due from other banks:		
Loans and advances	-	80
Due from customers:		
Retail		
Mortgages	(126 410)	3 221
Financial liabilities at AC:		
Due to customers	(19 536)	2 816

13. Investments in joint ventures and associates

2022 € '000	Share	Cost	Revaluation	Carrying amount
Monilogi, s.r.o.	30,00%	1 787	-	1 787
Slovak Banking Credit Bureau, s. r. o.	33,33%	3	95	98
		3	95	1 885

2021 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali d. s. s., a. s.	50,00%	16 597	1 406	18 003
Slovak Banking Credit Bureau, s. r. o.	33,33%	3	84	87
		16 600	1 490	18 090

Monilogi and Slovak Banking Credit Bureau are associates of the VUB Group for which equity method of consolidation is used. The companies has been incorporated in the Slovak Republic.

The following is summarised selected financial information of the VUB Group's associates and joint ventures together with the reconciliation to the carrying amount of the VUB Group's interest in these companies:

	2022		2021
€ '000	SBCB	VUB Generali	SBCB
Net profit for the year*	24	20 276	4
Other comprehensive income	-	(220)	-
Total comprehensive income for the year	24	20 056	4
Assets**	296	40 642	261
Liabilities	(11)	(4 634)	(11)
Equity	285	36 008	249
VUB Group's interest on equity at 1 January	95	10 978	83
Share of profit/(loss)	-	10 138	-
Share of other comprehensive income	-	(110)	-
Dividends received during the year	-	(3 002)	-
VUB Group's interest on equity at 31 December	95	18 004	83
Carrying amount at 31 December	95	18 004	83
* *includes: Interest income*	-	458	-
Depreciation and amortization	-	(174)	-
Income tax expense	-	(5 396)	-
* * *includes: Cash and cash equivalents*	14	19	6

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

2022 € '000	Owned and used	Owned and leased	Right-of-use	Total
Buildings and land	76 823	-	16 621	93 444
Equipment	5 602	141	-	5 743
Other tangibles	1 025	11 791	2 425	15 241
Assets in progress	12 871	51	-	12 922
	96 321	11 983	19 046	127 350

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

2022 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	113 201	46 372	45 665	6 470	211 708
Revaluation	(1 570)	-	-	-	(1 570)
Additions from merger	394	123	115	-	632
Additions	6 063	54	583	11 728	18 428
Disposals	(1 982)	(9 712)	(5 392)	-	(17 086)
Contribution to Monilogi	-	(955)	(8)	-	(963)
Transfers	1 695	1 187	2 394	(5 276)	-
Exchange differences	16	5	1	-	22
At 31 December	117 817	37 074	43 358	12 922	211 171
Accumulated depreciation					
At 1 January	(19 561)	(40 186)	(28 161)	-	(87 908)
Revaluation	3 307	-	-	-	3 307
Additions from merger	(184)	(106)	(44)	-	(334)
Depreciation for the year	(8 733)	(1 573)	(3 328)	-	(13 634)
Disposals	912	9 692	3 729	-	14 333
Contribution to Monilogi	-	846	8	-	854
Transfery	-	-	-	-	-
Exchange differences	(2)	(4)	-	-	(6)
At 31 December	(24 261)	(31 331)	(27 796)	-	(83 388)
Impairment losses (note 21)					
At 1 January	(326)	-	(362)	-	(688)
Additions from merger	-	-	-	-	-
Creation	-	-	(315)	-	(315)
Release	214	-	356	-	570
At 31 December	(112)	-	(321)	-	(433)
Carrying amount					
At 1 January	93 314	6 186	17 142	6 470	123 112
At 31 December	93 444	5 743	15 241	12 922	127 350

2021 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	109 558	53 534	47 323	7 944	218 359
Additions	5 151	-	2 712	8 852	16 715
Disposals	(6 121)	(8 733)	(8 541)	-	(23 395)
Transfers	4 596	1 561	4 169	(10 326)	-
Exchange differences	17	10	2	-	29
At 31 December	113 201	46 372	45 665	6 470	211 708
Accumulated depreciation					
At 1 January	(15 080)	(46 938)	(30 808)	-	(92 826)
Depreciation for the year	(9 948)	(1 956)	(3 616)	-	(15 520)
Disposals	5 478	8 716	6 263	-	20 457
Exchange differences	(11)	(8)	-	-	(19)
At 31 December	(19 561)	(40 186)	(28 161)	-	(87 908)
Impairment losses (note 21)					
At 1 January	(349)	-	(321)	-	(670)
Creation	-	-	(114)	-	(114)
Release	23	-	73	-	96
At 31 December	(326)	-	(362)	-	(688)
Carrying amount					
At 1 January	94 129	6 596	16 194	7 944	124 863
At 31 December	93 314	6 186	17 142	6 470	123 112

Of which owned and leased property and equipment:

2022 € '000	Equipment	Other tangibles	Assets in progress	Total
Cost				
At 1 January	299	20 998	-	21 297
Additions	-	-	2 515	2 515
Disposals	(283)	(3 777)	-	(4 060)
Transfers	149	2 271	(2 464)	(44)
At 31 December	165	19 492	51	19 708
Accumulated depreciation				
At 1 January	(246)	(6 942)	-	(7 188)
Depreciation for the year	(59)	(2 551)	-	(2 610)
Disposals	281	2 113	-	2 394
At 31 December	(24)	(7 380)	-	(7 404)
Impairment losses				
At 1 January	-	(362)	-	(362)
Creation	-	(315)	-	(315)
Release	-	356	-	356
At 31 December	-	(321)	-	(321)
Carrying amount				
At 1 January	53	13 694	-	13 747
At 31 December	141	11 791	51	11 983

2021 € '000	Equipment	Other tangibles	Assets in progress	Total
Cost				
At 1 January	277	21 685	759	22 721
Additions	-	-	3 052	3 052
Disposals	-	(4 476)	-	(4 476)
Transfers	22	3 789	(3 811)	-
At 31 December	299	20 998	-	21 297
Accumulated depreciation				
At 1 January	(125)	(6 895)	-	(7 020)
Depreciation for the year	(121)	(2 733)	-	(2 854)
Disposals	-	2 686	-	2 686
At 31 December	(246)	(6 942)	-	(7 188)
Impairment losses				
At 1 January	-	(321)	-	(321)
Creation	-	(114)	-	(114)
Release	-	73	-	73
At 31 December	-	(362)	-	(362)
Carrying amount				
At 1 January	152	14 469	759	15 380
At 31 December	53	13 694	-	13 747

Of which right-of-use assets:

2022 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	32 506	2 735	35 241
Additions from merger	394	-	394
Additions	6 063	583	6 646
Disposals	(1 304)	-	(1 304)
Exchange differences	13	1	14
At 31 December	37 672	3 319	40 991
Accumulated depreciation			
At 1 January	(15 788)	(487)	(16 275)
Additions from merger	(184)	-	(184)
Depreciation for the year	(6 285)	(405)	(6 690)
Disposals	1 207	(2)	1 205
Exchange differences	(1)	-	(1)
At 31 December	(21 051)	(894)	(21 945)
Carrying amount			
At 1 January	16 718	2 248	18 966
At 31 December	16 621	2 425	19 046

2021 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	31 338	37	31 375
Additions	5 151	2 712	7 863
Disposals	(3 994)	(16)	(4 010)
Exchange differences	11	2	13
At 31 December	32 506	2 735	35 241
Accumulated depreciation			
At 1 January	(12 858)	(15)	(12 873)
Depreciation for the year	(6 583)	(472)	(7 055)
Disposals	3 658	-	3 658
Exchange differences	(5)	-	(5)
At 31 December	(15 788)	(487)	(16 275)
Carrying amount			
At 1 January	18 480	22	18 502
At 31 December	16 718	2 248	18 966

For 'Buildings and land' the VUB Group uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The VUB Group uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognized due to significant unobservable estimated valuation inputs. During November 2022, the VUB Group updated the revaluation of buildings and land to their current market value.

Significant part of branch premises that the VUB Group uses is a result of sale and leaseback transactions. These leasebacks are recognized as rights of use assets and lease liabilities. Average lease term of these premises was estimated to four years.

In 2022 the VUB Group reviewed the carrying amount of its property and equipment. An impairment test was carried out to determine the recoverable amount. The recoverable amount is determined with reference to the fair value less costs to sell or the value in use, if determinable and if it is higher than fair value. For property and equipment other than buildings and land is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances. The VUB Group measures buildings and land according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement. As a result of the impairment test the VUB Group recognized release of impairment loss in the amount of 136 thousand EUR (31 December 2021: creation of impairment loss in amount of € 40 thousand).

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2022	2021
Cost	107 082	105 888
Accumulated depreciation	(57 447)	(55 409)
Impairment losses	(112)	(326)
	49 523	50 153

During 2022 the VUB Group reassigned another three building into non-current assets classified as held for sale portfolio. The VUB Group held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2022	2021
Cost	6 385	614
Accumulated depreciation	(360)	(22)
Impairment losses	(79)	(77)
	5 946	515

At 31 December 2022, the gross book value of fully depreciated tangible assets that are still used by the VUB Group amounted to € 59 030 thousand (31 December 2021: € 67 514 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

At 31 December 2022, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2021: € nil thousand).

The VUB Group's insurance program covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism and other damages).

15. Intangible assets

2022 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	305 778	10 729	61 575	378 082
Additions from merger	2 466	79 811	178	82 455
Additions	19	-	16 209	16 228
Disposals	(1 124)	-	-	(1 124)
Transfers	9 290	-	(9 289)	1
Exchange differences	29	1	-	30
At 31 December	316 458	90 541	68 673	475 672
Accumulated amortization				
At 1 January	(236 760)	(10 474)	-	(247 234)
Additions from merger	(1 649)	-	-	(1 649)
Amortisation for the year	(18 299)	(494)	-	(18 793)
Disposals	1 125	-	-	1 125
Exchange differences	(26)	(1)	-	(27)
At 31 December	(255 609)	(10 969)	-	(266 578)
Impairment losses				
At 1 January	-	-	-	-
Release	-	-	(10 423)	(10 423)
31.december	-	-	(10 423)	(10 423)
Carrying amount				
At 1 January	69 018	255	61 575	130 848
At 31 December	60 849	79 572	58 250	198 671

2021 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	295 943	10 729	55 923	362 595
Additions	-	-	19 505	19 505
Disposals	(1 926)	-	-	(1 926)
Transfers	13 679	-	(13 678)	1
Exchange differences	48	-	3	51
At 31 December	307 744	10 729	61 753	380 226
Accumulated amortization				
At 1 January	(222 697)	(10 371)	-	(233 068)
Amortisation for the year	(17 163)	(103)	-	(17 266)
Disposals	1 924	-	-	1 924
Exchange differences	(40)	-	-	(40)
At 31 December	(237 976)	(10 474)	-	(248 450)
Carrying amount				
At 31 December	69 768	255	61 753	131 776
At 1 January	73 246	358	55 923	129 527
At 31 December	69 768	255	61 753	131 776

The acquisition of assets mainly includes the development of new software applications and the costs of technical evaluation of software that have not yet been put into use.

At 31 December 2022, the gross book value of fully amortized intangible assets that are still used by the VUB Group amounted to € 162 210 thousand (31 December 2021: € 153 444 thousand).

At 31 December 2022, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2021: € nil thousand).

16. Goodwill

€ '000	2022	2021
Retail Banking	18 871	18 871
Corporate Banking	10 434	10 434
	29 305	29 305

The VUB Group has identified three cash-generating units - retail VUB Grouping, corporate VUB Grouping and Central Treasury, which also represent operating segments used in segment reporting (note 6). VUB Leasing, a. s., was part of the corporate VUB Grouping operating segment. Each represents the smallest group of assets generating independent cash inflows and also the minimum level monitored by the VUB Group for planning and reporting processes.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that its carrying amount may be impaired. No goodwill impairment losses were reported in 2022 or 2021. The calculation is based on the same procedures as for the impairment test of investments in subsidiaries and associated companies (note 13).

During the merger of Consumer Finance Holding, a. s. to the VUB Group in 2018 was goodwill belonging to Consumer Finance Holding, a. s. also merged into the VUB Group. The VUB Group assigned this goodwill to the cash-generating unit Retail VUB Grouping, as Consumer Finance Holding, a. s., worked in the field of consumer loans.

During the division of VUB Leasing (note 2.3) Goodwill belonging to the company VUB Leasing was recognized in the VUB Group. This goodwill is further assessed within the corporate VUB Grouping segment.

The VUB Group uses the CAPM model for impairment testing for recalculation, using cash flow projections based on the latest financial budgets agreed by senior management covering a planned five-year period. The discount rate applied to future cash flows after a period of five years is adjusted by the projected growth rate. Both the discount rate and the projected growth rate are set at the level of the ISP group specifically for the Slovak market.

The following rates are used by the VUB Group:

€ '000	2022	2021
Pre-tax discount rate - cash flows	10,32%	9,60%
Pre-tax discount rate - terminal value	11,32%	10,54%
Projected growth rate	4,55%	1,94%

The calculation considers the following key assumptions:

– interest margins - the development of margins and volumes by product line,
– discount rates - based on CAPM,
– market share during the budget period,
– projected growth rates used to extrapolate cash flows beyond the budget period,
– current local GDP,
– local inflation rates.

17. Current and deferred income tax assets and liabilities

€ '000	2022	2021
Current income tax assets	441	1 594
Deferred income tax assets	50 446	55 471
Current income tax liabilities	24 231	12 018

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

€ '000	2022	Profit/ (loss) (note 34)	Equity	VUB Leasing and VUB Generali Merger	Exchange rate differences	2021
Financial assets at FVOCI	6 422	-	6 803	1 684	-	(2 065)
Financial assets at AC:						
Due from other banks	75	53	-	-	-	22
Due from customers	55 367	6 930	-	2 821	2	45 614
Property and equipment	(13 452)	(859)	(365)	-	-	(12 228)
Intangible assets	(14 471)	2 289	-	(16 760)	-	-
Other assets	7	-	-	-	-	7
Financial liabilities at AC:						
Lease liabilities	4 013	(283)	-	-	-	4 296
Provisions	2 920	(989)	-	-	-	3 909
Other liabilities	11 619	1 760	-	(91)	-	9 950
Other	(2 054)	(3 504)	11	(4 414)	-	5 854
	50 446	5 397	6 449	(16 760)	2	55 359

18. Other assets

€ '000	Note	2022	2021
Operating receivables and advances		19 078	14 185
Prepayments and accrued income		16 244	10 661
Other tax receivables		2 597	964
Settlement of operations with financial instruments		680	7
Inventories		365	1 175
Other		186	513
Receivables from termination of leasing		14	273
Impairment losses	21	(3 447)	(3 984)
		35 717	23 794

19. Provisions

€ '000	Note	2022	2021
Financial guarantees and commitments	21	14 407	20 446
Litigation	23	3 831	3 715
Restructuring provision		470	900
Other provisions		180	-
		18 888	25 061

2022 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	3 715	120	(4)	3 831
Restructuring provision	32	900	352	(782)	470
Other provisions	32	-	180	-	180
		4 615	652	(786)	4 481

2021 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	3 702	158	(145)	3 715
Restructuring provision	32	400	500	-	900
Other provisions	32	1	(1)	-	-
		4 103	657	(145)	4 615

20. Other liabilities

€ '000	2022	2021
Various creditors	52 491	45 402
NCI options schemes	38 396	-
Settlement with employees	28 804	28 012
Severance and Jubilee benefits	4 413	5 009
Settlement of operations with financial instruments	4 159	4 108
Accruals and deferred income	2 799	1 888
VAT payable and other tax payables	772	1 659
Settlement with shareholders	678	846
Share remuneration scheme	429	622
Investment certificates	359	526
Other	2 136	1 539
	135 436	89 611

At 31 December 2022 and 31 December 2021 there were no overdue balances within 'Other liabilities'.

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

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

	2022		2021	
	Jubilee benefits	Retirement benefits	Jubilee benefits	Retirement benefits
Discount rate	2,910%	1,200%	0,32%	(0,48)%
Growth of wages*	2 - 3%	2 - 3%	0,00%	0,00%
Future growth of wages*	2 - 3%	2 - 3%	2%	3%
Turnover rate (based on age)	3,64% - 44,38%	3,64% - 44,38%	4,6% - 42,6%	4,6% - 42,6%
Retirement age	Based on valid legislation		Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic		Based on mortality tables issued by the Statistical Office of the Slovak Republic	

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

The movements in social fund liability presented within 'Settlement with employees' were as follows:

2022 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	1 525	3 147	(4 105)	567

2021 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	2 672	1 145	(2 292)	1 525

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

2022 € '000	Note	1 January	Net creation/ release (note 33)	Assets Written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		329	(53)	-	-	-	276
Financial assets at AC:	11						
Due from other banks		109	256	-	-	-	365
Due from customers		346 586	74 084	(51 672)	(1 183)	-	367 815
Impairment losses according to IFRS 9		347 024	74 287	(51 672)	(1 183)	-	368 456
Financial guarantees and commitments	19	20 447	(7 326)	-	1 286	-	14 407
Impairment losses and provisions according to IFRS 9		367 471	66 961	(51 672)	103	-	382 863
Property and equipment and Non-current assets classified as held for sale	14	687	10 381	(213)	1	-	10 856
Other assets	18	3 473	(536)	-	510	-	3 447
Total impairment losses and provisions for financial guarantees and commitments		371 631	76 806	(51 885)	614	-	397 166

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

2021 €'000	Note	1 January	Net creation/ (release) (note 33)	Assets Written off / sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		306	23	-	-	-	329
Financial assets at AC:	11						
Due from other banks		706	(583)	-	(14)	-	109
Due from customers		331 219	75 360	(53 661)	(1 330)	(5 011)	346 577
Impairment losses according to IFRS 9		332 231	74 800	(53 661)	(1 344)	(5 011)	346 686
Financial guarantees and commitments	19	13 933	4 889	-	1 624	-	20 446
Impairment losses and provisions according to IFRS 9		346 164	79 689	(53 661)	280	(5 011)	367 132
Property and equipment and Non-current assets classified as held for sale	14	670	40	(24)	2	-	688
Other assets	18	3 403	581	-	-	-	3 984
Total impairment losses and provisions for financial guarantees and commitments		350 237	80 310	(53 685)	282	(5 011)	372 133

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

22. Equity

€ '000	2022	2021
Share capital - authorized, issued and fully paid:		
89 ordinary shares of € 3 319 391,89 each, not traded	295 426	295 426
4 078 108 ordinary shares of € 33,2 each, publicly traded	135 393	135 393
	430 819	430 819
Share premium	13 719	13 719
Reserves	89 324	114 062
Retained earnings (excluding net profit for the year)	1 166 711	1 062 985
	1 700 573	1 621 585

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

€ '000	2022	2021
Net profit for the year attributable to shareholders in € '000	169 522	113 339

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

The structure of shareholders is as follows:

€ '000	2022	2021
Intesa Sanpaolo Holding International S. A.	100,00%	100,00%
Domestic shareholders	0,00%	0,00%
Foreign shareholders	0,00%	0,00%
	100,00%	100,00%

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

The VUB Group manages its capital structure and adjust 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, issue capital securities or other capital instruments, classified as Additional Tier 1, or Tier2. 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	2022	2021 (Unaudited)
Tier 1 capital		
Share capital	430 819	430 819
Share premium	13 719	13 719
Retained earnings*	1 158 247	1 053 780
Profit or loss eligible	169 522	90 440
Legal reserve fund	87 493	89 778
Other capital funds	8 464	8 464
Accumulated other comprehensive income	1 831	25 025
(-) Value adjustments due to the requirements for prudent valuation	(43)	(56)
Other transitional adjustments to CET1 Capital	11 219	22 438
CET1 capital elements or deductions — other	(6 400)	(6 400)
Less goodwill and intangible assets	(211 543)	(137 793)
Less IRB shortfall of credit risk adjustments to expected losses	-	-
(-) Insufficient coverage for non-performing exposures	(157)	(336)
	1 663 170	1 589 878
Tier 2 capital		
IRB excess of provisions over expected losses eligible	44 858	14 502
Subordinated debt	209 726	200 000
Other transitional adjustments to T2 Capital	(2 570)	(5 141)
	252 014	209 361
Total regulatory capital	1 915 184	1 799 239

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

€ '000	2022	2021
Retained earnings	1 336 233	1 175 583
Net profit for the year	(169 522)	(113 339)
Other capital funds	(8 464)	(8 464)
	1 158 247	1 053 780

€ '000	2022	2021	2022 Required	2021 Required
Tier 1 capital	1 663 170	1 589 878	797 750	737 602
Tier 2 capital	252 014	209 361	252 014	209 361
Total regulatory capital	1 915 184	1 799 239	797 750	737 602
Total Risk Weighted Assets	9 971 874	9 220 027	9 971 874	9 220 027
CET 1 capital ratio	16,68%	17,24%	11,84%	11,84%
Total capital ratio	19,21%	19,51%	16,00%	15,00%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings, accumulated other comprehensive income, foreign currency translation and reserves. The deducted amounts in Tier 1 capital are goodwill, intangible assets and irrevocable payment commitments (contribution to Single Resolution Fund) and IRB shortfall. Certain adjustments are made to IFRSs-components 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 2022 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 (in compliance with their amendments - Regulation (EU) 2019/876 and Directive (EU) 2019/878), which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that the Bank must comply with on sub-consolidated and individual level. Starting from 1 January 2022, the overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 10.25%. This is the result:

- the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.5%, entirely of Common Equity Tier 1 ratio;
- additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an Other Systemically Important Institutions Buffer ('O-SII Buffer') of 1.75% and Systemic Risk Buffer ('SRB') was cancelled from 1.1.2022.

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).

Due to COVID-19 pandemic situation, NBS has decreased countercyclical buffer to 1% since 1 August 2020 (previously 1.5%). Moreover, NBS has announced the increase of the Countercyclical buffer from 1.8.2023. P2R composition based on CRD V rules has been updated to 75% Tier 1, out of which 75% should represent CET 1 (56.25% of P2R). These changes represent from 1 January 2022 capital requirement for CET 1 of 11.59% and capital requirement for Tier 1 of 13.38%.

The Overall Capital Requirement was at VUB Group level, as of 1 January 2022 set at 15.75% and consists of:

- capital requirement for Pillar 1 (8%),
- capital requirement for Pillar 2 (SREP add on 1.5% and Pillar 2 Capital Guidance 1%),
- capital requirement for a combined buffer (5.25%), consisting of Capital Conservation Buffer of 2.5%, and Other Systemically Important Institutions Buffer of 1.75% and a Countercyclical Buffer 1%.

Pillar 2 Capital Guidance has increased since 1.3.2022 to 1.25% and accordingly the Overall Capital Requirement has increased to 16% (13.63% for Tier 1 capital ratio and 11.84% for CET1 capital ratio). Since November 2014, the Bank has been under the supervision of the European Central Bank.

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

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) 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 are 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 2020, 70% in 2021, 50% in 2022 and 25% in 2022) to set the amount to be included in CET 1.

The static transitional approach is not applicable to the changes in valuation reserves deriving from re-classification of financial instruments during FTA (impact resulting from classification and measurement).

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

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

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

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

– the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9,
– the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the aforementioned Regulation, aimed at mitigating the impact of FTA;
– the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
– the reduction of the risk-weighted assets (RWA) on standard exposures as at 1 January 2018, which as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
– the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

Regulation (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) No 2019/876 as regards certain adjustments in response to the COVID-19 pandemic meaning amendments of the transitional arrangements for adoption of IFRS 9 (Art. 473a of CRR) the Bank continues to apply the static approach as defined for the first-time adoption of IFRS 9 in relation to own funds calculation, which is in line with ISP Group approach. Moreover, the Bank has decided not to adopt temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (Art. 468).

The prudential treatment of software assets

The VUB Group has adopted prudential treatment of software assets based on the Final Report "Draft Regulatory Technical Standards on the prudential treatment of software assets under Article 36 of Regulation (EU) 575/2013 (CRR)", EBA/RTS/2020/07, regarding updated version of the Capital Requirements Regulation 2019/876 and Directive 2019/878

(CRR II/CRD V) published in June 2019 concerning the modified version of article 36(1)b (CRR II) with regard to own funds requirements for institutions. The Bank has adopted the prudential amortization approach for software assets for the calculation of CET1 at individual and consolidated level starting from December 2020 based on EBA/RTS/2020/07 methodology, which is in line with ISP Group Approach. The prudential amortization allows the banks not to deduct from CET1 software assets that are prudentially valued (i.e. when the value of software assets is not negatively affected by status of resolution, insolvency or liquidation of the bank). The residual portion of the carrying amount of software is risk-weighted (100%), in accordance with the current CRR provisions. This treatment has also been established by Commission delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items.

23. Financial commitments and contingencies

23.1. Issued guarantees and commitments and undrawn credit facilities

€ '000	2022	2021
Issued guarantees	1 181 884	1 003 796
Commitments and undrawn credit facilities	4 635 340	4 425 762
of which revocable	*1 691 107*	*1 535 398*
	5 817 224	5 429 558

Issued guarantees represent irrevocable assurances that the VUB Group will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the VUB Group recognises 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 31 December 2022. Pursuant to this review, management has recorded total provisions of € 3 831 thousand (31 December 2021: € 3 715 thousand) in respect of such legal proceedings (note 19). The VUB Group will continue to defend its position in respect of each of these legal proceedings.

In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 31 777 thousand, as at 31 December 2022 (31 December 2021: € 32 516 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the VUB Group.

€ '000	2022	2021
Legal proceedings related to leasing contracts	3 369	3 253
Legal proceedings related to credit contracts	228	228
Legal proceedings related bankruptcy revocations	226	223
Legal proceedings on credit collection	8	7
Legal proceedings related to all other civil disputes	-	4
	3 831	3 715

23.3. Operating leasing

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

€ '000	2022	2021
Up to one year	4 931	6 548
One to two years	2 701	4 250
Two to three years	1 109	2 141
Three to four years	204	1 054
Four to five years	40	866
Over to five years	-	33
	8 985	14 892

24. Net interest income

€ '000	2022	2021
Interest and similar income		
Financial assets at FVTPL	10	36
Financial assets at FVOCI	4 878	691
Financial assets at AC:		
Due from other banks	26 117	4 767
Due from customers	387 380	326 893
Derivatives - Hedge accounting	1 858	(18 387)
Interest income on liabilities	16 371	10 803
	436 614	324 803
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(10 587)	(1 918)
Due to customers and Subordinated debt	(56 586)	(13 964)
Lease liabilities	(168)	(154)
Debt securities in issue	(32 731)	(30 689)
Derivatives - Hedge accounting	12 084	18 536
Interest expense on assets	(12 682)	(9 310)
	(100 670)	(37 345)
	335 944	287 458

€ '000	2022	2021
Interest and similar income		
Total interest income calculated using the effective interest method	431 969	319 637
Other interest income - interest income on finance leases	4 635	5 130
Other interest income - interest income on financial assets at FVTPL	10	36
	436 614	324 803

€ '000	2022	2021
Net interest income		
Financial assets at FVOCI	4 878	691
Financial assets at AC	396 180	317 220
	401 058	317 911
Financial liabilities at AC	(83 533)	(35 768)

Interest income on impaired loans and advances to customers for 2022 amounted to € 9 535 thousand (2021: € 10 879 thousand).

25. Net fee and commission income

2022 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38 980	4 192	-	9	43 181
Cards	34 655	777	-	36	35 468
Loans	16 362	11 103	-	180	27 645
Payments and cash management	15 170	11 225	-	1	26 396
Indirect deposits	24 441	39	-	-	24 480
Insurance	14 309	-	-	-	14 309
Trade finance	11	8 279	1 436	-	9 726
Structured finance	-	2 458	-	-	2 458
Factoring	-	2 184	-	-	2 184
Other	485	1 802	637	-	2 924
	144 413	42 059	2 073	226	188 771
Fee and commission expense					
Cards	(18 224)	(84)	-	-	(18 308)
Payments and cash management	(2 235)	(7 430)	-	-	(9 665)
Current accounts	-	-	(498)	(690)	(1 188)
Factoring	-	(603)	-	-	(603)
Insurance	(399)	-	-	-	(399)
Indirect deposits	-	-	-	-	-
Other	(177)	65	(865)	(1 346)	(2 323)
	(21 035)	(8 052)	(1 363)	(2 036)	(32 486)
Net fee and commission income under IFRS 15	123 378	34 007	710	(1 810)	156 285
Income from guarantees under IFRS 9	-	6 766	-	-	6 766
Total net fee and commission income	123 378	40 773	710	(1 810)	163 051

2021 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38 205	3 626	-	11	41 842
Cards	29 143	267	-	68	29 478
Payments and cash management	14 340	9 214	16	2	23 572
Indirect deposits	22 411	42	-	-	22 453
Loans	12 691	7 575	-	341	20 607
Insurance	13 305	-	-	-	13 305
Trade finance	14	8 126	1 508	-	9 648
Factoring	-	1 630	-	-	1 630
Structured finance	-	1 547	-	-	1 547
Other	539	4 104	1 477	35	6 155
	130 648	36 131	3 001	457	170 237
Fee and commission expense					
Cards	(15 166)	-	-	-	(15 166)
Payments and cash management	(1 871)	(5 609)	-	(564)	(8 044)
Current accounts	-	-	(384)	(737)	(1 121)
Insurance	(394)	-	-	-	(394)
Factoring	-	(353)	-	-	(353)
Indirect deposits	-	35	-	-	35
Other	(116)	(189)	(1 296)	(2 360)	(3 961)
	(17 547)	(6 116)	(1 680)	(3 661)	(29 004)
Net fee and commission income under IFRS 15	113 101	30 015	1 321	(3 204)	141 233
Income from guarantees under IFRS 9	-	6 145	-	-	6 145
Total net fee and commission income	113 101	36 160	1 321	(3 204)	147 378

26. Net trading result

€ '000	2022	2021
Customer foreign exchange margins	10 421	7 656
Interest rate derivatives	7 649	306
Financial assets measured at FVOCI	1 343	6 140
Dividends from equity shares measured at FVOCI	153	98
Non-trading financial assets measured at FVTPL	(51)	116
Dividends from equity shares held in FVTPL	-	-
Equity derivatives	-	-
Financial assets held for trading – debt securities	(72)	62
Net result from hedging transactions	(419)	(172)
Cross currency swaps	(3 223)	(6 908)
Foreign currency derivatives and transactions	(5 297)	11 756
Other derivatives	167	62
	10 671	19 116

27. Other operating income

€ '000	2022	2021
Income from operating leasing	3 826	4 281
Net profit from sale of fixed assets	1 902	812
Financial revenues	737	765
Services	45	47
Profit from the revaluation of the original participation in the Joint Venture with VUB Generali	31 495	-
Other	2 224	2 126
	40 229	8 031

28. Other operating expenses

€ '000	2022	2021
Contribution to the Single Resolution Fund*	(16 067)	(7 424)
Contribution to the Deposit Protection Fund**	(6 083)	(5 267)
Costs of product support - credit cards	(1 848)	(1 497)
Court fees and expenses and out-of-court settlements	(481)	(1 215)
Other damages	(92)	(600)
Other	(14 783)	(9 390)
	(39 354)	(25 393)

* 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 2022 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2022, the VUB Group expensed the full amount of such contribution.

29. Special levy of selected financial institutions

As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective. This amendment also covered measures in the area of special levy of selected financial institutions. According to these measures no more special levy payments were required from July 2020 until the end of 2022.

30. Salaries and employee benefits

€ '000	2022	2021
Remuneration	(90 546)	(90 145)
Social security costs	(34 787)	(34 686)
Social fund	(3 147)	(1 145)
Termination benefit	430	(500)
Severance and Jubilee benefits	597	398
	(127 453)	(126 078)

At 31 December 2022, the total number of employees of the VUB Group was 3 358 (31 December 2021: 3 417). The average number of employees of the VUB Group during the year ended as at 31 December 2022 was 3 347 (31 December 2021: 3 503).

The VUB Group does not have any pension arrangements separate from the pension system established by law, which requires mandatory contributions of a certain percentage of gross salaries to the State owned social insurance and privately owned pension funds. These contributions are recognized 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	2022	2021
Third parties' services	(20 587)	(17 683)
Information technologies systems maintenance	(14 629)	(14 658)
Maintenance and repairs	(6 347)	(6 406)
Advertising and sponsorship	(5 332)	(5 110)
Energy costs	(5 431)	(2 917)
Rental of buildings and related expenses	(3 821)	(3 834)
Postage costs	(2 837)	(3 607)
Telephone and telecommunication costs	(2 693)	(3 226)
Forms and office supplies	(2 176)	(2 475)
Electronic data processing system leasing	(2 004)	(1 979)
Indirect personnel costs and compensation	(2 129)	(1 287)
Transport	(1 397)	(1 131)
Cleaning of premises	(1 278)	(1 518)
Security	(1 096)	(1 276)
Insurance	(1 024)	(1 130)
Other rentals	(938)	(769)
Archives and documents	(970)	(1 306)
Consultations and other fees*	(679)	(591)
Cost of legal services	(692)	(692)
Information and research	(226)	(207)
Value added tax and other taxes	257	(180)
Other expenses	(1 981)	(1 830)
Reinvoicing	1 539	1 249
	(76 471)	(72 563)

* 'Consultations and other fees' includes the fee for the statutory audit and financial statements in amount € 368 thousand (2021: € 302 thousand). There is included also fee for audit of the year end group reporting package, ancillary charge, audit of the consolidated financial statements. Other audit-related assurance services and non-audit services performed by the statutory auditor related to limited review of the half-yearly financial statements and reporting packages, limited review of the financial statements and reporting packages as at 31 March and 30 September, audit of the regulatory prudential returns as requested by the Slovak legislation and the Extended auditor's report to the National Bank of Slovakia, Q3 Interim condensed FS ISRE 2410 review, procedures in respect of adequacy of the Bank's measures as per § 71h - 71k of Act no. 566/2001, comfort letter in relation to year-end profit verification for ECB and comfort letter in relation to March 2022 covered bonds issue amounted to € 217 thousand (2021: € 127 thousand). All the amounts stated here are excl. VAT.

32. Provisions

€ '000	Note	2022	2021
Net release and use of provisions for litigations	19	(116)	(12)
Net release and use of provisions for other provisions	19	(180)	-
		(296)	(12

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

€ '000	Note	2022	2021
Net (creation)/release of impairment losses	21	(84 132)	(75 422)
Net (creation)/release of provisions for financial guarantees and commitments	21	7 326	(4 888)
		(76 806)	(80 310)
Net gain/(loss) arising from the derecognition of financial assets at AC		13 729	8 980

34. Income tax expense

€ '000	Note	2022	2021
Current income tax	17	(48 616)	(31 307)
Deferred income tax	17	5 397	765
		(43 219)	(30 542)

The movement in deferred taxes in the statement of profit or loss is as follows:

€ '000	2022	2021
Due from other banks	53	(96)
Due from customers	6 930	(7 626)
Property and equipment	(781)	1 921
Lease liabilities	(361)	(164)
Provisions	(989)	1 155
Other liabilities	1 760	1 484
Other	(3 504)	4 091
	5 397	765

The effective tax rate differs from the statutory tax rate in 2022 and in 2021. The reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

€ '000	2022	2021
Profit before tax	212 969	143 881
Theoretical tax calculated at the tax rate 21%	(44 723)	(30 215)
Tax impact:		
Non-taxable income	1 713	1 849
Tax non-deductible expenses	(2 822)	(8 156)
Impairment allowances and provisions, net	(3 043)	5 193
Additional tax of prior years	369	22
Creation/(release) of allowances for uncertain realization of deferred tax receivables	5 287	765
Income tax expense	(43 219)	(30 542)
Effective tax for the year	20.29%	21.23%

35. Other comprehensive income

€ '000	2022	2021
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation (loss)/gain arising during the year	(2 528)	(35)
Reclassification adjustment for profit on sale of FVOCI equities within equity	983	110
	(1 545)	75
Net revaluation gain from property and equipment	1 738	(28)
Reversal of deferred income tax on FTA Reserve due to VUB Leasing merger into VUB Bank	-	(741)
Reversal of deferred income tax on disposed property and equipment	-	22
	193	(672)
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 year	-	-
Change in value of financial assets at FVOCI (debt instruments):		
Revaluation loss arising during the year	(34 636)	17 360
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	4 006	(20 573)
	(30 630)	(3 213)
Exchange difference on translation foreign operation	75	79
	(30 555)	(3 134)
Total other comprehensive income	(30 362)	(3 806)
Income tax relating to components of other comprehensive income (note 36)	6 185	643
Other comprehensive income for the year after tax	(24 177)	(3 163)

36. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense) /benefit	Net of tax amount 2022	Before tax amount	Tax (expense) /benefit	Net of tax amount 2021
Items that shall not be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (equity instruments)	1 738	(365)	1 373	(28)	6	(22)
Reversal of deferred income tax on disposed property and equipment	-	-	-	22	-	22
Reversal of deferred income tax on FTA Reserve due to VUB Leasing merger into VUB Bank	-	-	-	(741)	-	(741)
Net revaluation gain from property and equipment property and equipment	(1 545)	118	(1 427)	75	(38)	37
	193	(247)	(54)	(672)	(32)	(704)
Items that may be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (debt instruments)	(30 630)	6 432	(24 198)	(3 213)	675	(2 538)
Exchange differences on translation foreign operations	75	-	75	79		79
Change in value of cash flow hedges	-	-	-	-	–	–
	(30 555)	6 432	(24 123)	(3 134)	675	(2 459)
	(30 362)	6 185	(24 177)	(3 806)	643	(3 163)

37. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates - enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the VUB Group that gives them significant influence over the VUB Group, and anyone expected to influence, or be influenced by, that person in their dealings with the VUB Group;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the VUB Group, including directors and officers of the VUB Group and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the VUB Group and enterprises that have a member of key management in common with the VUB Group.In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The stated transactions have been made under arms-length commercial and banking conditions.

In 2022, the remuneration and other benefits provided to members of the Management Board were € 3 468 thousand (2021: € 3,372 thousand), of which the severance benefits € 48 thousand (2021: € 24 thousand), and to members of the Supervisory Board € 58 thousand (2021: € 55 thousand).

As at 31 December 2022, the outstanding balances with related parties comprised:

2022 € '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Cash and cash equivalents	-	-	-	15 683	765	16 448
Financial assets at FVTPL:						
Financial assets held for trading	-	-	-	50 234	-	50 234
Non-trading financial assets at FVTPL	-	-	-	429	-	429
Derivatives - Hedge accounting	-	-	-	349 655	-	349 655
Financial assets at FVOCI	-	-	-	39	-	39
Financial assets at AC:						
Due from other banks	-	-	-	45 109	-	45 109
Due from customers	919	-	-	-	50 211	51 130
Other assets	-	-	-	72	3 115	3 187
	919	-	-	461 221	54 091	516 231
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	-	-	-	42 853	38	42 891
Derivatives - Hedge accounting	-	-	-	311 205	-	311 205
Financial liabilities at AC:						
Due to banks	-	-	-	886 546	2 927	889 473
Due to customers	912	-	254	-	8 250	9 416
Leasing liability	-	-	-	-	-	-
Subordinated debt	-	-	-	58 978	200 298	259 276
Provisions	-	-	-	6	2	8
Other liabilities	429	-	-	2 276	33	2 738
	1 341	-	254	1 301 864	211 548	1 515 007

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

2021 € '000	Key management personnel ('KMP')	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Cash and cash equivalents	-	-	-	35 165	388	35 553
Financial assets at FVTPL:						
Financial assets held for trading	-	-	-	8 925	7	8 932
Non-trading financial assets at FVTPL	-	-	-	622	-	622
Derivatives - Hedge accounting	-	-	-	55 574	-	55 574
Financial assets at FVOCI	-	-	-	43	-	43
Financial assets at AC:						
Due from other banks	-	-	-	1 649 885	-	1 649 885
Due from customers	312	3	-	-	19 988	20 303
Other assets	-	-	-	1	1 186	1 187
	312	3	-	1 750 215	21 569	1 772 099
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	-	-	-	16 317	-	16 317
Derivatives - Hedge accounting	-	-	-	23 787	-	23 787
Financial liabilities at AC:						
Due to banks	-	-	-	322 788	33 161	355 949
Due to customers	854	-	230	350 885	3 423	355 392
Subordinated debt	-	-	-	-	200 150	200 150
Provisions	-	-	-	10	-	10
Other liabilities	622	-	-	1 766	-	2 388
	1 476	-	230	715 553	236 734	953 993

As at 31 December 2022, the outstanding off-balance sheet balances with related parties comprised:

2022 € '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	257	-	-	187 532	8	187 797
Issued guarantees	-	-	-	30 579	7 880	38 459
Received guarantees	-	-	-	1 700	4 688	6 388
Derivative transactions (notional amount - receivable)	-	-	-	10 822 596	17 701	10 840 297
Derivative transactions (notional amount - payable)	-	-	-	10 822 894	17 729	10 840 623

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

2021 € '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	57	18	-	201 167	-	201 242
Issued guarantees	-	-	-	25 193	117	25 310
Received guarantees	-	-	-	6 408	-	6 408
Derivative transactions (notional amount - receivable)	-	-	-	9 991 301	6 907	9 998 208
Derivative transactions (notional amount - payable)	-	-	-	9 989 521	6 903	9 996 424

For the year ended 31 December 2022, the outstanding balances with related parties comprised:

2022 € '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense						
Interest and similar income	6	-	-	75	1 044	1 125
Interest and similar expense	(3)	-	-	(15 083)	(6 693)	(21 779)
Fee and commission income	1	-	1	178	20 902	21 082
Fee and commission expense	-	-	-	(488)	(4)	(492)
Net trading result	-	-	-	8 579	1 366	9 945
Other operating income	-	-	-	516	4 749	5 265
Other operating expenses	-	-	-	(8)	-	(8)
Other administrative expenses	-	-	-	(4 803)	(11 595)	(16 398)
Impairment losses	-	-	-	6	-	6
	4	-	1	(11 028)	9 769	(1 254)

For the year ended 31 December 2021, the outstanding balances with related parties comprised:

2021 € '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense						
Interest and similar income	3	-	-	3	97	103
Interest and similar expense	(2)	-	-	(4 353)	(5 620)	(9 975)
Fee and commission income	-	-	1	112	18 146	18 259
Fee and commission expense	-	-	-	(571)	(6)	(577)
Net trading result	-	-	-	(93 607)	(41)	(93 648)
Other operating income	-	-	-	44	60	104
Other operating expenses	-	-	-	(514)	-	(514)
Other administrative expenses	-	-	-	(8 570)	(2 589)	(11 159)
Impairment losses	-	-	-	24	-	24
	1	-	1	(107 432)	10 047	(97 383)

38. Events after the end of the reporting period

As of March 1, 2023, Jozef Kausich will be the new CEO of VUB banka. Alexander Resch, who has led VUB banka for the past ten years, will take over the position of Executive Director of the Retail & Wealth Management department within the division of international subsidiary banks of Intesa Sanpaolo.

From 31 December 2022, up to the date when these financial statements were authorized for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorized for issue by the Management Board on 27 February 2023. These financial statements will be published 28 February 2023 and will be available at the registered office of the Bank.

Alexander Resch
Chairman of the Management Board

Darina Kmeťová
Member of the Management Board

Separate financial statements

Separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditors’ Report for the year ended 31 December 2022

Contents

Independent auditor´s report
Separate statement of financial position as at 31 December 2022
Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2022
Separate statement of changes in equity for the year ended 31 December 2022
Separate statement of cash flows for the year ended 31 December 2022
1. Basis of preparation
2. Changes in accounting policies
3. Significant accounting policies
4. Financial and operational risk management
5. Estimated fair value of financial assets and financial liabilities
6. Segment reporting
7. Cash and cash equivalents
8. Financial assets and financial liabilities at fair value through profit or loss
9. Derivatives - Hedge accounting
10.Financial assets at fair value through other comprehensive income
11.Financial assets and financial liabilities at amortised cost
12.Fair value changes of the hedged items in portfolio hedge of interest rate risk
13.Investments in subsidiaries, joint ventures and associates
14.Property and equipment and Non-current assets classified as held for sale
15.Intangible assets
16.Goodwill
17.Current and deferred income tax assets and liabilities
18.Other assets
19.Provisions
20.Other liabilities
21.Movements in impairment losses and provisions for financial guarantees and commitments
22.Equity
23.Financial commitments and contingencies
24.Net interest income
25.Net fee and commission income
26.Net trading result
27.Other operating income
28.Other operating expenses
29.Special levy of selected financial institutions
30.Salaries and employee benefits
31.Other administrative expenses
32.Provisions
33.Impairment losses and Net (loss)/gain arising from the derecognition of financial assets at amortised cost
34.Income tax expense
35.Other comprehensive income
36.Income tax effects relating to other comprehensive income
37.Related parties
38.Profit distribution
39.Events after the end of the reporting period

Ernst & Young Slovakia, spol. s r.o.
Žižkova 9
811 02 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
www.ey.com/sk

Independent Auditor's Report

To the Shareholder, Supervisory Board, Management Board and to the Audit Committee of Všeobecná úverová banka, a.s.:

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Všeobecná úverová banka, a.s. ("the Bank"), which comprise the separate statement of financial position as at 31 December 2022, separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying separate financial statements.

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

Impairment allowances for due from customers

Due from customers valued at amortized cost less impairment as at 31 December 2022 amount to EUR 17,504,728 thousand and represent a significant portion of the Bank's total assets. As disclosed in Note 11.2 (Due from customers) to the separate financial statements, it included the gross book value of due from customers valued at amortized cost of EUR 17,872,139 thousand and impairment allowance of EUR 367,411 thousand.

Determining the amount and the moment of recognizing impairment allowances for expected credit losses requires significant judgments and complex estimates of the management disclosed in Note 4.1.2 (Impairment losses) to the separate financial statements. For performing exposures and non-performing exposures below EUR 500 thousand individually, it comprises assumptions built into statistical credit loss models, such as assessment of significant increase in credit risk, definition of default, incorporation of forward-looking information, calculation of the loss given default parameter and the recovery rates. For exposures above EUR 500 thousand individually, the Bank performs an individual assessment based on the detailed review and analysis of the borrower's situation and for non-performing exposures, the judgments include identification of loss events other than overdue payments and estimation of timing and amount of expected cash flows from repayments and realization of collaterals.

The Covid-19 global pandemic, war in Ukraine, energy crisis, rising inflation and interest rates introduced additional estimation uncertainties as well as their increased complexity.

Due to the significance of due from customers in relation to the total assets and significance of the management's judgments and estimates and their complexity regarding the expected credit losses described above, we evaluated impairment allowances for due from customers as a key audit matter.

As part of our audit procedures, we documented our understanding of the Bank's credit risk management policies. We obtained an understanding, evaluated the design and tested the operating effectiveness of the internal controls over the approval, recording and monitoring of the loans, identification of loss events and impairment triggers and the process of calculating impairment allowances for due from customers.

We involved credit risk specialists to assist us with assessment of the impairment allowances methodology, methods and results of the Bank's tests of credit risk parameters (so called "back-testing") and models, their assumptions and implementation in the system in accordance with the IFRS 9 requirements.

We evaluated whether the Bank appropriately considered the impact of Covid-19 global pandemic, war in Ukraine, energy crisis, rising inflation and interest rates in its impairment allowances measurement assumptions.

We reconciled a register of due from customers with accounting records to assess completeness of the recognition of due from customers, which create the basis for the calculation of impairment allowances for expected credit losses. On a selected sample, we also reviewed the mathematical correctness of the impairment allowances calculation.

On a selected sample, we analyzed loan exposures assessed individually by the Bank. For selected performing exposures, we analyzed the economic and financial situation of borrowers and fulfillment of the terms of loan agreements to evaluate appropriateness of the classification into risk categories, so-called 'staging'. In case of non-performing exposures, we assessed the reasonableness of the expected cash flows from repayments and recoverable amounts of collateral based on available financial and market data.

We performed analytical procedures on disaggregated data on the quarterly development of the impairment allowance per portfolios, products and stages related to the development of the structure and characteristics of the credit portfolio including the impairment allowances, reflecting the quality of the loan portfolio in the light of the impairment allowances for expected credit losses for loans to customers aimed at identifying portfolios of loans to customers with understated impairment provisions.

We involved specialists in the field of IT systems to assist us with the testing of effectiveness of the control mechanisms of IT systems, in which the Bank calculates the credit risk parameters and the impairment allowances for expected credit losses.

We also assessed the disclosures in Note 4.1.2 (Impairment losses) and Note 11.2 (Due from customers) regarding expected credit losses for due from customers included in the separate financial statements in terms of their completeness and compliance with IFRS EU requirements.

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

Management is responsible for the preparation of the separate financial statements that give true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements including the presented information as well as whether the separate financial statements captures the underlying transactions and events in a manner that leads to their fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Consolidated Annual Report

Management is responsible for the information disclosed in the consolidated annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Accounting"). Our opinion on the separate financial statements expressed above does not apply to other information contained in the consolidated annual report.

In connection with audit of the separate financial statements it is our responsibility to understand the information disclosed in the consolidated annual report and to consider whether such information is not materially inconsistent with audited separate financial statements or our knowledge obtained in the audit of the separate financial statements, or otherwise appears to be materially misstated.

We considered whether the Bank's consolidated annual report contains information, disclosure of which is required by the Act on Accounting.

Based on procedures performed during the audit of separate financial statements, in our opinion:

- Information disclosed in the consolidated annual report prepared for 2022 is consistent with the separate financial statements for the relevant year,
- The consolidated annual report contains information based on the Act on Accounting.

Additionally, based on our understanding of the Bank and its situation, obtained in the audit of the separate financial statements, we are required to disclose whether material misstatements were identified in the consolidated annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

Presentation of the Separate Financial Statements in Compliance with the Requirements of the European Single Electronic Format ("ESEF")

The management is responsible for the presentation of the separate financial statements for the year ended 31 December 2022 included in the Annual Financial Report that complies with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("the ESEF Regulation"). The presentation of the separate financial statements for the year ended 31 December 2022 in electronic XHTML format is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate financial statements does not cover the compliance of the presentation of the accompanying separate financial statements with the requirements of the ESEF Regulation.

After management provides us with the electronic XHTML format of the accompanying separate financial statements, our responsibility will be to perform an engagement in accordance with the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits and Reviews of Historical Financial Information, with the objective to obtain reasonable assurance on the compliance of the separate financial statements with the requirements of the ESEF Regulation. Our updated auditor's report will either state that based on the procedures performed, the presentation of the separate financial statements complies, in all material respects, with the requirements of the ESEF Regulation, or we will describe any material non-compliance that we would identify in this respect.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment of Auditor

We were appointed as the statutory auditor by the General Meeting of Shareholder of the Bank on 19 April 2021. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 2 years.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on 23 February 2023.

Building a better working world

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and we remain independent from the Bank in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated annual report and in the separate financial statements, no other services which were provided by us to the Bank and its controlled undertakings.

27 February 2023
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský, statutory auditor
SKAU Licence No. 893

Separate statement of financial position as at 31 December 2022 (In thousands of EUR)

	Note	2022	2021
Assets			
Cash and cash equivalents	7	3 060 496	2 612 785
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading	8	60 404	30 064
Non-trading financial assets at fair value through profit or loss		3 991	7 316
Derivatives - Hedge accounting	9	352 265	55 574
Financial assets at fair value through other comprehensive income	10	1 412 341	1 671 403
of which pledged as collateral		*1 283 417*	*1 549 666*
Financial assets at amortized cost:	11		
Due from other banks		152 280	1 819 364
Due from customers		17 504 728	16 256 447
of which pledged as collateral		*77 233*	*1 649 850*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	(126 410)	3 301
Investments in subsidiaries, joint ventures and associates	13	26 406	69 656
Property and equipment	14	109 829	110 087
Intangible assets	15	119 261	130 848
Goodwill	16	29 305	18 871
Current income tax assets	17	-	-
Deferred income tax assets	17	65 382	53 880
Other assets	18	29 106	21 108
Non-current assets classified as held for sale	14	5 946	515
		22 805 330	22 861 219
Liabilities			
Financial liabilities at fair value through profit or loss:			
Financial liabilities held for trading		61 463	30 863
Derivatives - Hedge accounting	9	316 157	31 510
Financial liabilities at amortized cost:	11		
Due to banks		1 005 068	2 964 063
Due to customers		15 407 883	13 952 764
Lease liabilities		19 952	20 474
Subordinated debt		250 368	200 150
Debt securities in issue		3 784 008	3 829 056
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	(19 536)	2 816
Current income tax liabilities	17	24 231	12 018
Provisions	19	18 708	21 597
Other liabilities	20	95 966	86 186
		20 964 268	21 151 497
Equity	22		
Share capital		430 819	430 819
Share premium		13 719	13 719
Legal reserve fund		87 493	87 493
Retained earnings		1 306 553	1 152 984
Equity reserves		2 478	24 707
		1 841 062	1 709 722
		22 805 330	22 861 219

The accompanying notes on pages 238 to 414 form an integral part of these financial statements.

Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2022 (In thousands of EUR)

	Note	2022	2021
Interest income calculated using the effective interest method		431 987	306 313
Other interest income		4 380	36
Interest and similar expense		(100 713)	(35 980)
Net interest income	24	335 654	270 369
Fee and commission income		195 538	174 420
Fee and commission expense		(33 890)	(28 889)
Net fee and commission income	25	161 648	145 531
Dividend income		8 003	3 002
Net trading result	26	10 671	19 131
Other operating income	27	4 271	2 875
Other operating expenses	28	(36 883)	(22 339)
Special levy of selected financial institutions	29	-	-
Salaries and employee benefits	30	(126 921)	(122 908)
Other administrative expenses	31	(76 759)	(70 839)
Amortisation	15	(18 305)	(17 124)
Depreciation	16	(11 643)	(13 112)
Profit before provisions, impairment and tax		249 736	194 586
Net modification or losses		14	(80)
Provisions	19, 32	(116)	129
Impairment losses	21, 33	(76 744)	(73 090)
Net loss arising from the derecognition of financial assets at amortized cost	33	12 745	8 610
Profit before tax		185 635	130 155
Income tax expense	34	(44 543)	(29 169)
NET PROFIT FOR THE YEAR		141 092	100 986
Other comprehensive income for the year, after tax:	35, 36		
Items that shall not be reclassified to profit or loss in the future:			
Net revaluation gain from property and equipment		1 373	(22)
Reversal of deferred income tax on disposed property and equipment		-	22
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		(1 427)	37
		(54)	37
Items that may be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		(23 233)	(2 428)
Exchange difference on translation of foreign operations		75	79
		(23 158)	(2 349)
Other comprehensive income for the year, net of tax		(23 212)	(2 312)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		117 880	98 674
Basic and diluted earnings per € 33,2 share in €		10,87	7,78

The accompanying notes on pages 238 to 414 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2022

(In thousands of EUR)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Translation of foreign operation	Total
At 31 December 2021	430 819	13 719	87 493	1 152 984	17 215	7 392	100	1 709 722
VUB Leasing Merger	-	-	-	23 631	-	-	-	23 631
At 1 Janurary 2022	430 819	13 719	87 493	1 176 615	17 215	7 392	100	1 733 353
Total comprehensive income for the year, net of tax	-	-	-	141 092	1 373	(24 660)	75	117 880
Transfers	-	-	-	-	-	-	-	-
Losses on the sale of shares at FVOCI	-	-	-	(983)	-	983	-	-
Gain on disposal of property and equipment	-	-	-	-	-	-	-	-
Exchange difference	-	-	-	219	-	-	-	219
Transactions with owners, recorded directly in equity	-	-	-	(10 390)	-	-	-	(10 390)
Dividends to shareholders	-	-	-	*(10 534)*	-	-	-	*(10 534)*
Reversal of dividends distributed but not collected (note 38)	-	-	-	*144*	-	-	-	*144*
At 31 December 2022	430 819	13 719	87 493	1 306 553	18 588	(16 285)	175	1 841 062

(Table continues on the next page)

Separate statement of changes in equity for the year ended 31 December 2022

(In thousands of EUR)

(continued)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Revaluation surplus of buildings and land	Financial assets at FVOCI	Translation of foreign operation	Total
At 1 January 2021	430 819	13 719	87 493	1 134 224	17 297	9 673	21	1 693 246
Total comprehensive income for the year, net of tax	-	-	-	100 986	-	(2 391)	79	98 674
Gain on disposal of property and equipment	-	-	-	82	(82)	-	-	-
Transfer	-	-	-	20	-	-	-	20
Losses on the sale of shares at FVOCI	-	-	-	(110)	-	110	-	-
Exchange difference	-	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity								
Dividends to shareholders	-	-	-	*(82 487)*	-	-	-	*(82 487)*
Reversal of dividends distributed but not collected (note 38)	-	-	-	*269*	-	-	-	*269*
At 31 December 2021	430 819	13 719	87 493	1 152 984	17 215	7 392	100	1 709 722

The accompanying notes on pages 238 to 414 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2022

(In thousands of EUR)

	Note	2022	2021
Cash flows from operating activities:			
Profit before tax		185 635	130 155
Adjustments for:			
(Interest income)	24	(436 367)	(306 349)
Interest expense	24	100 713	35 980
(Dividend income)		(8 003)	(3 002)
Loss from sale/revaluation of financial assets at fair value through other comprehensive income		103 592	33 101
Loss on sale of intangible assets and property and equipment	28	102	(95)
(Gain) from revaluation of debt securities in issue		(247 844)	(52 996)
Amortisation	15	18 305	17 124
Depreciation	14	11 643	13 112
Impairment losses and similar charges	32, 33	126 814	131 417
Exchange difference on translation of foreign operations	35, 36	294	99
Interest received		424 568	330 245
(Interest paid)		(86 506)	(39 318)
Tax (paid)/received		(40 554)	5 908
(Increase)/Decrease in financial assets at fair value through profit or loss		(27 005)	48 754
(Increase)/Decrease in derivatives - hedge accounting (assets)		(296 691)	29 618
Financial assets at amortized cost:			
Decrease/(Increase) in due from other banks		1 670 665	(1 614 323)
(Increase) in due from customers		(976 277)	(1 667 086)
Decrease in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		129 711	16 715
Decrease in other assets		21 794	1 084
Increase/(Decrease) in financial liabilities at fair value through profit or loss		30 600	(56 514)
Increase/(Decrease) in derivatives - hedge accounting (liabilities)		284 647	(33 897)
Financial liabilities measured at amortized cost:			
(Decrease)/Increase in due to banks		(2 461 623)	2 562 334
Increase in due to customers		1 500 963	976 438
(Decrease) in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		(22 352)	(4 174)
Increase in provisions		972	1 995
Increase in other liabilities		7 441	7 960
Net cash from operating activities		15 237	564 285
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(967 225)	(1 047 698)
Disposal of financial assets at fair value through other comprehensive income		293 292	412 985
Repayments of financial assets at fair value through other comprehensive income		802 803	530 900
Purchase of intangible assets and property and equipment		(30 548)	(24 864)
Disposal of intangible assets and property and equipment		5 638	400
Dividends received		8 003	3 002
Investments in Monilogi, s.r.o.		(1 787)	-
Investments in VÚB Generali d.s.s., a. s.		(4 519)	-
Net cash from/used in investing activities		105 657	(125 275)

(Table continues on the next page)

Separate statement of cash flows for the year ended 31 December 2022

(In thousands of EUR)

(continued)

	Note	2022	2021
Cash flows from financing activities:			
Proceeds from issue of debt securities		500 000	500 000
Repayments of debt securities in issue		(300 000)	(47 597)
Proceeds from loans received from other banks		350 000	251 562
Repayments of loans received from other banks		(205 294)	(11 881)
Repayments of lease liabilities		(7 355)	(7 451)
Dividends paid		(10 534)	(82 487)
Net cash from financing activities		326 817	602 146
Net change in cash and cash equivalents		447 711	1 041 156
Cash and cash equivalents at the beginning of the year	7	2 612 785	1 571 629
Cash and cash equivalents at 31 December	7	3 060 496	2 612 785

The accompanying notes on pages 238 to 414 form an integral part of these financial statements.

1. Basis of preparation

1.1. Reporting entity general information

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

At 31 December 2022, the Bank had a network of 170 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2021: 179). The Bank also has one branch in the Czech Republic (31 December 2021: 1).

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

At 31 December 2022, the members of the Management Board are Alexander Resch (Chairman), Paolo Vivona, Andrej Viceník, Peter Magala, Martin Techman, Marie Kovářová and Darina Kmeťová.

At 31 December 2022, the members of the Supervisory Board are Ignacio Jaquotot (predseda), Elena Kohútiková (podpredsedníčka), Marco Fabris, Luca Leoncini Bartoli, Christian Schaack, Róbert Szabo and Draginja Duric.

1.2. Basis of accounting

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

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

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

1.3. Functional and presentation currency

The financial statements are presented in thousands of EUR ('€'), unless indicated otherwise. EUR is the functional and presentation currency of the Bank.

Negative balances are presented in brackets.

1.4. Use of judgements and estimates

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

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

1.4.1. Judgements

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

- Classification of financial instruments: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ('SPPI') on the principal amount outstanding. (note 3.4.2)
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ('ECL') and selection and approval of models used to measure ECL. (note 4.1.2)
- Valuation of lease liabilities (note 11.5) and right-of-use assets (note 14)

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

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

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

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

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

1.4.2. Assumptions and estimation uncertainties

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

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

- Determination of the fair value of financial instruments with significant unobservable inputs. (note 5) Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the use of mathematical models. The inputs to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments.
- Impairment of financial instruments: determining inputs into the expected credit loss (ECL) measurement model, including incorporation of forward-looking information. (note 4.1.2)

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

- Recognition and measurement of legal claims: key assumptions about the likelihood and magnitude of an outflow of resources.
- Recognition of deferred tax assets: availability of future taxable profit against which deferred tax assets can be used.
- Impairment testing for cash generating units containing goodwill: key assumptions underlying recoverable amounts.

2. Changes in accounting policies

A number of the new standards are also effective from 1 January 2022 but they do not have a material effect on the financial statements.

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

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

The following new and amended standards that are required to be applied by the Bank do not have a significant impact on the Group's separate financial statements:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16),
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37),
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16),
- Reference to conceptual framework (Amendments to IFRS 3).

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

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

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17.

This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts.

The Bank does not issue contracts in scope of IFRS 17, therefore its application does not have an impact on the financial performance, financial position or cash flows of the Bank.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

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

The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

The Bank expects that the standard, when initially applied, will not have a material impact on the financial statements of the Bank.

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

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

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

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

The Bank accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Bank will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2022, the taxable temporary difference in relation to the right-of-use asset is € 19 610 thousand and the deductible temporary difference in relation to the lease liability is € 19 871 thousand, resulting in a net deferred tax asset of € 262 thousand.

Under the amendments, the VUB Group will present a separate deferred tax liability of € 4 118 thousand and a deferred tax asset of € 4 173 thousand. There will be no impact on retained earnings on adoption of the amendments.

IFRS 16 Lease: Lease Liability in a Sale and Leaseback (Amendments)

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

Initially, the IFRS Interpretations Committee concluded that the right-of-use asset and lease liability are unlikely to be measured at zero. IFRS 16 requires a seller-lessee to estimate the variable lease payments it expects to make over the lease term. However, the Committee recommended that the International Accounting Standards Board consider amending IFRS 16 to address the subsequent accounting.

The amendments confirm the following:

On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

Under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of IFRS 16. This means that it will need to identify and re-examine sale-and-leaseback transactions entered into since implementation of IFRS 16 in 2019, and potentially restate those that included variable lease payments.

The Bank enters into sale-and-leaseback agreements, but usually is able to measure right-of-use asset and lease liability reliably. Therefore the Bank expects that the standard, when initially applied, will not have a material impact on the financial statements of the Bank.

The following new and amended standards are not expected to have a significant impact on the Bank's separate financial statements:

- Definition of Accounting Estimates (Amendments to IAS 8),
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1),
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures).

2.3. Changes in Groups structure under common control

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

The merger was accounted for according to the continuity principle, where the values used were accounted for in accordance with IFRS standards of VUB Leasing.

Accounting steps were as follows:

– Part of VUB Leasing excluding operating lease, which was transferred to the bank, was added to the values of the individual financial statements of VUB,
– Intercompany transactions were eliminated.
– Investments in VUB presented as "Investments in subsidiaries, joint ventures and associates" have been cleared against net equity of VUB Leasing and the difference was accounted for against retained earnings of EUR 23 631 thousand.

The impact of merger on Statement of financial position is as follows:

	Note	1 January 2022 (Before merger)	VUB Leasing 31 Dec. 2021	Eliminations	1 January 2022 (After merger)
Assets					
Cash and cash equivalents	7	2 612 785	2	-	2 612 787
Financial assets at fair value through profit or loss:	8				
Financial assets held for trading		30 064	-	-	30 064
Non-trading financial assets at fair value through profit or loss		7 316	-	-	7 316
Derivatives - Hedge accounting	9	55 574	-	-	55 574
Financial assets at fair value through other comprehensive income	10	1 671 403	-	-	1 671 403
of which pledged as collateral		*1 549 666*	-	-	*1 549 666*
Financial assets at amortized cost:	11				
Due from other banks		1 819 364	-	-	1 819 364
of which pledged as collateral		*1 649 850*	-	-	*1 649 850*
Due from customers		16 256 447	588 056	(201 823)	16 642 680
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	3 301	-	-	3 301
Investments in subsidiaries, joint ventures and associates	13	69 656	-	(49 556)	20 100
Property and equipment	14	110 087	14	-	110 101
Intangible assets	15	130 848	928	-	131 776
Goodwill	16	18 871	-	10 434	29 305
Current income tax assets	17	0	1 594	-	1 594
Deferred income tax assets	17	53 880	1 684	-	55 564
Other assets	18	21 108	29 132	-	50 240
Non-current assets classified as held for sale	14	515	-	-	515
		22 861 219	621 410	(240 945)	23 241 683

	Pozn.	1 January 2022 (Before merger)	VUB Leasing 31 Dec. 2021	Eliminations	1 January 2022 (After merger)
Liabilities					
Financial liabilities at fair value through profit or loss:	8				
Financial liabilities held for trading		30 863	-	-	30 863
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives - Hedge accounting	9	31 510	-	-	31 510
Financial liabilities measured at amortized cost:	11				
Due to banks		2 964 063	552 708	(201 823)	3 314 947
Due to customers		13 952 764	-	-	13 952 764
Lease liabilities		20 474	-	-	20 474
Subordinated debt		200 150	-	-	200 150
Debt securities in issue		3 829 056	-	-	3 829 056
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	2 816	-	-	2 816
Current income tax liabilities	17	12 018	-	-	12 018
Provisions	19	21 597	3 465	-	25 062
Other liabilities	20	86 186	2 483	-	88 669
		21 151 497	558 656	(201 823)	21 508 330
Equity	22				
Share capital		430 819	43 446	(43 446)	430 819
Share premium		13 719	-	-	13 719
Legal reserve fund		87 493	3 794	(3 794)	87 493
Retained earnings		1 152 984	15 514	8 117	1 176 615
Equity reserves		24 707	-	-	24 707
		1 709 722	62 753	(39 122)	1 733 353
		22 861 219	621 410	(240 945)	23 241 683

2.4. Other changes in Group structure

On 24 October 2022, VUB Bank bought 5.26% of VÚB Generali d. s. s., a.s. from Generali Česká pojišťovna a.s. ("Generali"), giving the bank a control in VUB Generali.

When the control was acquired, the investment was increased at the level of the individual financial statements by an additional cost of € 4 474 thousand. The purchase price also reflects transaction costs of €45 thousand related to consultancy services for the acquisition of a controlling interest.

3. Significant accounting policies

3.1. Foreign currency transactions

Transactions in foreign currencies are translated into the EUR 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 EUR 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 amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized 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 EUR 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 recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognized 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 EUR at the spot exchange rate at the reporting date. The income and expenses of foreign operations are translated to EUR at rates approximating the foreign exchange rates at the dates of the transactions.

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

3.3. Cash and cash equivalents

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

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

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

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

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

3.4.2. Classification

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

– Amortised cost ('AC'), (note 3.21)
– Fair value through other comprehensive income ('FVOCI'), or
– Fair value through profit or loss ('FVTPL').

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

The Bank uses the following business models:

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

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

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

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

Assessment of whether contractual cash flows are SPPI

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

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

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

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

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

Reclassifications

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

3.4.3. Subsequent measurement

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

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) 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 recognized in OCI is recognized in profit or loss.

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

The Bank enters into transactions whereby it transfers assets recognized 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 derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions. (note 3.8)

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

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

3.4.5. Modifications

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

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

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

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

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss in ´Impairment losses´. For floating-rate as well as fixed-rate financial assets where reset to market is expected, 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. The effective interest rate is therefore altered. 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 amortized over the remaining term of the modified financial asset.

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

3.4.6. Offsetting

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

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

3.4.7. Fair value measurement

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

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The hierarchy of valuation techniques is explained in note 5.

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

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

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

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

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

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized 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 recognized in 'Net trading result'. Interest income is recorded in 'Other interest income' and dividend income in 'Net trading result' according to the terms of the contract, or when the right to payment has been established.

3.6. Financial assets at fair value through other comprehensive income

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

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

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

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

Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognized 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 amortized 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 recognized in 'Impairment losses' in the statement of profit or loss and other comprehensive income, the impairment loss is reversed through the statement of profit or loss.

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

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

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

3.7. Financial assets and financial liabilities at amortized costs

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

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

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

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

Due from other banks

Due from other banks include receivables from current accounts in other than central banks, term deposits, loans provided and securities purchased from commercial banks. Balances are presented at amortized 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 amortized cost less any impairment losses. (note 12.2).

Impairment

The detailed description of policy is in the note 4.1.2.

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

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

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

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

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

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

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

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

3.8. Repurchase and reverse repurchase agreements

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

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

3.9. Derivatives - Hedge accounting

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

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

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

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

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

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized in other comprehensive income as ‘Cash flow hedges’. The ineffective portion of the gain or loss on the hedging instrument is recognized 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 and the hedged cash flows are still probable, any cumulative gain or loss that has been recognized 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 recognized. 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 recognized 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 recognized 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 amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate (‘EIR’). If the hedged item is derecognized, the unamortised fair value adjustment is recognized immediately in profit or loss when the item is derecognized.

Specific policies for hedges affected by IBOR reform

The Phase 1 amendments

If a hedging relationship is directly affected by IBOR reform, then certain exceptions can be applied (referred to as 'the Phase 1 amendments') to the general hedge accounting policy.

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

The Phase 2 amendments

Policies specific to non-contractually specified risk portions

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

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

Policies specific to cash flow hedges

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

3.10. Investments in subsidiaries, joint ventures and associates

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

Free Cash Flow to Equity model

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

3.11. Transactions under common control

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

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

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

3.12. Property and equipment

Land and buildings are recognized 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 recognized in the income statement. If the new fair value is lower than the carrying amount, the decrease is recognized in profit or loss. The ISP Group chose to apply the elimination approach, which means that the accumulated depreciation is eliminated against the gross carrying amount of the asset at revaluation date. The assets subject to the revaluation model are depreciated based on their revalued value.

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

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

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

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

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

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

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

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7 - 10

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

3.14. Goodwill

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

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

3.15. Non-current assets held for sale

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

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

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

The Bank is a party to lease contracts for:

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

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

Leases in which the Bank is a lessee

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

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

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

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

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

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

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

	Years
Buildings	2 - 6
Other tangibles	2 - 5

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

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

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

– Fixed payments, less any lease incentives receivable;
– Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

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

The lease term determined by the Bank comprises:

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

After the commencement date the Bank measures the lease liability by:

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

Leases in which the Bank is a lessor

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

Finance leases

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

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

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

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

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

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

Subsequent measurement

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

The lease payments are applied against the gross investment in the lease and reduce both the principal and the unearned finance income.

The detailed description of impairment of the net investment in the lease is described in the note 4.1.2.

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

Operating leases

Recognition and measurement

Lease payments from operating leases are recognized as income on a straight-line basis in profit or loss in ‘Other operating income’.

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

Lease modifications

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

3.17. Provisions

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

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

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

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

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

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

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

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

3.18. Provisions for employee benefits

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

3.19. Equity reserves

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

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

3.20. Net interest income

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest expense from TLTRO, presented under line "Interest Income".

3.21. Net fee and commission income

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

Fee and commission income and expense such as up-front and commitment fees that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 3.21).

Other fee and commission income arises on financial services provided by the Bank including account maintenance, cash management services, brokerage services, administrative services regarding loans, investment advice and financial planning, investment banking services, project finance transactions, asset management services, factoring services and other. Fee and commission income and expense is recognized 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 recognized on a straight-line basis over the commitment period.

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

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

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

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

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

Revenue recognition under IFRS 15:

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

3.22. Net trading result

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

3.23. Dividend income

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

3.24. Current and deferred income tax

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

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

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

4. Financial and operational risk management

This note presents information about the Bank's exposure to the risks related to the use of financial instruments, the Bank's objectives, policies and processes for measuring and managing risk.

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

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

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

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

4.1. Credit risk

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

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

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

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

4.1.1. Management of credit risk

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

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

4.1.2. Impairment losses

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

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

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

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

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

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

Inputs, assumptions and techniques used for estimating impairment

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

The VUB Group identified the following portfolios: Retail, Corporate - Small and Medium Enterprises ('SME'), SME Retail, Large corporate above € 500 million turnover, Large corporate up to € 500 million turnover, Non-Banking Financial Institutions, Banks, Municipalities, Sovereigns and Public Sector Entities, Slotting models (for Special Purpose Vehicles ('SPV') and Real Estate Development ('RED')) and Group of flat owners.

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

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

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

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

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

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

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

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

Days past due ('DPD') methodology

The Bank follows Guidelines on the application of the definition of default EBA/GL/2016/07 according to Article 178 of Regulation (EU) No. 575/2013. The default methodology counts days past due on obligor level. For the purpose of assessing the materiality of past-due credit obligations, the bank takes into account any amount of principal, interest or fee that has not been paid at the date it was due. In case of modifications of the schedule of credit obligations, the counting of days past due is based on the modified schedule of payments.

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

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

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

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

The absolute threshold is exceeded when:

overdue exposure > absolute threshold

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

The relative threshold is exceeded when:

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

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

Staging methodology

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

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

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

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

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

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

In general following rules are applied:

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

As at 31 December 2022 and 31 December 2021 the Bank did not classify any financial assets as Purchased or Originated Credit Impaired ('POCI').

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

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

Stage 2 criterion: Forborne performing exposures

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

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

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

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

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

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

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

– PDorigination - 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
– PDreporting - the lifetime PD over the residual maturity related to the rating to which the instrument belongs at the reporting date.

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

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

Stage 3 criterion

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

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

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

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

Staging criteria for debt securities

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

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

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

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

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

Staging criteria for Low Default Portfolio and Intragroup exposures

Low Default Portfolio consists of exposures with the following parties:

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

Intragroup exposures are exposures with the following parties:

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

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

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

Expected credit loss calculation

Stage 1

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

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

where:

- PD12m = 1 year prediction PD estimated at time 0 (time 0 is the reporting date);
- LGD12m = percentage of loss in case of default, estimated at time 0;
- EAD12m = exposure at default, estimated at the beginning of the observation period.

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

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

where n is the number of months to maturity.

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

Stage 2

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

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

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

For exposures with remaining maturity greater than one year:

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

where:

– PDt 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);
– LGDt is percentage of loss in case of default, estimated at time t;
– EADt is exposure at default, estimated at the beginning of the year t;
– EIR is Effective Interest Rate;
– M is residual maturity in years.

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

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

where:

– EAD1, EAD2, EAD3 are exposure at default at the beginning of each residual year;
– 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:

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

where:

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

Incorporation of forward-looking information

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

The VUB Group uses internally developed satellite models for the prediction of default rate for various segments. These models are based on relevant macroeconomic variables. The output of these models contains the model for the base scenario as well as the models for the other scenarios, which are used to calculate the add-on. This approach is used for most of the PD models.

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

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

The VUB Group identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The predicted values of macro variables used in the models are delivered by Parent Company.

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

2022	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	71 598	(10)	71 588	-	-	-
Due from customers:						
Public administration	182 440	(1 310)	181 130	-	-	-
Corporate	5 677 056	(21 967)	5 655 089	-	-	-
Retail	10 100 813	(25 685)	10 075 128	-	-	-
	16 031 907	(48 972)	15 982 935	-	-	-
Financial assets at FVOCI – debt securities	1 412 476	(276)	1 412 200	-	-	-
Financial commitments and contingencies	5 645 409	(5 149)	5 640 260	-	-	-

2021	Portfolio assessed			Individually assessed		
€ '000	Gross amount	mpairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	1 818 772	(90)	1 818 682	-	-	-
Due from customers:						
Public administration	197 988	(1 594)	196 394	-	-	-
Corporate	5 581 214	(27 711)	5 553 503	-	-	-
Retail	9 583 400	(7 492)	9 575 908	-	-	-
	15 362 602	(36 797)	15 325 805	-	-	-
Financial assets at FVOCI - debt securities	1 664 143	(329)	1 663 814	-	-	-
Financial commitments and contingencies	5 428 578	(4 847)	5 423 731	-	-	-

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

2022	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	80 511	(88)	80 423	-	-	-
Due from customers:						
Public administration	7 976	(325)	7 651	-	-	-
Corporate	878 491	(37 332)	841 159	-	-	-
Retail	702 838	(65 106)	637 732	-	-	-
	1 669 816	(102 851)	1 566 965	-	-	-
Financial commitments and contingencies	155 049	(3 181)	151 868	-	-	-

2021	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairment losses	Net amount	Gross Amount	Impairmen t losses	Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	701	(19)	682	-	-	-
Due from customers:						
Public administration	7 426	(288)	7 138	-	-	-
Corporate	309 594	(11 946)	297 648	-	-	-
Retail	567 266	(32 939)	534 327	-	-	-
	884 286	(45 173)	839 113	-	-	-
Financial commitments and contingencies	185 878	(6 683)	179 195	-	-	-

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

2022	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Public administration	15	(4)	11	-	-	-
Corporate	5 336	(3 315)	2 021	70 806	(43 591)	27 215
Retail	239 832	(164 466)	75 366	6 536	(4 310)	2 226
	245 183	(167 785)	77 398	77 878	(48 168)	29 710
Financial commitments and contingencies	6 707	(1 325)	5 382	14 143	(4 752)	9 391

2021	Portfolio assessed			Individually assessed		
€ '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Corporate	5 600	(3 697)	1 903	63 044	(39 940)	23 104
Retail	246 629	(180 799)	65 830	3 356	(2 664)	692
	252 229	(184 496)	67 733	66 400	(42 604)	23 796
Financial commitments and contingencies	4 822	(2 686)	2 136	18 154	(6 019)	12 135

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

2022 € '000	1 January*	Origina-tion	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	Other	31 December
Stage 1										
Financial assets at FVOCI	329	84	(221)	108	-	-	(24)	-	-	276
Financial assets at AC:										
Due from other banks	90	23	(11)	-	(70)	-	(22)	-	-	10
Due from customers	72 948	42 909	(77 192)	45 717	(30 133)	(87)	(5 197)	-	(3)	48 962
	73 038	42 932	(77 203)	45 717	(30 203)	(87)	(5 219)	-	(3)	48 972
Financial commitments and contingencies	5 060	14 031	(12 032)	6 562	(6 200)	(7)	(2 267)	-	2	5 149
Stage 2										
Financial assets at FVOCI	-	-	108	(108)	-	-	-	-	-	-
Financial assets at AC:										
Due from other banks	19	-	20	-	70	(21)	-	-	-	88
Due from customers	45 173	-	98 596	(43 214)	35 120	(26 316)	(6 596)	-	-	102 763
	45 192	-	98 616	(43 214)	35 190	(26 337)	(6 596)	-	-	102 851
Financial commitments and contingencies	6 683	-	4 411	(6 444)	6 236	(4 023)	(3 682)	-	-	3 181
Stage 3										
Financial assets at AC:										
Due from other banks	-	-	246	-	-	21	-	-	-	267
Due from customers	227 100	-	26 796	(2 502)	(4 987)	26 404	(6 394)	(50 731)	-	215 686
	227 100	-	27 042	(2 502)	(4 987)	26 425	(6 394)	(50 731)	-	215 953
Financial commitments and contingencies	8 705	-	(2 674)	(119)	(36)	4 029	(3 828)	-	-	6 077

*The opening balances include previous year closing balances of VUB Leasing merged into VUB Bank at beginning of 2023

(Table continues on the next page)

2022 € '000	1 January	Origina-tion	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	Other	31 December
Total										
Financial assets at FVOCI	329	84	(113)	-	-	-	(24)	-	-	276
Financial assets at AC:										
Due from other banks	109	23	255	-	-	-	(22)	-	-	365
Due from customers	345 221	42 909	48 200	1	-	1	(18 187)	(50 731)	(3)	367 411
	345 330	42 932	48 455	1	-	1	(18 209)	(50 731)	(3)	367 776
Financial commitments and contingencies	20 448	14 031	(10 295)	(1)	-	(1)	(9 777)	-	2	14 407

2021 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1									
Financial assets at FVOCI	306	151	(100)	-	-	-	(28)	-	329
Financial assets at AC:									
Due from other banks	706	19	(773)	446	(150)	-	(158)	-	90
Due from customers	34 934	31 095	(37 079)	37 109	(22 648)	(96)	(6 518)	-	36 797
	35 640	31 114	(37 852)	37 555	(22 798)	(96)	(6 676)	-	36 887
Financial commitments and contingencies	7 023	10 131	(12 815)	6 795	(3 445)	(14)	(2 828)	-	4 847
Stage 2									
Financial assets at AC:									
Due from other banks	-	-	315	(446)	150	-	-	-	19
Due from customers	50 042	-	30 244	(35 108)	28 593	(21 686)	(6 912)	-	45 173
	50 042	-	30 559	(35 554)	28 743	(21 686)	(6 912)	-	45 192
Financial commitments and contingencies	2 161	-	9 736	(6 291)	3 574	(1 993)	(504)	-	6 683
Stage 3									
Financial assets at AC:									
Due from customers	213 334	-	51 501	(2 001)	(5 945)	21 782	(221)	(51 350)	227 100
Financial commitments and contingencies	4 720	-	4 117	(504)	(129)	2 007	(1 506)	-	8 705

(Table continues on the next page)

2021 € '000	1 January	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total									
Financial assets at FVOCI	306	151	(100)	-	-	-	(28)	-	329
Financial assets at AC:									
Due from other banks	706	19	(458)	-	-	-	(158)	-	109
Due from customers	298 310	31 095	44 666	-	-	-	(13 651)	(51 350)	309 070
	299 016	31 114	44 208	-	-	-	(13 809)	(51 350)	309 179
Financial Commitments and contingencies	13 904	10 131	1 038	-	-	-	(4 838)	-	20 235

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

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

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

2022 € '000	1 January	Origina-tion	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1 670 857	634 554	119 913 -	(126 024) -	- -	(596 830) -	(290 270) -	1 412 200
Financial assets at AC:								
Due from other banks	2 191 690	10 122 861	- -	(80 691) -	- -	(12 162 262) -	- -	71 598
Due from customers	15 919 633	7 258 844	1 531 586 -	(2 617 845) -	(10 862) -	(6 121 047) -	- -	15 960 309
	18 111 323	17 381 705	1 531 586 -	(2 698 536) -	(10 862) -	(18 283 309) -	- -	16 031 907
Financial commitments and contingencies	5 432 800	4 847 601	525 496 -	(571 295) -	(4 362) -	(4 584 831) -	- -	5 645 409
Stage 2								
Financial assets at FVOCI	-	-	(119 913)	126 024	-	(6 111)	-	-
Financial assets at AC:								
Due from other banks	701	-	-	80 691	(707)	(174)	-	80 511
Due from customers	909 302	2 667	(1 522 160)	2 635 473	(112 013)	(323 964)	-	1 589 305
	910 003	2 667	(1 522 160)	2 716 164	(112 720)	(324 138)	-	1 669 816
Financial commitments and contingencies	186 418	102 493	(522 553)	572 028	(12 486)	(170 851)	-	155 049
Stage 3								
Financial assets at AC:								
Due from customers	360 778	11	(9 426)	(17 627)	122 875	(84 449)	(49 637)	322 525
Financial commitments and contingencies	23 521	-	(2 943)	(734)	16 848	(15 842)	-	20 850

(Table continues on the next page)

2022 € '000	1 January	Origina-tion	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1 670 857	634 554	-	-	-	(602 941)	(290 270)	1 412 200
Financial assets at AC:								
Due from other banks	2 192 391	10 122 861	-	-	-	(12 163 143)	-	152 109
Due from customers	17 189 713	7 261 522	-	1	-	(6 529 460)	(49 637)	17 872 139
	19 382 104	17 384 383	-	1	-	(18 692 603)	(49 637)	18 024 248
Financial commitments and contingencies	5 642 739	4 950 094	-	(1)	-	(4 771 524)	-	5 821 308

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

2021 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Stage 1								
Financial assets at FVOCI	1 610 709	782 032	-	-	-	(295 743)	(433 184)	1 663 814
Financial assets at AC:								
Due from other banks	206 126	5 455 188	84 955	(91 941)	-	(3 835 556)	-	1 818 772
Due from customers	13 466 086	7 595 303	1 041 407	(1 368 736)	(18 500)	(5 352 958)	-	15 362 602
	13 672 212	13 050 491	1 126 362	(1 460 677)	(18 500)	(9 188 514)	-	17 181 374
Financial commitments and contingencies	4 767 567	6 664 816	399 203	(512 420)	(20 365)	(5 870 223)	-	5 428 578
Stage 2								
Financial assets at AC:								
Due from other banks	-	-	(84 955)	91 941	-	(6 285)	-	701
Due from customers	1 189 942	-	(1 030 316)	1 393 027	(105 399)	(562 968)	-	884 286
	1 189 942	-	(1 115 271)	1 484 968	(105 399)	(569 253)	-	884 987
Financial commitments and contingencies	94 192	-	(374 895)	513 299	(19 312)	(27 406)	-	185 878
Stage 3								
Financial assets at AC:								
Due from customers	366 419	-	(11 091)	(24 291)	123 899	(77 980)	(58 327)	318 629
Financial commitments and contingencies	17 229	-	(24 308)	(879)	39 677	(8 743)	-	22 976

(Table continues on the next page)

2021 € '000	1 January	Origination	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecog-nition	Assets written-off/sold	31 December
Total								
Financial assets at FVOCI	1 610 709	782 032	-	-	-	(295 743)	(433 184)	1 663 814
Financial assets at AC:								
Due from other banks	206 126	5 455 188	-	-	-	(3 841 841)	-	1 819 473
Due from customers	15 022 447	7 595 303	-	-	-	(5 993 906)	(58 327)	16 565 517
	15 228 573	13 050 491	-	-	-	(9 835 747)	(58 327)	18 384 990
Financial commitments and contingencies	4 878 988	6 664 816	-	-	-	(5 906 372)	-	5 637 432

4.1.3. Non-performing loan classification

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

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

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

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

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

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

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

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

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

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

2022 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	152 109	(98)	152 011
	Past due	536	(267)	269
		152 645	(365)	152 280
Due from customers:				
Public administration				
	Performing	190 416	(1 635)	188 781
	Doubtful	15	(4)	11
		190 431	(1 639)	188 792
Corporate				
	Performing	6 555 547	(59 299)	6 496 248
	Past due	1 498	(279)	1 219
	Unlikely to pay	38 516	(13 985)	24 531
	Doubtful	36 128	(32 642)	3 486
		6 631 689	(106 205)	6 525 484
Retail				
	Performing	10 803 651	(90 791)	10 712 860
	Past due	40 464	(22 621)	17 843
	Unlikely to pay	38 232	(22 864)	15 368
	Doubtful	167 672	(123 291)	44 381
		11 050 019	(259 567)	10 790 452
		17 872 139	(367 411)	17 504 728
		18 024 784	(367 776)	17 657 008
Financial assets at FVOCI – debt securities				
	Performing	1 412 476	(276)	1 412 200
Financial commitments and contingencies				
	Performing	5 800 458	(8 330)	5 792 128
	Past due	2 693	(666)	2 027
	Unlikely to pay	14 402	(4 521)	9 881
	Doubtful	3 755	(890)	2 865
		5 821 308	(14 407)	5 806 901

2021 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	1 819 473	(109)	1 819 364
Due from customers:				
Public administration				
	Performing	205 414	(1 882)	203 532
Corporate				
	Performing	5 890 808	(39 657)	5 851 151
	Past due	179	(90)	89
	Unlikely to pay	33 938	(15 293)	18 645
	Doubtful	34 527	(28 254)	6 273
		5 959 452	(83 294)	5 876 158
Retail				
	Performing	10 150 666	(40 431)	10 110 235
	Past due	28 266	(15 426)	12 840
	Unlikely to pay	31 266	(20 974)	10 292
	Doubtful	190 453	(147 063)	43 390
		10 400 651	(223 894)	10 176 757
		16 565 517	(309 070)	16 256 447
		18 384 990	(309 179)	18 075 811
Financial assets at FVOCI - debt securities				
	Performing	1 664 143	(329)	1 663 814
Financial commitments and contingencies				
	Performing	5 614 456	(11 530)	5 602 926
	Past due	1 342	(4)	1 338
	Unlikely to pay	16 500	(4 266)	12 234
	Doubtful	5 134	(4 435)	699
		5 637 432	(20 235)	5 617 197

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

2022 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	152 109	(98)	152 011
Over 181 days	536	(267)	269
	152 645	(365)	152 280
Due from customers:			
Public administration			
No delinquency	189 725	(1 637)	188 088
1 – 30 days	705	(2)	703
31 – 60 days	1	-	1
	190 431	(1 639)	188 792
Corporate			
No delinquency	6 558 946	(71 078)	6 487 868
1 – 30 days	28 233	(278)	27 955
31 – 60 days	2 439	(298)	2 141
61 – 90 days	4 426	(1 875)	2 551
91 – 180 days	4 099	(4 024)	75
Over 181 days	33 546	(28 652)	4 894
	6 631 689	(106 205)	6 525 484
Retail			
No delinquency	10 774 475	(99 708)	10 674 767
1 – 30 days	71 982	(13 713)	58 269
31 – 60 days	14 588	(4 086)	10 502
61 – 90 days	10 862	(3 689)	7 173
91 – 180 days	22 520	(15 513)	7 007
Over 181 days	155 592	(122 858)	32 734
	11 050 019	(259 567)	10 790 452
	17 872 139	(367 411)	17 504 728
	18 024 784	(367 776)	17 657 008
Financial assets at FVOCI – debt securities			
No delinquency	1 412 476	(276)	1 412 200
Financial commitments and contingencies			
No delinquency	5 821 308	(14 407)	5 806 901

2021 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	1 819 473	(109)	1 819 364
Due from customers:			
Public administration			
No delinquency	204 832	(1 881)	202 951
1 - 30 days	487	(1)	486
31 - 60 days	95	-	95
	205 414	(1 882)	203 532
Corporate			
No delinquency	5 910 133	(54 366)	5 855 767
1 - 30 days	11 829	(38)	11 791
31 - 60 days	2 109	(212)	1 897
61 - 90 days	190	(97)	93
91 - 180 days	2 490	(2 110)	380
Over 181 days	32 701	(26 471)	6 230
	5 959 452	(83 294)	5 876 158
Retail			
No delinquency	10 142 759	(57 859)	10 084 900
1 - 30 days	53 915	(9 224)	44 691
31 - 60 days	10 363	(2 675)	7 688
61 - 90 days	6 807	(1 955)	4 852
91 - 180 days	15 265	(11 778)	3 487
Over 181 days	171 542	(140 403)	31 139
	10 400 651	(223 894)	10 176 757
	16 565 517	(309 070)	16 256 447
	18 384 990	(309 179)	18 075 811
Financial assets at FVOCI - debt securities			
No delinquency	1 664 143	(329)	1 663 814
Financial commitments and contingencies			
No delinquency	5 637 432	(20 235)	5 617 197

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.

2022			Stage 1			Stage 2			Stage 3
€ '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	71 598	(10)	71 588	80 511	(88)	80 423	536	(267)	269
Due from customers:									
Public administration									
State administration	79 706	(647)	79 059	-	-	-	-	-	-
Municipalities	102 459	(662)	101 797	7 912	(325)	7 587	15	(4)	11
Municipalities – Leasing	274	(1)	273	65	-	65	-	-	-
	182 439	(1 310)	181 129	7 977	(325)	7 652	15	(4)	11
Corporate									
Large Corporates	2 183 197	(1 527)	2 181 670	502 801	(22 314)	480 487	237	(173)	64
Large Corporates - debt securities	103 146	(52)	103 094	43 886	(867)	43 019	-	-	-
Specialized Lending	883 705	(17 281)	866 424	40 483	(6 646)	33 837	4 886	(3 936)	950
SME	1 493 918	(2 644)	1 491 274	269 144	(7 069)	262 075	59 041	(34 355)	24 686
Other Non-banking Financial Institutions	471 296	(141)	471 155	2	-	2	-	-	-
Other Non-banking Financial Institutions	261 018	(80)	260 938	-	-	-	-	-	-
Public Sector Entities	2 943	-	2 943	417	(1)	416	-	-	-
Leasing	118 977	(178)	118 799	21 758	(436)	21 322	9 610	(7 313)	2 297
Factoring	158 857	(65)	158 792	-	-	-	2 367	(1 127)	1 240
	5 677 057	(21 968)	5 655 089	878 491	(37 333)	841 158	76 141	(46 904)	29 237

(Table continues on the next page)

2022		Stage 1			Stage 2			Stage 3	
€ '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	359 623	(9 193)	350 430	147 423	(10 431)	136 992	31 204	(22 636)	8 568
Small Business – Leasing	27 755	(184)	27 571	10 031	(397)	9 634	4 956	(3 327)	1 629
Consumer Loans	976 843	(11 027)	965 816	195 345	(26 597)	168 748	123 452	(102 371)	21 081
Mortgages	8 572 225	(4 706)	8 567 519	323 500	(26 408)	297 092	70 154	(24 706)	45 448
Credit Cards	77 211	(165)	77 046	9 560	(845)	8 715	10 408	(9 909)	499
Overdrafts	44 136	(172)	43 964	16 274	(422)	15 852	6 163	(5 802)	361
Leasing	3 594	(7)	3 587	705	(6)	699	31	(24)	7
Flat Owners Associations	39 426	(232)	39 194	-	-	-	-	-	-
	10 100 813	(25 686)	10 075 127	702 838	(65 106)	637 732	246 368	(168 775)	77 593
	15 960 309	(48 964)	15 911 345	1 589 306	(102 764)	1 486 542	322 524	(215 683)	106 841
	16 031 907	(48 974)	15 982 933	1 669 817	(102 852)	1 566 965	323 060	(215 950)	107 110
Financial assets at FVOCI - debt securities	1 412 476	(276)	1 412 200	-	-	-	-	-	-
Financial commitments and contingencies	5 645 409	(5 149)	5 640 260	155 049	(3 181)	151 868	20 850	(6 077)	14 773

2021	Stage 1			Stage 2			Stage 3		
€'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	1 818 772	(90)	1 818 682	701	(19)	682	-	-	-
Due from customers:									
Public administration									
State administration	95 147	(676)	94 471	-	-	-	-	-	-
Municipalities	102 841	(918)	101 923	7 426	(288)	7 138	-	-	-
	197 988	(1 594)	196 394	7 426	(288)	7 138	-	-	-
Corporate									
Large Corporates	2 507 423	(1 302)	2 506 121	48 005	(231)	47 774	249	(144)	105
Large Corporates - debt securities	102 402	(97)	102 305	-	-	-	-	-	-
Specialized Lending	816 417	(24 139)	792 278	49 253	(7 041)	42 212	4 983	(3 862)	1 121
SME	1 260 582	(1 956)	1 258 626	208 898	(4 668)	204 230	60 491	(38 504)	21 987
Other Non-banking Financial Institutions	565 614	(97)	565 517	-	-	-	-	-	-
Other Non-banking Financial Institutions - debt securities	183 154	(65)	183 089	-	-	-	-	-	-
Public Sector Entities	2 938	(1)	2 937	500	-	500	-	-	-
Factoring	142 685	(54)	142 631	2 937	(6)	2 931	2 921	(1 127)	1 794
	5 581 215	(27 711)	5 553 504	309 593	(11 946)	297 647	68 644	(43 637)	25 007

(Table continues on the next page)

2021			Stage 1			Stage 2			Stage 3
€'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amout	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	195 070	(1 413)	193 657	104 424	(6 680)	97 744	13 168	(9 982)	3 186
Consumer Loans	957 740	(4 583)	953 157	180 710	(18 557)	162 153	137 497	(112 894)	24 603
Mortgages	8 284 452	(706)	8 283 745	252 409	(6 080)	246 329	77 054	(40 429)	36 625
Credit Cards	67 796	(156)	67 640	9 345	(775)	8 570	15 478	(14 238)	1 240
Overdrafts	39 867	(312)	39 554	20 379	(847)	19 532	6 788	(5 920)	868
Flat Owners Associations	38 474	(321)	38 153	-	-	-	-	-	-
	9 583 399	(7 492)	9 575 907	567 267	(32 939)	534 328	249 985	(183 463)	66 522
	15 362 602	(36 797)	15 325 805	884 286	(45 173)	839 113	318 629	(227 100)	91 529
	17 181 374	(36 887)	17 144 487	884 987	(45 192)	839 795	318 629	(227 100)	91 529
Financial assets at FVOCI - debt securities	1 664 143	(329)	1 663 814	-	-	-	-	-	-
Financial commitments and contingencies	5 428 578	(4 847)	5 423 731	185 878	(6 683)	179 195	22 976	(8 705)	14 271

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.

2022			Stage 1			Stage 2			Stage 3
€ '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	71 598	(10)	71 588	80 511	(88)	80 423	-	-	-
Over 180 days	-	-	-	-	-	-	536	(267)	269
	71 598	(10)	71 588	80 511	(88)	80 423	536	(267)	269
Due from customers:									
Public administration									
No delinquency	181 771	(1 310)	180 461	7 939	(323)	7 616	15	(4)	11
1 – 30 days	668	-	668	37	(2)	35	-	-	-
31 – 60 days	-	-	-	1	-	1	-	-	-
	182 439	(1 310)	181 129	7 977	(325)	7 652	15	(4)	11
Corporate									
No delinquency	5 653 169	(21 894)	5 631 275	871 651	(37 033)	834 618	34 126	(12 151)	21 975
1 – 30 days	22 703	(44)	22 659	5 013	(213)	4 800	517	(21)	496
31 – 60 days	383	(1)	382	1 510	(76)	1 434	546	(221)	325
61 – 90 days	5	-	5	317	(11)	306	4 104	(1 864)	2 240
91 – 180 days	-	-	-	-	-	-	4 099	(4 024)	75
Over 181 days	797	(29)	768	-	-	-	32 749	(28 623)	4 126
	5 677 057	(21 968)	5 655 089	878 491	(37 333)	841 158	76 141	(46 904)	29 237

(Table continues on the next page)

2022		Stage 1			Stage 2			Stage 3	
€ '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	10 077 687	(24 686)	10 053 001	648 891	(52 820)	596 071	47 897	(22 202)	25 695
1 – 30 days	23 126	(1 000)	22 126	36 364	(7 636)	28 728	12 492	(5 077)	7 415
31 – 60 days	-	-	-	10 190	(2 414)	7 776	4 398	(1 672)	2 726
61 – 90 days	-	-	-	7 393	(2 236)	5 157	3 469	(1 453)	2 016
91 – 180 days	-	-	-	-	-	-	22 520	(15 513)	7 007
Over 181 days	-	-	-	-	-	-	155 592	(122 858)	32 734
	10 100 813	(25 686)	10 075 127	702 838	(65 106)	637 732	246 368	(168 775)	77 593
	15 960 309	(48 964)	15 911 345	1 589 306	(102 764)	1 486 542	322 524	(215 683)	106 841
	16 031 907	(48 974)	15 982 933	1 669 817	(102 852)	1 566 965	323 060	(215 950)	107 110
Financial assets at FVOCI - debt securities									
No delinquency	1 412 476	(276)	1 412 200	-	-	-	-	-	-
Financial commitments and contingencies									
No delinquency	5 645 409	(5 149)	5 640 260	155 049	(3 181)	151 868	20 850	(6 077)	14 773

2021			Stage 1			Stage 2			Stage 3
€'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	1 818 772	(90)	1 818 682	701	(19)	682	-	-	-
Due from customers:									
Public administration									
No delinquency	197 501	(1 593)	195 908	7 331	(288)	7 043	-	-	-
1 - 30 days	487	(1)	486	-	-	-	-	-	-
31 - 60 days	-	-	-	95	-	95	-	-	-
	197 988	(1 594)	196 394	7 426	(288)	7 138	-	-	-
Corporate									
No delinquency	5 571 934	(27 700)	5 544 234	305 477	(11 897)	293 580	32 722	(14 769)	17 953
1 - 30 days	8 679	(8)	8 671	3 150	(30)	3 120	-	-	-
31 - 60 days	2	-	2	966	(19)	947	1 141	(193)	948
61 - 90 days	-	-	-	-	-	-	190	(97)	93
91 - 180 days	-	-	-	-	-	-	2 490	(2 110)	380
Over 181 days	600	(3)	597	-	-	-	32 101	(26 468)	5 633
	5 581 215	(27 711)	5 553 504	309 593	(11 946)	297 647	68 644	(43 637)	25 007

(Table continues on the next page)

2021			Stage 1			Stage 2			Stage 3
€'000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	9 573 304	(7 245)	9 566 059	522 118	(26 498)	495 620	47 337	(24 116)	23 221
1 - 30 days	10 095	(247)	9 848	33 424	(4 333)	29 091	10 396	(4 644)	5 752
31 - 60 days	-	-	-	7 168	(1 213)	5 955	3 195	(1 462)	1 733
61 - 90 days	-	-	-	4 557	(895)	3 662	2 250	(1 060)	1 190
91 - 180 days	-	-	-	-	-	-	15 265	(11 778)	3 487
Over 181 days	-	-	-	-	-	-	171 542	(140 403)	31 139
	9 583 399	(7 492)	9 575 907	567 267	(32 939)	534 328	249 985	(183 463)	66 522
	15 362 602	(36 797)	15 325 805	884 286	(45 173)	839 113	318 629	(227 100)	91 529
	17 181 374	(36 887)	17 144 487	884 987	(45 192)	839 795	318 629	(227 100)	91 529
Financial assets at FVOCI - debt securities									
No delinquency	1 664 143	(329)	1 663 814	-	-	-	-	-	-
Financial commitments and contingencies									
No delinquency	5 428 578	(4 847)	5 423 731	185 878	(6 683)	179 195	22 976	(8 705)	14 271

4.1.4. Loans with renegotiated terms and forbearance policy

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

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

The bank follows rules in ECB Guidance to banks on non-performing loans issued in March 2017.

Forborne exposures are those falling into the "Non-performing exposures with forbearance measures" and "Performing Forborne exposures" categories.

Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Forbearance measures entail:

- favorable contractual modifications granted to the debtor solely in consideration of its financial difficulties (modification);
- the granting, in favor of a debtor in financial difficulties, of a new loan to allow the fulfilment of the pre-existing obligation (refinancing);
- contractual modifications which may be requested by a debtor within the scope of a contract already subscribed and granted by the Bank in the knowledge that the debtor is in financial difficulties (so-called "embedded forbearance clauses").

Therefore, the definition of forborne exposure excludes the renegotiations made for commercial reasons/practices. The qualification of "Forborne Exposure" refers to the individual transactions subject to renegotiation and/or refinancing and should not be extended to the entire counterparty. The financial difficulty, however, shall be assessed at a debtor level.

During approval process it should be consider if a client in financial distress if:

- Light Blue or Red EWS synthetic indicator
- presence of 30 days past due (or greater) on the credit line (without considering compensation or materiality threshold) in the last 3 months and at least one of the following conditions is met:
  - rating worsened in the last 3 months to a "high-risk" class;
  - if rating and EWS are unavailable, the presence of at least one facility classified as Stage 2 according to IFRS9 standard should be checked instead.

The above list of presumptions is not exhaustive, and they are "relative" in their nature: contrary evidence is therefore admitted. As a consequence, it is allowed not to flag as forborne an exposure submitted to a modification/refinancing referred to a borrower who fulfils at least one of the above-mentioned conditions; in that case, however, it shall be mandatory to justify such a decision within the proposal/decision-making credit process.

Absence of financial distress requires a case by case assessment to analyze the borrower risk profile in order to establish whether the measure should be considered forborne. The financial distress is always assumed if the counterparty is classified as non-performing (absolute presumption).

The aim of forborne exposures is to prevent potential financial difficulties of the debtor or to allow the return of the exposure to a situation of sustainable repayment. In case of performing borrowers, such a measure should not be used to delay the reclassification to non-performing statuses of a borrower whose financial conditions already justify a downgrade of its risk classification.

The extension of Forbearance Measures does not automatically lead to the classification of the forborne exposures as Non-Performing. Instead, a net present value (NPV) test is performed by Finevare to identify whether a forbearance measure leads to a diminished financial obligation according to:

$$DO = \frac{NPV_0 - NPV_1}{NPV_0}$$

where:

- DO is diminished financial obligation;
- NPV0 is net present value of cash flows (including unpaid interest and fees) expected under contractual obligations before the changes in terms and conditions of the contract discounted using the customer's original effective interest rate;
- NPV1 is net present value of the cash flows expected based on the new arrangement discounted using the customer's original effective interest rate.

Then, if the diminished financial obligation is higher than the threshold of 1%, the exposure is classified as Non-performing, otherwise it is Performing.

In order to identify forborne exposures, the European regulation envisages a distinction between **absolute presumptions** and **relative presumptions (rebuttable).** Absolute presumptions refer to circumstances which always fall within the concept of forborne, and don't admit contrary evidence. Relative presumptions refer to circumstances that fall within the concept of forborne until proven otherwise. Exclusively on the basis of specific analyses the Bank can prove that a certain circumstance does not give rise to a forbearance measure.

Listed below are some examples of the most common forms of contractual modifications which may be qualified as forbearance measures, when referred to counterparties in "financial difficulties" (the list is not exhaustive):

- Short term credit facilities subject to debt consolidation/debt rescheduling plan;
- Medium/long-term loans subject to:
  - restructuring of the amortization plan with reductions or temporary suspensions of the instalments;
  - extension of the maturity;
  - extension of the pre-amortization period;
  - conversion of the repayment terms from instalments into bullet repayment at maturity
  - consolidation.
- Contractual modification/renegotiation resulting from the breach of financial covenants (waiver, amendment, cancellation) refinancing;
- Restructuring of performing exposures, or past due exposures not yet classified as non-performing, involving a pool of banks
- Contractual modification of the economic conditions i.e. granting a borrower a new, more favorable interest rate ("off-market conditions");
- Refinancing of exposure, even short-term, with new financing that allow the debtor to postpone repayment to the bank;
- Conversion of Debt to Equity;
- In case of the Sale and Repurchase Agreements (REPOs), the capitalization of outflows when mark to market is negative.

Furthermore, according to the European regulation, the following cases have to be recognized as forborne exposures (they therefore represent "absolute" presumptions):

- Contractual modifications that imply partial or total write-off of exposure;
- The exercise of clauses which, when enforced at the discretion of the debtor, enable him to change the terms of the contract ("embedded forbearance clauses");
- Providing new financing to the debtor simultaneously (or almost) to the payment of principal and/or interest on another exposure;

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

2022	Performing forborne			Non-performing forborne		
€ '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:						
Due from other banks	80 511	(88)	80 423	-	-	-
Corporate	68 916	(4 480)	64 436	39 392	(28 177)	11 215
Retail	96 672	(8 548)	88 124	30 871	(22 205)	8 666
	246 099	(13 116)	232 983	70 263	(50 382)	19 881
Financial commitments and contingencies	1 690	1	1 691	3 928	1 140	5 068

2021	Performing forborne			Non-performing forborne		
€ '000	Gross amount	Impair ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC						
Corporate	64 193	(3 344)	60 849	32 984	(22 766)	10 218
Retail	92 876	(4 832)	88 044	20 687	(15 254)	5 433
	157 069	(8 176)	148 893	53 671	(38 020)	15 651
Financial commitments and contingencies	3 448	(4)	3 444	4 767	(1 525)	3 242

4.1.5. Write-off Policy

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

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

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

The amount of loans written off during the year that are still subject to enforcement activity is € 1 613 thousand (31 December 2021: € 34 146 thousand).

4.1.6. Collateral Policy

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

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

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

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

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

The Bank mainly uses the following means of enforcement of collateral:

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

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

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

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

€ '000	2022 Clients	2022 Banks	2021 Clients	2021 Banks
Property	10 128 795	-	9 726 888	-
of which covering mortgages:	9 026 361	-	8 687 728	-
LTV* lower than 60%	3 465 997	-	2 593 810	-
LTV higher than 60% and lower than 80%	4 279 547	-	4 671 711	-
LTV higher than 80% and lower than 100%	1 276 087	-	1 417 289	-
LTV higher than 100%	4 730	-	4 918	-
Debt securities	34 149	15 180	32 913	211 260
Other	556 889	78 043	602 319	78 198
	10 719 833	93 223	10 362 120	289 458

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

€ '000	2022 Clients	2022 Banks	2021 Clients	2021 Banks
Property	117 925	-	136 974	-
of which covering mortgages:	94 779	-	105 640	-
LTV* lower than 60%	56 520	-	50 059	-
LTV higher than 60% and lower than 80%	33 269	-	46 318	-
LTV higher than 80% and lower than 100%	4 228	-	7 972	-
LTV higher than 100%	762	-	1 291	-
Other	9 310	5 096	6 691	-
	127 235	5 096	143 665	-

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

4.1.7. Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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

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

2022					Related amounts not offset in SOFP		
€ '000	Note	Gross amount	Gross amount offset in SOFP	Net amount presented in SOFP	Financial instrument and non-cash collateral	Cash collateral received	Net amount
Types of financial assets							
Reverse repo transactions	7	373 437	-	373 437	(373 437)	-	-
Derivative financial instruments	8, 9	405 067	-	405 067	-	(2 360)	402 707

2022					Related amounts not offset in SOFP		
€ '000	Pozn.	Hrubá hodnota	Hrubá hodnota započítaná v SOFP	Čistá hodnota v SOFP	Finančné nástroje a nepeňaž-né zabez-pečenie	Peňažné zabez-pečenie prijaté	Čistá hodnota
Types of financial liabilities							
Derivative financial instruments	8, 9	360 848	-	360 848	-	(10 327)	350 521

2021					Related amounts not offset in SOFP		
€ '000	Pozn.	Hrubá hodnota	Hrubá hodnota započítaná v SOFP	Čistá hodnota v SOFP	Finančné nástroje a nepeňaž-né zabez-pečenie	Peňažné zabez-pečenie prijaté	Čistá hodnota
Types of financial assets							
Reverse repo transactions	7	213 304	-	213 304	(213 304)	-	–
Derivative financial instruments	8, 9	70 931	-	70 931	-	(28 200)	42 731

2021					Related amounts not offset in SOFP		
€ '000	Pozn.	Hrubá hodnota	Hrubá hodnota započítaná v SOFP	Čistá hodnota v SOFP	Finančné nástroje a nepeňaž-né zabez-pečenie	Peňažné zabez-pečenie prijaté	Čistá hodnota
Types of financial liabilities							
Derivative financial instruments	8, 9	50 586	-	50 586	-	(35 882)	14 704

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

				2022			2021
€ '000	Note	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure	Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure
Financial assets							
Cash and cash equivalents	7	3 060 496	373 437	2 687 059	2 612 787	213 304	2 399 483
Financial assets at FVTPL:	8						
Financial assets held for trading		58 872	52 802	6 070	30 064	15 357	14 707
Derivatives - Hedge accounting	9	352 265	352 265	-	55 574	55 574	-
Financial liabilities							
Financial liabilities at FVTPL:	8						
Financial liabilities held for trading		61 463	44 691 -	16 772	30 863	19 076	11 787
Derivatives - Hedge accounting	9	316 157	316 157 -	-	31 510	31 510	-

4.1.8. Concentrations of credit risk

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

2022 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	152 684	(1 011)	151 673
Corporate	3 983 749	(81 338)	3 902 411
Retail	10 866 113	(256 801)	10 609 312
	15 002 546	(339 150)	14 663 396
Financial assets at FVOCI – debt securities	837 576	(106)	837 470
Financial commitments and contingencies	3 651 516	(13 439)	3 638 077
Czech republic			
Financial assets at AC:			
Due from other banks	124	-	124
Due from customers:			
Corporate	1 002 253	(6 525)	995 728
Retail	21 426	(1 661)	19 765
	1 023 679	(8 186)	1 015 493
Financial commitments and contingencies	1 556 512	(640)	1 555 872
Other European countries			
Financial assets at AC:			
Due from other banks	66 237	(277)	65 960
Due from customers:			
Corporate	1 469 913	(18 320)	1 451 593
Retail	140 414	(947)	139 467
	1 610 327	(19 267)	1 591 060
	1 676 564	(19 544)	1 657 020
Financial assets at FVOCI – debt securities	483 589	(169)	483 420
Financial commitments and contingencies	435 852	(291)	435 561

(Table continues on the next page)

2022 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	55	-	55
Retail	2 990	(4)	2 986
	3 045	(4)	3 041
Financial assets at FVOCI – debt securities	91 311	(1)	91 310
Financial commitments and contingencies	164	-	164
Asia			
Financial assets at AC:			
Due from other banks:	5 850	-	5 850
Due from customers			
Corporate	175 587	(22)	175 565
Retail	14 960	(83)	14 877
	190 547	(105)	190 442
	196 397	(105)	196 292
Financial commitments and contingencies	176 492	(35)	176 457
Rest of the World			
Financial assets at AC:			
Due from other banks	80 434	(88)	80 346
Due from customers:			
Public administration	37 747	(628)	37 119
Corporate	132	-	132
Retail	4 116	(71)	4 045
	41 995	(699)	41 296
	122 429	(787)	121 642
Financial commitments and contingencies	772	(2)	770

2021 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	169 949	(1 226)	168 723
Corporate	3 611 992	(80 868)	3 531 124
Retail	10 250 338	(221 012)	10 029 326
	14 032 279	(303 106)	13 729 173
Financial assets at FVOCI - debt securities	863 375	(122)	863 253
Financial commitments and contingencies	3 668 776	(18 703)	3 650 073
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	1 043 522	(1 830)	1 041 692
Retail	20 466	(2 131)	18 335
	1 063 988	(3 961)	1 060 027
Financial commitments and contingencies	1 320 873	(1 271)	1 319 602
Other European countries			
Financial assets at AC:			
Due from other banks	1 734 191	(34)	1 734 157
Due from customers:			
Corporate	1 206 779	(574)	1 206 205
Retail	112 420	(667)	111 753
	1 319 199	(1 241)	1 317 958
	3 053 390	(1 275)	3 052 115
Financial assets at FVOCI - debt securities	701 336	(197)	701 139
Financial commitments and contingencies	595 399	(234)	595 165

(Table continues on the next page)

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

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

€ '000	Gross amount	Impairment losses	2022 Net amount	Gross amount	Impairment losses	2021 Net amount
Europe						
Slovakia	837 578	(107)	837 471	863 253	(122)	863 131
Italy	198 799	(101)	198 699	301 022	(98)	300 924
Hungary	90 097	(59)	90 038	67 389	(44)	67 345
Spain	69 974	(1)	69 973	187 434	(13)	187 421
Poland	39 349	-	39 349	51 041	(12)	51 029
France	33 705	(8)	33 698	38 001	(5)	37 995
Great Britain	30 837	-	30 836	33 737	(4)	33 733
Estonia	20 827	-	20 827	22 516	(21)	22 496
	1 321 166	(276)	1 320 890	1 564 392	(319)	1 564 073
North America						
Canada	91 309	-	91 309	99 421	(10)	99 411

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

2022		Financial assets at AC:			Financial assets at FVOCI – debt securities	Financial commitments and contingencies
€ '000	Banks	Public admi-nistration	Corporate	Retail*		
Agriculture, forestry and fishing	-	53	205 594	26 946	114 587	-
Mining and quarrying	-	-	44 832	394	163 956	-
Manufacturing	-	-	899 307	37 951	896 901	-
Electricity, gas, steam and air conditioning supply	-	-	751 554	1 404	715 924	-
Water supply	-	-	77 611	2 580	16 101	-
Construction	-	-	321 643	43 358	602 359	-
Wholesale and retail trade	-	-	1 066 030	123 447	578 545	-
Transport and storage	-	272	667 409	153 087	219 635	-
Accommodation and food service activities	-	-	30 604	13 491	3 630	-
Information and communication	-	6	115 340	9 853	89 412	-
Financial and insurance activities**	152 280	-	826 046	445	712 704	262 777
Real estate activities	-	-	678 338	65 577	293 093	-
Professional, scientific and technical activities	-	8	215 419	37 862	206 839	-
Administrative and support service	-	-	145 838	13 943	50 983	-
Public administration and defense, compulsory social security	-	186 787	587	195	209 725	1 149 423
Education	-	1	3 348	1 427	970	-
Human health services and social work activities	-	-	17 533	29 610	12 589	-
Arts, entertainment and recreation	-	1 664	18 364	10 542	412	-
Other services	-	1	440 087	6 199	78 041	-
Consumer Loans	-	-	-	1 302 082	294 273	-
Mortgage Loans	-	-	-	8 910 059	546 222	-
	152 280	188 792	6 525 484	10 790 452	5 806 901	1 412 200

2021 € '000	Financial assets at AC: Banks	 Public administration	 Corporate	 Retail*	Financial assets at FVOCI - debt securities	Financial commitments and contingencies
Agriculture, forestry and fishing	-	-	170 302	21 748	-	103 034
Mining and quarrying	-	-	49 359	146	-	37 680
Manufacturing	-	-	848 606	34 409	-	845 091
Electricity, gas, steam and air conditioning supply	-	-	790 966	925	-	464 699
Water supply	-	-	64 180	2 345	-	29 348
Construction	-	-	243 879	35 469	-	623 002
Wholesale and retail trade	-	-	992 153	79 333	-	492 619
Transport and storage	-	-	389 342	16 741	-	322 070
Accommodation and food service activities	-	-	32 218	12 815	-	3 295
Information and communication	-	-	118 078	7 656	-	75 103
Financial and insurance activities**	1 819 364	-	763 087	386	316 044	901 152
Real estate activities	-	-	561 939	54 965	-	367 244
Professional, scientific and technical activities	-	-	194 405	25 596	-	163 497
Administrative and support service activities	-	-	117 094	9 145	-	28 329
Public administration and defense, compulsory social security	-	203 531	774	128	1 347 770	191 905
Education	-	1	2 279	844	-	815
Human health services and social work activities	-	-	13 231	24 870	-	7 615
Arts, entertainment and recreation	-	-	25 156	1 174	-	1 112
Other services	-	-	499 110	4 044	-	64 899
Consumer Loans	-	-	-	1 277 319	-	300 808
Mortgage Loans	-	-	-	8 566 699	-	593 880
	1 819 364	203 532	5 876 158	10 176 757	1 663 814	5 617 197

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

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

4.1.9. Internal and external ratings

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

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

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

Specialized Lending - SPV and RED

- Strong
- Good
- Satisfactory
- Weak
- Default

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

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

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

Capital requirement calculation

The VUB Group generally uses the standardized 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. Since December 2022, VUB Group received authorisation to use IRB approach also for Unsecured retail segment. The Foundation IRB approach is used for corporate exposures where a LGD is not available, but they are assigned according to regulation. Slotting approach is used for portfolio of Specialised lending exposures. Simple IRB approach is used for equity exposures and methodology for this capital requirement is in line with Article 155 of the CRR Regulation. The VUB Group is also proceeding with the development of rating models for other segments, to which the standard methods are currently applied, and also with the extension of the scope to subsidiaries in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

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

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Unrated	71 598	(10)	71 588
		71 598	(10)	71 588
Due from customers:				
Public administration				
	Very Low	40 542	(9)	40 533
	Low	56 948	(29)	56 919
	Intermediate	50 565	(639)	49 926
	Upper – Intermediate	10 917	(42)	10 875
	High	1 255	(46)	1 209
	Unrated	22 213	(545)	21 668
		182 440	(1 310)	181 130
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 019 584	(187)	1 019 397
	Low	1 509 274	(581)	1 508 693
	Lower – Intermediate	832 173	(800)	831 373
	Intermediate	768 138	(1 606)	766 532
	Upper – Intermediate	265 178	(1 194)	263 984
	High	13 315	(192)	13 123
	Unrated	384 677	(117)	384 560
Specialized Lending – SPV, RED				
	Strong	301 520	(1 610)	299 910
	Good	289 141	(3 117)	286 024
	Satisfactory	265 186	(9 607)	255 579
	Weak	28 870	(2 956)	25 914
		5 677 056	(21 967)	5 655 089

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	19 744	(6)	19 738
	Low	36 047	(33)	36 014
	Lower – Intermediate	107 450	(7 811)	99 639
	Intermediate	189 009	(716)	188 293
	Upper – Intermediate	75 392	(707)	74 685
	High	2 719	(342)	2 377
	Unrated	36	-	36
Mortgages				
	Very Low	6 012 939	(1 736)	6 011 203
	Low	1 425 715	(718)	1 424 997
	Lower – Intermediate	1 087 281	(1 725)	1 085 556
	Intermediate	39 009	(342)	38 667
	Upper – Intermediate	6 544	(137)	6 407
	High	713	(47)	666
	Unrated	24	-	24
Unsecured Retail				
	Very Low	162 443	(87)	162 356
	Low	78 980	(76)	78 904
	Lower – Intermediate	626 036	(2 508)	623 528
	Intermediate	117 546	(2 030)	115 516
	Upper – Intermediate	40 952	(1 721)	39 231
	High	8 704	(1 084)	7 620
	Unrated	63 530	(3 859)	59 671
		10 100 813	(25 685)	10 075 128
		15 960 309	(48 962)	15 911 347
Financial assets at FVOCI – debt securities				
	Unrated	1 412 476	(276)	1 412 200

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	12 006	(1)	12 005
	Lower – Intermediate	226 465	(7)	226 458
		238 471	(8)	238 463
Due from customers:				
Public administration				
	Very Low	123 526	(15)	123 511
	Low	10 027	(2)	10 025
	Intermediate	62 213	(5)	62 208
	Upper – Intermediate	704	(4)	700
	High	97	(1)	96
	Unrated	9 857	(183)	9 674
		206 424	(210)	206 214
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 856 369	(114)	1 856 255
	Low	970 932	(166)	970 766
	Lower – Intermediate	493 485	(294)	493 191
	Intermediate	497 840	(832)	497 008
	Upper – Intermediate	62 805	(281)	62 524
	High	5 103	(119)	4 984
	Unrated	225 958	(306)	225 652
Specialized Lending – SPV, RED		-	-	-
	Strong	102 208	(413)	101 795
	Good	88 770	(726)	88 044
	Satisfactory	24 685	(705)	23 980
	Unrated	20	-	20
		215 683	(1 844)	213 839
Retail				
	Very Low	404 321	(111)	404 210
	Low	148 055	(60)	147 995
	Lower – Intermediate	262 672	(299)	262 373
	Intermediate	42 114	(249)	41 865
	Upper – Intermediate	12 413	(201)	12 212
	High	798	(52)	746
	Unrated	1 966	(3)	1 963
		872 339	(975)	871 364
		5 406 938	(5 141)	5 401 797

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Very Low	2 938	-	2 938
	Low	132 684	(87)	132 597
	Lower - Intermediate	-	(3)	(3)
	Unrated	1 683 150	-	1 683 150
		1 818 772	(90)	1 818 682
Due from customers: Public administration				
	Very Low	146 893	(1 572)	145 321
	Low	13 059	(4)	13 055
	Upper - Intermediate	24 218	(12)	24 206
	High	7 461	(6)	7 455
	Unrated	6 357	-	6 357
		197 988	(1 594)	196 394
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	547 288	(72)	547 216
	Low	1 934 700	(522)	1 934 178
	Lower - Intermediate	1 150 500	(629)	1 149 871
	Intermediate	567 884	(993)	566 891
	Upper - Intermediate	251 867	(912)	250 955
	High	22 258	(345)	21 913
	Unrated	290 300	(99)	290 201
Specialized Lending - SPV, RED				
	Strong	167 549	(1 183)	166 366
	Good	355 334	(4 892)	350 442
	Satisfactory	253 408	(12 519)	240 889
	Weak	40 126	(5 545)	34 581
		5 581 214	(27 711)	5 553 503

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	13 732	(9)	13 723
	Low	26 235	(36)	26 199
	Lower - Intermediate	38 806	(128)	38 678
	Intermediate	110 611	(1 033)	109 578
	Upper - Intermediate	43 299	(375)	42 924
	High	865	(153)	712
Mortgages				
	Very Low	7 708 853	(315)	7 708 538
	Lower - Intermediate	567 707	(296)	567 411
	Intermediate	4 900	(18)	4 882
	High	2 650	(73)	2 577
	Unrated	342	(4)	338
Unsecured Retail				
	Very Low	345 009	(268)	344 741
	Low	109 372	(167)	109 205
	Lower - Intermediate	435 077	(1 557)	433 520
	Intermediate	68 806	(1 006)	67 800
	Upper - Intermediate	27 068	(1 418)	25 650
	High	3 797	(650)	3 147
	Unrated	76 271	14	76 285
		9 583 400	(7 492)	9 575 908
		15 362 602	(36 797)	15 325 805
Financial assets at FVOCI - debt securities				
	Unrated	1 664 142	(329)	1 663 814

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies:				
Due from other banks				
	Very Low	5 706	(1)	5 705
	Lower - Intermediate	249 912	(17)	249 895
		255 618	(18)	255 600
Due from customers:				
Public administration				
	Very Low	163 505	(14)	163 491
	Low	952	-	952
	Intermediate	4 296	(1)	4 295
	Upper - Intermediate	22 265	(6)	22 259
	High	1 152	-	1 152
	Unrated	53	-	53
		192 223	(21)	192 202
Corporate Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 340 399	(85)	1 340 314
	Low	1 296 584	(208)	1 296 376
	Lower - Intermediate	589 250	(208)	589 042
	Intermediate	284 668	(529)	284 139
	Upper - Intermediate	88 611	(343)	88 268
	High	3 871	(55)	3 816
	Unrated	194 038	(258)	193 780
Specialized Lending - SPV, RED				
	Strong	129 600	(685)	128 915
	Good	52 154	(535)	51 619
	Satisfactory	38 328	(1 201)	37 127
	Weak	1 450	(155)	1 295
	Unrated	20	-	20
		4 018 973	(4 262)	4 014 711
Retail				
	Very Low	749 561	(68)	749 493
	Low	31 992	(16)	31 976
	Lower - Intermediate	146 165	(161)	146 004
	Intermediate	22 572	(87)	22 485
	Upper - Intermediate	6 223	(82)	6 141
	High	782	(110)	672
	Unrated	4 469	(22)	4 447
		961 764	(546)	961 218
		5 172 960	(4 829)	5 168 131

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

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks				
	High	80 511	(88)	80 423
		80 511	(88)	80 423
Due from customers:				
Public administration				
	Low	492	(1)	491
	Intermediate	464	(2)	462
	Upper - Intermediate	5 142	(192)	4 950
	High	1 819	(127)	1 692
	Unrated	59	(3)	56
Corporate		7 976	(325)	7 651
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 868	(1)	1 867
	Low	44 359	(219)	44 140
	Lower – Intermediate	34 382	(114)	34 268
	Intermediate	361 079	(5 411)	355 668
	Upper – Intermediate	143 216	(2 673)	140 543
	High	251 011	(22 228)	228 783
	Unrated	492	(1)	491
Specialized Lending – SPV, RED				
	Strong	177	(1)	176
	Good	398	(17)	381
	Satisfactory	26 287	(2 986)	23 301
	Weak	15 222	(3 681)	11 541
		878 491	(37 332)	841 159

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	880	(1)	879
	Low	941	(7)	934
	Lower – Intermediate	17 783	(2 071)	15 712
	Intermediate	38 232	(911)	37 321
	Upper – Intermediate	83 073	(4 831)	78 242
	High risk	17 250	(3 013)	14 237
Mortgages				
	Very Low	23 595	(616)	22 979
	Low	13 532	(396)	13 136
	Lower – Intermediate	135 121	(6 474)	128 647
	Intermediate	82 019	(7 572)	74 447
	Upper - Intermediate	42 285	(5 636)	36 649
	High	26 948	(5 715)	21 233
Unsecured Retail				
	Very Low	748	(3)	745
	Low	1 370	(7)	1 363
	Lower – Intermediate	79 503	(1 885)	77 618
	Intermediate	45 289	(2 728)	42 561
	Upper – Intermediate	37 061	(4 486)	32 575
	High	57 190	(18 752)	38 438
	Unrated	18	(2)	16
		702 838	(65 106)	637 732
		1 589 305	(102 763)	1 486 542

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	Low	621	(2)	619
	Intermediate	597	(1)	596
	Upper - Intermediate	1 932	(15)	1 917
	High	80	-	80
Corporate		3 230	(18)	3 212
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	605	-	605
	Low	9 476	(31)	9 445
	Lower – Intermediate	2 045	(27)	2 018
	Intermediate	37 589	(233)	37 356
	Upper – Intermediate	28 148	(407)	27 741
	High	10 442	(590)	9 852
	Unrated	7 601	(83)	7 518
Specialized Lending – SPV, RED				
	Good	3 772	(517)	3 255
	Satisfactory	980	(52)	928
	Weak	36	(7)	29
		100 694	(1 947)	98 747
Retail				
	Very Low	2 004	(83)	1 921
	Low	810	(33)	777
	Lower – Intermediate	35 766	(244)	35 522
	Intermediate	5 724	(284)	5 440
	Upper – Intermediate	5 077	(253)	4 824
	High	1 401	(314)	1 087
	Unrated	343	(5)	338
		51 125	(1 216)	49 909
		155 049	(3 181)	151 868

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from banks				
	Lower - Intermediate	701	(19)	682
		701	(19)	682
Due from customers:				
Public administration				
	Very Low	6 967	(286)	6 681
	Low	459	(2)	457
		7 426	(288)	7 138
Corporate Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	27	-	27
	Low	1 373	-	1 373
	Lower - Intermediate	38 776	(184)	38 592
	Intermediate	19 135	(187)	18 948
	Upper - Intermediate	144 493	(2 614)	141 879
	High	54 667	(1 919)	52 748
	Unrated	1 869	-	1 869
Specialized Lending - SPV, RED				
	Good	13 825	(693)	13 132
	Satisfactory	11 990	(1 715)	10 275
	Weak	23 439	(4 634)	18 805
		309 594	(11 946)	297 648

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Lower - Intermediate	3 498	(51)	3 447
	Intermediate	33 771	(1 030)	32 741
	Upper - Intermediate	58 563	(3 838)	54 725
	High risk	8 281	(1 506)	6 775
	Default	308	(255)	53
Mortgages				
	Very Low	32 550	(170)	32 380
	Lower - Intermediate	120 648	(1 349)	119 299
	Intermediate	52 039	(1 178)	50 861
	High	47 161	(3 384)	43 777
	Unrated	11	-	11
Unsecured Retail				
	Very Low	1 656	(9)	1 647
	Low	1 069	(10)	1 059
	Lower - Intermediate	52 245	(1 123)	51 122
	Intermediate	52 340	(2 349)	49 991
	Upper - Intermediate	52 146	(4 763)	47 383
	High	50 980	(11 924)	39 056
		210 436	(20 178)	190 258
		567 266	(32 939)	534 327
		884 286	(45 173)	839 113

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Provision	Net amount
Stage 2				
Financial commitments and contingencies:				
Due from customers:				
Public administration				
	High	309	(4)	305
		309	(4)	305
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	73	-	73
	Low	2 380	(2)	2 378
	Lower - Intermediate	1 179	(2)	1 177
	Intermediate	97 019	(1 057)	95 962
	Upper - Intermediate	29 637	(649)	28 988
	High	7 720	(350)	7 370
	Unrated	15 753	(1 478)	14 275
Specialized Lending - SPV, RED				
	Satisfactory	3 244	(539)	2 705
	Weak	11	(3)	8
		157 016	(4 080)	152 936
Retail				
	Very Low	425	(7)	418
	Low	16	-	16
	Lower - Intermediate	4 637	(70)	4 567
	Intermediate	4 361	(211)	4 150
	Upper - Intermediate	6 748	(341)	6 407
	High	2 366	(540)	1 826
	Unrated	10 000	(1 430)	8 570
		28 553	(2 599)	25 954
		185 878	(6 683)	179 195

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

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from banks:				
	Default	536	(267)	269
Due from customers:				
Public administration				
	Default	15	(4)	11
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Default	73 869	(43 018)	30 851
Specialized Lending – SPV, RED				
	Default	2 273	(3 888)	(1 615)
		76 142	(46 906)	29 236
Retail				
Small Business, Flat Owners Associations				
	Default	36 192	(25 988)	10 204
Mortgages				
	Default	70 154	(24 706)	45 448
Unsecured Retail				
	Default	140 022	(118 082)	21 940
		246 368	(168 776)	77 592
		322 525	(215 686)	106 839
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Default	14 824	(5 144)	9 680
Specialized Lending – SPV, RED				
	Default	116	(116)	-
		14 940	(5 260)	9 680
Retail				
	Default	5 910	(817)	5 093
		20 850	(6 077)	14 773

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Corporate				
Large, SME, Other Non banking Financial and Public Corporates, and Factoring	Default	63 662	(39 776)	23 886
Specialized Lending - SPV, RED	Default	4 982	(3 861)	1 121
		68 644	(43 637)	25 007
Retail				
Small Business, Flat Owners Associations	Default	13 167	(9 982)	3 185
Mortgages	Default	77 054	(40 429)	36 625
Unsecured Retail	Default	159 764	(133 052)	26 712
		249 985	(183 463)	66 522
		318 629	(227 100)	91 529
Financial commitments and contingencies:				
Due from customers:				
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring	Default	18 480	(6 152)	12 328
Retail	Default	4 496	(2 553)	1 943
		4 496	(2 553)	1 943
		22 976	(8 705)	14 271

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

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	High	80 511	(88)	80 423
	Default	536	(267)	269
	Unrated	71 598	(10)	71 588
		152 645	(365)	152 280
Due from customers:				
Public administration				
	Very Low	40 542	(9)	40 533
	Low	57 440	(30)	57 410
	Intermediate	51 029	(641)	50 388
	Upper – Intermediate	16 059	(234)	15 825
	High	3 074	(173)	2 901
	Default	15	(4)	11
	Unrated	22 272	(548)	21 724
		190 431	(1 639)	188 792
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 021 452	(188)	1 021 264
	Low	1 553 633	(800)	1 552 833
	Lower – Intermediate	866 555	(914)	865 641
	Intermediate	1 129 217	(7 017)	1 122 200
	Upper – Intermediate	408 394	(3 867)	404 527
	High	264 326	(22 420)	241 906
	Default	73 869	(43 018)	30 851
	Unrated	385 169	(118)	385 051
Specialized Lending – SPV, RED		-	-	-
	Strong	301 697	(1 611)	300 086
	Good	289 539	(3 134)	286 405
	Satisfactory	291 473	(12 593)	278 880
	Weak	44 092	(6 637)	37 455
	Default	2 273	(3 888)	(1 615)
		6 631 689	(106 205)	6 525 484

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	20 624	(7)	20 617
	Low	36 988	(40)	36 948
	Lower – Intermediate	125 233	(9 882)	115 351
	Intermediate	227 241	(1 627)	225 614
	Upper – Intermediate	158 465	(5 538)	152 927
	High	19 969	(3 355)	16 614
	Default	36 192	(25 988)	10 204
	Unrated	36	-	36
Mortgages				
	Very Low	6 036 534	(2 352)	6 034 182
	Low	1 439 247	(1 114)	1 438 133
	Lower – Intermediate	1 222 402	(8 199)	1 214 203
	Intermediate	121 028	(7 914)	113 114
	Upper – Intermediate	48 829	(5 773)	43 056
	High	27 661	(5 762)	21 899
	Default	70 154	(24 706)	45 448
	Unrated	24	-	24
Unsecured Retail				
	Very Low	163 191	(90)	163 101
	Low	80 350	(83)	80 267
	Lower – Intermediate	705 539	(4 393)	701 146
	Intermediate	162 835	(4 758)	158 077
	Upper – Intermediate	78 013	(6 207)	71 806
	High	65 894	(19 836)	46 058
	Default	140 022	(118 082)	21 940
	Unrated	63 548	(3 861)	59 687
		11 050 019	(259 567)	10 790 452
		17 872 139	(367 411)	17 504 728
Financial assets at FVOCI – debt securities				
	Unrated	1 412 476	(276)	1 412 200

(Table continues on the next page)

2022 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	12 006	(1)	12 005
	Lower – Intermediate	226 465	(7)	226 458
		238 471	(8)	238 463
Due from customers:				
Public administration				
	Very Low	123 526	(15)	123 511
	Low	10 648	(4)	10 644
	Intermediate	62 810	(6)	62 804
	Upper – Intermediate	2 636	(19)	2 617
	High	177	(1)	176
	Unrated	9 857	(183)	9 674
		209 654	(228)	209 426
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 856 974	(114)	1 856 860
	Low	980 408	(197)	980 211
	Lower – Intermediate	495 530	(321)	495 209
	Intermediate	535 429	(1 065)	534 364
	Upper – Intermediate	90 953	(688)	90 265
	High	15 545	(709)	14 836
	Default	14 824	(5 144)	9 680
	Unrated	233 559	(389)	233 170
Specialized Lending – SPV, RED		-	-	-
	Strong	102 208	(413)	101 795
	Good	92 542	(1 243)	91 299
	Satisfactory	25 665	(757)	24 908
	Default	36	(7)	29
	Weak	116	(116)	-
	Unrated	20	-	20
		4 443 809	(11 163)	4 432 646
Retail				
	Very Low	406 325	(194)	406 131
	Low	148 865	(93)	148 772
	Lower – Intermediate	298 438	(543)	297 895
	Intermediate	47 838	(533)	47 305
	Upper – Intermediate	17 490	(454)	17 036
	High	2 199	(366)	1 833
	Default	5 910	(817)	5 093
	Unrated	2 309	(8)	2 301
		929 374	(3 008)	926 366
		5 582 837	(14 399)	5 568 438

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks:				
	Very Low	2 938	-	2 938
	Low	132 684	(87)	132 597
	Lower - Intermediate	701	(22)	679
	Unrated	1 683 150	-	1 683 150
		1 819 473	(109)	1 819 364
Due from customers:				
Public administration				
	Very Low	153 860	(1 858)	152 002
	Low	13 518	(6)	13 512
	Upper - Intermediate	24 218	(12)	24 206
	High	7 461	(6)	7 455
	Unrated	6 357	-	6 357
		205 414	(1 882)	203 532
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	547 315	(72)	547 243
	Low	1 936 073	(522)	1 935 551
	Lower - Intermediate	1 189 276	(813)	1 188 463
	Intermediate	587 019	(1 180)	585 839
	Upper - Intermediate	396 360	(3 526)	392 834
	High	76 925	(2 264)	74 661
	Default	63 662	(39 776)	23 886
	Unrated	292 169	(99)	292 070
Specialized Lending - SPV, RED				
	Strong	167 549	(1 183)	166 366
	Good	369 159	(5 585)	363 574
	Satisfactory	265 398	(14 234)	251 164
	Weak	63 565	(10 179)	53 386
	Default	4 982	(3 861)	1 121
		5 959 452	(83 294)	5 876 158

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	Very Low	13 732	(9)	13 723
	Low	26 235	(36)	26 199
	Lower - Intermediate	42 304	(179)	42 125
	Intermediate	144 382	(2 063)	142 319
	Upper - Intermediate	101 862	(4 213)	97 649
	High	9 146	(1 659)	7 487
	Default	13 475	(10 237)	3 238
Mortgages				
	Very Low	7 741 403	(485)	7 740 918
	Lower - Intermediate	688 355	(1 645)	686 710
	Intermediate	56 939	(1 196)	55 743
	High	49 811	(3 457)	46 354
	Default	77 054	(40 429)	36 625
	Unrated	353	(4)	349
Unsecured Retail				
	Very Low	346 665	(277)	346 388
	Low	110 441	(177)	110 264
	Lower - Intermediate	487 322	(2 680)	484 642
	Intermediate	121 146	(3 355)	117 791
	Upper - Intermediate	79 214	(6 181)	73 033
	High	54 777	(12 574)	42 203
	Default	159 764	(133 052)	26 712
	Unrated	76 271	14	76 285
		10 400 651	(223 894)	10 176 757
		16 565 517	(309 070)	16 256 447
Financial assets at FVOCI - debt securities				
	Unrated	1 664 143	(329)	1 663 814

(Table continues on the next page)

2021 € '000	Risk Profile	Gross amount	Provisions	Net amount
Financial commitments and contingencies:				
Due from other banks				
	Very Low	5 706	(1)	5 705
	Lower - Intermediate	249 912	(17)	249 895
		255 618	(18)	255 600
Due from customers:				
Public administration				
	Very Low	163 505	(14)	163 491
	Low	952	-	952
	Intermediate	4 296	(1)	4 295
	Upper - Intermediate	22 265	(6)	22 259
	High	1 461	(4)	1 457
	Unrated	53	-	53
		192 532	(25)	192 507
Corporate				
Large, SME, Other Non-banking Financial and Public Corporates and Factoring				
	Very Low	1 340 472	(85)	1 340 387
	Low	1 298 964	(210)	1 298 754
	Lower - Intermediate	590 429	(210)	590 219
	Intermediate	381 687	(1 586)	380 101
	Upper - Intermediate	118 248	(992)	117 256
	High	11 591	(405)	11 186
	Default	18 480	(6 152)	12 328
	Unrated	209 791	(1 736)	208 055
Specialized Lending - SPV, RED				
	Strong	129 600	(685)	128 915
	Good	52 154	(535)	51 619
	Satisfactory	41 572	(1 740)	39 832
	Weak	1 461	(158)	1 303
	Unrated	20	-	20
		4 194 469	(14 494)	4 179 975
Retail				
	Very Low	749 986	(75)	749 911
	Low	32 008	(16)	31 992
	Lower - Intermediate	150 802	(231)	150 571
	Intermediate	26 933	(298)	26 635
	Upper - Intermediate	12 971	(423)	12 548
	High	3 148	(650)	2 498
	Default	4 496	(2 553)	1 943
	Unrated	14 469	(1 452)	13 017
		994 813	(5 698)	989 115
		5 381 814	(20 217)	5 361 597

For some portfolios, information from external credit reference agencies is also used. The credit quality for financial assets at amortized cost: due from other banks is in the rating scale from Aaa to Caa1 (31 December 2021: Aaa to Caa1). The following table sets out the credit quality of FVOCI debt securities. The analysis has been based on **Moody's** ratings.

2022 € '000	External rating	Gross amount	Impairment losses	Net amount
Financial assets at FVOCI – debt securities				
	Aaa	202 609	(9)	202 601
	Aa1	60 177	(1)	60 176
	Aa2	4 982	(0)	4 982
	A2	785 838	(106)	785 732
	Baa1	69 974	(1)	69 973
	Baa2	90 097	(59)	90 038
	Baa3	198 799	(101)	198 699
		1 412 475	(276)	1 412 200

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

4.1.10. Sensitivity analysis of impairment losses

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

2022	Base scenario			Decrease PD by 10%
€ '000	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	365	355	(10)	(2,74)%
Due from customers:				
Public administration				
Public administration	1 638	1 474	(164)	(10,01)%
Public administration-leasing	1	-	(1)	(100,00)%
	1 639	1 474	(165)	(10,68)%
Corporate				
Large Corporates	24 014	21 630	(2 384)	(9,93)%
Large Corporates - debt securities	919	827	(92)	(10,01)%
Specialized Lending	27 863	25 470	(2 393)	(8,59)%
SME	44 068	43 096	(972)	(2,21)%
Other Non-banking Financial Institutions	141	126	(15)	(10,64)%
Other Non-banking Financial Institutions - debt securities	80	72	(8)	(10,00)%
Public Sector Entities	1	1	-	-
Leasing	7 927	7 866	(61)	(0,77)%
Factoring	1 192	1 185	(7)	(0,59)%
	106 205	100 273	(5 932)	(5,59)%
Retail				
Small Business	42 260	40 298	(1 962)	(4,64)%
Small Business - leasing	3 908	3 850	-	-
Consumer Loans	139 995	136 232	(3 763)	(2,69)%
Mortgages	55 820	52 708	(3 112)	(5,58)%
Credit Cards	10 919	10 818	(101)	(0,92)%
Overdrafts	6 396	6 336	(60)	(0,94)%
Leasing	37	35	(2)	(5,41)%
Flat Owners Associations	232	209	(23)	(9,91)%
	259 567	250 486	(9 023)	(3,48)%
	367 411	352 233	(15 119)	(4,12)%
	367 776	352 588	(15 129)	(4,11)%
Financial assets at FVOCI - debt securities	276	248	(28)	(10,14)%

2021 € '000	Base scenario Impairment losses	Decrease PD by 10% Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	109	96	(13)	(11,93)%
Due from customers:				
Public administration	1 882	1 694	(188)	(9,99)%
Corporate				
Large Corporates	1 677	1 524	(153)	(9,12)%
Large Corporates - debt securities	97	88	(9)	(9,28)%
Specialized Lending	35 042	31 924	(3 118)	(8,90)%
SME	45 128	44 466	(662)	(1,47)%
Other Non-banking Financial Institutions	97	87	(10)	(10,31)%
Other Non-banking Financial Institutions - debt securities	65	59	(6)	(9,23)%
Public Sector Entities	1	1	-	-
Factoring	1 187	1 180	(7)	(0,59)%
	83 294	79 329	(3 965)	(4,76)%
Retail				
Small Business	18 075	17 266	(809)	(4,48)%
Consumer Loans	136 034	133 720	(2 314)	(1,70)%
Mortgages	47 216	46 536	(680)	(1,44)%
Credit Cards	15 169	15 076	(93)	(0,61)%
Overdrafts	7 079	6 964	(115)	(1,62)%
Flat Owners Associations	321	289	(32)	(9,97)%
	223 894	219 851	(4 043)	(1,81)%
	309 070	300 874	(8 196)	(2,65)%
	309 179	300 970	(8 209)	(2,66)%
Financial assets at FVOCI - debt securities	329	296	(33)	(10,03)%

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

2022	Base scenario	Increase PD by 10%		
€ '000	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	365	375	10	2,74%
Due from customers:				
Public administration				
Public administration	1 638	1 802	164	10,01%
Public administration-leasing	1	1	-	-
	1 639	1 803	174	10,62%
Corporate				
Large Corporates	24 014	26 398	2 384	9,93%
Large Corporates - debt securities	919	1 011	92	10,01%
Specialized Lending	27 863	30 256	2 393	8,59%
SME	44 068	45 039	971	2,20%
Other Non-banking Financial Institutions	141	155	14	9,93%
Other Non-banking Financial Institutions - debt securities	80	88	8	10,00%
Public Sector Entities	1	1	-	-
Leasing	7 927	7 989	62	0,78%
Factoring	1 192	1 198	6	0,50%
	106 205	112 135	5 930	5,58%
Retail				
Small Business	42 260	44 223	1 963	4,65%
Small Business - leasing	3 908	3 966	58	1,48%
Consumer Loans	139 995	143 757	3 762	2,69%
Mortgages	55 820	58 931	3 111	5,57%
Credit Cards	10 919	11 020	101	0,92%
Overdrafts	6 396	6 455	59	0,92%
Leasing	37	38	1	2,70%
Flat Owners Associations	232	255	23	9,91%
	259 567	268 645	9 078	3,50%
	367 411	382 583	15 172	4,13%
	367 776	382 958	15 182	4,13%
Financial assets at FVOCI - debt securities	276	303	27	9,78%

2021 € '000	Base scenario Impairment losses	Increase PD by 10% Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	109	117	8	7,34%
Due from customers:				
Public administration	1 882	2 070	188	9,99%
Corporate				
Large Corporates	1 677	1 830	153	9,12%
Large Corporates - debt securities	97	108	11	11,34%
Specialized Lending	35 042	38 160	3 118	8,90%
SME	45 128	45 790	662	1,47%
Other Non-banking Financial Institutions	97	106	9	9,28%
Other Non-banking Financial Institutions - debt securities	65	72	7	10,77%
Public Sector Entities	1	1	-	-
Factoring	1 187	1 193	6	0,51%
	83 294	87 260	3 966	4,76%
Retail				
Small Business	18 075	18 885	810	4,48%
Consumer Loans	136 034	138 348	2 314	1,70%
Mortgages	47 216	47 894	678	1,44%
Credit Cards	15 169	15 262	93	0,61%
Overdrafts	7 079	7 196	117	1,65%
Flat Owners Associations	321	353	32	9,97%
	223 894	227 938	4 044	1,81%
	309 070	317 268	8 198	2,65%
	309 179	317 385	8 206	2,65%
Financial assets at FVOCI - debt securities	329	362	33	10,03%

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

The behavior of the model is described by six possible scenarios simulating a worsening of the macroeconomic situation. The scenarios resulted in the increase of expected loss in both stage 1 and stage 2. The simulation was run on VUB Group level on the whole Retail segment excl. Small business, that includes: Mortgages, Consumer loans, Credit cards, Overdrafts, former CFH products (Quatro, Slovenská požičovňa, SKK credit cards, HRL) and former VUB Leasing retail products and QCAR retail.

If the predicted qq change of GDP growth will be decreased by 3 bps (30% of the last available value at the time of development of the model - the last available values as of 4Q2021: Δ_qq GDP y/y growth = 0.10% (= 1.40%-1.30%); Δ_qq Bank deposit q/q rate = 1.535% (= 4.55%-3.015%)) then the impact on the P&L effect will be 38 TEUR for Stage 1 and 95 TEUR for Stage 2. Other scenarios and their impact are depicted in the table below:

Scenarios and their impact:

2022 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	16 077	849	16 926
		Absolute change	-	-	-
		Relative change	-	-	-
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	16 090	849	16 939
		Absolute change	13	0	13
		Relative change	0,08%	0,00%	0,08%
UR stress 10%	UR increase by 15 bps				
		ECL	16 237	866	17 193
		Absolute change	250	17	267
		Relative change	1,56%	2,00%	1,58%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	16 344	867	17 211
		Absolute change	267	18	285
		Relative change	1,66%	2,12%	1,68%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	16 113	851	16 964
		Absolute change	36	2	38
		Relative change	0,22%	0,24%	0,22%
UR stress 30%	UR increase by 45 bps				
		ECL	16 849	903	17 752
		Absolute change	772	54	826
		Relative change	4,80%	6,36%	4,88%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	16 883	905	17 788
		Absolute change	806	56	862
		Relative change	5,01%	6,60%	5,09%

2021 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	707	110	817
		Absolute change	-	-	-
		Relative change	-	-	-
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	713	111	824
		Absolute change	6	1	7
		Relative change	0,88%	0,88%	0,88%
UR stress 10%	UR increase by 15 bps				
		ECL	711	111	822
		Absolute change	4	1	5
		Relative change	0,53%	0,53%	0,53%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	716	112	828
		Absolute change	9	2	11
		Relative change	1,23%	1,22%	1,23%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	723	113	836
		Absolute change	16	3	19
		Relative change	2,29%	2,27%	2,29%
UR stress 30%	UR increase by 45 bps				
		ECL	719	112	831
		Absolute change	12	2	14
		Relative change	1,76%	1,75%	1,76%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	734	115	849
		Absolute change	27	5	32
		Relative change	3,88%	3,85%	3,88%

2022 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	54 278	791	55 069
		Absolute change	-	-	-
		Relative change	-	-	-
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	54 304	792	55 096
		Absolute change	26	1	27
		Relative change	0,05%	0,13%	0,05%
UR stress 10%	UR increase by 15 bps				
		ECL	55 055	799	55 854
		Absolute change	777	8	785
		Relative change	1,43%	1,01%	1,43%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	55 093	800	55 893
		Absolute change	815	9	824
		Relative change	1,50%	1,14%	1,50%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	54 372	792	55 164
		Absolute change	94	1	95
		Relative change	0,17%	0,13%	0,17%
UR stress 30%	UR increase by 45 bps				
		ECL	56 672	816	57 488
		Absolute change	2 394	25	2 419
		Relative change	4,41%	3,16%	4,39%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	56 770	817	57 587
		Absolute change	2 492	26	2 518
		Relative change	4,59%	3,29%	4,57%

2021 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	6 080	175	6 255
		Absolute change	-	-	-
		Relative change	-	-	-
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	6 099	176	6 275
		Absolute change	19	1	20
		Relative change	0,31%	0,21%	0,31%
UR stress 10%	UR increase by 15 bps				
		ECL	6 095	175	6 270
		Absolute change	15	0	15
		Relative change	0,25%	0,17%	0,25%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	6 114	176	6 290
		Absolute change	34	1	35
		Relative change	0,55%	0,37%	0,54%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	6 134	176	6 310
		Absolute change	54	1	55
		Relative change	0,89%	0,61%	0,88%
UR stress 30%	UR increase by 45 bps				
		ECL	6 127	176	6 303
		Absolute change	47	1	48
		Relative change	0,77%	0,52%	0,76%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	6 181	177	6 358
		Absolute change	101	2	103
		Relative change	1,66%	1,12%	1,64%

4.1.12. Credit risk of financial derivatives

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

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

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

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

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

€ '000	2022	2021
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	(8 336)	47 277
Derivatives – Hedge accounting	419 583	107 954
	411 247	155 231

4.2. Market risk

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

4.2.1. Management of market risk

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

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. Financial instruments with non-trading purpose are part of the banking book.

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

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

4.2.2. Exposure to market risk - trading portfolios

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

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

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

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

				2022				2021
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	118	103	197	12	68	49	125	12
Interest rate risk	87	297	546	73	109	88	251	35
Total VaR	154	339	650	71	96	109	278	39
Total sVaR	322	438	977	153	338	498	1 466	195

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

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

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

4.2.3. Exposure to interest rate risk of banking book

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

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

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

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

The sensitivity of the interest margin is also measured with a set of scenarios similar to shift sensitivity analysis - baseline, internal stress and regulatory scenarios. The baseline scenario is represented by parallel and instantaneous +/-50 bps shocks in the yield curve, in a period of the following 12 months. Furthermore, additional internal stress and regulatory scenarios are applied: +/-100, +/-200 and six stress scenarios according to the Interest Rate Risk in the Banking Book Guidelines published by the Basel Committee on Banking Supervision.

Overall banking book interest rate risk positions are managed by the Treasury and ALM Department, which uses different on balance and off balance sheet instruments to manage the overall positions arising from the banking book activities.

Models applied for the interest rate risk ('IRR') calculation

Each financial and non-financial instrument is allocated to the time bucket based on its contractual or behavioural repricing date:

Contractual category

This category includes instruments where the Bank knows exactly when the maturity or next re-pricing takes place. This treatment is applied mainly to: bought and issued securities, received loans and term deposits.

Behavioural category

These are items for which it is not exactly known when the maturity or next re-pricing will take place (e.g. current accounts). There are also some items where the maturity or re-pricing period is known but it can be assumed that they will behave differently (e.g. prepayments can occur for mortgages and consumer loans). In this case, it is necessary to make certain assumptions to reflect the behaviour characteristics of these items. The assumptions are based on the detailed analysis of the Bank's historical time series data and statistical models.

At 31 December 2022, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points rise in interest rates, was € (57 011) thousand (31 December 2021: € 56 634 thousand).

At 31 December 2022, the interest margin sensitivity of the banking book on profit or loss in a one year time frame, in the event of a 100 basis points decline in interest rates, was € (47 795) thousand (31 December 2021: € (42 562) thousand).

At 31 December 2022, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (30 003) thousand (31 December 2021: € (12 345) thousand).

At 31 December 2022, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € 22 364 thousand (31 December 2021: € 4 484 thousand).

At 31 December 2022, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (2 799) thousand (31 December 2021: € (2 601) thousand).

The re-pricing structure of interest rate bearing financial assets and financial liabilities based on contractual **discounted** cash-flows for the non-trading portfolios was as follows:

2022 €'000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	3 060 496	-	-	-	-	-	3 060 496
Financial assets at FVTPL (excluding Trading derivatives)	-	-	10	-	1 522	2 459	3 991
Financial assets at FVOCI	75 439	71 448	202 156	656 586	406 571	141	1 412 341
Financial assets at AC:							
Due from other banks	13 771	83 097	928	53 891	-	593	152 280
Due from customers	2 724 575	2 095 824	2 536 160	8 783 834	1 173 103	191 232	17 504 728
	5 874 281	2 250 369	2 739 254	9 494 311	1 581 196	194 425	22 133 836
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(266 849)	(554 301)	(34 607)	(149 311)	-	-	(1 005 068)
Due to customers	(8 004 143)	(988 576)	(2 245 035)	(3 732 987)	(437 142)	-	(15 407 883)
Lease liabilities	(609)	(1 215)	(5 025)	(12 308)	(795)	-	(19 952)
Subordinated debt	-	(250 368)	-	-	-	-	(250 368)
Debt securities in issue	(6 507)	(105 280)	(325 063)	(2 694 492)	(652 666)	-	(3 784 008)
	(8 278 108)	(1 899 740)	(2 609 730)	(6 589 098)	(1 090 603)	-	(20 467 279)
Net position of financial instruments	(2 403 827)	350 629	129 524	2 905 213	490 593	194 425	1 666 557
Cumulative net position of financial instruments	(2 403 827)	(2 053 198)	(1 923 674)	981 539	1 472 132	1 666 557	-
Cash inflow from derivatives	2 180 936	3 749 842	2 191 562	2 572 804	1 130 045	-	11 825 189
Cash outflow from derivatives	(1 494 126)	(3 016 504)	(2 298 591)	(3 908 383)	(1 171 246)	-	(11 888 850)
Net position from derivatives	686 810	733 338	(107 029)	(1 335 579)	(41 201)	-	(63 661)
Total net position	(1 717 017)	1 083 967	22 495	1 569 634	449 392	194 425	1 602 896
Cumulative total net position	(1 717 017)	(633 050)	(610 555)	959 079	1 408 471	1 602 896	-

2021 €'000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	2 612 785	-	-	-	-	-	2 612 785
Financial assets at FVTPL (excluding Trading derivatives)	-	-	-	-	2 906	4 410	7 316
Financial assets at FVOCI	276	70 109	504 328	655 065	434 036	7 589	1 671 403
Financial assets at AC:							
Due from other banks	(7 863)	83 458	1 654 286	50 856	-	38 627	1 819 364
Due from customers	2 774 002	1 944 716	1 705 487	9 189 987	510 184	132 071	16 256 447
	5 379 200	2 098 283	3 864 101	9 895 908	947 126	182 697	22 367 315
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(2 627 827)	(252 919)	(40 726)	(41 314)	(1 051)	(226)	(2 964 063)
Due to customers	(6 733 466)	(883 024)	(2 223 315)	(3 682 127)	(430 832)	-	(13 952 764)
Lease liabilities	(596)	(1 189)	(4 511)	(12 761)	(1 417)	-	(20 474)
Subordinated debt	-	(200 150)	-	-	-	-	(200 150)
Debt securities in issue	(44 012)	(2 217)	(307 636)	(2 425 283)	(1 049 908)	-	(3 829 056)
	(9 405 901)	(1 339 499)	(2 576 188)	(6 161 485)	(1 483 208)	(226)	(20 966 507)
Net position of financial instruments	(4 026 701)	758 784	1 287 913	3 734 423	(536 082)	182 471	1 400 808
Cumulative net position of financial instruments	(4 026 701)	(3 267 917)	(1 980 004)	1 754 419	1 218 337	1 400 808	-
Cash inflow from derivatives	3 595 572	2 521 112	1 924 274	1 733 614	1 425 149	-	11 199 721
Cash outflow from derivatives	(2 032 999)	(1 241 650)	(3 120 102)	(4 169 201)	(642 490)	-	(11 206 442)
Net position from derivatives	1 562 573	1 279 462	(1 195 828)	(2 435 587)	782 659	-	(6 721)
Total net position	(2 464 128)	2 038 246	92 085	1 298 836	246 577	182 471	1 394 087
Cumulative total net position	(2 464 128)	(425 882)	(333 797)	965 039	1 211 616	1 394 087	-

4.2.4. Currency denominations of assets and liabilities

Foreign exchange rate risk comprises the risk that the value of financial assets and financial liabilities will fluctuate due to changes in foreign exchange rates. It is the policy of the Bank to manage its exposure to fluctuations in exchange rates through regular monitoring and reporting of open foreign exchange positions and the application of a matrix of position exposure in single currencies and overall position limit.

2022 € '000	EUR	USD	CZK	Iné	Total
Financial assets					
Cash and cash equivalents	2 549 365	4 007	501 879	5 245	3 060 496
Financial assets at FVTPL	55 953	5 025	3 417	-	64 395
Derivatives – Hedge accounting	337 450	-	12 206	2 609	352 265
Financial assets at FVOCI	1 412 341	-	-	-	1 412 341
Financial assets at AC:					
Due from other banks	147 079	999	(944)	5 146	152 280
Due from customers	16 253 202	365 104	691 199	195 223	17 504 728
Fair value changes of the hedged items in portfolio hedge of IRR	(126 410)	-	-	-	(126 410)
	20 628 980	375 135	1 207 757	208 223	22 420 095
Financial liabilities					
Financial liabilities at FVTPL	59 793	1 670	-	-	61 463
Derivatives – Hedge accounting	311 205	2 230	-	2 722	316 157
Financial liabilities at AC:					
Due to banks	910 292	1 153	93 623	-	1 005 068
Due to customers	13 921 890	384 953	1 046 521	74 471	15 427 835
Subordinated debt	250 368	-	-	-	250 368
Debt securities in issue	3 784 008	-	-	-	3 784 008
Fair value changes of the hedged items in portfolio hedge of IRR	(19 536)	-	-	-	(19 536)
	19 218 020	390 006	1 140 144	77 193	20 825 363
Net position	1 410 960	(14 871)	67 613	131 030	1 594 732

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2022 € '000	EUR	USD	CZK	Other	Total
Receivables	590 582	56 675	87 000	63 223	797 480
Payables	(60 976)	(247 819)	(317 455)	(178 032)	(804 282)
Net position from derivatives	529 606	(191 144)	(230 455)	(114 809)	(6 802)

2021 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	2 276 975	3 644	326 986	5 180	2 612 785
Financial assets at FVTPL	26 848	10 279	(43)	296	37 380
Derivatives - Hedge accounting	48 476	-	7 098	-	55 574
Financial assets at FVOCI	1 589 943	81 460	-	-	1 671 403
Financial assets at AC:					
Due from other banks	1 821 065	6 824	(8 525)	-	1 819 364
Due from customers	15 172 669	321 008	573 822	188 948	16 256 447
Fair value changes of the hedged items in portfolio hedge of IRR	3 301	-	-	-	3 301
	20 939 277	423 215	899 338	194 424	22 456 254
Financial liabilities					
Financial liabilities at FVTPL	29 527	2 818	(1 542)	60	30 863
Derivatives - Hedge accounting	23 226	5 075	569	2 640	31 510
Financial liabilities at AC:					
Due to banks	2 911 096	6 997	45 931	39	2 964 063
Due to customers	13 053 138	231 015	606 503	82 582	13 973 238
Subordinated debt	200 150	-	-	-	200 150
Debt securities in issue	3 829 056	-	-	-	3 829 056
Fair value changes of the hedged items in portfolio hedge of IRR	2 816	-	-	-	2 816
	20 049 009	245 905	651 461	85 321	21 031 696
Net position	890 268	177 310	247 877	109 103	1 424 558

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2021 € '000	EUR	USD	CZK	Other	Total
Receivables	590 582	56 675	87 000	63 223	797 480
Payables	(60 976)	(247 819)	(317 455)	(178 032)	(804 282)
Net position from derivatives	529 606	(191 144)	(230 455)	(114 809)	(6 802)

4.2.5. Interest rate benchmark reform

The Interbank offered rate ('IBOR') replacement represents one of the major undertakings for the financial services industry. For the VUB Group the impact is not material. The Bank is currently in the final stages of IT implementation, which would fully align the bank to the new regulation. The full alignment is expected to be ready in the first half of 2023.

2022	Financial assets at AC		Financial liabilities at AC		Derivatives	
€ '000	Number of contracts	Net amount	Number of contracts	Net amount	Number of contracts	Notional amount
Referenced to:						
EONIA	-	-	-	-	-	-
EURIBOR	12 879	3 188 221	-	-	236	10 655 580
LIBOR	25	318 457	-	-	4	83 585
Of which: USD	25	318 457	-	-	4	83 585
Of which: GBP	-	-	-	-	-	-

2021	Financial assets at AC		Financial liabilities at AC		Derivatives	
€ '000	Number of contracts	Net amount	Number of contracts	Net amount	Number of contracts	Notional amount
Referenced to:						
EONIA	-	-	-	-	-	-
EURIBOR	5 400	3 305 273	-	-	193	9 926 636
LIBOR	24	199 869	-	-	4	89 469
Of which: USD	22	199 869	-	-	4	89 469
Of which: GBP	2	-	-	-	-	-

4.3. Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit.

The Guidelines for Liquidity Risk Management adopted by the Bank outline the set of principles, methods, regulations and control processes required to prevent the occurrence of a liquidity crisis and call for the Bank to develop prudent approaches to liquidity management, making it possible to maintain the overall risk profile at low levels.

The basic principles underpinning the Liquidity Policy of the Bank are:

- The existence of an operating structure that works within set of limits and of a control structure that is independent from the operating structure;
- A prudential approach to the estimate of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity;
- An assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time;
- The maintenance of an adequate level of unencumbered highly liquid assets, capable of enabling ordinary operations, also on an intraday basis, and overcoming the initial stages of a shock involving the Bank's liquidity or system liquidity.

The Bank is regularly stress testing its liquidity position in order to simulate potential stress scenarios. The level of unencumbered highly liquid assets are kept at levels that, should support the bank also in case of these extraordinary events. The bank is also able to seek short term funding from the parent company or interbank market in order to support its liquidity position. There are no specific lines of credit for liquidity stress situations.

All the assumptions, methodologies and responsibilities are described in internal documents „Liquidity Policy“ and „Liquidity Risk Management VUB Group Implementing Procedure“, which are approved by the Management Board and are consistent with ISP Group Guidelines in liquidity risk area.

The departments of the Bank responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department. These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process. ALM Department is responsible for liquidity management and the Risk Management Department responsible for monitoring indicators and verifying the observation of limits.

The Short term Liquidity Policy includes a set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management. The main regulatory indicator used for monitoring and managing short term liquidity is the Liquidity coverage ratio. It is required by the CRR Regulation, more precisely defined in Delegated Regulation (EU) 2015/61. Main content of the Liquidity coverage ratio: Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows.

The Structural Liquidity Policy of the Bank incorporates a set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term. The main regulatory indicator used for monitoring and managing structural liquidity is the Net Stable Funding Ratio (NSFR). It is required by the CRR Regulation. The net stable funding shall be equal to the ratio of the institution's available stable funding to the institution's required stable funding, and shall be expressed as a percentage. Together with the Short term and Structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

The Contingency Liquidity Plan sets the objectives of safeguarding the Bank's capital and, at the same time, guarantees the continuity of operations under conditions of extreme liquidity emergency. It also ensures the identification of the pre-warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and intervention measures for the resolution of emergencies. The pre-warning indices, aimed at identifying signs of a potential liquidity strain, both systemic and specific, are continuously recorded and reported to the departments responsible for the management and monitoring of liquidity.

The liquidity position of the Bank is regularly presented by 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:

2022 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	3 060 496	-	3 060 496
Financial assets at FVTPL	11 505	52 890	64 395
Derivatives – Hedge accounting	22 504	329 761	352 265
Financial assets at FVOCI	247 742	1 164 599	1 412 341
Financial assets at AC:			
Due from other banks	39 940	112 340	152 280
Due from customers	3 290 303	14 214 425	17 504 728
Fair value changes of the hedged items in portfolio hedge of IRR	-	(126 410)	(126 410)
Investments in subsidiaries, joint ventures and associates	-	26 406	26 406
Property and equipment	-	109 829	109 829
Intangible assets	-	119 261	119 261
Goodwill	-	29 305	29 305
Current income tax assets	-	-	-
Deferred income tax assets	-	65 382	65 382
Other assets	29 106	-	29 106
Non-current assets classified as held for sale	5 946	-	5 946
	6 707 542	16 097 788	22 805 330
Liabilities			
Financial liabilities at FVTPL	(14 992)	(46 471)	(61 463)
Derivatives – Hedge accounting	(1 293)	(314 864)	(316 157)
Financial liabilities measured at AC:			
Due to banks	(216 590)	(788 479)	(1 005 068)
Due to customers	(2 104 911)	(13 302 972)	(15 407 883)
Lease liabilities	(6 359)	(13 593)	(19 952)
Subordinated debt	(368)	(250 000)	(250 368)
Debt securities in issue	(436 637)	(3 347 371)	(3 784 008)
Fair value changes of the hedged items in portfolio hedge of IRR	-	19 536	19 536
Current income tax liabilities	(24 231)	-	(24 231)
Provisions	-	(18 708)	(18 708)
Other liabilities	(91 553)	(4 413)	(95 966)
	(2 896 934)	(18 067 334)	(20 964 268)
Net position	3 810 608	(1 969 546)	1 841 061

2021 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	2 612 785	-	2 612 785
Financial assets at FVTPL	4 789	32 591	37 380
Derivatives - Hedge accounting	2 368	53 206	55 574
Financial assets at FVOCI	574 713	1 096 690	1 671 403
Financial assets at AC:			
Due from other banks	1 703 049	116 315	1 819 364
Due from customers	3 105 836	13 150 611	16 256 447
Fair value changes of the hedged items in portfolio hedge of IRR	-	3 301	3 301
Investments in subsidiaries, joint ventures and associates	-	69 656	69 656
Property and equipment	-	110 087	110 087
Intangible assets	-	130 848	130 848
Goodwill	-	18 871	18 871
Current income tax assets	-	-	-
Deferred income tax assets	-	53 880	53 880
Other assets	21 108	-	21 108
Non-current assets classified as held for sale	515	-	515
	8 025 163	14 836 056	22 861 219
Liabilities			
Financial liabilities at FVTPL	(8 596)	(22 267)	(30 863)
Derivatives - Hedge accounting	(1 310)	(30 200)	(31 510)
Financial liabilities measured at AC:			
Due to banks	(129 597)	(2 834 466)	(2 964 063)
Due to customers	(1 933 561)	(12 019 203)	(13 952 764)
Lease liabilities	(6 391)	(14 083)	(20 474)
Subordinated debt	(150)	(200 000)	(200 150)
Debt securities in issue	(354 265)	(3 474 791)	(3 829 056)
Fair value changes of the hedged items in portfolio hedge of IRR	-	(2 816)	(2 816)
Current income tax liabilities	(12 018)	-	(12 018)
Provisions	-	(21 597)	(21 597)
Other liabilities	(81 177)	(5 009)	(86 186)
	(2 527 065)	(18 624 432)	(21 151 497)
Net position	5 498 098	(3 788 376)	1 709 722

The remaining maturities of assets and liabilities based on contractual **undiscounted** cash-flows were as follows:

2022 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	3 060 496	-	-	-	-	-	3 060 496
Financial assets at FVTPL (excluding Trading derivatives)	-	-	-	110	2 423	4 075	6 608
Financial assets at FVOCI	75 494	71 726	108 697	828 177	502 902	141	1 587 137
Financial assets at AC							
Due from other banks	39 532	12 957	11 722	120 846	576	-	185 633
Due from customers	1 413 239	510 723	1 576 260	7 224 043	10 976 256	18 083	21 718 604
	4 588 761	595 406	1 696 679	8 173 176	11 482 157	22 299	26 558 478
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(102 966)	(167 760)	(28 881)	(829 395)	(110 003)	-	(1 239 005)
Due to customers	(13 552 976)	(961 185)	(787 890)	(122 456)	-	-	(15 424 507)
Lease liabilities	(646)	(1 287)	(4 828)	(14 772)	(1 944)	-	(23 477)
Subordinated debt	-	(3 340)	(17 610)	(271 420)	(73 158)	-	(365 528)
Debt securities in issue	(3 589)	(107 238)	(340 095)	(2 859 825)	(801 390)	-	(4 112 137)
	(13 660 177)	(1 240 810)	(1 179 304)	(4 097 868)	(986 495)	-	(21 164 654)
Net position of financial instruments	(9 071 416)	(645 404)	517 375	4 075 308	10 495 662	22 299	5 393 824
Cash inflows from derivatives	210 827	45 320	84 339	94 632	-	-	435 118
Cash outflows from derivatives	(211 876)	(46 102)	(85 637)	(95 856)	-	-	(439 471)
Net position from derivatives	(1 049)	(782)	(1 298)	(1 224)	-	-	(4 353)
Net position from financial commitments and contingencies	(5 821 308)	-	-	-	-	-	(5 821 308)

2021 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	2 595 505	-	-	-	-	-	2 595 505
Financial assets at FVTPL (excluding Trading derivatives)	-	-	-	-	3 000	7 319	10 319
Financial assets at FVOCI	293	70 034	505 142	662 322	420 122	7 589	1 665 502
Financial assets at AC							
Due from other banks	48 014	11 398	1 653 428	115 463	7 445	-	1 835 748
Due from customers	1 408 471	586 781	1 294 361	5 825 292	9 267 348	47 242	18 429 495
	4 052 283	668 213	3 452 931	6 603 077	9 697 915	62 150	24 536 569
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(123 775)	(12 026)	(6 827)	(2 584 021)	(264 726)	-	(2 991 375)
Due to customers	(12 216 375)	(885 451)	(771 555)	(77 221)	-	-	(13 950 602)
Lease liabilities	(646)	(1 287)	(4 828)	(14 772)	(1 944)	-	(23 477)
Subordinated debt	-	(1 330)	(4 206)	(25 222)	(201 787)	-	(232 545)
Debt securities in issue	(3 589)	(2 871)	(321 237)	(2 500 422)	(1 089 592)	-	(3 917 711)
	(12 344 385)	(902 965)	(1 108 653)	(5 201 658)	(1 558 049)	-	(21 115 710)
Net position of financial instruments	(8 292 102)	(234 752)	2 344 278	1 401 419	8 139 866	62 150	3 420 859
Cash inflows from derivatives	409 085	97 107	111 535	63 651	-	-	681 378
Cash outflows from derivatives	(410 619)	(99 746)	(112 741)	(67 035)	-	-	(690 141)
Net position from derivatives	(1 534)	(2 639)	(1 206)	(3 384)	-	-	(8 763)
Net position from financial commitments and contingencies	(5 637 432)	-	-	-	-	-	(5 637 432)

* The high negative liquidity gap in the first bucket is caused by a huge volume of deposits on demand (without contractual maturity) which are presented under 'Due to customers'. For the purpose of internal liquidity management monitoring the behavioural profile of on-demand deposits is taken into account based on a statistical model using internal historical data. According to when they are expected to be settled such deposits are then placed into later buckets (see the previous table).

4.4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, information and communication technology risk and financial reporting risk; strategic and reputational risk are not included. Operational risk can arise from legal and regulatory requirements, non-compliance with generally accepted standards of corporate behaviour and from all of the Bank's operations.

4.4.1. Operational risk management strategies and processes

The Bank, in coordination with Intesa Sanpaolo, has defined the overall operational risk management framework by setting up a VUB Group policy and organisational process for measuring, managing and controlling operational risk.

The control of operational risk was attributed to the Operational Risk Committee, which identifies risk management policies. The Supervisory and Management Boards of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: CRO, CFO, COO, Head of Compliance and AML Department; permanent invitees without voting rights: Head of Corporate & SME Division, Head of Retail Division, Head of Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Information Security sub-department), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

4.4.2. Organisational structure of the associated risk management function

For some time, the Bank has had a centralised function within the Risk Management Division for the management of the Bank's operational risks. This function is responsible, in coordination with the Parent Company, for the definition, implementation and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to senior Management. In compliance with current requirements, the individual organisational units participate in the process and each of them is responsible for the identification, assessment, management and mitigation of its operational risks. Specific offices and departments have been identified within these organisational units to be responsible for Operational Risk Management. These functions are responsible for the collection and structured census of information relating to operational events, scenario analyses and evaluation of the level of risk associated with the business environment, including information and communication technology risk. The Risk Management Division carries out second level monitoring of these activities.

4.4.3. Scope of application and characteristics of the risk measurement and reporting system

In February 2010 upon a VUB Group request, the Bank as part of the VUB Group received, from the relevant Supervisory authorities an approval for usage and thus adopted the Advanced Measurement Approach ('AMA'), for Operational Risk management and measurement. Part of this decision has been an approval of the insurance effect inclusion, as well as approval of a new allocation mechanism, which led to fulfilment of a regulatory condition for the approval of diversification usage.

For the use of the AMA, the Bank has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, a system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank. This process is verified by the Internal Audit Department. Relevant reports are submitted to the relevant Bank's Committee for the annual certification of compliance with the requirements established by the regulation.

Under the AMA approach, the capital requirement is calculated by an internal model, which combines all elements stipulated in Supervisory regulation, allowing to measure the exposure in a more risk-sensitive way. Monitoring of operational risks is performed by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.

4.4.4. Policies for hedging and mitigating risk

The Bank, in coordination with its Parent Company, has set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does include the benefit from this transfer of operational risk through insurance policies, which contributes to reducing the risk capital calculated through the internal models.

5. Estimated fair value of financial assets and financial liabilities

See accounting policy in note 3.4.7.

The Bank uses the following fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value:

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the Bank as at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and

Level 3: inputs unobservable for the asset or liability.

The highest priority is attributed to effective market quotes (level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (level 2) and the lowest priority to unobservable inputs (level 3). Following this hierarchy, where available, fair value estimates made by the Bank are based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, fair value is estimated using discounted cash flow models or other pricing models as appropriate.

Under level 2, the principal valuation technique used by the Bank for debt instruments involves the method of discounting future cash flows. The calculation takes into account the time value of money (risk-free rate of interest) and the credit risk expressed in the form of credit spreads applied to the bonds' yield and representing the risk premium the investor claims against a risk free investment. In the case of derivative financial instruments the Bank uses standard fair value calculation models based on the principal net present value using the yield curve to discount all future cash flows from derivatives for all relevant currencies. The principal input parameters used by the models comprise interest rate curves, volatility curves, spot and forward prices and the correlation between underlying assets. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. The Bank also considers its own and counterparty's credit risk.

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument. The Bank monitors the occurrence of these changes and accordingly reassesses the classification into the fair value hierarchy. For determining the timing of the transfers between the levels, the Bank uses the end of the reporting period as the day when the transfer is deemed to have occurred.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

(a) Cash and cash equivalents

The carrying values of cash and cash equivalents are deemed to approximate their fair value.

(b) Due from other banks

The fair value of due from other banks balances with maturities more than one year is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. For maturities up to one year and not significant balances, the carrying amounts of amounts due from other banks approximates their fair value. Impairment losses are taken into consideration when calculating fair values.

(c) Due from customers

The fair value of loans and advances to customers is estimated using discounted cash flow analyses, based upon the risk free interest rate curve and risk reflecting credit-worthiness of the counterparty.

(d) Purchased debt securities and equities

The carrying values of cash and cash equivalents are deemed to approximate their fair value.

(e) 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.

(f) Subordinated debt

The fair value of subordinated debt is discounted using the risk free interest rate curve and own credit risk.

(g) Debt securities in issue

The fair value of debt securities issued by the Bank is based on quoted market prices. Where no market prices are available, the fair value was calculated by discounting future cash flows using the risk free interest rate curve adjusted by credit spreads reflecting the credit quality of VUB as the issuer.

2022				Carrying amount				Fair value
€ '000	Note	At amortized cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and cash equivalents	7	3 060 496	-	3 060 496	-	3 060 496	-	3 060 496
Financial assets at FVTPL	8	-	64 395	64 395	1 961	62 434	-	64 395
Derivatives – Hedge accounting	9	-	352 265	352 265	-	352 265	-	352 265
Financial assets at FVOCI	10	-	1 412 341	1 412 341	1 412 239	102	-	1 412 341
Financial assets at AC:	11	-	-	-	-	-	-	-
Due from other banks		152 280	-	152 280	-	152 280	-	152 280
Due from customers		17 504 728	-	17 504 728	-	220 133	17 669 992	17 890 125
		20 717 504	1 829 001	22 546 505	1 414 200	3 847 710	17 669 992	22 931 902
Financial liabilities								
Financial liabilities at FVTPL	8	-	61 463	61 463	-	61 463	-	61 463
Derivatives – Hedge accounting	9	-	316 157	316 157	-	316 157	-	316 157
Financial liabilities at AC:	11	-	-	-	-	-	-	-
Due to banks		1 005 068	-	1 005 068	-	1 005 068	-	1 005 068
Due to customers		15 407 883	-	15 407 883	-	15 394 572	-	15 394 572
Lease liabilities		19 952	-	19 952	-	19 952	-	19 952
Subordinated debt		250 368	-	250 368	-	289 008	-	289 008
Debt securities in issue		3 784 008	-	3 784 008	-	3 636 835	-	3 636 835
		20 467 279	377 620	20 844 899	-	20 723 055	-	20 723 055

2021 € '000	Note	Carrying amount At amortized cost	At fair value	Total carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and cash equivalents	7	2 612 785	-	2 612 785	-	2 612 785	-	2 612 785
Financial assets at FVTPL	8	-	37 380	37 380	3 528	33 852	-	37 380
Derivatives - Hedge accounting	9	-	55 574	55 574	-	55 574	-	55 574
Financial assets at FVOCI	10	-	1 671 403	1 671 403	1 610 549	60 855	-	1 671 404
Financial assets at AC:	11						-	
Due from other banks		1 819 364	-	1 819 364	-	1 819 364	-	1 819 364
Due from customers		16 256 447	-	16 256 447	-	152 485	17 930 469	18 082 954
		20 688 596	1 764 357	22 452 953	1 614 077	4 734 915	17 930 469	24 279 461
Financial liabilities								
Financial liabilities at FVTPL	8	-	30 863	30 863	-	30 863	-	30 863
Derivatives - Hedge accounting	9	-	31 510	31 510	-	31 510	-	31 510
Financial liabilities at AC:	11				-		-	
Due to banks		2 964 063	-	2 964 063	-	2 964 063	-	2 964 063
Due to customers		13 952 764	-	13 952 764	-	13 953 979	-	13 953 979
Lease liabilities		20 474	-	20 474	-	20 474	-	20 474
Subordinated debt		200 150	-	200 150	-	228 948	-	228 948
Debt securities in issue		3 829 056	-	3 829 056	-	3 858 052	-	3 858 052
		20 966 507	62 373	21 028 880	-	21 087 889	-	21 087 889

There were no other transfers of financial instruments among the levels during 2022 and 2021.

6. Segment reporting

The Bank reports financial and descriptive information about its operating segments in the financial statements. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank), whose operating results are regularly reviewed by the Bank's management to make decisions about resources to be allocated to the segment and to assess its performance, and for which separate financial information is available.

The Bank operates in three operating segments - Retail Banking, Corporate Banking and Central Treasury. Each segment is exposed to different risks and differs in the nature of its services, business processes and types of customers for its products and services.

For all segments the Bank reports a measure of segment assets and liabilities and income and expense items, a reconciliation of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the financial statements.

Most of the transactions of the VUB Group are related to the Slovak market however the group operates also on the Czech market via a foreign subsidiary in Prague performing activities especially in corporate banking and Treasury.

Operating segments pay and receive interest to and from the Central Treasury on an arm's length basis in order to reflect the costs of funding.

Retail Banking includes loans, deposits and other transactions and balances with households, sole traders and small business segment.

Corporate Banking comprises SME, the Corporate Customer Desk ('CCD'), Municipalities and Public Sector Entities. SME includes complex loan structures, deposits and other transactions and balances with SME (company revenue up to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes complex loan structures, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

Central Treasury undertakes the Bank's funding, issues of debt securities as well as trading book.

The Bank reported within Other a Central Governance Centre that manages the Bank's premises, equity investments and own equity funds as well as Risk Management that operates the workout loan portfolio. Unclassified items are also reported within this column.

2022 € '000	Retail banking	Corporate banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	200 714	187 436	27 680	415 830	20 537	436 367
Interest and similar expense	(6 522)	(42 105)	(26 749)	(75 376)	(25 337)	(100 713)
Inter-segment revenue	3 990	(16 468)	6 479	(5 999)	5 999	-
Net interest income	198 182	128 863	7 410	334 455	1 199	335 654
Net fee and commission income (note 25)	123 377	40 706	707	164 790	(3 142)	161 648
Dividend income	-	-	-	-	8 003	8 003
Net trading result	6 269	7 842	(3 968)	10 143	528	10 671
Other operating income	(4 982)	480	(1)	(4 503)	8 774	4 271
Other operating expense	(22 150)	-	-	(22 150)	(14 733)	(36 883)
Salaries and employee benefit	(49 599)	(12 501)	(705)	(62 804)	(64 117)	(126 921)
Other administrative expenses*	-	-	-	-	(76 759)	(76 759)
Amortisation	(7 044)	(563)	-	(7 607)	(10 698)	(18 305)
Depreciation	(2 526)	(83)	(1)	(2 610)	(9 033)	(11 643)
Profit before provisions, impairment and tax	241 527	164 744	3 442	409 714	(159 978)	249 736
Net modification gains or losses	-	-	-	-	14	14
Provisions*	-	-	-	-	(116)	(116)
Impairment losses	(53 448)	(13 276)	(257)	(66 981)	(9 763)	(76 744)
Net (loss)/ gain arising from the derecognition of financial assets at amortized cost	12 008	1 099	-	13 107	(362)	12 745
Profit before tax	200 087	152 567	3 185	355 840	(170 205)	185 635
Segment assets	10 484 772	7 196 126	4 585 001	22 265 899	539 431	22 805 330
Segment liabilities	9 646 340	6 622 254	4 315 649	20 584 243	380 025	20 964 268

* The Bank does not allocate these items to the individual segments.

2021 € '000	Retail Banking	Corporate Banking	Central Treasury	Total reportable segments	Other	Total
External revenue:						
Interest and similar income	201 031	105 900	(19 399)	287 532	18 817	306 349
Interest and similar expense	(5 406)	(2 873)	(6 997)	(15 276)	(20 704)	(35 980)
Inter-segment revenue	(6 951)	(19 903)	29 299	2 445	(2 445)	-
Net interest income	188 674	83 124	2 903	274 701	(4 332)	270 369
Net fee and commission income (note 25)	113 009	34 422	1 305	148 736	(3 205)	145 531
Dividend income	-	-	-	-	3 002	3 002
Net trading result	4 762	6 090	8 152	19 004	127	19 131
Other operating income	(3 213)	(99)	-	(3 312)	6 187	2 875
Other operating expense	(12 691)	-	-	(12 691)	(9 648)	(22 339)
Salaries and employee benefit	(46 948)	(10 551)	(681)	(58 181)	(64 727)	(122 908)
Other administrative expenses*	-	-	-	-	(70 839)	(70 839)
Amortisation	(6 313)	(347)	(1)	(6 661)	(10 463)	(17 124)
Depreciation	(2 572)	(137)	(2)	(2 711)	(10 401)	(13 112)
Profit before provisions, impairment and tax	234 708	112 502	11 676	358 885	(164 299)	194 586
Net modification gains or losses	-	-	-	-	(80)	(80)
Provisions*	-	-	-	-	129	129
Impairment losses	(66 239)	(6 819)	461	(72 597)	(493)	(73 090)
Net (loss)/ gain arising from the derecognition of financial assets at amortized cost	8 007	727	-	8 734	(124)	8 610
Profit before tax	176 476	106 410	12 137	295 022	(164 867)	130 155
Segment assets	10 135 873	6 088 556	6 084 618	22 309 047	552 172	22 861 219
Segment liabilities	8 913 870	4 889 742	7 009 438	20 813 050	338 447	21 151 497

* The Bank does not allocate these items to the individual segments

7. Cash and cash equivalents

'Cash and cash equivalents' comprise the following balances:

€ '000	2022	2021
Cash in hand	188 375	175 674
Balances at central banks:		
Compulsory minimum reserves	169 104	2 109 981
Current accounts	1	2
Term deposits	2 303 949	96 548
Loans and advances	373 437	213 304
	2 846 491	2 419 835
Due from other banks:		
Current accounts	25 630	17 276
	3 060 496	2 612 785

The balance of "Loans and advances" as of December 31. December 2022 consists of five reverse repo transactions with a contractual maturity of up to three months with the Czech National Bank, secured by CNB treasury bills.

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and Česká národní banka ('ČNB'). The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the Bank and the amount of issued bonds, both with a maturity of up to two years. The rate for the calculation of the compulsory minimum reserve is 1% for the reserves held at the NBS and 2% for the reserves held at ČNB. The required balance is calculated as the total of individual items multiplied by the valid rate.

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation. The compliance with the compulsory minimum reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period.

8. Financial assets and financial liabilities at fair value through profit or loss

€ '000	2022	2021
Financial assets held for trading:		
Trading derivatives	58 872	27 158
Equity instruments	-	-
Government debt securities of European Union countries	1 532	2 906
	60 404	30 064
Non-trading financial assets at fair value through profit or loss:		
Equity instruments	3 991	7 316
Financial liabilities held for trading:		
Trading derivatives	61 463	30 863

Equities in 'Non-trading financial assets at fair value through profit or loss' are represented by shares of Intesa Sanpaolo S. p. A. and they form the part of the incentive plan introduced by the Parent Company in line with the Capital Directive ‚CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). The Bank did not elect the option to present these at FVOCI.

€ '000	2022 Assets	2021 Assets	2022 Liabilities	2021 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	55 616	16 173	54 596	17 744
Options	97	-	62	-
	55 713	16 173	54 658	17 744
Foreign currency instruments:				
Forwards and swaps	2 852	5 232	6 503	7 398
Options	92	103	91	103
	2 944	5 335	6 594	7 501
Equity and commodity instruments:				
Commodity forwards and swaps	215	5 650	211	5 618
	215	5 650	211	5 618
	58 872	27 158	61 463	30 863

€ '000	2022 Assets	2021 Assets	2022 Liabilities	2021 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	1 964 282	1 848 175	1 964 282	1 848 175
Options	73 073	109 565	73 073	109 565
Futures	1 556	-	1 556	-
	2 038 911	1 957 740	2 038 911	1 957 740
Foreign currency instruments:				
Forwards and swaps	406 523	721 750	411 118	726 204
Options	15 916	5 211	15 916	5 211
	422 439	726 961	427 034	731 415
Equity and commodity instruments:				
Commodity forwards and swaps	2 276	6 867	2 276	6 867
	2 276	6 867	2 276	6 867
	2 463 626	2 961 568	2 468 221	2 696 022

9. Derivatives - Hedge accounting

€ '000	2022 Assets	2021 Assets	2022 Liabilities	2021 Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	352 265	55 574	316 157	31 510

9.1. Fair value hedges of interest rate, foreign currency and inflation risk as of date of preparation of the financial statements

The Bank used **21 interest rate swaps** to hedge the interest rate risk of a pool of **mortgage loans**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The Bank used **26 interest rate swaps** to hedge the interest rate risk of a pool of **current accounts**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The Bank used **38 interest rate swaps** to hedge the interest rate risk of **11 fixed rate state bonds from the FVOCI portfolio.** The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The Bank used **15 interest rate swaps** to hedge the interest rate risk of **13 fixed rate financial institutions bonds from the FVOCI portfolio**. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The Bank used **4 interest rate swaps** hedge the interest rate risk of **4 corporate loans denominated in EUR**. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

The Bank used **2 cross currency swaps** to hedge the interest rate and foreign currency risk of **2 corporate loans denominated in GBP and USD**. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of both interest rates and foreign exchange rates.

The Bank used **1 interest rate swap** to hedge the interest rate risk of **1 loan received from European Investment Bank ('EIB')**. The change in fair value of this interest rate swap substantially offset the change in fair value of this loan in relation to changes of interest rates.

The Bank used **37 interest rate swaps** to hedge the interest rate risk arising from the issuance of **17 fixed rate covered bonds**. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

The Bank used **1 cross currency swap** to hedge the interest rate and foreign currency risk arising from **1 corporate bond denominated in PLN**. The change in fair value of this swap substantially offset the change in fair value of the bond in relation to changes of both interest rates and foreign exchange rates.

The Bank used **11 interest rate swaps** to hedge the interest rate risk of **9 internal loans to VUB Branch Prague** The changes in fair value of these interest rate swaps substantially offset the changes in fair value of this loan in relation to changes of interest rates.

2022 € '000	Assets Fair value	Liabilities Fair value	Assets Notional value	Liabilities Notional value	Change in fair value used for calculating hedge ineffective-ness	Ineffectiveness recognized in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	126 491	24 211	1 408 200	1 408 200	96 703	-
Hedge of corporate loans	23 284	-	341 988	341 988	17 861	(46)
Hedge of loans received from EIB	-	6 330	50 000	50 000	(5 445)	15
Hedge of covered bonds	69 792	261 343	3 292 400	3 292 400	(211 307)	-
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	2 609	2 230	87 606	91 205	9 249	-
Hedge of corporate bonds at AC	-	2 722	38 817	40 378	(647)	-
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	130 089	-	3 830 400	3 830 400	127 783	(511)
Hedge of current accounts	-	19 321	166 500	166 500	(22 298)	53
Hedge of reverse REPO	-	-	-	-	150	70

2021 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffective-ness	Ineffectiveness recognized in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	6 178	1 873	1 138 100	1 138 100	23 164	-
Hedge of corporate loans	7 415	1 981	399 770	399 770	8 427	-
Hedge of loans received from EIB	-	584	50 000	50 000	(1 124)	15
Hedge of covered bonds	29 859	11 409	2 192 400	2 192 400	(44 194)	-
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	-	7 714	87 606	89 868	5 200	-
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of mortgage loans	5 845	6 972	2 290 000	2 290 000	14 566	(29)
Hedge of current accounts	4 012	977	506 500	506 500	(4 102)	73
Hedge of reverse REPO	2 265	-	1 650 000	1 650 000	(150)	(230)

The amounts relating to items designated as hedged items were as follows:

2022 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 114 137	-	(96 703)	233
Corporate loans	Financial assets at AC: Due from customers	433 193	(34 397)	(27 156)	(963)
Corporate bonds at AC	Financial assets at AC: Due from customers	-	-	647	-
Loans received from EIB	Financial assets at AC: Due to banks	50 000	(6 005)	(5 460)	-
Covered bonds	Financial liabilities at AC: Debt securities in issue	2 308 346	(192 731)	(211 307)	3 070
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	3 830 400	(126 425)	(128 294)	15
Current accounts	Financial liabilities at AC: Due to customers	-	(19 536)	(22 351)	-
Reverse REPO	Financial assets at AC: Loans and advances to banks	166 500	-	(80)	-

* Interest rate risk hedging of covered bonds is sometimes closed before the original maturity of the interest rate swap. The reason is that the Interest rate risk position of the Bank changed in a way, which required more fixed rate liabilities. And since the originally fixed rate covered bonds were in the past swapped into float rate, these swaps were early terminated in order to achieve the required interest risk position of the Bank.

2021 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffective-ness	Accumulated amount of fair value adjustment after termination of hedging relationship*
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	1 114 512	-	(23 164)	(113)
Corporate loans	Financial assets at AC: Due from customers	397 119	7 240	(13 627)	131
Loans received from EIB	Financial assets at AC: Due to banks	50 000	(544)	(1 139)	-
Covered bonds	Financial liabilities at AC: Debt securities in issue	1 582 705	17 611	(44 194)	40 572
Macro hedges					
Mortgage loans	Financial assets at AC: Due from customers	1 975 000	1 869	(14 595)	1 352
Current accounts	Financial liabilities at AC: Due to customers	452 500	2 816	(4 175)	-
Reverse REPO	Financial assets at AC: Loans and advances to banks	1 650 248	80	(80)	-

Maturity of notional values of hedging instruments designated as fair value hedges of interest rate risk and their average interest rates:

€ '000	Less than 1 year	1 - 5 years	2022 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	80 200	531 900	490 100
	(0,39)%	(0,04)%	0,71%
Hedge of corporate loans	85 733	256 254	-
	0,26%	2,84%	-
Hedge of mortgage loans	1 277 000	2 472 000	81 400
	(0,16)%	0,57%	1,72%
Hedge of TLTRO	-	50 000	-
	-	(0,26) %	-
Hedge of current account	-	112 500	54 000
	-	0,64%	(0,01)%
Hedge of covered bonds	170 000	1 824 500	367 900
	0,78 %	1.02 %	0,88 %
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	-	91 206	-
	-	2,63%	-
Hedge of corporate bonds at AC	-	40 378	-
	-	0,00%	-

€ '000	Less than 1 year	1 - 5 years	2021 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	28 000	642 100	410 000
	(0,33)%	(0,22)%	0,00%
Hedge of REPO deal	1 650 000	-	-
	(0,54)%	-	-
Hedge of corporate loans	116 509	283 260	-
	0,03%	1,17%	-
Hedge of mortgage loans	-	2 290 000	-
	-	(0,21)%	-
Hedge of loans received from other banks	-	50 000	-
	-	(0,26)%	-
Hedge of current account	340 000	85 500	81 000
	(0,56)%	0,62%	-
Hedge of covered bonds	250 000	824 500	917 900
	(0,57)%	0,82%	0,89%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	-	89 868	-
	-	0,00%	-

10. Financial assets at fair value through other comprehensive income

€ '000	2022	2021
Government debt securities of European Union countries	1 149 424	1 347 770
of which Italian government debt securities	*198 699*	*301 022*
Bank debt securities	234 060	283 081
Other debt securities	28 716	32 962
Equity instruments:	-	
Visa Inc. Series A Preferred Stock	-	7 462
Visa Inc. Series C Preferred Stock	-	-
Intesa Sanpaolo S.p.A.	39	43
S.W.I.F.T.	102	85
	141	7 590
	1 412 341	1 671 403

At 31 December 2022, the bonds in the total nominal amount of € 1 404 950 thousand were pledged by the Bank to secure collateralized transactions (31 December 2021: € 1 516 100 thousand). These bonds were pledged in favour 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 amortized cost

11.1. Due from other banks

€ '000	Note	2022	2021
Term deposits:			
with contractual maturity over 90 days		5 022	-
Loans and advances:			
with contractual maturity over 90 days		137 296	1 786 002
Cash collateral		10 327	33 471
Impairment losses	21	(365)	(109)
		152 280	1 819 392

11.2. Due from customers

2022 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
State administration	79 706	(647)	79 059
Municipalities	110 386	(991)	109 395
Municipalities – Leasing	339	(1)	338
	190 431	(1 639)	188 792
Corporate			
Large Corporates	2 686 235	(24 014)	2 662 221
Large Corporates – debt securities	147 032	(919)	146 113
Specialized Lending	929 074	(27 863)	901 211
SME	1 822 103	(44 068)	1 778 035
Other Non-banking Financial Institutions	471 298	(141)	471 157
Other Non-banking Financial Institutions – debt securities	261 018	(80)	260 938
Public Sector Entities	3 360	(1)	3 359
Leasing	150 345	(7 927)	142 418
Factoring	161 224	(1 192)	160 032
	6 631 689	(106 205)	6 525 484
Retail			
Small Business	538 250	(42 260)	495 990
Small Business – Leasing	42 742	(3 908)	38 834
Consumer Loans	1 295 640	(139 995)	1 155 645
Mortgages	8 965 879	(55 820)	8 910 059
Credit Cards	97 179	(10 919)	86 260
Overdrafts	66 573	(6 396)	60 177
Leasing	4 330	(37)	4 293
Flat Owners Associations	39 426	(232)	39 194
	11 050 019	(259 567)	10 790 452
	17 872 139	(367 411)	17 504 728

2021 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public administration			
Single resolution fund	-	-	-
State administration	95 147	(676)	94 471
Municipalities	110 267	(1 206)	109 061
	205 414	(1 882)	203 532
Corporate			
Large Corporates	2 555 677	(1 677)	2 554 000
Large Corporates - debt securities	102 402	(97)	102 305
Specialized Lending	870 653	(35 042)	835 611
SME	1 529 971	(45 128)	1 484 843
Other Non-banking Financial Institutions	565 614	(97)	565 517
Other Non-banking Financial Institutions - debt securities	183 154	(65)	183 089
Public Sector Entities	3 438	(1)	3 437
Factoring	148 543	(1 187)	147 356
	5 959 452	(83 294)	5 876 158
Retail			
Small Business	312 662	(18 075)	294 587
Consumer Loans	1 275 947	(136 034)	1 139 913
Mortgages	8 613 915	(47 216)	8 566 699
Credit Cards	92 619	(15 169)	77 450
Overdrafts	67 034	(7 079)	59 955
Flat Owners Associations	38 474	(321)	38 153
	10 400 651	(223 894)	10 176 757
	16 565 517	(309 070)	16 256 447

At 31 December 2022, the 20 largest corporate customers represented a total carrying amount of € 1 418 666 thousand (31 December 2021: € 1 585 500 thousand), respectively 8,10% (31 December 2021: 9,75%) of the total loan portfolio.

11.3. Due to banks

€ '000	2022	2021
Due to central banks:		
Current accounts	964	913
Loans received from central banks	59 610	2 490 778
	60 574	2 491 691
Due to other banks:		
Current accounts	100 060	89 915
Term deposits	8 639	5 862
Loans received from other banks	839 440	348 939
Revaluation of fair value hedged loans received	(6 005)	-544
Cash collateral received	2 360	28 200
	944 494	472 372
	1 005 068	2 964 063

At 31 December 2022, 'Loans received from central banks' contains one loans from National Bank of Slovakia in the nominal amount of € 60 000 thousand. The interest rate for these loans was 2% and the maturity is in 2024. The principal and interests are due at maturity of the loans.

The breakdown of 'Loans received from other banks' according to the counterparty is presented below:

€ '000	2022	2021
Intesa Sanpaolo S. p. A.	751 459	250 712
European Investment Bank	83 294	91 659
European Bank for Reconstruction and Development	4 687	6 568
	839 440	348 939

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2022			Cash flow		Non-cash changes		
€ '000	1 January	Proceeds	Repayments	Accruals	Revaluation	Other	31 December
Loans received from other banks (including revaluation)	348 395	350 000	(205 294)	1 459	(6 005)	350 885*	839 440

* Loan provided to VUB Leasing recognized in VUB Bank after its merger during 2022.

2021			Cash flow		Non-cash changes		
€ '000	1 January	Proceeds	Repayments	Accruals	Revaluation	Other	31 December
Loans received from other banks (including revaluation)	109 810	251 526	(11 881)	59	(1 119)	-	348 395

11.4. Due to customers

€ '000	2022	2021
Current accounts	10 828 376	10 508 477
Term deposits	3 475 387	2 345 852
Government and municipal deposits	812 724	772 184
Savings accounts	167 748	212 319
Other deposits	123 648	113 932
	15 407 883	13 952 764

11.5. Lease liabilities

€ '000	2022	2021
Lease liabilities	19 952	22 474

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2022		Cash flow			Non-cash changes		
€ '000	1 January	Repayments	New	Accruals	Revaluation	Other	31 December
Lease liabilities	20 474	(7 355)	6 833	-	-	-	19 952

2021		Cash flow			Non-cash changes		
€ '000	1 January	Repayments	New	Accruals	Revaluation	Other	31 December
Lease liabilities	22 858	(7 451)	5 067	-	-	-	20 474

11.6. Subordinated debt

€ '000	2022	2021
Subordinated debt	250 368	200 150

At 31 December 2022, the balance of subordinated debt comprised of one ten-year loan from INTESA SANPAOLO SPA in the nominal amount of € 50,000 thousand with maturity in 2032 and interest rate of 5,552% and of one two-year loan from Intesa Sanpaolo Holding International in the nominal amount of € 200,000 thousand with maturity in 2026 and interest rate of 5,366%. 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.

(At 31 December 2021, the balance of subordinated debt comprised of one ten-year loan in the nominal amount of € 200,000 thousand from Intesa Sanpaolo Holding International. Maturity was in 2026. The interest rate was 2,697% as at 31 December 2022.)

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2022 € '000	1 January	Cash flow Proceeds	Repayments	Non-cash changes Accruals	Revaluation	Other	31 December
Subordinated debt	200 150	250 000	(200 000)	218	-	-	250 368

2021 € '000	1 January	Cash flow Proceeds	Repayments	Non-cash changes Accruals	Revaluation	Other	31 December
Subordinated debt	200 151	-	-	(1)	-	-	200 150

11.7. Debt securities in issue

€ '000	2022	2021
Covered bonds	1 665 323	2 584 897
Covered bonds subject to fair value hedges	2 308 346	1 185 975
	3 973 669	3 770 872
Revaluation of fair value hedged covered bonds	(192 731)	17 611
Unamortised part of revaluation related to terminated fair value hedges	3 070	40 573
	3 784 008	3 829 056

The repayment of covered bonds is funded by the mortgage loans denominated in EUR provided to customers of the Bank (note 11.2.) and debt securities in FVOCI portfolio (note 10).

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2022 € '000	1 January	Cash flow Proceeds from issue	Repayments	Non-cash changes Accruals	Revaluation	Other	31 December
Covered bonds	3 829 056	500 000	(300 000)	15 781	(260 829)	-	3 784 008

2021 € '000	1 January	Cash flow Proceeds from issue	Repayments	Non-cash changes Accruals	Revaluation	Other	31 December
Covered bonds	3 422 729	500 000	(47 597)	6 920	(52 996)	-	3 829 056

12. Fair value changes of the hedged items in portfolio hedge of interest rate risk

€ '000	2022	2021
Financial assets at AC:		
Due from other banks:		
Loans and advances	-	80
Due from customers:		
Retail		
Mortgages	(126 410)	3 221
Financial liabilities at AC:		
Due to customers	(19 536)	2 816

13. Investments in subsidiaries, joint ventures and associates

2022 € '000	Share	Cost	Impairment losses	Carrying amount
Monilogi, s.r.o.	30,00%	1 787	-	1 787
VÚB Operating Leasing, a. s.	100,00%	3 500	-	3 500
VÚB Generali d. s. s., a. s.	55,26%	21 116	-	21 116
Slovak Banking Credit Bureau, s. r. o.	33,33%	3	-	3
		26 406	-	26 406

2021 € '000	Share	Cost	Impairment losses (note 21)	Carrying amount
VÚB Leasing, a. s.	100,00%	74 410	(21 381)	53 029
VÚB Operating Leasing, a.s.	100,00%	27	-	27
VÚB Generali d. s. s., a. s.	50,00%	16 597	-	16 597
Slovak Banking Credit Bureau, s. r. o.	33,33%	3	-	3
		91 037	(21 381)	69 656

On May 10, 2022, the company Monilogi, s.r.o., in which VUB has a 30% share, was registered in the commercial register. It is a joint venture of five banks that created this company for the purpose of outsourcing cash processing operations and cost optimization.

VÚB Leasing, a. s., VÚB Operating Leasing, a.s., VÚB Generali d. s. s., a. s. and Slovak Banking Credit Bureau, s. r. o. are incorporated in the Slovak Republic.

14. Property and equipment and Non-current assets classified as held for sale

2022 € '000	Owned	Right-of-use	Total
Buildings and land	76 823	16 424	93 247
Equipment	5 534	-	5 534
Other tangibles	936	3 187	4 123
Assets in progress	12 871	-	12 871
	96 164	19 611	115 775

2021 € '000	Owned	Right-of-use	Total
Buildings and land	76 596	16 718	93 314
Equipment	6 119	-	6 119
Other tangibles	1 185	3 514	4 699
Assets in progress	6 470	-	6 470
	90 370	20 232	110 602

2022 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	113 201	46 036	27 657	6 470	193 364
Revaluation	(1 570)	-	-	-	(1 570)
Additions from merger	-	37	-	-	37
Additions	6 063	-	773	9 213	16 049
Disposals	(1 982)	(9 397)	(2 622)	-	(14 001)
Contribution to Monilogi	-	(955)	(8)	-	(963)
Transfers	1 695	1 038	79	(2 812)	-
Exchange differences	16	5	1	-	22
At 31 December	117 423	36 764	25 880	12 871	192 938
Accumulated depreciation					
At 1 January	(19 561)	(39 917)	(22 958)	-	(82 436)
Revaluation	3 307	-	-	-	3 307
Additions from merger	-	(23)	-	-	(23)
Depreciation for the year	(8 720)	(1 511)	(1 412)	-	(11 643)
Disposals	912	9 379	2 605	-	12 896
Contribution to Monilogi	-	846	8	-	854
Transfery	-	-	-	-	-
Exchange differences	(2)	(4)	-	-	(6)
At 31 December	(24 064)	(31 230)	(21 757)	-	(77 051)
Impairment losses (note 21)					
At 1 January	(326)	-	-	-	(326)
Additions from merger	-	-	-	-	-
Creation	-	-	-	-	-
Release	214	-	-	-	214
At 31 December	(112)	-	-	-	(112)
Carrying amount	-	-	-	-	-
At 1 January	91 744	6 119	4 699	6 470	109 032
At 31 December	93 247	5 534	4 123	12 871	115 775

2021 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	109 393	53 139	30 286	7 186	200 004
Additions	4 798	-	272	5 805	10 875
Disposals	(5 603)	(8 659)	(3 282)	-	(17 544)
Transfers	4 596	1 546	379	(6 521)	-
Exchange differences	17	10	2	-	29
At 31 December	113 201	46 036	27 657	6 470	193 364
Accumulated depreciation					
At 1 January	(14 975)	(46 720)	(24 796)	-	(86 491)
Depreciation for the period	(9 854)	(1 831)	(1 427)	-	(13 112)
Disposals	5 279	8 642	3 265	-	17 186
Exchange differences	(11)	(8)	-	-	(19)
At 31 December	(19 561)	(39 917)	(22 958)	-	(82 436)
Impairment losses (note 21)					
At 1 January	(349)	-	-	-	(349)
Creation	-	-	-	-	-
Release	23	-	-	-	23
At 30 June	(326)	-	-	-	(326)
Carrying amount					
At 1 January	94 069	6 419	5 490	7 186	113 164
At 31 December	93 314	6 119	4 699	6 470	110 602

Of which right-of-use assets:

2022 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	32 506	5 849	38 355
Additions	6 063	773	6 836
Disposals	(1 304)	(1 067)	(2 371)
Exchange differences	13	1	14
At 31 December	37 278	5 556	42 834
Accumulated depreciation			
At 1 January	(15 788)	(2 335)	(18 123)
Depreciation for the period	(6 272)	(1 081)	(7 353)
Disposals	1 207	1 047	2 254
Exchange differences	(1)	-	(1)
At 31 December	(20 854)	(2 369)	(23 223)
Carrying amount			
At 1 January	16 718	3 514	20 232
At 31 December	16 424	3 187	19 611

2021 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	31 173	5 835	37 008
Additions	4 798	272	5 070
Disposals	(3 476)	(260)	(3 736)
Exchange differences	11	2	13
At 31 December	32 506	5 849	38 355
Accumulated depreciation			
At 1 January	(12 752)	(1 526)	(14 278)
Depreciation for the period	(6 489)	(1 053)	(7 542)
Disposals	3 458	244	3 702
Exchange differences	(5)	-	(5)
At 31 December	(15 788)	(2 335)	(18 123)
Carrying amount			
At 1 January	18 421	4 309	22 730
At 31 December	16 718	3 514	20 232

For ‘Buildings and land’ the Bank uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The Bank uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognized due to significant unobservable estimated valuation inputs. During November 2022, the Bank updated the revaluation of buildings and land to their current market value.

Significant part of branch premises that the Bank uses is a result of sale and leaseback transactions. These leasebacks are recognized as rights of use assets and lease liabilities. Average lease term of these premises was estimated to four years.

In 2022 the Bank reviewed the carrying amount of its property and equipment. An impairment test was carried out to determine the recoverable amount. The recoverable amount is determined with reference to the fair value less costs to sell or the value in use, if determinable and if it is higher than fair value. For property and equipment other than buildings and land is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances. The Bank measures buildings and land according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement. As a result of the impairment test the Bank recognized an impairment loss in the amount of 136 thousand EUR (31 December 2021: 0 EUR).

If ‘Buildings and land’ were measured using the cost model, the carrying amounts would be, as follows:

€ ’000	2022	2021
Cost	107 082	105 888
Accumulated depreciation	(57 447)	(55 409)
Impairment losses	(112)	(326)
	49 523	50 153

During 2022 the Bank reassigned another three building into non-current assets classified as held for sale portfolio. The Bank held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ ’000	2022	2021
Cost	6 385	614
Accumulated depreciation	(360)	(22)
Impairment losses	(79)	(77)
	5 946	515

At 31 December 2022, the gross book value of fully depreciated tangible assets that are still used by the Bank amounted to € 58 976 thousand (31 December 2021: € 67 440 thousand).

There are no restrictions on title and no ‘Property and equipment’ is pledged as security for liabilities.

At 31 December 2022, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2021: € nil thousand).

The Bank’s insurance program covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism and other damages).

15. Intangible assets

2022 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	305 778	10 729	61 575	378 082
Additions from merger	1 965	-	178	2 143
Additions	-	-	16 209	16 209
Disposals	(1 115)	-	-	(1 115)
Transfers	9 290	-	(9 289)	1
Exchange differences	29	1	-	30
At 31 December	315 947	10 730	68 673	395 350
Accumulated amortization				
At 1 January	(236 760)	(10 474)	-	(247 234)
Additions from merger	(1 215)	-	-	(1 215)
Amortisation for the year	(18 286)	(19)	-	(18 305)
Disposals	1 115	-	-	1 115
Exchange differences	(26)	(1)	-	(27)
At 31 December	(255 172)	(10 494)	-	(265 666)
Impairment losses				
At 1 January	-	-	-	-
Release	-	-	(10 423)	(10 423)
31.december	-	-	(10 423)	(10 423)
Carrying amount				
At 1 January	69 018	255	61 575	130 848
At 31 December	60 775	236	58 250	119 261

2021 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	294 222	10 729	55 923	360 874
Additions	-	-	19 066	19 066
Disposals	(1 909)	-	-	(1 909)
Transfers	13 417	-	(13 417)	-
Exchange differences	48	-	3	51
At 31 December	305 778	10 729	61 575	378 082
Accumulated amortization				
At 1 January	(221 607)	(10 371)	-	(231 978)
Amortisation for the year	(17 021)	(103)	-	(17 124)
Disposals	1 908	-	-	1 908
Exchange differences	(40)	-	-	(40)
At 31 December	(236 760)	(10 474)	-	(247 234)
Carrying amount				
At 1 January	72 615	358	55 923	128 896
At 31 December	69 018	255	61 575	130 848

The acquisition of assets mainly includes the development of new software applications and the costs of technical evaluation of software that have not yet been put into use.

At 31 December 2022, the gross book value of fully amortized intangible assets that are still used by the Bank amounted to € 162 201 thousand (31 December 2021: € 153 348 thousand).

At 31 December 2022, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € nil thousand (31 December 2021: € nil thousand).

16. Goodwill

€ '000	2022	2021
Retail Banking	18 871	18 871
Corporate Banking	10 434	-
	29 305	18 871

The Bank has identified three cash-generating units - retail Banking, corporate Banking and Central Treasury, which also represent operating segments used in segment reporting (note 6). VUB Leasing, was part of the corporate Banking operating segment. Each represents the smallest group of assets generating independent cash inflows and also the minimum level monitored by the Bank for planning and reporting processes.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that its carrying amount may be impaired. No goodwill impairment losses were reported in 2022 or 2021. The calculation is based on the same procedures as for the impairment test of investments in subsidiaries and associated companies (note 13).

During the merger of Consumer Finance Holding, a. s. to the Bank in 2018 was goodwill belonging to Consumer Finance Holding, a. s. also merged into the Bank. The Bank assigned this goodwill to the cash-generating unit Retail Banking, as Consumer Finance Holding, a. s., worked in the field of consumer loans.

During the division of VUB Leasing (note 2.3) Goodwill belonging to the company VUB Leasing was recognized in the Bank. This goodwill is further assessed within the corporate Banking segment.

The Bank uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to future cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on ISP Group level specifically for the Slovak market.

Investments in subsidiaries, joint ventures and associates are tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses were created during 2022 and 2021.

The following rates are used by the Bank:

€ '000	2022	2021
Pre-tax discount rate - cash flows	10,32%	9,60%
Pre-tax discount rate - terminal value	11,32%	10,54%
Projected growth rate	4,55%	1,94%

The calculation considers the following key assumptions:

- interest margins - the development of margins and volumes by product line,
- discount rates - based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

17. Current and deferred income tax assets and liabilities

€ '000	2022	2021
Current income tax assets	-	-
Deferred income tax assets	65 382	53 880
Current income tax liabilities	24 231	12 018

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2019: 21%) as follows:

€ '000	2022	Profit/(loss) (note 34)	Equity	VUB Leasing and VUB Generali Merger	Exchange rate differences	2021
Financial assets at FVOCI	6 071	-	6 283	1 684	-	(1 896)
Financial assets at AC:						
Due from other banks	75	53	-	-	-	22
Due from customers	55 264	6 734	-	-	2	48 528
Property and equipment	(14 473)	(1 885)	(365)	-	-	(12 223)
Intangible assets	2 189	2 189	-	-	-	-
Other assets	7	-	-	-	-	7
Financial liabilities at AC:	-	-	-	-	-	-
Lease liabilities	4 173	(123)	-	-	-	4 296
Provisions	2 882	(1 027)	-	-	-	3 909
Other liabilities	11 530	1 733	-	-	-	9 797
Other	(2 336)	(3 786)	11	-	-	1 440
	65 382	3 888	5 929	1 684	2	53 880

18. Other assets

€ '000	Note	2022	2021
Operating receivables and advances		18 304	11 797
Prepayments and accrued income		9 928	10 471
Other tax receivables		2 597	964
Settlement of operations with financial instruments		680	7
Inventories		365	401
Other		175	104
Impairment losses	21	(2 943)	(2 636)
		29 106	21 108

19. Provisions

€ '000	Note	2022	2021
Financial guarantees and commitments	21	14 407	20 235
Restructuring provision		3 831	900
Litigation		470	462
		18 708	21 597

2022 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	3 715*	120	(4)	3 831
Restructuring provision	32	900	352	(782)	470
		4 615	472	(786)	4 301

* Including provisions from VUB Leasing recognized in VUB Bank after its merger during 2022.

2021 € '000	Note	1 January	Net creation/ release	Use	31 December
Litigation	23, 32	591	16	(145)	462
Restructuring provision	32	400	500	-	900
		991	516	(145)	1 362

20. Other liabilities

€ '000	2022	2021
Various creditors	52 216	43 079
Settlement with employees	28 716	27 231
Severance and Jubilee benefits	4 413	5 009
Settlement of operations with financial instruments	4 160	4 108
Accruals and deferred income	2 799	1 888
Settlement with shareholders	678	846
VAT payable and other tax payables	614	1 338
Share remuneration scheme	429	622
Investment certificates	359	526
Other	1 582	1 539
	95 966	86 186

At 31 December 2022 and 31 December 2021 there were no overdue balances within 'Other liabilities'.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to yield curve on Slovak government bonds with a fifteen years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the Projected Unit Credit Method. For the calculation the Bank used an average turnover rate which is based on historical data on employees' turnover at the Bank for the last three years. The average age-specific turnover rate is calculated as the ratio of number of terminations and the average number of employees. All employees are covered by the retirement and jubilee employee benefits program.

The calculation for the respective program takes into account the following parameters:

	2022		2021	
	Jubilee benefits	Retirement benefits	Jubilee benefits	Retirement benefits
Discount rate	2,910%	1,200%	0,32%	(0,48)%
Growth of wages*	2 - 3%	2 - 3%	0,00%	0,00%
Future growth of wages*	2 - 3%	2 - 3%	2%	3%
Turnover rate (based on age)	3,64% - 44,38%	3,64% - 44,38%	4,6% - 42,6%	4,6% - 42,6%
Retirement age	Based on valid legislation		Based on valid legislation	
Mortality	Based on mortality tables issued by the Statistical Office of the Slovak Republic		Based on mortality tables issued by the Statistical Office of the Slovak Republic	

* Growth of wages and Future growth of wages is not part of calculation for Jubilee benefits.

The movements in social fund liability presented within 'Settlement with employees' were as follows:

2022 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	1 497	3 139	(4 096)	540

2021 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	2 646	1 122	(2 271)	1 497

21. Movements in impairment losses and provisions for financial guarantees and commitments

2022 € '000	Note	1 January	Net creation/ release (note 33)	Assets Written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		329	(53)	-	-	-	276
Financial assets at AC:	11						
Due from other banks		109	256	-	-	-	365
Due from customers		345 220	74 104	(50 731)	(1 182)	-	367 411
Impairment losses according to IFRS 9		345 658	74 307	(50 731)	(1 182)	-	368 052
Financial guarantees and commitments	19	20 448	(7 326)	-	1 285	-	14 407
Impairment losses and provisions according to IFRS 9		366 106	66 981	(50 731)	103	-	382 459
Property and equipment and Non–current assets classified as held for sale		-	-	-	-	-	-
Property and equipment and Non–current assets classified as held for sale	14	326	10 422	(213)	-	-	10 535
Other assets	18	3 093	(659)	-	509	-	2 943
Total impairment losses and provisions for financial guarantees and commitments		369 525	76 744	(50 944)	612	-	395 937

* 'Other' represents: the interest portion (unwinding of interest).

2021 €'000	Note	1 January	Net creation/ (release) (note 33)	Assets written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		306	23	-	-	-	329
Financial assets at AC:	11						
Due from other banks		706	(583)	-	(14)	-	109
Due from customers		298 310	68 450	(51 350)	(1 328)	(5 012)	309 070
Impairment losses according to IFRS 9		299 322	67 890	(51 350)	(1 342)	(5 012)	309 508
Financial guarantees and commitments	19	13 904	4 707	-	1 624	-	20 235
Impairment losses and provisions according to IFRS 9		313 226	72 597	(51 350)	282	(5 012)	329 743
Investments in subsidiaries, joint ventures and associates	13	21 381	-	-	-	-	21 381
Property and equipment and Non-current assets classified as held for sale	14	349	-	(23)	-	-	326
Other assets	18	2 142	493	-	1	-	2 636
Total impairment losses and provisions for financial guarantees and commitments		337 098	73 090	(51 373)	283	(5 012)	354 086

* 'Other' represents: the interest portion (unwinding of interest).

22. Equity

€ '000	2022	2021
Share capital – authorized, issued and fully paid:		
89 ordinary shares of € 3 319 391,89 each, not traded	295 426	295 426
4 078 108 ordinary shares of € 33,2 each, publicly traded	135 393	135 393
	430 819	430 819
	-	
Share premium	13 719	13 719
Reserves	89 971	112 200
Retained earnings (excluding net profit for the year)	1 165 461	1 051 998
	1 699 970	1 608 736

In accordance with the law and statutes of the Bank, the Bank is obliged to contribute at least 10% of its annual net profit to the 'Legal reserve fund' until it reaches 20% of the share capital. Usage of the 'Legal reserve fund' is restricted by the law and the fund can be used for the coverage of the losses of the Bank.

€ '000	2022	2021
Net profit for the year attributable to shareholders in € '000	141 092	100 986
Divided by the weighted average number of ordinary shares, calculated as follows:		
89 shares of € 3,319,391.89 each in €	295 425 878	295 425 878
4,078,108 shares of € 33.2 each in €	135 393 186	135 393 186
	430 819 064	430 819 064
Divided by the value of one ordinary share of € 33.2		
The weighted average number of ordinary shares of € 33.2 each	12 976 478	12 976 478
Basic and diluted earnings per € 33.2 share in €	10,87	7,78

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	2022	2021
Intesa Sanpaolo Holding International S. A.	100,00%	100,00%
Domestic shareholders	0,00%	0,00%
Foreign shareholders	0,00%	0,00%
	100,00%	100,00%

The primary objectives of the Bank´s capital management are to ensure that the Bank 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 Bank manages its capital structure and adjust to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue capital securities or other capital instruments, classified as Additional Tier 1, or Tier2. No changes have been made in the objectives, policies and processes from the previous years.

The Bank's regulatory capital position was determined based on the rules for capital adequacy calculation set by the CRR Regulation:

€ '000	2022 (Neauditované)	2021 (Neauditované)
Tier 1 capital		
Share capital	430 819	430 819
Share premium	13 719	13 719
Retained earnings*	1 156 997	1 043 534
Profit or loss eligible	141 092	90 440
Legal reserve fund	87 493	87 495
Other capital funds	8 464	8 464
Accumulated other comprehensive income	2 478	24 707
(-) Value adjustments due to the requirements for prudent valuation	(43)	(48)
Other transitional adjustments to CET1 Capital	10 337	20 674
CET1 capital elements or deductions — other	(6 400)	(6 400)
Less goodwill and intangible assets	(132 133)	(126 844)
Less IRB shortfall of credit risk adjustments to expected losses	-	-
(-) Insufficient coverage for non-performing exposures	(157)	(95)
	1 712 666	1 586 465
Tier 2 capital		
IRB excess of provisions over expected losses eligible	45 225	200 000
Subordinated debt	209 726	14 502
Other transitional adjustments to T2 Capital	(2 570)	(5 141)
	252 381	209 361
Total regulatory capital	1 965 047	1 795 826

* Excluding net profit for the period/year, in approval and other capital funds.

€ '000	2022	2021
Retained earnings	1 306 553	1 152 984
Net profit for the year	(141 092)	(100 986)
Other capital funds	(8 464)	(8 464)
	1 156 997	1 043 534

€ '000	2022	2021	2022 Required	2021 Required
Tier 1 capital	1 712 666	1 586 465	803 859	718 363
Tier 2 capital	252 381	209 361	252 381	209 361
Total regulatory capital	1 965 047	1 795 826	803 859	718 363
Total Risk Weighted Assets	10 048 236	8 979 534	10 048 236	8 979 534
CET 1 capital ratio	17,04%	17,67%	11,84%	11,84%
Total capital ratio	19,56%	20,00%	16,00%	15,00%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings, accumulated other comprehensive income, foreign currency translation and reserves. The deducted amounts in Tier 1 capital are goodwill, intangible assets and irrevocable payment commitments (contribution to Single Resolution Fund) and IRB shortfall. Certain adjustments are made to IFRSs-components 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 2022 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 (in compliance with their amendments - Regulation (EU) 2019/876 and Directive (EU) 2019/878), which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that the Bank must comply with on sub-consolidated and individual level. Starting from 1 January 2022, the overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 10.25%. This is the result:

- the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.5%, entirely of Common Equity Tier 1 ratio;
- additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an Other Systemically Important Institutions Buffer ('O-SII Buffer') of 1.75% and Systemic Risk Buffer ('SRB') was cancelled from 1.1.2022.

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).

Due to COVID-19 pandemic situation, NBS has decreased countercyclical buffer to 1% since 1 August 2020 (previously 1.5%). Moreover, NBS has announced the increase of the Countercyclical buffer from 1.8.2023. P2R composition based on CRD V rules has been updated to 75% Tier 1, out of which 75% should represent CET 1 (56.25% of P2R). These changes represent from 1 January 2022 capital requirement for CET 1 of 11.59% and capital requirement for Tier 1 of 13.38%.

The Overall Capital Requirement was at VUB Group level, as of 1 January 2022 set at 15.75% and consists of:

- capital requirement for Pillar 1 (8%),
- capital requirement for Pillar 2 (SREP add on 1.5% and Pillar 2 Capital Guidance 1%),
- capital requirement for a combined buffer (5.25%), consisting of Capital Conservation Buffer of 2.5%, and Other Systemically Important Institutions Buffer of 1.75% and Countercyclical Buffer 1%.

Pillar 2 Capital Guidance has increased since 1.3.2022 to 1.25% and accordingly the Overall Capital Requirement has increased to 16% (13.63% for Tier 1 capital ratio and 11.84% for CET1 capital ratio). Since November 2014, the Bank has been under the supervision of the European Central Bank.

Internally, within its Risk Appetite framework, the Bank has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) 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 are adopted by the Bank. It refers only to the impact of FTA resulting from the comparison of IAS 39 impairments as at 31 December 2017 and IFRS 9 impairments as at 1 January 2018 - including both performing loans classified in Stages 1 and 2 and adjustments to non-performing loans (Stage 3) - to which is applied a decreasing factor (95% for 2018, 85% in 2020, 70% in 2021, 50% in 2022 and 25% in 2022) to set the amount to be included in CET 1.

The static transitional approach is not applicable to the changes in valuation reserves deriving from re-classification of financial instruments during FTA (impact resulting from classification and measurement).

€ '000	2018	2019	2020	2021	2022
Decreasing factor	95%	85%	70%	50%	25%
Impact to CET 1	39,281	35,146	28,944	20,674	10,337

Furthermore, under paragraph 7 of Article 473 of the CRR Regulation, ISP Group companies adopting the transitional approach shall update calculation of the following components relevant to the determination of supervisory capital requirements, so as to avoid inappropriate benefits:

– Deferred tax assets deducted from CET 1 relating to Standard and Internal ratings-based ('IRB') exposures;
– Determination of Exposure At Default using the scaling factor to assess the Risk Weighted Assets of Standard exposures;
– Tier 2 elements relating to IRB weighted exposures.

The impact on own funds of the first-time adoption of IFRS 9 and the adoption of the "static" approach during the transitional period (2018 - 2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios (with and without applying the transitional provisions for IFRS 9) following:

– the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9,
– the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the aforementioned Regulation, aimed at mitigating the impact of FTA;
– the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
– the reduction of the risk-weighted assets (RWA) on standard exposures as at 1 January 2018, which as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
– the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

Regulation (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) No 2019/876 as regards certain adjustments in response to the COVID-19 pandemic meaning amendments of the transitional arrangements for adoption of IFRS 9 (Art. 473a of CRR) the Bank continues to apply the static approach as defined for the first-time adoption of IFRS 9 in relation to own funds calculation, which is in line with ISP Group approach. Moreover, the Bank has decided not to adopt temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (Art. 468).

The prudential treatment of software assets

The Bank has adopted prudential treatment of software assets based on the Final Report "Draft Regulatory Technical Standards on the prudential treatment of software assets under Article 36 of Regulation (EU) 575/2013 (CRR)", EBA/RTS/2020/07, regarding updated version of the Capital Requirements Regulation 2019/876 and Directive 2019/878 (CRR II/CRD V) published in June 2019 concerning the modified version of article 36(1)b (CRR II) with regard to own funds requirements for institutions. The Bank has adopted the prudential amortization approach for software assets for the calculation of CET1 at individual and consolidated level starting from December 2020 based on EBA/RTS/ 2020/07 methodology, which is in line with ISP Group Approach. The prudential amortization allows the banks not to deduct from CET1 software assets that are prudentially valued (i.e. when the value of software assets is not negatively affected by status of resolution, insolvency or liquidation of the bank). The residual portion of the carrying amount of software is risk-weighted (100%), in accordance with the current CRR provisions. This treatment has also been established by Commission delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items.

23. Financial commitments and contingencies

23.1. Issued guarantees and commitments and undrawn credit facilities

€ '000	2022	2021
Issued guarantees	1 181 884	1 003 796
Commitments and undrawn credit facilities	4 639 424	4 633 636
of which revocable	*1 695 190*	*1 743 272*
	5 821 308	5 637 432

Issued guarantees represent irrevocable assurances that the Bank will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Bank recognises provisions for these instruments. (note 19).

The primary purpose of commitments to extend credit is to ensure that funds are available to the customer as required. Commitments and undrawn credit facilities represent undrawn portions of commitments, credit facilities and approved overdraft loans.

23.2. Legal proceedings

In the normal course of business, the Bank is subject to a variety of legal actions. The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2022. Pursuant to this review, management has recorded total provisions of € 3 831 thousand (31 December 2021: € 3 715 thousand) in respect of such legal proceedings (note 19). The Bank will continue to defend its position in respect of each of these legal proceedings.

In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 31 777 thousand, as at 31 December 2022 (31 December 2021: € 32 516 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

€ '000	2022	2021
Legal proceedings related to leasing contracts	3 369	3 253
Legal proceedings related to credit contracts	228	228
Legal proceedings related bankruptcy revocations	226	223
Legal proceedings on credit collection	8	7
Legal proceedings related to all other civil disputes	-	4
	3 831	3 715

24. Net interest income

€ '000	2022	2021
Interest and similar income		
Financial assets at FVTPL	10	36
Financial assets at FVOCI	4 803	691
Financial assets at AC:	-	
Due from other banks	26 117	4 767
Due from customers	387 208	308 439
Derivatives – Hedge accounting	1 858	(18 387)
Interest income on liabilities	16 371	10 803
	436 367	306 349
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(10 587)	(627)
Due to customers and Subordinated debt	(56 586)	(13 671)
Lease liabilities	(211)	(219)
Debt securities in issue	(32 731)	(30 689)
Derivatives – Hedge accounting	12 084	18 536
Interest expense on assets	(12 682)	(9 310)
	(100 713)	(35 980)
	335 654	270 369

€ '000	2022	2021
Interest and similar income		
Total interest income calculated using the effective interest method	431 987	306 313
Other interest income – interest income on finance leases	4 370	-
Other interest income – interest income on financial assets at FVTPL	10	36
	436 367	306 349

€ '000	2022	2021
Net interest income		
Financial assets at FVOCI	4 803	691
Financial assets at AC	396 273	303 896
	401 076	304 587
Financial liabilities at AC	(83 533)	(34 403)

Interest income on impaired loans and advances to customers for 2022 amounted to € 9 530 thousand (2021: € 9 721 thousand).

25. Net fee and commission income

2022 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38 980	4 192	-	9	43 181
Cards	34 655	777	-	36	35 468
Loans	16 362	11 103	-	180	27 645
Payments and cash management	15 170	11 225	-	1	26 396
Indirect deposits	24 441	39	-	-	24 480
Insurance	14 309	-	-	-	14 309
Trade finance	11	8 279	1 436	-	9 726
Structured finance	-	2 458	-	-	2 458
Factoring	-	2 184	-	-	2 184
Other	485	1 802	637	-	2 924
	144 413	42 059	2 073	226	188 771
Fee and commission expense					
Cards	(18 224)	(84)	-	-	(18 308)
Payments and cash management	(2 235)	(7 430)	-	-	(9 665)
Current accounts	-	-	(498)	(690)	(1 188)
Factoring	-	(603)	-	-	(603)
Insurance	(399)	-	-	-	(399)
Indirect deposits	-	-	-	-	-
Other	(178)	(2)	(868)	(2 678)	(3 726)
	(21 036)	(8 119)	(1 366)	(3 368)	(33 889)
Net fee and commission income under IFRS 15	123 377	33 940	707	(3 142)	154 882
Income from guarantees under IFRS 9	-	6 766	-	-	6 766
Total net fee and commission income	123 377	40 706	707	(3 142)	161 648

2021 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38 205	3 626	-	11	41 842
Cards	29 143	267	-	68	29 478
Payments and cash management	14 340	9 214	16	2	23 572
Indirect deposits	22 411	42	-	-	22 453
Loans	12 691	7 575	-	341	20 607
Insurance	13 305	-	-	-	13 305
Trade finance	14	8 126	1 508	-	9 648
Factoring	-	1 630	-	-	1 630
Structured finance	-	1 547	-	-	1 547
Other	539	2 177	1 477	-	4 193
	130 648	34 204	3 001	422	168 275
Fee and commission expense					
Cards	(15 166)	-	-	-	(15 166)
Payments and cash management	(1 871)	(5 609)	(384)	(564)	(8 428)
Current accounts	-	-	-	(737)	(737)
Insurance	(394)	-	-	-	(394)
Factoring	-	(353)	-	-	(353)
Indirect deposits	-	35	-	-	35
Other	(208)	-	(1 312)	(2 326)	(3 846)
	(17 639)	(5 927)	(1 696)	(3 627)	(28 889)
Net fee and commission income under IFRS 15	113 009	28 277	1 305	(3 205)	139 386
Income from guarantees under IFRS 9	-	6 145	-	-	6 145
Total net fee and commission income	113 009	34 422	1 305	(3 205)	145 531

26. Net trading result

€ '000	2022	2021
Customer foreign exchange margins	10 421	11 770
Interest rate derivatives	7 649	7 656
Financial assets measured at FVOCI	1 343	6 140
Other derivatives	167	306
Dividends from equity shares FVOCI	153	116
Equity derivatives	-	98
Dividends from equity shares FVTPL	-	62
Non-trading financial assets measured at FVTPL	(51)	62
Foreign currency derivatives and transactions	(5 297)	-
Financial assets held for trading - debt securities	(72)	-
Net result from hedging transactions	(419)	(171)
Cross currency swaps	(3 223)	(6 908)
	10 671	19 131

27. Other operating income

€ '000	2022	2021
Net profit from sale of fixed assets	1 270	95
Financial revenues	737	-
Services	45	17
Income from operating leasing	-	765
Other	2 219	1 998
	4 271	2 875

28. Other operating expenses

€ '000	2022	2021
Contribution to the Single Resolution Fund*	(16 067)	(7 424)
Contribution to the Deposit Protection Fund**	(6 083)	(5 267)
Costs of product support – credit cards	(1 848)	(1 497)
Court fees and expenses and out-of-court settlements	(481)	(1 215)
Net loss from sale of fixed assets	-	-
Other damages	-	(526)
Other	(12 404)	(6 410)
	(36 883)	(22 339)

* Starting from 1 January 2015 the Bank Recovery and Resolution Directive No 2014/59/EU ('BRRD') is effective. The Directive was implemented to Slovak legislation by Act No 371/2014 on Resolution. The Directive sets an obligation for banks of the member states participating to the Banking Union to pay an annual contribution depending on the size and the risk profile of a bank to the National Resolution Fund in 2015 and to the Single Resolution Fund from 2016 up to the 2023.

** The annual contribution for 2022 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2022, the Bank expensed the full amount of such contribution.

29. Special levy of selected financial institutions

As at 21 July 2020, the amendment to Act no. 67/2020 Coll. on certain emergency financial measures in relation to the spread of dangerous contagious human disease COVID-19 became effective. This amendment also covered measures in the area of special levy of selected financial institutions. According to these measures no more special levy payments were required from July 2020 until the end of 2020. This state continued throughout the entire year 2022.

30. Salaries and employee benefits

€ '000	2022	2021
Remuneration	(90 167)	(87 898)
Social security costs	(34 642)	(33 786)
Social fund	(3 139)	(1 122)
Termination benefit	430	(500)
Severance and Jubilee benefits	597	398
	(126 921)	(122 908)

At 31 December 2022, the total number of employees of the Bank was 3 328 (31 December 2021: 3 334). The average number of employees of the Bank during the year ended 31 December 2022 was 3 340 (31 December 2021: 3 486).

The Bank does not have any pension arrangements separate from the pension system established by law, which requires mandatory contributions of a certain percentage of gross salaries to the State owned social insurance and privately owned pension funds. These contributions are recognized in the year when salaries are earned by employees. No further liabilities are arising to the Bank from the payment of pensions to employees in the future.

31. Other administrative expenses

€ '000	2022	2021
Third parties' services	(20 587)	(17 680)
Information technologies systems maintenance	(14 608)	(14 152)
Maintenance and repairs	(6 338)	(6 350)
Energy costs	(5 428)	(2 915)
Advertising and sponsorship	(5 295)	(5 064)
Rental of buildings and related expenses	(3 816)	(3 899)
Postage costs	(2 832)	(3 547)
Telephone and telecommunication costs	(2 675)	(3 212)
Forms and office supplies	(2 170)	(2 470)
Indirect personnel costs and compensation	(2 110)	(1 271)
Electronic data processing system leasing	(1 902)	(1 979)
Transport	(1 393)	(1 079)
Cleaning of premises	(1 278)	(1 511)
Security	(1 096)	(1 276)
Insurance	(1 016)	(1 037)
Archives and documents	(970)	(1 300)
Other rentals	(937)	(769)
Consultations and other fees*	(655)	(548)
Cost of legal services	(691)	(692)
Information and research	(229)	(207)
Value added tax and other taxes	295	(149)
Other expenses	(1 940)	(1 796)
Reinvoicing	912	2 064
	(76 759)	(70 839)

* 'Consultations and other fees' includes the fee for the statutory audit and financial statements in amount € 321 thousand (2021: € 256 thousand). There is included also fee for audit of the year end group reporting package, ancillary charge, audit of the consolidated financial statements. Other audit-related assurance services and non-audit services performed by the statutory auditor related to limited review of the half-yearly financial statements and reporting packages, limited review of the financial statements and reporting packages as at 31 March and 30 September, audit of the regulatory prudential returns as requested by the Slovak legislation and the Extended auditor's report to the National Bank of Slovakia, Q3 Interim condensed FS ISRE 2410 review, procedures in respect of adequacy of the Bank's measures as per § 71h - 71k of Act no. 566/2001, comfort letter in relation to 2022 year-end profit verification for ECB and comfort letter in relation to March 2022 covered bonds issue amounted to € 217 thousand (2021: € 127 thousand). All the amounts stated here are excl. VAT.

32. Provisions

€ '000	Note	2022	2021
Net release and use of provisions for litigations	19	(116)	129
		(116)	129

33. Impairment losses and Net (loss) / gain arising from the derecognition of financial assets at amortized cost

€ '000	Note	2022	2021
Net creation of impairment losses	21	(84 070)	(68 383)
Net (creation)/release of provisions for financial guarantees and commitments	21	7 326	(4 707)
		(76 744)	(73 090)
Net gain/(loss) arising from the derecognition of financial assets at AC		12 745	8 610

34. Income tax expense

€ '000	Note	2022	2021
Current income tax	17	(48 431)	(31 348)
Deferred income tax	17	3 888	2 179
		(44 543)	(29 169)

The movement in deferred taxes in the statement of profit or loss is as follows:

€ '000	2022	2021
Due from other banks	53	(96)
Due from customers	6 734	(601)
Property and equipment	(1 487)	212
Intangible assets	2 189	-
Lease liabilities	(521)	(505)
Provisions	(1 027)	1 155
Other liabilities	1 733	1 721
Other	(3 786)	293
	3 888	2 179

The effective tax rate differs from the statutory tax rate in 2022 and in 2021. The reconciliation of the Bank's profit before tax with the actual corporate income tax is as follows:

€ '000	2022	2021
Profit before tax	185 635	130 155
Theoretical tax calculated at the tax rate 21%	(38 983)	(27 332)
Tax impact:		
Non-taxable income	1 713	1 797
Tax non-deductible expenses	(3 463)	(3 727)
Impairment allowances and provisions, net	(8 058)	(2 108)
Additional tax of prior years	369	22
Creation/(release) of allowances for uncertain realization of deferred tax receivables	3 879	2 179
Income tax expense	(44 543)	(29 169)
Effective tax for the year	23,99%	22,41%

35. Other comprehensive income

€ '000	2022	2021
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation loss arising during the year	(2 528)	(34)
Reclassification adjustment for profit on sale of FVOCI equities within equity	983	110
	(1 545)	76
Net revaluation gain from property and equipment	1 738	(28)
Reversal of deferred income tax on disposed property and equipment	-	22
	193	70
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 year	-	-
Change in value of financial assets at FVOCI (debt instruments):		
Revaluation (loss)/gain arising during the year	(33 415)	17 499
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	4 006	(20 573)
	(29 409)	(3 074)
Exchange difference on translation foreign operation	75	79
	(29 334)	(2 995)
Total other comprehensive income	(29 141)	(2 918)
Income tax relating to components of other comprehensive income (note 36)	5 929	606
Other comprehensive income for the year after tax	(23 212)	(2 312)

36. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense) /benefit	Net of tax amount 2022	Before tax amount	Tax (expense) /benefit	Net of tax amount 2021
Items that shall not be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (equity instruments)	1 738	(365)	1 373	(28)	6	(22)
Reversal of deferred income tax on disposed property and equipment	-	-	-	22	-	22
Net revaluation gain from property and equipment	(1 545)	118	(1 427)	75	(39)	37
	193	(247)	(54)	70	(33)	37
Items that may be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (debt instruments)	(29 409)	6 176	(23 233)	(3 074)	646	(2 428)
Exchange differences on translation foreign operations	75	-	75	86	(7)	79
Change in value of cash flow hedges	-	-	-	-	-	-
	(29 334)	6 176	(23 158)	(2 988)	639	(2 349)
	(29 141)	5 929	(23 212)	(2 918)	606	(2 312)

37. Related parties

Related parties are those counterparties that represent:

(a) Enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under the common control of the reporting enterprise;

(b) Associates - enterprises in which the Parent Company has significant influence and which are neither a subsidiary nor a joint venture;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The stated transactions have been made under arms-length commercial and banking conditions.

In 2022, the remuneration and other benefits provided to members of the Management Board were € 3 468 thousand (2021: € 3,372 thousand), of which the severance benefits € 48 thousand (2021: € 24 thousand), and to members of the Supervisory Board € 58 thousand (2021: € 55 thousand).

As at 31 December 2022, the outstanding balances with related parties comprised:

2022 € '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Cash and cash equivalents	-	-	-	-	15 683	765	16 448
Financial assets at FVTPL:							
Financial assets held for trading	-	-	-	-	50 234	-	50 234
Non-trading financial assets at FVTPL	-	-	-	-	429	-	429
Derivatives – Hedge Accounting	-	-	-	-	349 655	-	349 655
Financial assets at FVOCI	-	-	-	-	39	-	39
Financial assets at AC:							
Due from other banks	-	-	-	-	45 109	-	45 109
Due from customers	919	20 914	-	-	-	50 211	72 044
Property and equipment	-	761	-	-	-	-	761
Other assets	-	25	-	-	72	3 115	3 212
	919	21 700	-	-	461 221	54 091	537 931
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	-	-	-	-	42 853	38	42 891
Derivatives – Hedge accounting	-	-	-	-	311 205	-	311 205
Financial liabilities at AC:							
Due to banks	-	-	-	-	886 546	2 927	889 473
Due to customers	912	-	-	254	-	8 250	9 416
Lease liabilities	-	797	-	-	-	-	797
Subordinated debt	-	-	-	-	50 069	200 298	250 367
Provisions	-	-	-	-	6	2	8
Other liabilities	429	203	-	-	2 276	33	2 941
	1 341	1 000	-	254	1 292 955	211 548	1 507 098

As at 31 December 2021, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Cash and cash equivalents	-	-	-	-	35 165	388	35 553
Financial assets at FVTPL:							
Financial assets held for trading	-	-	-	-	8 925	7	8 932
Non-trading financial assets at FVTPL	-	-	-	-	622	-	622
Derivatives - Hedge Accounting	-	-	-	-	55 574	-	55 574
Financial assets at FVOCI	-	-	-	-	43	-	43
Financial assets at AC:							
Due from other banks	-	-	-	-	1 649 885	-	1 649 885
Due from customers	312	201 818	3	-	-	19 988	222 121
Property and equipment	-	579	-	-	-	-	579
Other assets	-	4	-	-	1	1 186	1 191
	312	202 401	3	-	1 750 215	21 569	1 974 500
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	-	-	-	-	16 317	-	16 317
Derivatives - Hedge accounting	-	-		-	23 787	-	23 787
Financial liabilities at AC:							
Due to banks	-	-	-	-	322 788	33 161	355 949
Due to customers	854	243	-	230	-	3 423	4 507
Lease liabilities	-	1 341	-	-	-	-	1 341
Subordinated debt	-	-	-	-	-	200 150	200 150
Provisions	-	1	-	-	10	-	11
Other liabilities	622	27	-	-	1 741	-	2 390
	1 476	1 369	-	230	364 643	236 734	604 452

As at 31 December 2022, the outstanding off-balance sheet balances with related parties comprised:

2022 € '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	257	4 097	-	-	187 532	8	191 894
Issued guarantees	-	-	-	-	30 579	7 880	38 459
Received guarantees	-	-	-	-	1 700	4 688	6 388
Derivative transactions (notional amount – receivable)	-	-	-	-	10 822 596	17 701	10 840 297
Derivative transactions (notional amount – payable)	-	-	-	-	10 822 894	17 729	10 840 623

As at 31 December 2021, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	57	213 180	18	-	201 167	-	414 422
Issued guarantees	-	-	-	-	25 193	117	25 310
Received guarantees	-	-	-	-	6 408	-	6 408
Derivative transactions (notional amount - receivable)	-	-	-	-	9 991 301	6 907	9 998 208
Derivative transactions (notional amount - payable)	-	-	-	-	9 989 521	6 903	9 996 424

For the year ended 31 December 2022, the outstanding balances with related parties comprised:

2022 € '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	6	93	-	-	7	1 044	1 150
Interest and similar expense	(3)	(43)	-	-	(15 083)	(6 693)	(21 822)
Fee and commission income	1	3	-	1	178	20 902	21 085
Fee and commission expense	-	-	-	-	(488)	(4)	(492)
Dividend income	-	8 003	-	-	-	-	8 003
Net trading result	-	-	-	-	8 579	1 366	9 945
Other operating income	-	206	-	-	516	4 749	5 471
Other operating expenses	-	-	-	-	(8)	-	(8)
Other administrative expenses	-	(626)	-	-	(4 803)	(11 595)	(17 024)
Depreciation	-	(675)	-	-	-	-	(675)
Impairment losses	-	(3)	-	-	6	-	3
	4	6 958	-	1	(11 096)	9 769	5 636

For the year ended 31 December 2021, the outstanding balances with related parties comprised:

€ '000	KMP	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	3	125	-	-	3	97	228
Interest and similar expense	(2)	(67)	-	-	(3 120)	(5 480)	(8 669)
Fee and commission income	-	16	-	1	112	18 146	18 275
Fee and commission expense	-	-	-	-	(559)	(6)	(565)
Dividend income	-	-	3 002	-	-	-	3 002
Net trading result	-	-	-	-	(93 607)	(41)	(93 648)
Other operating income	-	-	-	-	42	35	77
Other operating expenses	-	-	-	-	(514)	-	(514)
Other administrative expenses	-	768	-	-	(8 468)	(2 589)	(10 289)
Depreciation	-	(708)	-	-	-	-	(708)
Impairment losses	-	39	-	-	24	-	63
	1	173	3 002	1	(106 087)	10 162	(92 748)

38. Profit distribution

The Management Board will propose the following 2022 profit distribution:

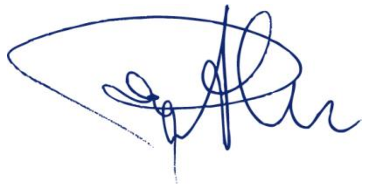
€ '000	
Dividends to shareholders (€ nil per € 33.2 share)	-
Retained earnings	141 092
	141 092

39. Events after the end of the reporting period

As of March 1, 2023, Jozef Kausich will be the new CEO of VUB banka. Alexander Resch, who has led VUB banka for the past ten years, will take over the position of Executive Director of the Retail & Wealth Management department within the division of international subsidiary banks of Intesa Sanpaolo.

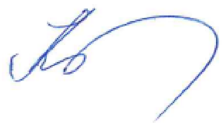
From 31 December 2022, up to the date when these financial statements were authorized for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorized for issue by the Management Board on 27 February 2023. These financial statements will be published 28 February 2023 and will be available at the registered office of the Bank.



Alexander Resch

Chairman of the Management Board



Darina Kmeťová

Member of the Management Board

Information on Securities issued by the Bank

Debt securities issued by the Bank

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., XXX.	SK4120005547	5.9.2007	5.9.2032	EUR	33,193.92	1,000	5.00%	annually	no
Mortgage bonds VÚB, a.s., 31	SK4120005679	29.11.2007	29.11.2037	EUR	33,193.92	600	4.90%	annually	no
Mortgage bonds VÚB, a.s., 43	SK4120006271	26.9.2008	26.9.2025	EUR	33,193.92	500	5.10%	annually	no
Mortgage bonds VÚB, a.s., 67	SK4120008228	29.11.2011	29.11.2030	EUR	50,000.00	300	5.35%	annually	no
Mortgage bonds VÚB, a.s., 72	SK4120008608	21.6.2012	21.6.2027	EUR	100,000.00	250	4.70%	annually	no
Mortgage bonds VÚB, a.s., 74	SK4120008939	16.1.2013	15.12.2023	EUR	100,000.00	700	3.35%	annually	no
Mortgage bonds VÚB, a.s., 81	SK4120009887	27.3.2014	27.3.2024	EUR	1,000,000.00	38	2.55%	annually	no
Mortgage bonds VÚB, a.s., 85	SK4120010364	14.11.2014	14.11.2029	EUR	100,000.00	500	2.25%	annually	no
Mortgage bonds VÚB, a.s., 87	SK4120010794	9.6.2015	9.6.2025	EUR	100,000.00	1,000	1.25%	annually	no
Mortgage bonds VÚB, a.s., 89	SK4120011065	29.9.2015	29.9.2025	EUR	100,000.00	1,000	1.20%	annually	no
Mortgage bonds VÚB, a.s., 90	SK4120011149	29.10.2015	29.10.2030	EUR	100,000.00	1,000	1.60%	annually	no
Mortgage bonds VÚB, a.s., 91	SK4120011529	21.3.2016	21.3.2023	EUR	100,000.00	1,000	0.60%	annually	no
Mortgage bonds VÚB, a.s., 93	SK4120012469	18.1.2017	18.1.2024	EUR	100,000.00	2,500	0.50%	annually	no
Mortgage bonds VÚB, a.s., 94	SK4120012824	27.4.2017	27.4.2027	EUR	100,000.00	2,500	1.05%	annually	no
Covered bonds VÚB, a.s., 1	SK4120014168	26.6.2018	26.6.2023	EUR	100,000.00	2,500	0.50%	annually	no
Covered bonds VÚB, a.s., 2	SK4120014531	5.10.2018	15.12.2027	EUR	100,000.00	500	1.50%	annually	no

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Covered bonds VÚB, a.s., 3	SK4120015108	26.3.2019	26.3.2024	EUR	100,000.00	5,000	0.25%	annually	no
Covered bonds VÚB, a.s., 4	SK4000015475	26.6.2019	26.6.2029	EUR	100,000.00	5,000	0.50%	annually	no
Covered bonds VÚB, a.s., 5	SK4000017455	23.6.2020	23.6.2025	EUR	100,000.00	5,000	0.01%	annually	no
Covered bonds VÚB, a.s., 6	SK4000018693	24.3.2021	24.3.2026	EUR	100,000.00	5,000	0.01%	annually	no
Covered bonds VÚB, a.s., 7	SK4000020491	22.3.2022	22.3.2027	EUR	100,000.00	5,000	0.875%	annually	no

All debt securities issued by VÚB, a.s., are bearer bonds in book entry form. No person took any guarantee for the repayment of the nominal value and/or coupon payment.

As of 31 December 2022 VÚB, a.s., did not issue and did not decide to issue bonds with pre-emption rights or convertible rights associated therewith.

The bonds are transferable to another holder without any restrictions. The rights associated with the bonds are based on the terms and conditions of the bonds and relevant securities prospectus and in the applicable legal regulations of the Slovak Republic, especially in Act No. 530/1990 Coll. on Bonds as amended, Act No 483/2001 Coll. on Banks as amended, Act No 566/2001 Coll. on Securities as amended.

Investment certificates issued by the Bank

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Investment certificates VÚB, a.s., 2023	SK4000017554	30.6.2020	30.6.2023	EUR	1,00	144 800	0,00%	–	no
Investment certificates VÚB, a.s., 2026	SK4000019402	30.6.2021	30.6.2026	EUR	1,00	20 400	0,00%	-	no
Investment certificates VÚB, a.s., 2027	SK4000021168	30.6.2022	30.6.2027	EUR	1,00	193 500	0,00%	-	no

During the accounting year 2022, the company issued the Investment certificates VÚB, a.s., 2027. The reason for issuing investment certificates was to fulfil the obligations arising from the Act on Banks no. 483/2001 Coll. as amended in conjunction with Regulation EU No 2019/876, amending regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and the internal procedure of VÚB, a.s. - Remuneration Policy. Based on these documents, part of the variable component of total compensation, severance payments, retirement allowances and other compensation payable to selected personnel acc. to § 23a par. 1 of the Act on Banks is provided in the form of securities or other financial instruments.

Investment certificates issued by VUB, a.s., are registered securities in book-entry form. No person has taken any guarantee for the repayment of the nominal value and/or coupon payment.

No pre-emption or convertible rights are associated with investment certificates.

Investment certificates are not transferable to another holder. The rights associated with the investment certificates are based on the applicable legislation of the Slovak Republic, in particular on Act No 566/2001 Coll. on Securities as amended and in the relevant issue conditions of the investment certificates.

List of VUB Retail Branches

Name	Postcode	Address
Regional Retail Business Network West region		
Bratislava – Devínska N. Ves	841 07	Eisnerova 48
Bratislava – Dolné Hony	821 06	Kazanská 41
Bratislava – Dúbravka	841 01	Sch. Trnavského 6/A
Bratislava – Rača	831 06	Detvianska 22
Bratislava – OC Aupark	851 01	Einsteinova 18
Bratislava – OC Avion	821 04	Ivánska cesta 16
Bratislava – OC BORY MALL	841 03	Lamač 6780
Bratislava – OC Vivo	831 04	Vajnorská 100
Bánovce nad Bebravou	957 01	Nám. Ľ. Štúra 5/5
Bytča	014 01	Sidónie Sakalovej 138/1
Čadca	022 24	Fraňa Kráľa 1504
Dubnica nad Váhom	018 41	Nám. Matice slov. 1712/7
Handlová	972 51	SNP 1
Hlohovec	920 01	Podzámska 37
Holíč	908 51	Bratislavská 1518/7
Ilava	019 01	Mierové nám. 77
Kysucké Nové Mesto	024 01	Nám. slobody 184
Malacky	901 01	Záhorácka 15
Myjava	907 01	Nám. M. R. Štefánika 525/21
Nové Mesto nad Váhom	915 01	Hviezdoslavova 19
Partizánske	958 01	L. Svobodu 4
Pezinok	902 01	Štefánikova 14
Piešťany	921 01	Nám. slobody 11
Považská Bystrica	017 01	Nám. A. Hlinku 23/28
Prievidza	971 01	Nám. slobody 10
Prievidza – Bojnická cesta	971 01	Bojnická cesta 15
Púchov	020 01	Nám. slobody 1657
Senica	905 33	Nám. oslobodenia 8
Skalica	909 01	Potočná 20
Stará Turá	916 01	SNP 275/67
Topoľčany – Moyzesova	955 19	Moyzesova 585/2
Trenčín – Legionárska	911 01	Legionárska 7158/5
Trenčín – OC Laugarício	911 01	Belá 7271
Trnava – Dolné bašty	917 01	Dolné bašty 2
Trnava – Hlavná	917 01	Hlavná 31
Trnava – OC Arkadia	917 01	Veterná 40/A
Vrbové	922 03	Nám. slobody 285/9
Žilina	010 01	Na bráne 1
Žilina – Nám. A. Hlinku	010 43	Nám. A. Hlinku 1
Žilina – OC Dubeň	010 08	Vysokoškolákov 52
Magnifica Centres		
Trenčín – Magnifica	911 01	Legionárska 7158/5
Trnava – Magnifica	917 01	Dolné bašty 2
Žilina – Magnifica	010 43	Na bráne 1

Mortgage Centres

Bratislava – OC Aupark	851 01	Einsteinova 18
Trnava	917 01	Dolné bašty 2
Trenčín	911 01	Legionárska 7158/5
Žilina	010 43	Na bráne 1

Regional Retail Business Network Central region

Bratislava – Centrum	811 06	Nám. SNP 15
Bratislava – Herlianska	821 03	Komárnická 11
Bratislava – OC Centrál	821 08	Metodova 6
Bratislava – OC Eurovea	811 09	Pribinova 8
Bratislava – Páričkova	821 08	Páričkova 2
Bratislava – Ružinov	827 61	Kaštieľska 2
Bratislava – Šintavská	851 05	Šintavská 24
Bratislava – Vlastenecké nám.	851 01	Vlastenecké nám. 6
Banská Bystrica	975 55	Nám. slobody 1
Banská Bystrica – OC Európa	974 01	Na troskách 26
Banská Štiavnica	969 01	Radničné nám. 15
Detva	962 11	M. R. Štefánika 65
Dunajská Streda	929 35	Alžbetínske nám. 328
Fiľakovo	986 01	Biskupická 2
Galanta	924 41	Mierové nám. 2
Komárno	945 23	Tržničné nám. 1
Krupina	963 01	Svätotrojičné nám. 8
Levice	934 01	Štúrova 21
Lučenec	984 35	T. G. Masaryka 24
Nitra – Štefánikova 44	949 31	Štefánikova 44
Nitra – OC Mlyny	949 01	Štefánikova 61
Nitra – OC Centro	949 01	Akademická 1/A
Nová Baňa	968 01	Nám. slobody 11
Nové Zámky	940 33	Hlavné nám. 5
Senec	903 01	Nám. 1. mája 25
Sereď	926 00	Cukrovarská 3013/1
Šaľa	927 00	Hlavná 5
Šamorín	931 01	Hlavná 64
Štúrovo	943 01	Hlavná 59
Šurany	942 01	SNP 25
Veľký Krtíš	990 20	Novohradská 7
Vráble	952 01	Levická 1288/16
Zlaté Moravce	953 00	Župná 10
Zvolen	960 94	Nám. SNP 2093/13
Želiezovce	937 01	Komenského 8
Žiar nad Hronom	965 01	Nám. Matice slov. 21

Magnifica Centres

Bratislava – MC Eurovea	811 09	Pribinova 8
Bratislava – MC Centrum	811 06	Nám. SNP 15
Banská Bystrica – Magnifica	975 55	Nám. slobody 1
Nitra – Magnifica	949 31	Štefánikova 44

Mortgage Centres

Bratislava – Centrum	811 06	Nám. SNP 15
Bratislava – Páričkova	821 08	Páričkova 2
Nitra	949 31	Štefánikova 44
Banská Bystrica	975 55	Nám. slobody 1

Regional Retail Business Network East region

Bardejov	085 01	Kellerova 1
Brezno	977 01	Boženy Němcovej 1/A
Dolný Kubín	026 01	Radlinského 1712/34
Humenné	066 01	Nám. slobody 26/10
Hnúšťa	981 01	Francisciho 372
Kežmarok	060 01	Hviezdoslavova 5
Košice – Štúrova	040 01	Štúrova 27/A
Košice – Hlavná 1	042 31	Hlavná 1
Košice – Letná	040 01	Letná 40
Košice – OC Aupark	040 01	Nám. osloboditeľov 1
Košice – OC Galéria	040 11	Toryská 5
Košice – OC Optima	040 11	Moldavská cesta 32
Krompachy	053 42	Lorencova 20
Levoča	054 01	Nám. Majstra Pavla 38
Lipany	082 71	Nám. sv. Martina 2
Liptovský Mikuláš	031 31	Štúrova 19
Martin	036 01	M. R. Štefánika 2
Martin – OC Tulip	036 01	Pltníky 2
Medzilaborce	068 10	Mierová 289/1
Michalovce	071 80	Nám. slobody 3
Moldava nad Bodvou	045 01	Hviezdoslavova 13
Námestovo	029 01	Hviezdoslavovo nám. 200/5
Poprad	058 17	Mnoheľova 2832/9
Poprad – OC Forum	058 01	Nám. sv. Egídia 3290/124
Prešov	080 01	Masarykova 13
Prešov – Hlavná	080 01	Hlavná 61
Prešov – OC MAX	080 01	Vihorlatská 2A
Revúca	050 01	Nám. slobody 3
Rimavská Sobota	979 13	Francisciho 1
Rožňava	048 73	Šafárikova 21
Ružomberok	034 01	Podhora 48
Sabinov	083 01	Nám. slobody 90
Snina	069 01	Strojárska 2524
Spišská Nová Ves	052 14	Letná 33
Stará Ľubovňa	064 01	Nám. sv. Mikuláša 27
Stropkov	091 01	Mlynská 692/1
Svidník	089 27	Centrálna 584/5
Trebišov	075 17	M. R. Štefánika 3197/32
Trstená	028 01	Nám. M. R. Štefánika 15
Turčianske Teplice	039 01	Hájska 3
Tvrdošín	027 44	Trojičné nám. 191
Veľké Kapušany	079 01	Sídl. P. O. Hviezdoslava 79
Vranov nad Topľou	093 01	Nám. slobody 6

Magnifica Centres

Košice – Magnifica	042 31	Štúrova 27/A
Prešov – Magnifica	081 86	Masarykova 13

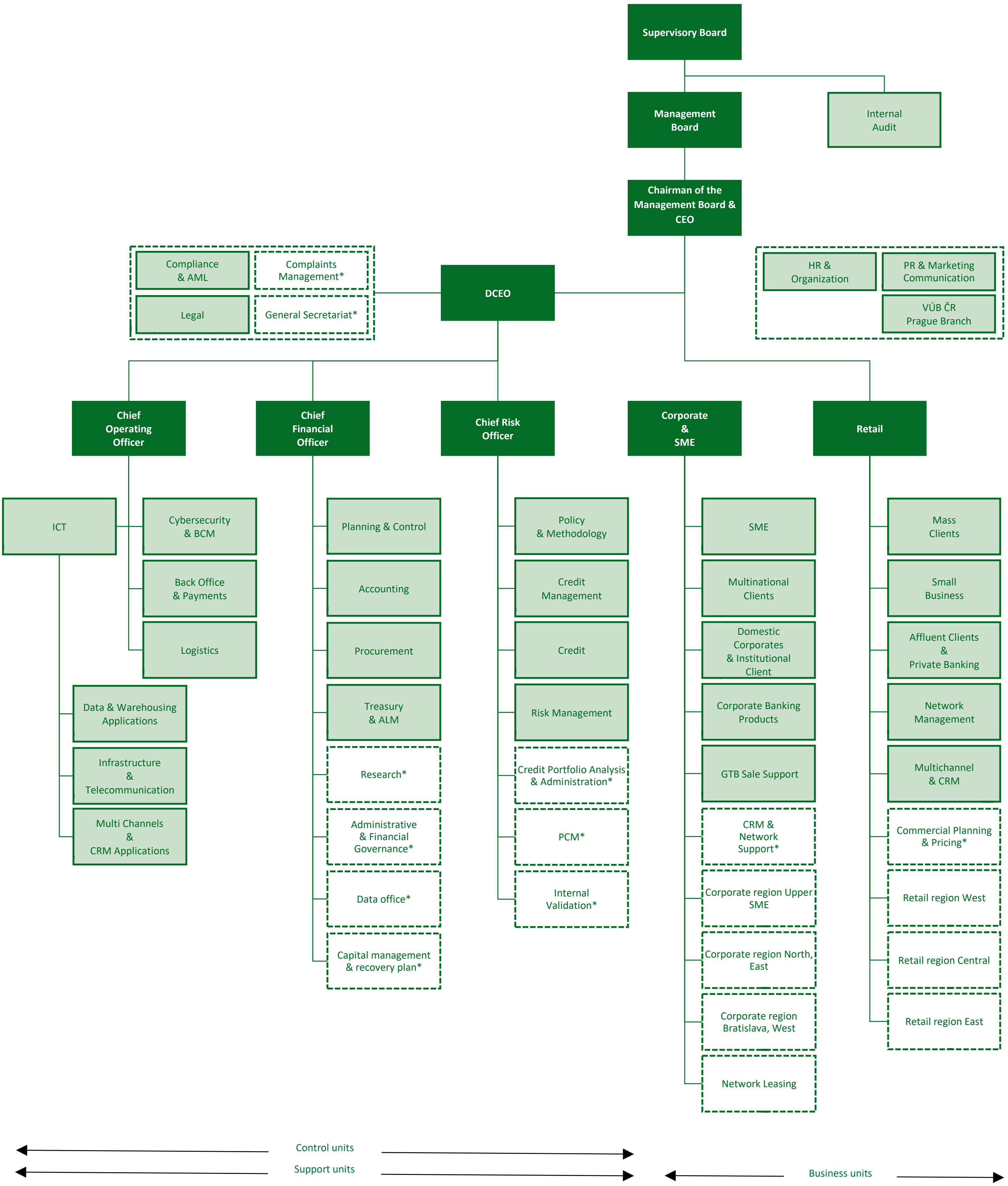
Mortgage Centres

Košice	042 31	Štúrova 27/A
Poprad	058 17	Mnoheľova 2832/9
Prešov	081 86	Masarykova 13

List of VUB Corporate branches

Corporate Business Centre Bratislava		
BRATISLAVA	Mlynské nivy 1	0904 751 310
BRATISLAVA – Avion	Ivanská cesta 16	0904 750 026
Corporate Business Centre Trnava		
TRNAVA	Dolné bašty 2	0904 755 170
SENICA	Nám. oslobodenia 8	0904 756 420
Corporate Business Centre Nitra		
NITRA	Štefánikova 44	0904 751 379
TOPOĽČANY	Moyzesova 585/2	0904 751 379
LEVICE	Štúrova 21	0904 757 796
Corporate Business Centre Nové Zámky		
NOVÉ ZÁMKY	Hlavné námestie 5	0904 750 611
KOMÁRNO	Tržničné nám. 1	0904 750 611
GALANTA	Mierové námestie 2	0904 755 804
DUNAJSKÁ STREDA	Alžbetínske nám. 328	0904 755 804
Corporate Business Centre Trenčín		
TRENČÍN	Legionárska 7158/5	0904 750 356
POVAŽSKÁ BYSTRICA	Nám. A. Hlinku 23/28	0904 750 009
PRIEVIDZA	Námestie slobody 10	0904 750 140
Corporate Business Centre Žilina		
ŽILINA	Na bráne 1	0904 750 823
MARTIN	M.R.Štefánika 2	0904 750 399
ČADCA	Fraňa Kráľa 1504	0904 755 443
DOLNÝ KUBÍN	Radlinského 1712/34	0904 755 762
Corporate Business Centre Banská Bystrica		
ŽIAR NAD HRONOM	Nám. Matice slovenskej 21	0904 751 097
ZVOLEN	Námestie SNP 2093/13	0904 754 085
BANSKÁ BYSTRICA	Námestie slobody 1	0904 754 085
LUČENEC	T.G. Masaryka 24	0904 751 152
RIMAVSKÁ SOBOTA	Francisciho 1	0904 751 152
Corporate Business Centre Poprad		
POPRAD	Mnoheľova 2832/9	0904 750 900
LIPTOVSKÝ MIKULÁŠ	Štúrova 19	0904 750 079
SPIŠSKÁ NOVÁ VES	Letná 33	0904 750 900
Corporate Business Centre Prešov		
PREŠOV	Masarykova 13	0904 750 680
BARDEJOV	Kellerova 1	0904 750 680
HUMENNÉ	Námestie slobody 26/10	0904 751 428
Corporate Business Centre Košice		
KOŠICE	Štúrova 27/A	0904 750 258
MICHALOVCE	Námestie slobody 3	0904 751 307

Organization Chart of VUB as at 31 December 2022



*Department in the direct reporting line to the Chief Executive.

Sara Zahorjanová
(1991, Praha)
HOMECOMING
2021, acrylic on canvas, 195 × 130 cm

The competition of Maľba – Cena Nadácie VÚB za maliarske dielo pre mladých umelcov / Painting. Prize of the VUB Foundation for Painting for Young Artists is one of the best known projects of the VUB Foundation and also one of the initiatives with the longest history and tradition. Even after seventeen years of its existence it still adheres to the mission it was created for. The aim of the competition is to present the biggest talents of young professional artists of Slovakia, to enhance and refine the medium of painting and help young artists to enter the artistic scene. Thanks to the international jury, which evaluates the artworks, curators abroad become increasingly aware of the young Slovak painting opening the door to the world to the artists.