VÚB BANKA

Consolidated Annual Report 2019

VUB, a bank of INTESA SANPAOLO

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Address by the Chairman of the VUB Supervisory Board

Dear Shareholders, Clients and Business Partners, Employees

VUB had in 2019 a good year. The Group was again particularly successful in the commercial area. In the loan market, the Group has increased volumes by 5.6 % and maintained thus its position of the largest loan provider in Slovakia. Successful also was the Group in growing its volumes of customer deposits, by 7.4 %, and gaining share also on this market. On behalf of the Supervisory Board, I would like to thank the management and employees for these excellent commercial achievements.

In terms of profitability, the low interest rates environment persisted in 2019 and prevented the net interest income of the Group from bottoming out yet. VUB has nonetheless fought on many fronts to offset the global margin tide and defend its bottom line. Besides strong volume growth namely VUB has made further structural improvements in operations efficiency and quality of its loan portfolio. Thanks to these initiatives, VUB Group has delivered a solid consolidated net profit in the amount of € 120.1 million.

Going forward, the operating environment will become yet more challenging. Business-wise, banks will not only have to continue grapple with persistent low interest rates but newly also with slowing economic growth and thus rising risk costs. Regulation-wise, a further challenges loom ahead. New lending regulations will effectively eliminate any growth opportunities in consumer lending, the last remaining income-rich segment of the loan market. Even more fundamentally, banks will have to grapple with doubling of the Slovak Bank levy. This sudden and discretionary government act effective since January 2020 has changed the tax environment to such an extent that banks operating in Slovakia will be liable to a punitive tax rate of 60-70% of expected profit. Against this backdrop, quest for growth opportunities of VUB outside its home market thus gained in importance. Equally important will be further work on strengthening efficiency and effectiveness.

In this respect, I underscore the importance of the concept of VUB serving as a hub for Central Europe, introduced in the 2018-21 business plan of Intesa Sanpaolo. Indeed, a coordinated effort to develop the three neighboring banking markets of Slovakia, the Czech Republic and Hungary under one umbrella to build a scale and diversify source of income has clearly gained in importance amidst the latest market and regulatory changes. I attest that Intesa Sanpaolo remains strongly committed to VUB and will continue to provide it with support, know-how and synergies to help the Group and the hub deliver.

Ignacio Jaquotot,
Chairman of the Supervisory Board

Address by the Chairman of the VUB Management Board

Dear Shareholders, Clients and Business Partners,

the year 2019 has been successful for VUB. I am particularly pleased to say that we delivered great commercial results and significantly increased volumes of loans and primary deposits. I am also pleased with the operational efficiency and the quality of our loan portfolio. These developments enabled us to deliver the best possible financial performance, offsetting to an extent the negative impact of decreasing margins.

To better appreciate our commercial results, we must set them in the bigger macroeconomic context, which has been weaker than anticipated a year ago. Real GDP growth in particular disappointed, slowing to around half the pace of the growth in the preceding year. The slowdown nonetheless was more pronounced only in the second half of the year and driven by faltering exports, not domestic demand. The latter indeed still maintained a solid growth momentum and supported the services sectors and the overall labor market. Unemployment rate thus remained historic-low and wage growth even geared up, improving the overall financial position of households. Banking sector thus benefitted from continuing strong growth of retail loan and deposit volumes. Compared to their dynamics a year ago, though, loan growth slowed while deposit growth accelerated – a result of tighter lending regulations by the central bank on the one hand and increased caution and propensity of households to save on the other. Meanwhile firms, burdened by gradually decreasing orders on the one hand and rising labor costs on the other, started to review their investment plans. Growth of loans and deposits of corporate clients thus decelerated.

Weaker than anticipated a year ago also has been the interest rate environment. Global growth slowdown namely threw plans of gradual policy normalization of key central banks off the table. Instead, global rate setters began a new round of interest rate cuts and asset purchases. These actions pulled yields to new lows, submersing the large part of Slovak yield curve to negative territory. As a result, rates on banking products, including mortgages fell to yet new historic lows, squeezing margins and banking sector profitability yet further.

Against this backdrop, we did best we could concentrating on growth of loan volumes yet paying even more attention than ever to their risk-return profile. Our growth of the loan market thus eased to about half the pace of year ago as we deliberately stayed away from some credit deals that did not bring value to our shareholders. Through 3Q19 we nonetheless remained the biggest loan provider in Slovakia and let our share of the market slid only marginally, to 21.2% in December 2019 from 21.4% in December 2018, resp.

In retail, we continued to grow systematically the portfolio of mortgages, our key product. In total, VUB's stock of all mortgage-type loans in December 2019 was 11% higher than a year ago. This was a less steep pace of growth than previous year's 14.1% pace of growth, but faster than envisaged given the economic slowdown and gradual tightening of credit conditions prescribed by the central bank. Much as in the previous year though, the market got a new impetus to growth from yet lower interest rates and intense competition that sparked a new price war from summer on. And, as in the previous year, demand for mortgages has also been pushed forward by, paradoxically, tighter central bank's regulation. Indeed, a new, tighter debt-service-to-income limit effective since January 2020 mobilized prospective homebuyers to push forward their borrowing plans. As a result, new mortgage volumes in the final months of 2019 approached historic record levels of the 2016 refinancing campaign. Thanks to efforts of our colleagues in sales, risk and back office functions, which I really appreciate, VUB did best it could to defend our mortgage portfolio and fight for our share of the anticipated new demand. Our share of mortgage-type loans at the end of December 2019 was 23.7%, tenth of a percentage point below the share at the end of 2018.

Our commercial results in the other main retail loan market, consumer finance, were less successful. This market has come under immense pressure from the regulatory point of view and actually shrank in absolute terms. Moreover, being one of the last segments with still nice interest rate margins, it invited yet more intense competition, attacking our consumer loan portfolio, markets' largest, with aggressive refinancing offers. As a result, our share of consumer loans eased to 22.6% in December 2019 from 23.2% a year ago and our share of the overal retail loan market slid to 22.3% in December 2019 from 22.5% in December 2018, resp.

In the corporate loan market, we have also seen our share to ease a bit, to 19.3% in December 2019 from 19.6% in December 2018, resp. The decline in our market share is mainly driven by decision to step back from transactions with no adequate risk – return profile. On the domestic market, we continued to grow volumes of loans extended especially to small and medium-sized enterprises. As a result, the overall VUB lending to resident nonfinancial companies increased by more than 5%, which enabled us to increase our share of this core corporate market by a further tenth over previous year, to new high of 16.4% by December 2019.

We continued to grow relationship with corporate clients also through our leasing subsidiary, VUB Leasing, which in 2019 grew the balance sheet as well as the market share, strengthening its position among top three market players. Besides, VUB Leasing continued in post merger activities with Q-car, a former CFH unit dedicated to financing of used cars, so as to prepare itself for further expansion of the leasing business next year, especially in the car segment. Last but not least, we also continued to grow our relationship with corporate clients in factoring business. While formally merged into the Bank since January 2018, VUB Factoring has had in 2019 yet another historic strong year as it purchased receivables worth 13% more than a year ago. In the first nine months of the year, its share of the relevant market was 29%, the highest from among the banks and factoring companies within the Association of Factoring Companies.

Turning to the deposit market, I am pleased to say that we have become the bank with the highest growth dynamics from among the top five banks. Our share of total bank deposits increased to 18.9% by December 2019, from 18.5% in December 2018. Our focus has continued to be on growing primarily household deposits and I am pleased to say that we succeeded to increase their volume by more than 10% over a year ago and outgrow also the market. As result, our share of total household bank deposits in Slovakia increased to 15.7% by December 2019, from 15.2% in December 2018. Clearly though, we must continue in this direction so that our share of the household deposit base is more aligned with our share of the household loan market, at around 22%. This is important to fund our growth aspirations in the mortgage market and comply with regulatory-prescribed funding profile in the future. Funding-wise, I would like to thank also our ALM unit which in 2019 successfully placed two €500 million benchmark issues of covered bonds in international markets. I appreciate this success all the more because VUB was the very first bank from Slovakia to tap this important market through a benchmark-size issue, setting a standard for other banks to follow.

Coming back to retail deposits and household savings in general, I am pleased to say that the market moved in our foreseen direction, with volumes of household savings growing at an accelerated rate. Indeed, gross households saving rate has increased, according to official estimates, to above 10% for the first time since millennium. Increased propensity of households to save supported besides bank deposits also growth of household financial assets in mutual funds and pension markets, in which we are also active. Starting with the asset management, in which we operate with the strong support from Eurizon Capital ('Eurizon'), the leading European asset management company of Intesa Sanpaolo, our efforts focused on offering our clients innovative and flexible investment solutions and restarting growth. Starting with the former, we introduced a Wealth Shaper, a sophisticated investment tool helping our clients to make the best informed investment decisions. Meanwhile we continued to enlarge product portfolio by launching a new VUBAM Akciove portfolio, a mutual fund primarily designed for long-term savings schemes, which are important part of our product strategy. We also brought in two new Eurizon ESG funds, which besides financial return to our clients reflect also our strong belief in principles of accountability and an active approach to environmental, social and governance issues. Volume-wise, I am pleased to say that we turned the corner, stopped the outflow of funds observed in 2018 and resumed growing assets under management again, by

7.5% over a year ago by December. Still, we did not manage yet to catch up the market's growth and saw our share of all mutual funds under management in Slovakia to decline to 17.2% by December 2019 from 18.3% at the end of 2018.

In the pension market, in which we are active together with our joint venture partner Generali Slovensko, we have been more successful to continue grow client base and funds. VUB Generali, namely has accumulated total volume of funds under management of € 1.66 billion in 2019, which represents 19.2% growth compared to prior period. Its market share increased by 0.5 percentage point, to 17.8%. Importantly, the number of clients in our pension saving schemes increased by more than 16 thousand, one of the most from among all players on the market.

Regarding the financial results, we have recorded significant decrease of revenues compared to previous year. The decrease was due to two major factors: further compression of margins and thus net interest income and loss of trading income due to sale of part of our bond portfolio in the preceding year, resp. In particular, the net interest income fell by 7.2% over a year ago even as consolidated loans volume grew by solid 5.6% over a year ago. In absolute terms, the decline in net interest income amounted to € 26.5 million, or one third of the total year-on-year decline in net operating income. The loss of net trading income was comparatively bigger, amounting to € 47.4 million over a year ago, resp. Net fee and commission income was broadly stable over a year ago. Amidst falling revenues, we tried to defend the Group's profitability by measures in cost management, particularly of structural character thanks to our fit for future program. And thanks to further improvement in quality of our assets, we were able to make significant savings on provisions and impairment losses. Our profit before provisions, impairment and tax was € 188.8 million, down 27.4% compared to prior period. Adjusted for impairments, provisions, and taxes, the Group booked net profit of € 120.1 million, down 25.1% compared to prior period.

Looking ahead, the operating environment for banking industry in Slovakia will, unfortunately, become increasingly challenging, even adverse. Economic slowdown that began from the export-oriented industry will most likely spill over to the domestic sectors, including construction, trade and services. Firms' investment and hiring plans are already being redrawn, negatively affecting confidence of businesses and gradually also households and thus impacting prospective demand for financial intermediation in general. Demand for retail loans meanwhile will be crippled by new tightening of debt-service-to-income limit by the NBS effective since January 2020. As explained above, these measures have pushed forward prospective demand to 2019. Payback for this anticipated demand and a more pronounced slowdown in retail lending though seems likely in the latter part of 2020.

Moderation in lending may actually turn into an outright deleveraging as banks operating in Slovakia have been burdened by a Bank Levy. Contrary to previous law which saw Bank Levy terminated in 2021 namely, the government rushed through parliament an amendment that from January 2020 doubled the Bank Levy rate from current 0.20% of all non-equity liabilities to 0.40%. Moreover, it will keep it at this level, effectively the highest in the EU, for an indefinite period of time. As a result, profitability of the banking sector in Slovakia, already inferior to peer countries, will fall deep below the cost of capital. As a result, banks in Slovakia will have to rethink their scale of operations and critically review their existing loan portfolio from risk-return point of view.

Increased bank levy moreover comes at worst of possible times. Not only is the economic cycle turning and risk costs thus about to start increasing, banks will also have to prepare for yet more prudent capital requirements being brought upon them by the EU regulation. Unable to make adequate profit and retain part of it to boost capital, banks will have to deleverage their balance sheets in order to comply with forthcoming tighter capital ratios.

Banks' profitability meanwhile will continue to be undermined by the interest rate environment. The ECB namely looks determined to keep interest rates at historic low levels for a very prolonged period of time. Some observers and policymakers, notably the outgoing ECB president Mario Draghi, even admit there is a possibility of a "Japan" scenario for the Eurozone. If this scenario indeed materializes, banks will have to struggle with low or even negative rates and ultra-thin interest margins for years or even decades to come.

Against this new backdrop, we have to critically review our strategic priorities, especially the growth ambitions we have set in our previous plans. Needless to say, efforts to further strengthen efficiency and effectiveness have rarely been more important than now. Either way, in conclusion, I would like to thank our employees for their commitment, hard work, and great results of this past year. I also would like to thank VUB clients and business partners for the trust they hold in the Bank, and the shareholders for their support. I wish all of us the best in the very challenging year 2020.

Alexander Resch,
CEO and Chairman of the Management Board

VUB Management Board Report on the business activities of the Company

Development of the External Environment

External environment

The global economy slowed markedly in 2019 after a relatively mild deceleration the year before. As trade disputes and related uncertainty froze growth in international trade and hit particularly industrial production and investment, world GDP expansion downshifted to 3.4% according to the IMF – the lowest growth since the Great Recession of 2009.

In Europe, the economic dynamism courted with recession in several countries over the year, including Italy, Germany and the UK. As a whole, Eurozone posted annual dynamic of only 1.2% in 2019, down from 1.9% in the preceding year, which spilled over via lower foreign demand negatively to Slovakia as well.

Local annual GDP growth decreased from 3.8% in the first three months of the year to only 1.3% in the three-month period of July to September, owing mainly to negative net exports. Slovakia's highly export-oriented and industrial economy thus could not resist the global gravitational pull, as particularly the automotive, metallurgy and rubber and plastics production sectors posted sharp fall in orders and production – despite new capacities of a fourth carmaker Jaguar Land Rover.

Economic growth decelerated in many services, too, as households spent less in retail sales and construction registered recession as well. Labor market reflected the GDP deceleration in slower pace of job growth and a de facto stagnation of the (record low) unemployment rate at around 5-6%. However, wages and salaries continued in swift growth, with the annual average increase estimated at nearly 8% in nominal terms in 2019. Much of the additional income was saved, as the savings rate beat the threshold of 10% for the first time since 2000.

Slovak financial sector

The financial intermediation followed the slow-down in the economy and falling interest rates in 2019. Total credit growth slowed is annual dynamic from 9.0% in January to 7.3% in December (still higher than GDP growth in current prices though). Loans to the household sector decreased their growth: and within them, especially in the consumer lending area, which dipped to only 1.4% by December after massive growth during the years before.

Also the now quite developed mortgage market posted smaller increases than in the past. Deceleration in volume growth occurred despite record low interest rates and swiftly rising real estate prices, which prompted households to refinance and top up their old loans heavily. Demand for mortgages in the final months of 2019 moreover surged as a result of further tightening of retail lending regulation effective since January 2020 (DSTI), which convinced many to borrow still before this date. Payback for this shift in demand in 2020 though seems likely.

Corporate loans booked an average annual growth of 4.7% till December 2019, which is also a little lower than in 2018. Some of the fall in long-term financing growth has been compensated with short-term loans.

To fund this continuing growth of loans, the banking sector could rely on acceleration in household deposits, reflecting higher employment and savings rate, as well as on issuance of now quite popular (real estate-backed) covered bonds. Total household deposits sped-up to annual growth of more than 7% in the second half of the year, with a tad lower dynamic observed for corporate deposits in the later part of the year as well. The growth of loans and their coverage via deposits thus approached similar dynamics in 2019, improving the previous trends.

Profitability of Slovak banks in 2019 barely grew in nominal terms. Available numbers from the National Bank of Slovakia say profits reached 643 million euro, only 3 million more than in 2018. This owes particularly to lower interest margins as several banks decided to further lower their mortgage rates during the year. Local margins thus decreased to one of the lowest in the euro area (at around 1.0 percentage point).

Higher fees and lower provisions for potential losses were not able to compensate for this highly competitive development in the credit business.

In 2020, profits of banks will be further cut by doubled bank levy of 0.4% of total liabilities adjusted for banks' own equity. This could eat more than 40% of total gross profitability of the sector next year. The banking association protested against this move of the parliament at the Constitutional Court, however, its (future) decision in the matter remains unclear. Either way, considerably lower expected profitability could bring about substantial challenges to the sector, particularly to smaller banks and the financial institutions' appetite for further investment in the country.

Outlook for 2020

Looking ahead into 2020, with the still bleak prospects for international trade and the automotive sector in particular, Slovak real GDP may add perhaps at most 2.0% in real terms. This could freeze employment growth, the unemployment rate and slow-down local wage growth (perhaps to below 5% dynamic). This will most probably further slow the growth of financial intermediation in the country.

The outlook has both positive and negative risks. Potential car tariffs on EU exports to the USA as well as still unresolved final trade and investment deal of the EU with the UK continue to constitute major threats. Advancements in the US-China trade negotiations could calm the markets, consumers and investors, on the other hand.

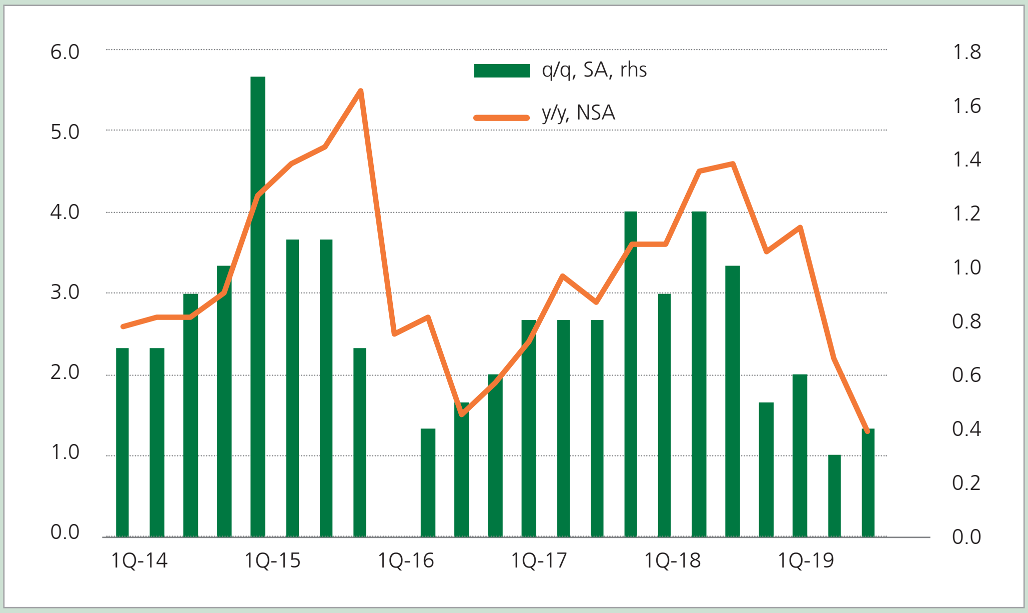
In the baseline scenario though, global growth is likely to continue at a much lower pace, yet not stopping altogether. Our colleagues at Intesa Sanpaolo Research foresee growth in the Eurozone at 0.9% in 2020, which is even lower than in 2019. At the same time, this would be still higher than during the second wave of recession in the monetary union in 2012/13.

The outlook for domestic demand remains better than for export-oriented parts of the economy – similar to the situation in 2019. As employment isn't expected to decrease in any significant measurable amount, continued wage growth will balance the potential further negative foreign demand contributions.

Interest rate – wise, 2020 might be a year of stagnation and hovering around historical lows. Short-term rates in Europe and the US are expected to stay at decreased levels from the end of 2019. American Fed could theoretically still cut its base interest rate by further 25 basis points to 1.25-1.50% if the world's largest economy slows more than expected.

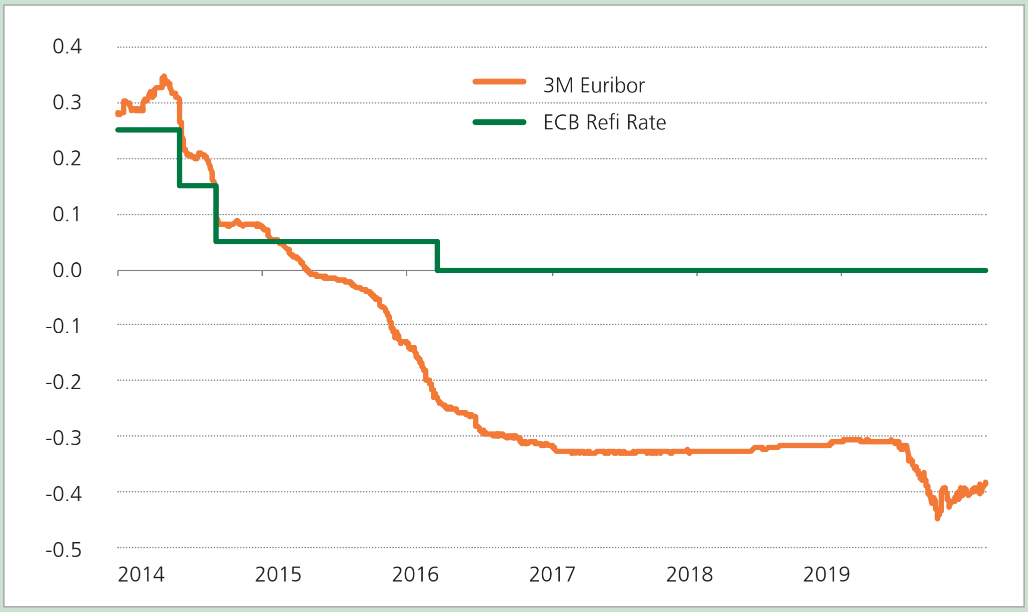
This would keep longer-term bond yields low or even decrease them from their current levels for some time again further. Our colleagues at Intesa Sanpaolo Research foresee core yields in the Eurozone (German 10Y bunds) to remain below -0.1% p.a. in 2020, on average only slightly higher than in 2019. American ten-year yields could further decline to about 1.9% in 2020 with our more pessimistic outlook for the USA.

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



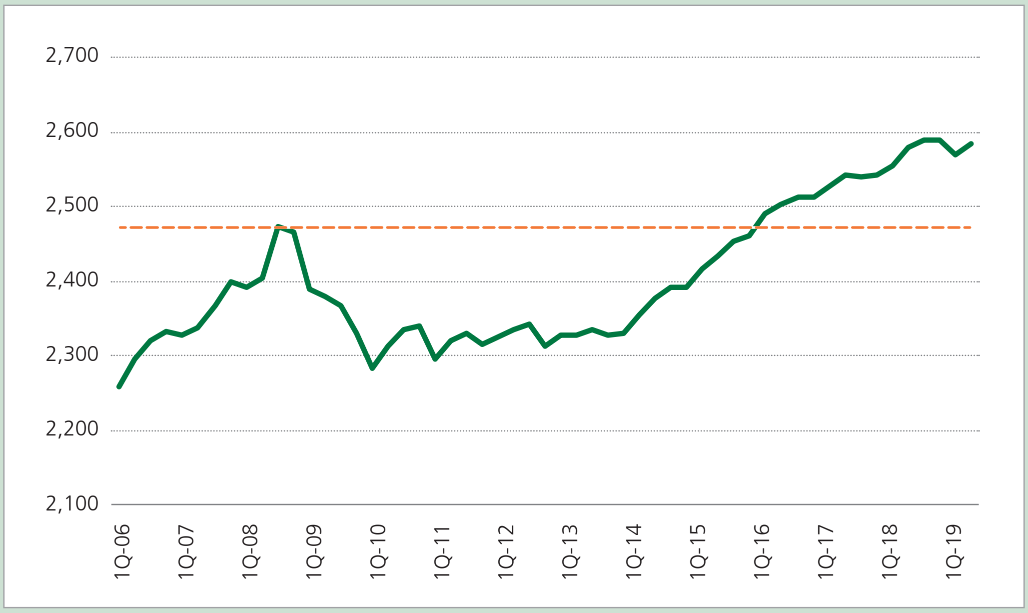
Source: Bloomberg, VUB

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



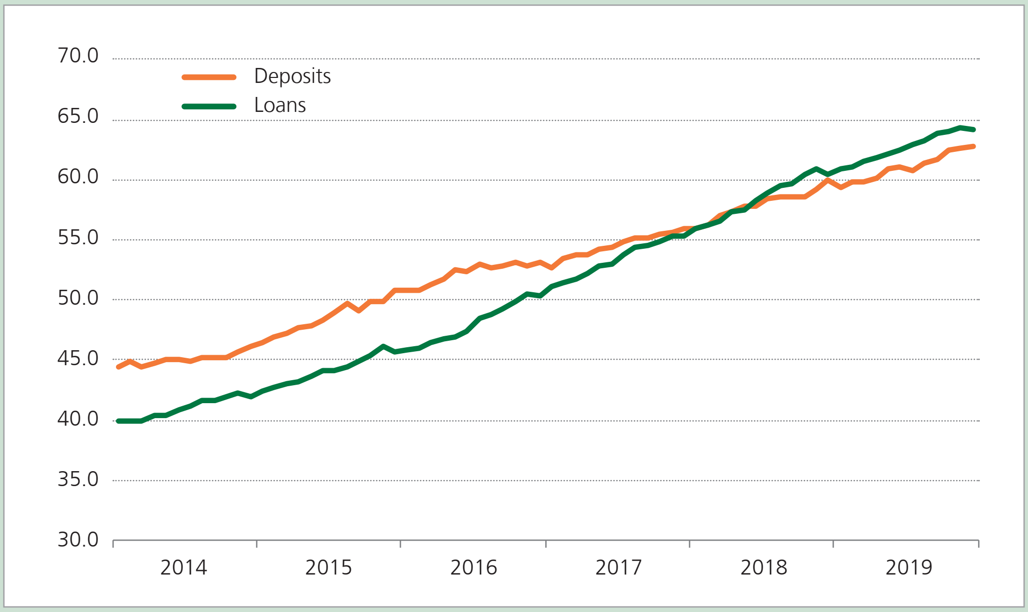
Source: Bloomberg, VUB
Note: For non-trading intervals carry over last value

Employment: number of employees in thousands



Source: Macrobond, VUB

Development of bank volumes (€ bn)



Source: National Bank of Slovakia, VUB

VUB's 2019 Commercial Performance

As described on previous pages, in 2019 we have experienced weaker GDP growth compared to previous year. In terms of private consumption and labour market we observed moderated development compared to 2018 yet still favourable. In terms of consumer behaviour, the saving ratio has recorded significant improvement. The interest rates on the other hand remained at the very low level.

Thanks to our agile response to the banking and macroeconomic environment, we have achieved a very satisfactory performance in the commercial area. In retail lending, we managed to minimize the impact of the fierce competition and more strict regulations and our market share decreased only slightly by 17 bps. In corporate lending, our market position went down as well from 19.6% in December 2018 to 19.3% in December 2019. On the deposit front, we retained great y/y increase on non-term deposits (18.6% in December). The banking environment of historically lowest interest rates influences the decreased demand for term deposits in both VUB and whole market.

Deposits

The volume of clients' deposits in VUB Group at the end of 2019 amounted to almost € 12.0 billion, 7.4% up against the previous year due to both retail and corporate deposits. On retail market, current accounts rose again in this year, while term deposits kept its deteriorating trend. Customers' assets under management posted increase versus previous year (by 7.5% over the year incl. Eurizon), yet below the market growth (14.6%). Market share in mutual funds thus weakened by 1.1% in 2019. The market share of total deposits received from retail clients incl. mutual funds amounted to 16.1%, which means y/y increase (from 15.9% in December 2018). In corporate segment, VUB recorded successful year resulting into 4% y/y growth of, corporate deposits, increasing the market share by 0.6%.

Electronic Banking

In 2019, we have reached more than 258 thousand active clients in mobile banking clients (logging more than once a month), which means 47% increase compared to 2018. We have introduced variety of new, modern user friendly features such as mobile phone payments via GooglePay and ApplePay and opening account via mobile banking. Improved, user friendly ATM withdrawal via mobile phone resulted into substantial increase in the number of clients using it by 266%. We have also introduced free of charge push notifications instead of SMS notifications. A lot of security improvements was also introduced in both internet banking and mobile banking via mobile token.

Bank Cards

From payment cards point of view was past year about new back-end system for debit cards. Project for changing of our back-end system for debit cards had two main parts – preparing new system with all connections to bank systems and migration of whole debit cards portfolio from old system to the new one. Migration and go life of new system was during the first days of November. Even though we migrated almost 900,000 cards, it was without any impact on client's card payments. New systems brings better services for our clients and improves internal processes.

In the last quarter of the year, our effort in the field of smart improvements eventuate into launch of Apple Pay service for debit cards.

During 2019, we continued in our support of charity Dobrý Anjel (Good Angel) with our co-branded card Maestro Good Angel. At the end of year, we have almost 62,000 of those cards issued and this number is still growing. Total amount of support of charity Dobrý Anjel in 2019 generated by POS transaction done by Maestro Good Angel cards was more than € 470,000.

Year to year comparison: more than 11% in increase in count of transaction done by our cards and more than 5% increase in total amount of all transactions.

ATMs and EFT POS

VUB ranks 2nd (21.7%) in the Slovak market share also in 2019 with its 601 ATMs. The focus during the last year was on ATMs with cash-in possibility. At the end of 2019 we had together 80 ATM with cash-in module, that means increase by 29 ATM during year. While the cash volume withdrawn from ATMs grew y/y by 6.1%, the volume of cash inserted through ATM increased by up to 61%.

During 2019 we have installed more than 1,300 new POS terminals including virtual terminals used in e-commerce and also un-attended terminals that can be used at different kinds of vending machines (like parking, public transport ticket terminals …) or at self-service fuel stations. We have also achieved y/y increase in the overall turnover by 8%.

Contact center

In 2019, the Call Centre, both in Banská Bystrica and Poprad, continued providing services to its clients as well as former CFH clients, which resulted in approximately 381 thousand served calls by VUB section, 110 thousand served calls by Quatro section and 185 thousand processed e-mails. Our clients communicated with VUB Bank also through Facebook (800 posts), chats (39 thousand chats) and specialized web pages (VÚB Otvorene). We have also provided complex customer care via phone to 2,000 clients. These clients have their own personal assistant via phone, taking care of all their financial needs. This is directed to the aim to create a virtual branch, which will fully provide all services without the need to visit branch personally.

Loans

Individuals – Mortgage and Consumer Loans

In 2019 the substantial demand for mortgage loans continued. In VUB we recorded considerable increase in line with the market growth rate. Total mortgages of VUB (including ‚American mortgages') grew by 11.7% over the year. With a market share 23.7% the Bank holds strong position on the mortgage loan market. Consumer loans decreased slightly, predominantly due to decrease of former CFH products and stricter regulation regarding DTI ratio. On group level, consumer loans decreased by 2.4% year over year.

Corporate Financing

In 2019, VUB bank was outperformed by the rest of the market in corporate loans segment. While corporate loans grew by 3.4% on the market, VUB increased by 1.9% on the bank level and 1.5 % on Group level. However, loans to the core resident nonfinancial corporations increased by 5.1% and VUB's market share in these loans to went up by 0.2% over the year reaching 16.4%. Real estate finance increased by 9%, project finance loans decreased by 22%, while trade finance loans fell by 25%. VUB Leasing, VUB's subsidiary, achieved considerable results on the leasing market with the growth of its assets by 6.5% last year.

Review of VUB's Economic and Financial Position

As described on previous pages, in 2019 we have experienced weaker GDP growth compared to previous year. In terms of private consumption it has recorded somehow moderated development compared to 2018 yet still favorable. However, wages and salaries continued in swift growth, with the annual average increase approaching 7.8% in nominal terms in 2019. Much of the additional income was saved, as the savings rate exceeded 10% for the first time since 2000. The interest rates on the other hand remained at the very low level.

On the revenue side, we have recorded significant decrease compared to previous year, mainly due to one-off effects in 2018 and significant drop out of interest revenues. On the expenditure side, we have recorded year-over-year decrease predominantly thanks to structural savings in the administrative costs.

VUB Group achieved profit before provisions, impairment and tax of € 188.8 million and kept its profit before tax on satisfactory level € 154.2 million. Cost-income ratio of VUB Group (excl. bank levy) amounted to 51.35%, which was up by 595 basis points.

With regard to business development, VUB delivered very good development with respect to loan portfolio, which grew by 5.6%, resulting into stable market share at 21.2%. Total assets of the whole VUB group increased by 5.9 % as well. Nevertheless this increase did not negatively affect our portfolio quality as NPL ratio remained at very prudent levels. Moreover, VUB remained outperforming the market in terms of loan quality. Indeed, NPLs from banking operations on the group-level in VUB at end-2019 amounted to a mere 2.98% of the total gross loan volume, compared to market's 3.1%.

At the same time, the bank was able to increase its primary deposits with by 7.4%, keeping sound liquidity position which is represented by the loan to deposit ratio of 95.4%.

To support sustainable business growth, capital of the group increased to one of the highest capital adequacy on the Slovak market with the ratio amounting to 17.38% 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 2020

During the last year, the real economy moderated, yet still remained positive for the banking industry. In 2019 GDP grew by approximately 2% and labor market continued to improve further, with unemployment rate declining to historic lows. In 2020 we are expecting marginally weaker economic growth, yet the labour market might start to stagnate. However, in terms of interest rates, we can't expect any significant improvements in 2020.

From the mid-term business plan point of view, we are bound to continue on the already set priorities, which are customer and his experience, employees and their engagement and focus on operating efficiency. In line with the trend of peaking household savings, we will also focus on financial planning and wealth management.

Focusing on further improvement of customer experience and satisfaction we lay emphasis on the tools of modern banking with the aim to make every day finance task as easy and comfortable as possible. This includes expanding the options within our all channels, as e.g. internet and mobile banking, on almost everything from basic transactions to loans application for existing and also new customers. Our aim is to eliminate paperwork and minimize the necessity of branch visit. In line with this, branches should focus more on high added value services, which are either complex or include a great deal of advising.

Essential part of the complex advisory function of branches shall be financial planning. As fundamentals are showing significant growth of financial assets held by Slovak households in upcoming years and saving rate is attacking its historical peaks, we are focused on improving our wealth management concept and provide most of our customers with our services.

The banking industry has never been more challenging. Regulatory framework is taking its toll on both profitability and commercial performance, interest rate environment is shrinking the key item of banking sector revenues and slowing pace of economic growth together with uncertainty of economic agents is affecting both private consumption and investment. VÚB is proud to say that thanks to our agile behavior, we have been so far able to react with the least impact on our customers, employees and stakeholders. This task will be even more challenging in the year 2020 yet we are bound to be a sound and respectful player leading the trends in banking sector. Moreover, VUB is going to continue in laying significant emphasis on risk management, keep high quality of the loan portfolio and hold strong liquidity position. Last but not least, VUB Group will pay great attention to proactive capital management in order to support targeted growth.

Registered Share Capital and the Structure of VUB Shareholders

Registered Share Capital of VÚB, a.s.

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

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

Shareholders' rights

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

Structure of VUB Shareholders

Information regarding VUB shareholders is published quarterly within 30 days of the end of the relevant quarter. Below is the status as of 31 December 2019.

Structure by Owner Type	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Other legal entities	5,949	1.38
Individuals	6,836	1.59
Total Registered Share Capital of VÚB, a.s.	430,819	100.00

Structure by Nationality	Shares (ths. €) *	Stake (%)
Intesa Sanpaolo Holding International S.A. – majority owner	418,034	97.03
Domestic shareholders	9,295	2.16
Other foreign shareholders	3,490	0.81
Total Registered Share Capital of VÚB, a.s.	430,819	100.00

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

There were 27,588 shareholders as at 31 December 2019. Foreign VUB shareholders come from the following countries with the following stake in the bank's registered capital (in %): Luxembourg (97.64%), Germany (0.003%), Czech Republic (0.19%), Austria (0.003%), United Kingdom (0.001%), U.S.A., Romania, Cyprus, Canada, Sweden, Belgium, France, Switzerland and Serbia.

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

Further, the company during the accounting year 2019 held in its assets the shares of the parent company (Art. 22, sec. 3 of the Act no. 431/2002 Coll. on Accounting as amended), Intesa Sanpaolo S.p.A. (ISP), registered office Piazza San Carlo 156, Turin, Italy, ISIN IT0000072618, book-entered registered ordinary shares, with a nominal value of € 0.52 each, in a total number of 587,846 shares. This represents 0.071% of the nominal value of the Bank's registered capital. These shares have been acquired by the Bank in order to adopt and implement ISP Group Remuneration Policies in line with the Capital Directive ‚CRD III' (i.e. Directive 2010/76/EU amending the Capital Requirements Directives). In 2019, the Bank transferred 225,130 shares in accordance with ISP Group Remuneration Policies.

Subsidiaries of VUB

VÚB Leasing, a.s.

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

Consumer Finance Holding Česká republika, a.s.*

Registered office:	Pobřežní 620/3, Karlín, 186 00 Praha 8, Czech Republic
Shareholders:	VÚB, a.s.
VUB's stake in registered capital:	100%
Core business:	Providing consumer loans or intermediation of consumer loans
Tel:	+420 443 033 451
Statutory director:	Martin Techman

* On 16 September 2019 VUB Bank and Consumer Finance Holding Czech Republic, a.s. decided on the cross-border merger of companies as of 1 October 2019, on the basis of which VUB Bank became the successor company and Consumer Finance Holding Czech Republic, a.s. merged into the successor company and wound up without liquidation.

Statement on Compliance with the Corporate Governance Code for Slovakia

A. Company Organization

The structure of VÚB, a.s. bodies:

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

General Meeting

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

The Ordinary General Meeting of the company was held on 5 April 2019. The shareholders at this meeting approved the 2018 Annual Report of VÚB, a.s., the 2018 Statutory Separate Financial Statements and the 2018 Consolidated Financial Statements, both statements were prepared in accordance with IFRS as amended by the EU, as submitted by the Management Board of the Bank. The General Meeting also decided on distributing the profit earned in 2018 in the amount of € 156,286,087.96 to shareholders in dividends amounting to € 125,049,101.50 and to the retained earnings in the amount of € 31,236,986.46. Further, the General Meeting decided on the 2018 dividend to be paid to shareholders in the amount of € 9.64 per share with a nominal value of € 33.20.

The General Meeting approved the amendments to the Articles of Association of VÚB, a.s. as proposed and approved by the external auditor for the bank for 2019.

VUB Supervisory Board and Management Board in general

1. Supervisory Board members are elected by the General Meeting. The VUB 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 2019, the VUB Management Board held 24 meetings and adopted 17 decisions on a per rollam basis. The VUB Supervisory Board held 4 meetings and adopted 10 decisions on a per rollam basis during the 2019 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 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 2019

Ignacio Jaquotot	Chairman of the Supervisory Board
Elena Kohútiková	Vice Chairwoman of the Supervisory Board
Luca Finazzi	Member of the Supervisory Board (until 15 April 2019)
Marco Fabris	Member of the Supervisory Board (since 2 May 2019)
Paolo Sarcinelli	Member of the Supervisory Board
Christian Schaack	Member of the Supervisory Board

Andrej Straka	Member of the Supervisory Board, employee representative (until 10 December 2019)
Peter Gutten	Member of the Supervisory Board, employee representative (since 19 December 2019)
Róbert Szabo	Member of the Supervisory Board, employee representative

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

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

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 2019. The Audit Committee held six meetings (from which two per rollam) during 2019 financial year. The issues discussed at the meetings mainly related to: preparation of the financial statements and observation of the special regulations; efficiency of internal control and risk management system at the Bank; compliance with regulatory requirements; the audit of the separate financial statements and the audit of the consolidated financial statements. Further, the Audit Committee examines and monitors the independence of the auditor, especially services provided by the auditor according to a special regulation, recommends the appointment of an auditor for carrying out the audit of the Bank, and sets a date for an auditor to submit a statutory declaration about his independence. The Audit Committee regularly invited an external auditor to attend its meetings.

The Internal Audit and Control Department, the authorities and duties of which are defined by the Supervisory Board, excluding those defined by law, performs the control function in the Bank. The Head of the Internal Audit and Control Department may be appointed to/removed from the position upon a recommendation and prior consent issued by the Supervisory Board. Furthermore, the Supervisory Board also defines the remuneration and compensation scheme for this position. In 2019, 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 2019:

Elena Kohútiková	Chairwoman of the Audit Committee
Christian Schaack	Member of the Audit Committee
Luca Finazzi	Member of the Audit Committee (until 15 April 2019)
Marco Fabris	Member of Audit Committee (since 2 May 2019)

Remuneration Committee

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

Risk Committee

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

Management Board

Management Board Members in 2019

Alexander Resch	Chairman of the Management Board and Chief Executive Officer
Roberto Vercelli	Member of the Management Board and Deputy Chief Executive Officer
Antonio Bergalio	Member of the Management Board and Chief Financial Officer
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
Peter Novák	Member of the Management Board and Chief Operating Officer (until 30 June 2019)

Alexander Resch – Chairman of the Management Board and CEO

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

Roberto Vercelli – Member of the Management Board and Deputy CEO

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

Antonio Bergalio – Member of the Management Board and Chief Financial Officer

Antonio Bergalio has been a member of the Management Board and Chief Financial Officer since 1 October 2014. He is in charge of controlling, accounting, management of assets and liabilities, procurement. Before joining VUB, Antonio Bergalio was a member of the Management Board and CFO of the Ukrainian Pravex Bank, a member of the Intesa Sanpaolo Group. He was in charge of reporting, planning and controlling, treasury, investment banking and procurement. Before that he worked as a manager at several banks and consultancy firms focusing on finance. Antonio Bergalio studied Economics at the University of Genoa. He was also a member of the Committee of Italian Entrepreneurs in Ukraine from 2012 to 2014.

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

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

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

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

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

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

Peter Novák – Member of the Management Board and Chief Operating Officer

Peter Novák acted in the position of Member of the VUB Management Board and Chief Operating Officer since 1 October 2014 until 30 June 2019.

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 (CRGC) 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.

The Assets and Liabilities Committee

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

The Operational Risk Committee

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

Change Management Committee

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

Internal Control Coordination Committee

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

Technical Committee for Financial Products

The committee is a permanent advisory committee which, in the framework of VÚB, a. s. management of financial products offered to retail clients, supports the Assets and Liabilities Committee, and is in charge of the definition, analysis and assessment of financial product features. The committee monitors the performance of the financial products in line with the instructions of Intesa San Paolo SpA (mother company), the Bank's internal regulations, applicable laws, and rules and regulations established by the competent authorities.

The Problem Asset Committee

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

The Crisis Committee

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

B. Relations between the Company and its Shareholders

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

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

C. The Company's Approach to Shareholders

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

D. Disclosure of Information and Transparency

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

Non-financial statement

The Group/Bank has not prepared the Non-financial statement as required by the Non Financial Information Legislation availing of the exemption introduced by the local regulation, as being a subsidiary undertaking which information are 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		
	2019	2018	2017	2019	2018	2017
Loans and advances to customers	14,078,141	13,327,533	11,487,518	14,377,014	13,617,247	12,000,729
Due to customers	11,927,060	11,055,766	9,855,433	11,951,017	11,130,637	9,939,121
Equity	1,596,939	1,608,688	1,555,980	1,612,997	1,613,953	1,632,587
Balance sheet total	17,361,197	16,369,271	14,469,293	17,640,496	16,659,935	14,970,876
Profit before provisions, impairment and tax	181,767	253,374	222,112	188,809	260,234	263,864
Profit before tax	146,905	200,308	203,187	154,170	204,153	223,135
Income tax expense	(32,818)	(44,022)	(43,166)	(34,099)	(43,835)	(48,138)
Net profit for the year	114,087	156,286	160,021	120,071	160,318	174,997
Commercial indicators	**2019**	**2018**	**2017**			
ATMs	601	592	577			
EFT POS Terminals	10,596	10,379	9,760			
Payment cards	1,035,378	1,136,405	1,190,270			
of which credit cards	253,647	233,378	261,105			
Mortgage loans (gross, € thousand, VUB Bank)	6,897,623	6,172,729	5,341,959			
Consumer loans (gross, € thousand, VUB Bank)	1,560,744	1,589,367	1,252,101			
Number of employees (VUB Group)	3,742	3,809	3,942			
Number of branches in Slovakia (VUB Bank)	203	212	236			
Key ratios of VUB Group				**2019**	**2018**	**2017**
Return on assets				0.68%	0.96%	1.17%
Cost-Income Ratio (without bank levy)				51.35%	45.40%	42.96%
Tier 1 capital ratio				15.26%	14.89%	15.77%
Total capital ratio				17.38%	17.18%	18.24%
Rating (status as at 31 December 2019)						
Moody's						
Long-term deposits	A2					
Short-term deposits	P-1					
Baseline credit assessment	baa2					
Stable outlook						

Consolidated financial statements

Consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditors' Report for the year ended 31 December 2019

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Všeobecná úverová banka, a. s. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

KPMG Slovensko spol. s r. o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of district court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number: 31 348 238
Evidenčné číslo licencie audítora: 96
Licence number of statutory auditor: 96

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Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2019: € 14,377,014 thousand; impairment loss recognised in 2019: € 39,051 thousand; total impairment loss as at 31 December 2019: € 348,748 thousand.

Refer to Note 3 (Significant accounting policies) and Notes 11.2, 21 and 34 (Due from customers, Movements in impairment losses and Impairment losses and Net gain arising from the derecognition of financial assets measured at amortised cost) to the consolidated financial statements.

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the expected credit losses within Financial assets at amortised cost at the reporting date. We focused on this area as the determination of impairment allowances requires significant judgment from the Management Board over both the timing of recognition and the amount of any such impairment.	Our audit procedures in this area included, among others: • Inspecting the Bank's ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors, including inspecting validation reports; • Making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for data security and access, assisted by our own IT specialists; • Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances;

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Key audit matter	Our response
Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below EUR 500 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. For non-performing exposures exceeding EUR 500 thousand (EUR 100 thousand for the subsidiary), the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required increased attention. Accordingly, we considered the area to be a key audit matter.	• With respect to impairment accounting under IFRS 9: – Assessing whether the definition of default and the staging criteria were consistently applied. Also assessing whether the definition of default applied for each segment/portfolio is appropriate based on the requirements of IFRS 9 (e.g. taking into account the 90-day presumption of default); – Evaluating the overall modelling approach, of calculation of ECLs, including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD)); – Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank's ECL assessment. Assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information. Challenging LGD and PD parameters used by the Bank, by reference to historically realised losses on defaults; • Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage; • For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for

	classification to Stage 2 or Stage 3 as at 31 December 2019; • For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing respective independent recalculations, where relevant.

IT systems and controls over financial reporting

Key audit matter	Our response
The Group has a complex information technology ("IT") environment and operates various IT systems and applications. The financial accounting and reporting systems are heavily dependent on these complex IT solutions and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	Our audit procedures included, among others: • Using our internal IT specialists, updating our understanding of the Group's IT environment and the framework of governance over the IT organization, including the understanding of the controls over program development and changes, access to programs and data and IT operations; • Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting; • Testing certain aspects of the security of the IT systems, including access management and segregation of duties; and • Where relevant, assessing whether compensating controls were effective in mitigating deficiencies identified either by the Bank or by us independently.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on Information in the consolidated Annual Report

The Management Board is responsible for the information in the consolidated annual report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the consolidated financial statements does not cover other information in the consolidated annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated annual report and, in doing so, consider whether the other information is materially inconsistent with the audited consolidated financial statements

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or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated annual report, we consider whether it includes the disclosures required by the Act on Accounting.

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

- the information given in the consolidated annual report for the year 2019 is consistent with the consolidated financial statements prepared for the same financial year; and
- the consolidated annual report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the Group and its environment obtained in the course of our audit, we are required to report if we have identified material misstatement in the consolidated Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in this respect.

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

Appointment and approval of an auditor

We have been appointed as statutory auditor by the Management Board of the Group on 8 July 2019 on the basis of our approval by the General Meeting of the Bank on 5 April 2019. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is eight years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

21 February 2020
Bratislava, Slovak Republic

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

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

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

Consolidated statement of financial position as at 31 December 2019

(In thousands of euro)

	Note	2019	2018
Assets			
Cash and cash equivalents	7	996,446	1,769,134
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		23,454	39,548
Non-trading financial assets at fair value through profit or loss		584	440
Derivatives – Hedge accounting	9	82,501	26,765
Financial assets at fair value through other comprehensive income	10	1,574,549	749,974
of which pledged as collateral		*773,472*	*620,922*
Financial assets at amortised cost:	11		
Due from other banks		180,491	102,454
Due from customers		14,377,014	13,617,247
of which pledged as collateral		*190,060*	*199,170*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	13,840	9,183
Investments in joint ventures and associates	13	11,635	8,758
Property and equipment	14	120,150	91,683
Intangible assets	15	112,583	92,863
Goodwill	16	29,305	29,305
Current income tax assets	17	28,342	1,181
Deferred income tax assets	17	66,118	70,731
Other assets	18	22,839	23,747
Non-current assets classified as held for sale	14	645	26,922
		17,640,496	16,659,935
Liabilities			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		24,750	39,335
Derivatives – Hedge accounting	9	59,833	15,226
Financial liabilities at amortised cost:	11		
Due to banks		551,967	1,192,015
Due to customers		11,951,017	11,130,637
Subordinated debt		200,143	200,181
Debt securities in issue		3,120,695	2,332,253
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	4,580	1,499
Current income tax liabilities	17	–	10,724
Provisions	19	13,625	24,723
Other liabilities	20	100,889	99,389
		16,027,499	15,045,982
Equity	23		
Share capital		430,819	430,819
Share premium		13,719	13,719
Legal reserve fund		88,986	88,986
Retained earnings		1,057,794	1,052,943
Equity reserves		21,679	27,486
		1,612,997	1,613,953
		17,640,496	16,659,935

The accompanying notes on pages 46 to 234 form an integral part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 (In thousands of euro)

	Note	2019	2018
Interest income calculated using the effective interest method		381,148	409,093
Other interest income		6,775	7,419
Interest and similar expense		(47,751)	(49,699)
Net interest income	25	340,172	366,813
Fee and commission income		157,796	157,689
Fee and commission expense		(30,116)	(29,751)
Net fee and commission income	26	127,680	127,938
Net trading result	27	(7,513)	39,774
Other operating income	28	8,591	6,359
Other operating expenses	29	(19,835)	(16,092)
Special levy of selected financial institutions	30	(29,695)	(26,286)
Salaries and employee benefits	31	(125,349)	(129,223)
Other administrative expenses	32	(78,302)	(85,793)
Amortisation	15	(12,654)	(12,448)
Depreciation	14	(14,286)	(10,808)
Profit before provisions, impairment and tax		188,809	260,234
Provisions	22, 33	4,927	(340)
Impairment losses	21, 34	(39,051)	(61,397)
Net (loss)/gain arising from the derecognition of financial assets at amortised cost	34	(4,883)	3,525
		149,802	202,022
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method		4,368	2,131
Profit before tax		154,170	204,153
Income tax expense	35	(34,099)	(43,835)
NET PROFIT FOR THE YEAR		120,071	160,318
Other comprehensive income for the year, after tax:	36, 37		
Items that shall not be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		2,676	537
Reversal of deferred income tax on disposed property and equipment		2,101	–
Net revaluation gain from property and equipment		10	2
		4,787	539
Items that may be reclassified to profit or loss in the future:			
Change in value of cash flow hedges		6	(544)
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		(1,329)	(39,760)
Exchange difference on translation of foreign operations		343	(316)
		(980)	(40,620)
Other comprehensive income for the year, net of tax		3,807	(40,081)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		123,878	120,237

The accompanying notes on pages 46 to 234 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2019

(In thousands of euro)

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

(Table continues on the next page)

The accompanying notes on pages 46 to 234 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2019

(In thousands of euro)

(continued)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2018	430,819	13,719	100,054	1,025,072	21,966	44,792	538	272	1,637,232
Total comprehensive income for the year, net of tax	–	–	–	160,318	2	(39,223)	(544)	(316)	120,237
Transfers	–	–	(11,068)	11,068	–	–	–	–	–
Exchange difference	–	–	–	328	(1)	–	–	–	327
Transactions with owners, recorded directly in equity									
Dividends to shareholders	–	–	–	*(144,025)*	–	–	–	–	*(144,025)*
Reversal of dividends distributed but not collected	–	–	–	*182*	–	–	–	–	*182*
	–	–	–	(143,843)	–	–	–	–	(143,843)
At 31 December 2018	430,819	13,719	88,986	1,052,943	21,967	5,569	(6)	(44)	1,613,953

The accompanying notes on pages 46 to 234 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2019

(In thousands of euro)

	Note	2019	2018
Cash flows from operating activities:			
Profit before tax		154,170	204,153
Adjustments for:			
Interest income	26	(387,923)	(416,512)
Interest expense	26	47,751	49,699
Gain from sale/revaluation of financial assets at fair value through other comprehensive income		(26,474)	(624)
Gain on sale of intangible assets and property and equipment	30	(838)	(244)
Loss/(gain) from revaluation of debt securities in issue		51,065	(12,256)
Amortisation	15	12,654	12,448
Depreciation	14	14,286	10,808
Impairment losses and similar charges	34, 35	72,961	84,264
Share of the profit or loss of investments in joint ventures and associates accounted for using the equity method and related items		(2,877)	214
Exchange difference on translation of foreign operations	37, 38	343	(316)
Interest received		394,894	425,986
Interest paid		(51,832)	(47,779)
Tax paid		(65,270)	(43,000)
Decrease/(increase) in financial assets at fair value through profit or loss		15,976	(8,714)
Increase in derivatives – hedge accounting (assets)		(55,736)	(2,400)
Financial assets at amortised cost:			
Increase in due from other banks		(76,267)	(37,041)
Increase in due from customers		(838,332)	(1,742,034)
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		(4,657)	(11,616)
Increase in other assets		(132)	(856)
(Decrease)/increase in financial liabilities at fair value through profit or loss		(14,585)	1,793
Increase in derivatives – hedge accounting (liabilities)		44,607	584
Financial liabilities measured at amortised cost:			
(Decrease)/increase in due to banks		(640,606)	424,052
Increase in due to customers		799,966	1,191,443
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		3,081	1,469
(Decrease)/increase in provisions		(5,843)	1,485
Increase in other liabilities		1,715	3,654
Net cash (used in)/from operating activities		(557,903)	88,660
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(1,516,232)	(220,000)
Disposal of financial assets at fair value through other comprehensive income		400,943	244,393
Repayments of financial assets at fair value through other comprehensive income		311,355	150,000
Purchase of intangible assets and property and equipment		(55,432)	(41,158)
Disposal of intangible assets and property and equipment		21,816	6,500
Net cash (used in)/from investing activities		(837,550)	139,735

(Table continues on the next page)

The accompanying notes on pages 46 to 234 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2019

(In thousands of euro)

(continued)

	Note	2019	2018
Cash flows from financing activities:			
Proceeds from issue of debt securities		1,000,000	300,000
Repayments of debt securities in issue		(258,035)	(235,545)
Proceeds from lease liabilities		11,965	–
Repayments of lease liabilities		(6,116)	–
Dividends paid		(125,049)	(144,025)
Net cash from/(used in) financing activities		622,765	(79,570)
Net change in cash and cash equivalents		(772,688)	148,825
Cash and cash equivalents at the beginning of the year	7	1,769,134	1,620,309
Cash and cash equivalents at 31 December	7	996,446	1,769,134

The accompanying notes on pages 46 to 234 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 2019, the VUB Group had a network of 203 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2018: 212). The VUB Group also has one branch in the Czech Republic (31 December 2018: 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 2019, the members of the Management Board are Alexander Resch (Chairman), Antonio Bergalio, Peter Magala, Martin Techman, Roberto Vercelli and Andrej Viceník.

Another member of the Management Board was Peter Novák (until 30 June 2019).

At 31 December 2019, the members of the Supervisory Board are Ignacio Jaquotot (Chairman), Elena Kohútiková (Vice Chairman), Marco Fabris (from 2 May 2019), Peter Gutten (from 19 December 2019), Paolo Sarcinelli, Christian Schaack and Róbert Szabo.

Another member of the Supervisory Board were Luca Finazzi (until 15 April 2019) and Andrej Straka (until 10 December 2019).

1.1. The VUB Group

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

	Share December 2019	Share December 2018	Principal business activity
Subsidiaries			
VÚB Leasing, a. s. ('VÚB Leasing')	100%	100%	Finance and operating leasing
CONSUMER FINANCE HOLDING ČESKÁ REPUBLIKA, a. s. ('CFH CZ')	–	100%	Consumer finance business
Joint ventures			
VÚB Generali d. s. s., a. s. ('VÚB Generali')	50%	50%	Pension fund administration
Associates			
Slovak Banking Credit Bureau, s. r. o. ('SBCB')	33.33%	33.33%	Credit database administration

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

On 1 October 2019 become effective the cross-border merger of CONSUMER FINANCE HOLDING ČESKÁ REPUBLIKA, a. s. registered in Czech republic as the merging company into the Bank as the successor company. The merging entity shall be wound up without liquidation. The decisive accounting date is 1 January 2019.

1.3. Basis of accounting

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

The consolidated financial statements of the VUB Group for the year ended 31 December 2018 were authorised for issue by the Management Board on 22 February 2019.

The separate financial statements of the Bank for the year ended 31 December 2019 were issued on 21 February 2020 and are available at the registered office of the Bank.

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

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

1.4. Basis of consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

(c) Joint ventures

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

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

1.5. Functional and presentation currency

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

Negative balances are presented in brackets.

1.6. Use of judgements and estimates

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

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

1.6.1. Judgements

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

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

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

1.6.2. Assumptions and estimation uncertainties

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

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

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

establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments.

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

- Valuation of lease liabilities (note 11.4) and right-of-use assets (note 14)
  The application of Financial Reporting Standard 16 Leases ('IFRS 16') requires the VUB Group to make judgments that affect the valuation of the lease liabilities and the valuation of right-of-use assets (note 3.16). These include: determining contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

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

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

  For leases of branch and office premises with indefinite term the VUB Group previously estimated the length of the contract to be equal to notice period which was usually three months. The VUB Group has reassessed its estimation of the non-cancellable period of such types of leases to be five years. The above described changes were considered as change in estimate and were applied prospectively and resulted in an increase of the lease liabilities balance of approximately 278% compared to non-cancellable leases reported under IAS 17. The VUB Group will continue to monitor these assumptions in the future as a result of a review of the industry practice and the evolution of the accounting interpretations in relation to estimation of the lease terms among peer financial entities and make adjustments, if necessary.

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

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

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

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

2. Changes in accounting policies

The VUB Group has initially adopted IFRS 16 from 1 January 2019.

A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the financial statements.

Due to the transition method chosen by the VUB Group in applying IFRS 16, comparative information throughout the financial statements has not been restated to reflect its requirements.

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. Adoption of IFRS 16

IFRS 16 supersedes International Accounting Standard 17 Leases ('IAS 17') and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:
– 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).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

Leases in which the VUB Group is a lessee

The new Standard, when initially applied, had a significant impact on the financial statements, since it requires the VUB Group to recognise in its statement of financial position assets and liabilities relating to operating leases for which the VUB Group acts as a lessee.

The VUB Group recognises new assets as Property and equipment (note 3.12) and liabilities as Financial liabilities at amortised cost (note 3.7.2) in the statement of financial position for its operating leases in respect of branch and office premises, lands under automated teller machines ('ATMs') and fleet of cars. The nature and expenses related to those leases was changed because the VUB Group will recognise a depreciation charge for right-of-use assets as Depreciation and interest expense on the lease liabilities as Interest and similar expense (note 3.21) in the statement of profit or loss.

Previously, the VUB Group recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense being recognised.

In addition the VUB Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the VUB Group will include payments due under the lease in lease liability.

The VUB Group recognised lease liability along with right-of-use asset in amount of € 14,584 thousand as at 1 January 2019.

As at 31 December 2018 the VUB Group disclosed minimum lease payments under non-cancellable leases in amount of € nill thousand. Under this approach the VUB Group considered leases with undetermined contractual maturity only for the duration of the cancellation period which was generally three months.

As for the fleet of cars, which represent € 14 thousand of the abovementioned lease liability, the VUB Group will use rates implicit in the contracts. The average rate of these contracts is 4.35%. The cars are generally used for five years and the fleet is being renewed according to the needs of the VUB Group.

As for the Banks branch and office premises and lands under ATMs, which represent an amount of € 14,570 thousand of the abovementioned lease liability, the VUB Group will use incremental borrowing rates as at 1 January 2019. The average rate of these contracts is 0.51%. The management has made judgement to rent premises and lands with no contractual maturity for five years with regard to ongoing rationalisation of Bank's retail branch network.

The adoption of IFRS 16 had no material impact on risk-weighted assets ('RWA') and capital adequacy.

Transition to IFRS 16

The VUB Group applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore no adjustment to the opening balance of retained earnings at 1 January 2019 was recognised, with no restatement of comparative information.

In the transition the VUB Group applied the practical expedient to grandfather the definition of lease on transition. This means that it applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4 Determining whether an arrangement contains a lease. The VUB Group also used practical expedient regarding operating leases for which the lease term ends within 12 months of the date of initial application and treated such leases as short-term leases.

The explanation of differences between minimum lease payment for operating lease according to IAS 17 and lease liabilities recognised in the statement of financial position at the date of initial application:

€ '000	**1 January 2019**
Minimum lease payment for operating lease according to IAS 17	–
Change from three months non-cancellable period to useful life of right of use	15,596
Leases with a lease term of 12 months or less (short-term leases)	(735)
Gross lease liabilities	14,861
Discounting	(277)
Total lease liabilities according to IFRS 16	14,584

2.2. Changes in presentation

The VUB Group created the new item 'Cash and cash equivalents' in the statement of financial position in line with the same item in the statement of cash flows. The receivables from the Single Resolution Fund were transferred from the item 'Cash, balances at central banks' to the item 'Due from customer' to the sector Public Administration, in order to comply with the National Bank of Slovakia ('NBS') Sector Manual. The comparatives were restated.

€ '000	Note	2018	Changes	Restated 2018
Cash and cash equivalents	7	–	1,769,134	1,769,134
Cash, balances at central banks		1,747,562	(1,747,562)	–
Financial assets at amortised cost:				
Due from other banks	11.1	126,896	(24,442)	102,454
Due from customers	11.2	13,614,377	2,870	13,617,247

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

€ '000	Note	2018	Changes	Restated 2018
Interest and similar income		416,398	(416,398)	–
Interest income calculated using the effective interest method	25	–	409,093	409,093
Other interest income	25	–	7,419	7,419
Net trading result	27	39,888	(114)	39,774

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

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

Amendments to IFRS 3 Business Combinations

Effective for annual periods beginning on or after 1 January 2020.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The VUB Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures

Interest Rate Benchmark Reform ('IBOR reform')

Effective from 1 January 2020. Early application is permitted.

The amendments address issues affecting financial reporting in the period leading up to the IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform.

All companies with hedges affected by the IBOR reform are required to:
- assume that the interest rate benchmark on which hedged cash flows are based is not altered as a result of the IBOR reform when assessing whether the future cash flows are highly probable. Also, for discontinued hedging relationships, the same assumption is applied for determining whether the hedged future cash flows are expected to occur.
- assess whether the economic relationship between the hedged item and the hedging instrument exists based on the assumptions that the interest rate benchmark on which the hedged item and the hedging instrument are based is not altered as a result of the IBOR reform.
- not discontinue a hedging relationship during the period of uncertainty arising from the IBOR reform solely because the actual results of the hedge are outside the range of 80 – 125 per cent.
- apply the separately identifiable requirement only at the inception of the hedging relationship. A similar exception is also provided for redesignation of hedged items in hedges where dedesignation and redesignation take place frequently – e.g. macro hedges.

The VUB Group does not expect the amendments to have a material impact on its financial statements when initially applied. (note 4.5)

Other standards

The following standards and amendments to standards are not expected to have a significant impact on the VUB Group's financial statements:
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures; Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely);
- IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively; Early application is permitted).

3. Significant accounting policies

3.1. Foreign currency transactions

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

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

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income ('OCI'):
- qualifying cash flow hedges to the extent that the hedge is effective; and
- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.

3.2. Foreign operations

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

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

3.3. Cash and cash equivalents

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

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

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

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

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

3.4.2. Classification

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

Assessment of whether contractual cash flows are SPPI

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

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

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

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

Reclassifications

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

3.4.3. Subsequent measurement

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

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

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

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

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

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

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

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

3.4.5. Modifications

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

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

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

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

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

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

3.4.6. Offsetting

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

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

3.4.7. Fair value measurement

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

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

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

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

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

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

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

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

3.5.2. Financial assets at fair value through profit or loss

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

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

3.6. Financial assets at fair value through other comprehensive income

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

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

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

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

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

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

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

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

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

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

3.7. Financial assets and financial liabilities at amortised costs

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

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

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

Due from other banks

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

Due from customers

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

Impairment

The detailed description of policy is in the note 4.1.2.

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

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

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

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

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

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

3.8. Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to purchase and resell ('reverse repo transactions') are recorded only in the off-balance sheet and the loan provided is reported in the statement of financial position in

'Cash, cash balances at central banks', 'Financial assets at amortised cost: Due from other banks' or 'Financial assets at amortised cost: Due from customers', as appropriate.

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

3.9. Derivatives – Hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

3.10. Investments in joint ventures and associates

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

Dividend discount model

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

3.11. Transactions under common control

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

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

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

3.12. Property and equipment

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

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

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

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

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

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

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

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

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

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7

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

3.14. Goodwill

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

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

3.15. Non-current assets held for sale

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

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

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

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

Leases are recognized, measured and presented in line with IFRS 16. (note 2.1)

Leases in which the VUB Group is a lessee

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

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

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

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

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

	Years
Buildings	2 – 6
Other tangibles	2 – 5

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

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

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

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

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

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

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

Leases in which the VUB Group is a lessor

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

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

3.17. Provisions

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

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

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

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

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

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

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

3.18. Provisions for employee benefits

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

3.19. Equity reserves

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

3.20. Net interest income

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

3.21. Net fee and commission income

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

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

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

3.22. Net trading result

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

3.23. Dividend income

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

3.24. Special levy of selected financial institutions

Commencing 1 January 2012, banks operating in the Slovak Republic are subject to a special levy of selected financial institutions calculated from selected liabilities. Based on the amendment to the Act No. 384/2011 on the Special levy of selected financial institutions from 12 October 2016, the levy rate has been set to 0.2% p. a. for the years 2017 to 2020. The levy is recognized in the statement of profit or loss and other comprehensive income on an accrual basis and is payable at the beginning of each quarter. (note 30)

3.25. Current and deferred income tax

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

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

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

4. Financial and operational risk management

The VUB Group has exposure to the following risks from its use of financial instruments:
- Credit risk,
- Market risk,
- Liquidity risk,
- Operational risk.

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

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

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

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

4.1. 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 the VUB Group.

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

4.1.1. Management of credit risk

The Risk Management Division is established within the VUB Group as a Control Unit and managed by the Chief Risk Officer, who is a member of the VUB Group's Management Board. The Risk Management Division is organisationally structured to provide support to the Business Units, as well as to provide reporting of credit, market and operational risks to the Supervisory Board and Management Board. The Risk Management Division is responsible for overseeing VUB Group's credit risk including:
- The development of credit risk strategies, policies, processes and procedures covering rules for credit assessment, collateral requirements, risk grading and reporting;
- Setting limits for the concentration of exposure to counterparties, related parties, countries and total assets and monitoring compliance with those limits;
- Establishment of the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are set in the CRC;
- Credit risk assessment according to defined policy;
- Monitoring of quality portfolio performance and its compliance with set limits (regulatory, internal). Regular reports are provided to the Management Board and the CRC on the credit quality of the VUB Group's portfolios;
- Development, maintenance and validation of scoring and rating models – both application and behavioural;
- Development, maintenance and back-testing of impairment loss models.

4.1.2. Impairment losses

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

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

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

The individual assessment of exposures is based on the detailed review and analysis of the borrower's situation, including the critical review of the following sources of information, without limitation to:
- The latest financial statements available (including consolidated ones, if any) accompanied by the report on operations and audit report, if any, as well as previous years' financial statements;
- Information on specific corporate events (e.g. extraordinary transactions);
- The current and forecast financial position and results, analysis of variances between forecasts and actuals;
- For borrowers belonging to economic groups, information on their internal and external relationships (to assess the risk of contamination or its deterioration);
- The list of bank relationships (credit lines/utilisation/transaction status);
- The customer's short- and medium-term plans and strategies supplemented by financial projections (at least three-year), the statement of expected cash flows, product analysis, sector and market studies, etc.;
- Any documentation by third-party experts on the reasons for the borrower's deterioration, and potential actions to reorganise the company and exit from the crisis;
- Updated business profiles from the Chamber of Commerce, Corporate Registry or equivalent, cadastral surveys concerning all debtors and guarantors;
- Nature and validity of the collaterals, appraisal for each asset, presence of mortgage/pledge registrations other than the VUB Group's;
- Latest and historical Credit Bureau reports.

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

Inputs, assumptions and techniques used for estimating impairment

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

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

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

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

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

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

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

Days past due ('DPD') methodology

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

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

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

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

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

The absolute threshold is exceeded when:

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

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

The relative threshold is exceeded when:

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

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

Staging methodology

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

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

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

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

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

In general following rules are applied:

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

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

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

Stage 2 criterion: Forborne performing exposures

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

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 and light blue EWS should be classified into Stage 2.

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

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

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

Stage 2 criterion: Defaulted exposures classified as performing

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

According to the methodology, the comparison should be performed between:
- $PD_{origination}$ – 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;
– at the date of acquisition all defaulted bonds are classified in Stage 3.

Staging criteria for Low Default Portfolio and Intragroup exposures

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

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

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

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

Expected loss calculation

Stage 1

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

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

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

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

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

where n is the number of months to maturity.

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

Stage 2

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

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

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

For exposures with remaining maturity greater than one year :

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

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

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

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

where:
- EAD_1, EAD_2, EAD_3 are exposure at default at the beginning of each residual year;
- PD_1 is probability that exposure enters in default during the first year of residual maturity;
- $PD_2 - PD_1$ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- $PD_3 - PD_2$ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- $LGD_{1,}$ $LGD_{2,}$ LGD_3 is percentage of loss in case of default of each residual year;
- EIR is Effective Interest Rate.

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

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

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

Stage 3

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

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

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

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

Incorporation of forward-looking information

The VUB Group incorporates forward-looking information by using the Base scenario from the internal satellite models or the Baseline stress test coefficient issued by EBA. Other scenarios are incorporated in the form of „add-on".

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

The VUB Group uses also the stress test coefficients issued by EBA. Since EBA issues the coefficients only for Adverse and Baseline scenario, the Best coefficient is calculated additionally based on these two scenarios. The scenarios are then used for the calculation of the add-on. Using the EBA coefficients is characteristic for LGD models. Moreover, a similar approach is used for the calculation of add-on for the exposures in stage 3.

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

The VUB Group identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The economic scenarios used the following ranges of the inputs for the quarters of years 2020 and 2021 by the satellite model development in 2018.

	GDP, (constant prices, % change)		Unemployment rate (Labour Force Sample Survey, %)		Consumer prices index (quarterly average, % change)		EURIBOR 3M (end of period)	
	Base scenario	Range	Base scenario	Range	Base scenario	Range	Base scenario	Range
1Q 2020	3.9	(8.2) – 9.0	6.5	5.8 – 11.7	2.3	(0.3) – 4.8	0.08	(1.1) – 0.75
2Q 2020	3.9	(5.1) – 8.9	6.5	5.7 – 11.8	2.3	(0.3) – 5.1	0.08	(1.1) – 1.00
3Q 2020	3.8	(4.3) – 8.3	6.5	5.5 – 11.9	2.3	(0.3) – 5.4	0.19	(1.1) – 1.25
4Q 2020	3.6	(2.3) – 7.0	6.5	5.5 – 11.9	2.3	(0.3) – 4.6	0.34	(1.1) – 1.50
1Q 2021	3.1	(1.2) – 6.0	6.2	5.5 – 12.4	2.0	(0.3) – 4.8	0.37	(1.1) – 1.75
2Q 2021	2.7	(0.7) – 5.6	6.2	5.4 – 12.5	2.0	(0.3) – 5.1	0.54	(1.1) – 2.00
3Q 2021	2.6	(0.4) – 5.3	6.5	5.2 – 12.5	2.0	(0.3) – 5.4	0.62	(1.1) – 2.25
4Q 2021	2.6	0.0 – 5.1	6.3	5.2 – 12.5	2.0	(0.3) – 4.6	0.74	(1.1) – 2.50

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

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

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

2018 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	100,678	(656)	100,022	–	–	–
Due from customers:						
Public Administration	122,805	(1,240)	121,565	–	–	–
Corporate	4,966,873	(28,459)	4,938,414	–	–	–
Retail	7,520,265	(18,603)	7,501,662	–	–	–
	12,609,943	(48,302)	12,561,641	–	–	–
	12,710,621	(48,958)	12,661,663	–	–	–
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–
Financial commitments and contingencies	3,712,198	(6,993)	3,705,205	–	–	–

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

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

2018 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	2,530	(98)	2,432	–	–	–
Due from customers:						
Public Administration	21,392	(1,361)	20,031	–	–	–
Corporate	309,822	(13,168)	296,654	–	–	–
Retail	625,689	(55,055)	570,634	–	–	–
	956,903	(69,584)	887,319	–	–	–
	959,433	(69,682)	889,751	–	–	–
Financial commitments and contingencies	206,588	(3,664)	202,924	–	–	–

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

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

2018 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Public Administration	1	–	1	–	–	–
Corporate	18,432	(6,685)	11,747	86,784	(63,141)	23,643
Retail	344,265	(213,199)	131,066	5,831	(4,001)	1,830
	362,698	(219,884)	142,814	92,615	(67,142)	25,473
	362,698	(219,884)	142,814	92,615	(67,142)	25,473
Financial commitments and contingencies	7,875	(1,305)	6,570	11,918	(2,418)	9,500

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

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

2018 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Financial assets at AC:						
Due from other banks	103,208	(754)	102,454	–	–	–
Due from customers:						
Public Administration	144,198	(2,601)	141,597	–	–	–
Corporate	5,295,127	(48,312)	5,246,815	86,784	(63,141)	23,643
Retail	8,490,219	(286,857)	8,203,362	5,831	(4,001)	1,830
	13,929,544	(337,770)	13,591,774	92,615	(67,142)	25,473
	14,032,752	(338,524)	13,694,228	92,615	(67,142)	25,473
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–
Financial commitments and contingencies	3,926,661	(11,962)	3,914,699	11,918	(2,418)	9,500

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:

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

2019 € '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	31 December
Total									
Financial assets at FVOCI	134	587	(381)	–	–	–	(116)	–	224
Financial assets at AC:	–	–	–	–	–	–	–	–	–
Due from other banks	754	1,655	(57)	–	–	–	(1,864)	–	488
Due from customers	404,912	33,333	29,449	–	–	–	(28,550)	(90,396)	348,748
	405,666	34,988	29,392				(30,414)	(90,396)	349,236
Financial commitments and contingencies	14,380	6,169	(5,207)	–	–	–	(5,972)	–	9,370

2018 € '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	31 December
Stage 1									
Financial assets at FVOCI	226	38	(79)	–	–	–	(51)	–	134
Financial assets at AC:									
Due from other banks	205	1,569	232	–	–	–	(1,350)	–	656
Due from customers	52,254	56,634	(62,574)	70,097	(31,488)	(8,271)	(28,350)	–	48,302
	52,459	58,203	(62,342)	70,097	(31,488)	(8,271)	(29,700)	–	48,958
Financial commitments and contingencies	7,275	10,587	(14,254)	8,097	(1,287)	(1,432)	(1,993)	–	6,993
Stage 2									
Financial assets at AC:									
Due from other banks	350	–	(252)	–	–	–	–	–	98
Due from customers	67,847	–	47,531	(55,060)	51,924	(31,689)	(10,969)	–	69,584
	68,197	–	47,279	(55,060)	51,924	(31,689)	(10,969)	–	69,682
Financial commitments and contingencies	8,296	–	2,149	(7,154)	1,488	(711)	(404)	–	3,664
Stage 3									
Financial assets at AC:									
Due from customers	299,080	–	50,993	(15,037)	(20,436)	39,960	(5,657)	(61,877)	287,026
Financial commitments and contingencies	2,712	–	1,107	(943)	(201)	2,143	(1,095)	–	3,723

2018 € '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	31 December
Total									
Financial assets at FVOCI	226	38	(79)	–	–	–	(51)	–	134
Financial assets at AC:									
Due from other banks	555	1,569	(20)	–	–	–	(1,350)	–	754
Due from customers	419,181	56,634	35,950	–	–	–	(44,976)	(61,877)	404,912
	419,736	58,203	35,930	–	–	–	(46,326)	(61,877)	405,666
Financial commitments and contingencies	18,283	10,587	(10,998)	–	–	–	(3,492)	–	14,380

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:

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

(Table continues on the next page)

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

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

2018 € '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	947,387	275,406	–	–	–	(237,286)	(244,393)	741,114
Financial assets at AC:								
Due from other banks	61,557	11,817,717	–	–	–	(11,778,596)	–	100,678
Due from customers	10,963,398	7,757,507	994,727	(1,439,757)	(28,637)	(5,637,295)	–	12,609,943
	11,024,955	19,575,224	994,727	(1,439,757)	(28,637)	(17,415,891)	–	12,710,621
Financial commitments and contingencies	3,102,039	4,699,351	342,016	(229,201)	(11,705)	(4,190,302)	–	3,712,198
Stage 2								
Financial assets at AC:								
Due from other banks	4,217	–	–	–	–	(1,687)	–	2,530
Due from customers	906,875	–	(968,301)	1,504,704	(133,643)	(352,732)	–	956,903
	911,092	–	(968,301)	1,504,704	(133,643)	(354,419)	–	959,433
Financial commitments and contingencies	440,323	–	(329,461)	230,282	(11,054)	(123,502)	–	206,588
Stage 3								
Financial assets at AC:								
Due from customers	505,785	–	(26,426)	(64,947)	162,280	(37,027)	(84,352)	455,313
Financial commitments and contingencies	20,617	–	(12,555)	(1,081)	22,759	(9,947)	–	19,793

(Table continues on the next page)

2018 € '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	947,387	275,406	–	–	–	(237,286)	(244,393)	741,114
Financial assets at AC:								
Due from other banks	65,774	11,817,717	–	–	–	(11,780,283)	–	103,208
Due from customers	12,376,058	7,757,507	–	–	–	(6,027,054)	(84,352)	14,022,159
	12,441,832	19,575,224	–	–	–	(17,807,337)	(84,352)	14,125,367
Financial commitments and contingencies	3,562,979	4,699,351	–	–	–	(4,323,751)	–	3,938,579

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 VUB Group 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 VUB Group;
- 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.

Implementation of new definition of Non-performing loan classification took place in November 2019 according to EBA/GL/2016/07 and ISP guidelines.

The main changes consist of:
- Calculation of new days past due (see methodology in section Days past due (DPD) methodology) with regulatory absolute and relative thresholds;
- Incorporating of cure period;
- Definition of default and Non-performing definition are in line.

As at 30 November 2019 the impact of new NPL definition represents a € 20.60 million increase at Non-performing level and a € 14.54 million increase at provisions level.

30 November 2019 € '000 000	Financial assets at AC New methodology	Financial assets at AC Original methodology	Financial commitments and contingencies New methodology	Financial commitments and contingencies Original methodology	Impact New methodology
Gross amount					
Non-performing (Stage 3):					
Doubtful	296.66	294.63	5.58	5.06	2.55
Unlikely to pay	120.00	118.77	20.85	20.81	1.27
Past due	25.06	8.41	0.36	0.23	16.78
	441.72	421.81	26.79	26.10	20.60
Performing:					
Stage 1	15,364.34	15,387.19	3,657.68	3,657.35	(22.52)
Stage 2	1,077.09	1,074.15	182.83	183.85	1.92
	16,441.43	16,461.34	3,840.51	3,841.20	(20.60)
	16,883.15	16,883.15	3,867.30	3,867.30	–
Impairment losses					
Non-performing (Stage 3):					
Doubtful	190.69	189.34	0.81	0.73	1.43
Unlikely to pay	51.16	50.90	2.62	2.41	0.47
Past due	10.52	3.69	0.08	0.05	6.86
	252.37	243.93	3.51	3.19	8.76
Performing:					
Stage 1	36.30	36.56	4.22	4.24	(0.28)
Stage 2	66.08	60.60	2.89	2.31	6.06
	102.38	97.16	7.11	6.55	5.78
	354.75	341.09	10.62	9.74	14.54

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

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

2018 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	103,208	(754)	102,454
Due from customers:				
Public Administration				
	Performing	144,197	(2,601)	141,596
	Doubtful	1	–	1
		144,198	(2,601)	141,597
Corporate				
	Performing	5,276,695	(41,627)	5,235,068
	Past due	9,202	(310)	8,892
	Unlikely to pay	40,903	(17,960)	22,943
	Doubtful	55,111	(51,556)	3,555
		5,381,911	(111,453)	5,270,458
Retail				
	Performing	8,145,954	(74,028)	8,071,926
	Past due	14,569	(8,385)	6,184
	Unlikely to pay	47,890	(27,129)	20,761
	Doubtful	287,637	(181,316)	106,321
		8,496,050	(290,858)	8,205,192
		14,022,159	(404,912)	13,617,247
		14,125,367	(405,666)	13,719,701
Financial assets at FVOCI – debt securities				
	Performing	741,248	(134)	741,114
Financial commitments and contingencies				
	Performing	3,918,787	(10,658)	3,908,129
	Past due	179	(39)	140
	Unlikely to pay	13,127	(2,790)	10,337
	Doubtful	6,486	(893)	5,593
		3,938,579	(14,380)	3,924,199

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

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

2018 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	102,114	(726)	101,388
1 – 30 days	1,094	(28)	1,066
	103,208	(754)	102,454
Due from customers:			
Public Administration			
No delinquency	144,030	(2,601)	141,429
1 – 30 days	167	–	167
Over 181 days	1	–	1
	144,198	(2,601)	141,597
Corporate			
No delinquency	5,275,812	(62,206)	5,213,606
1 – 30 days	43,316	(2,159)	41,157
31 – 60 days	9,083	(2,195)	6,888
61 – 90 days	2,634	(1,104)	1,530
91 – 180 days	5,352	(2,334)	3,018
Over 181 days	45,714	(41,455)	4,259
	5,381,911	(111,453)	5,270,458
Retail			
No delinquency	7,947,228	(59,017)	7,888,211
1 – 30 days	197,400	(25,945)	171,455
31 – 60 days	46,221	(10,203)	36,018
61 – 90 days	26,075	(7,615)	18,460
91 – 180 days	35,665	(18,044)	17,621
Over 181 days	243,461	(170,034)	73,427
	8,496,050	(290,858)	8,205,192
	14,022,159	(404,912)	13,617,247
	14,125,367	(405,666)	13,719,701
Financial assets at FVOCI – debt securities			
No delinquency	741,248	(134)	741,114
Financial commitments and contingencies			
No delinquency	3,938,579	(14,380)	3,924,199

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

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

(Table continues on the next page)

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

2018 € '000	Neither past due nor impaired Gross amount	Impair-ment losses	Net amount	Past due but not individually impaired Gross amount	Impair-ment losses	Net amount	Impaired (non-performing) Gross amount	Impair-ment losses	Net amount
Due from other banks	102,114	(726)	101,388	1,094	(28)	1,066	–	–	–
Due from customers:									
Public Administration									
Single Resolution Fund	2,870	–	2,870	–	–	–	–	–	–
Municipalities	140,613	(2,599)	138,014	167	–	167	1	–	1
Municipalities – Leasing	536	(2)	534	–	–	–	11	–	11
	144,019	(2,601)	141,418	167	–	167	12	–	12
Corporate									
Large Corporates	2,137,176	(3,294)	2,133,882	554	(1)	553	7,227	(2,189)	5,038
Large Corporates – debt securities	53,360	(619)	52,741	–	–	–	–	–	–
Specialized Lending	826,812	(30,414)	796,398	100	(2)	98	21,400	(16,214)	5,186
SME	1,419,951	(4,586)	1,415,365	23,157	(923)	22,234	44,585	(34,454)	10,131
Other Non-banking Financial Institutions	480,609	(264)	480,345	–	–	–	2	(1)	1
Public Sector Entities	2,895	(72)	2,823	3	–	3	7	(1)	6
Leasing	227,691	(1,174)	226,517	9,578	(203)	9,375	21,467	(15,823)	5,644
Factoring	82,531	(12)	82,519	12,277	(58)	12,219	10,529	(1,149)	9,380
	5,231,025	(40,435)	5,190,590	45,669	(1,187)	44,482	105,217	(69,831)	35,386

(Table continues on the next page)

2018 € '000	Neither past due nor impaired Gross amount	Impairment losses	Net amount	Past due but not individually impaired Gross amount	Impairment losses	Net amount	Impaired (non-performing) Gross amount	Impairment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	246,965	(3,816)	243,149	7,571	(429)	7,142	11,452	(9,133)	2,319
Small Business – Leasing	11,566	(34)	11,532	911	(37)	874	766	(329)	437
Consumer Loans	1,389,146	(30,415)	1,358,731	118,298	(21,173)	97,125	219,056	(149,654)	69,402
Mortgages	6,017,227	(5,834)	6,011,393	84,448	(4,173)	80,275	71,054	(24,074)	46,980
Credit Cards	136,531	(4,195)	132,336	9,823	(1,887)	7,936	37,173	(26,623)	10,550
Overdrafts	72,543	(882)	71,661	13,595	(871)	12,724	10,373	(6,833)	3,540
Leasing	3,901	(30)	3,871	144	(3)	141	222	(184)	38
Flat Owners Associations	33,253	(248)	33,005	34	(3)	31	–	–	–
	7,911,132	(45,454)	7,865,678	234,824	(28,576)	206,248	350,096	(216,830)	133,266
	13,286,176	(88,490)	13,197,686	280,660	(29,763)	250,897	455,325	(286,661)	168,664
	13,388,290	(89,216)	13,299,074	281,754	(29,791)	251,963	455,325	(286,661)	168,664
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–	–	–	–
Financial commitments and contingencies	3,918,787	(10,658)	3,908,129	–	–	–	19,792	(3,722)	16,070

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

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

2018 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from other banks			
1 – 30 days	1,094	(28)	1,066
Due from customers:			
Public Administration			
1 – 30 days	167	–	167
Corporate			
1 – 30 days	38,850	(707)	38,143
31 – 60 days	5,250	(355)	4,895
61 – 90 days	1,519	(120)	1,399
91 – 180 days	50	(5)	45
	45,669	(1,187)	44,482
Retail			
1 – 30 days	177,731	(17,334)	160,397
31 – 60 days	35,420	(6,152)	29,268
61 – 90 days	15,941	(3,563)	12,378
91 – 180 days	5,551	(1,510)	4,041
Over 181 days	181	(17)	164
	234,824	(28,576)	206,248
	280,660	(29,763)	250,897
	281,754	(29,791)	251,963

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.

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

(Table continues on the next page)

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

2018 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks	100,678	(656)	100,022	2,530	(98)	2,432	–	–	–
Due from customers:									
Public Administration									
Single Resolution Fund	2,870	–	2,870	–	–	–	–	–	–
Municipalities	119,388	(1,238)	118,150	21,392	(1,361)	20,031	1	–	1
Municipalities – Leasing	547	(2)	545	–	–	–	–	–	–
	122,805	(1,240)	121,565	21,392	(1,361)	20,031	1	–	1
Corporate									
Large Corporates	2,071,130	(3,177)	2,067,953	66,601	(118)	66,483	7,226	(2,189)	5,037
Large Corporates – debt securities	53,360	(619)	52,741	–	–	–	–	–	–
Specialized Lending	772,107	(20,429)	751,678	54,805	(9,987)	44,818	21,400	(16,214)	5,186
SME	1,278,383	(2,863)	1,275,520	164,725	(2,651)	162,074	44,585	(34,449)	10,136
Other Non-banking Financial Institutions	480,609	(264)	480,345	–	–	–	2	(1)	1
Public Sector Entities	2,897	(72)	2,825	1	–	1	7	(1)	6
Leasing	231,024	(1,002)	230,022	6,245	(375)	5,870	21,467	(15,823)	5,644
Factoring	77,363	(33)	77,330	17,445	(37)	17,408	10,529	(1,149)	9,380
	4,966,873	(28,459)	4,938,414	309,822	(13,168)	296,654	105,216	(69,826)	35,390

(Table continues on the next page)

2018 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	196,710	(1,101)	195,609	57,826	(3,144)	54,682	11,452	(9,133)	2,319
Small Business – Leasing	12,087	(35)	12,052	389	(35)	354	766	(329)	437
Consumer Loans	1,238,527	(14,266)	1,224,261	268,917	(36,952)	231,965	219,056	(150,024)	69,032
Mortgages	5,854,582	(980)	5,853,602	247,092	(9,026)	238,066	71,054	(24,074)	46,980
Credit Cards	124,927	(1,448)	123,479	21,427	(4,634)	16,793	37,173	(26,623)	10,550
Overdrafts	56,194	(514)	55,680	29,944	(1,239)	28,705	10,373	(6,833)	3,540
Leasing	3,985	(11)	3,974	60	(22)	38	222	(184)	38
Flat Owners Associations	33,253	(248)	33,005	34	(3)	31	–	–	–
	7,520,265	(18,603)	7,501,662	625,689	(55,055)	570,634	350,096	(217,200)	132,896
	12,609,943	(48,302)	12,561,641	956,903	(69,584)	887,319	455,313	(287,026)	168,287
	12,710,621	(48,958)	12,661,663	959,433	(69,682)	889,751	455,313	(287,026)	168,287
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–	–	–	–
Financial commitments and contingencies	3,712,198	(6,993)	3,705,205	206,588	(3,664)	202,924	19,793	(3,723)	16,070

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.

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

(Table continues on the next page)

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

2018 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	99,584	(628)	98,956	2,530	(98)	2,432	–	–	–
1 – 30 days	1,094	(28)	1,066	–	–	–	–	–	–
	100,678	(656)	100,022	2,530	(98)	2,432	–	–	–
Due from customers:									
Public Administration									
No delinquency	122,638	(1,240)	121,398	21,392	(1,361)	20,031	–	–	–
1 – 30 days	167	–	167	–	–	–	–	–	–
Over 181 days	–	–	–	–	–	–	1	–	1
	122,805	(1,240)	121,565	21,392	(1,361)	20,031	1	–	1
Corporate									
No delinquency	4,938,102	(28,153)	4,909,949	292,925	(12,288)	280,637	44,785	(21,765)	23,020
1 – 30 days	27,253	(276)	26,977	11,597	(430)	11,167	4,466	(1,453)	3,013
31 – 60 days	1,082	(24)	1,058	4,168	(331)	3,837	3,833	(1,840)	1,993
61 – 90 days	436	(6)	430	1,082	(114)	968	1,116	(984)	132
91 – 180 days	–	–	–	50	(5)	45	5,302	(2,329)	2,973
Over 181 days	–	–	–	–	–	–	45,714	(41,455)	4,259
	4,966,873	(28,459)	4,938,414	309,822	(13,168)	296,654	105,216	(69,826)	35,390

(Table continues on the next page)

2018 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	7,453,546	(16,541)	7,437,005	457,575	(28,543)	429,032	36,107	(13,933)	22,174
1 – 30 days	64,037	(1,824)	62,213	113,692	(15,508)	98,184	19,671	(8,613)	11,058
31 – 60 days	1,948	(182)	1,766	33,482	(5,970)	27,512	10,791	(4,051)	6,740
61 – 90 days	575	(55)	520	15,367	(3,508)	11,859	10,133	(4,052)	6,081
91 – 180 days	6	–	6	5,545	(1,510)	4,035	30,114	(16,534)	13,580
Over 181 days	153	(1)	152	28	(16)	12	243,280	(170,017)	73,263
	7,520,265	(18,603)	7,501,662	625,689	(55,055)	570,634	350,096	(217,200)	132,896
	12,609,943	(48,302)	12,561,641	956,903	(69,584)	887,319	455,313	(287,026)	168,287
	12,710,621	(48,958)	12,661,663	959,433	(69,682)	889,751	455,313	(287,026)	168,287
Financial assets at FVOCI – debt securities									
No delinquency	741,248	(134)	741,114	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	3,814,268	(7,021)	3,807,247	206,588	(3,664)	202,924	19,792	(3,722)	16,070

4.1.4. Loans with renegotiated terms and forbearance policy

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

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

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

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

	Performing forborne			Non-performing forborne		
2018 € '000	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	61,865	(7,668)	54,197	29,379	(23,902)	5,477
Retail	53,793	(2,659)	51,134	21,465	(13,000)	8,465
	115,658	(10,327)	105,331	50,844	(36,902)	13,942
Financial commitments and contingencies	948	(1)	947	1,480	(876)	604

4.1.5. Write-off Policy

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

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

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

4.1.6. Collateral Policy

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

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

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

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

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

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

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

€ '000	2019 Clients	2019 Banks	2018 Clients	2018 Banks
Property	7,959,284	–	7,111,465	–
of which covering mortgages:	7,002,416	–	6,299,708	–
LTV* lower than 60%	2,011,790	–	1,768,089	–
LTV higher than 60% and lower than 80%	3,244,878	–	2,582,685	–
LTV higher than 80% and lower than 100%	1,741,780	–	1,943,856	–
LTV higher than 100%	3,969	–	5,078	–
Debt securities	25,631	–	91,124	–
Other	1,008,977	85,186	805,875	70,987
	8,993,892	85,186	8,008,464	70,987

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

€ '000	2019 Clients	2019 Banks	2018 Clients	2018 Banks
Property	147,431	–	136,859	–
of which covering mortgages:	113,185	–	99,218	–
LTV* lower than 60%	49,450	–	39,519	–
LTV higher than 60% and lower than 80%	47,240	–	41,204	–
LTV higher than 80% and lower than 100%	14,421	–	16,537	–
LTV higher than 100%	2,075	–	1,958	–
Debt securities	–	–	1,873	–
Other	13,385	–	6,678	–
	160,816	–	145,410	–

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

4.1.7. Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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

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

	Note				Related amounts not offset in SOFP		
2018 € '000		**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	1,069,327	–	1,069,327	(1,069,327)	–	–
Derivative financial instruments	8, 9	57,929	–	57,929	–	(968)	56,961

					Related amounts not offset in SOFP		
2018 € '000		**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrument and non-cash collateral**	**Cash collateral pledged**	**Net amount**
Types of financial liabilities							
Derivative financial instruments	8, 9	51,774	–	51,774	–	(31,110)	20,664

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

€ '000	Note	2019 Total carrying amount presented in SOFP	In scope of off-setting disclosure	Not in scope of off-setting disclosure	2018 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	996,446	78,749	917,697	1,769,134	1,069,327	699,807
Financial assets at FVTPL:	8						
Financial assets held for trading		21,251	9,585	11,666	39,548	31,164	8,384
Derivatives – Hedge accounting	9	82,501	82,501	–	26,765	26,765	–
Financial liabilities							
Financial liabilities at FVTPL:	8						
Financial liabilities held for trading		24,750	21,139	3,611	39,548	36,548	3,000
Derivatives – Hedge accounting	9	59,833	59,833	–	15,226	15,226	–

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.

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

(Table continues on the next page)

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

2018 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public Administration	141,328	(2,601)	138,727
Corporate	3,480,290	(98,630)	3,381,660
Retail	8,424,121	(287,637)	8,136,484
	12,045,739	(388,868)	11,656,871
Financial assets at FVOCI – debt securities	516,936	(30)	516,906
Financial commitments and contingencies	3,143,160	(12,802)	3,130,358
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	735,931	(6,671)	729,260
Retail	29,659	(2,455)	27,204
	765,590	(9,126)	756,464
Financial commitments and contingencies	275,600	(854)	274,746
Other European countries			
Financial assets at AC:			
Due from other banks	35,708	(404)	35,304
Due from customers:			
	2,870	–	2,870
Corporate	1,102,135	(5,999)	1,096,136
Retail	36,971	(576)	36,395
	1,139,106	(6,575)	1,132,531
	1,174,814	(6,979)	1,167,835
Financial assets at FVOCI – debt securities	224,312	(104)	224,208
Financial commitments and contingencies	453,760	(625)	453,135

(Table continues on the next page)

2018 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	27,398	(106)	27,292
Retail	677	(2)	675
	28,075	(108)	27,967
Financial commitments and contingencies	1,695	–	1,695
Asia			
Financial assets at AC:			
Due from other banks	320	–	320
Due from customers:			
Corporate	35,876	(47)	35,829
Retail	3,436	(154)	3,282
	39,312	(201)	39,111
	39,632	(201)	39,431
Financial commitments and contingencies	43,945	(46)	43,899
Rest of the World			
Financial assets at AC:			
Due from other banks	67,180	(350)	66,830
Due from customers:			
Corporate	281	–	281
Retail	1,186	(34)	1,152
	1,467	(34)	1,433
	68,647	(384)	68,263
Financial commitments and contingencies	20,419	(53)	20,366

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

€ '000	Gross amount	Impairment losses	2019 Net amount	Gross amount	Impairment losses	2018 Net amount
Europe						
Slovakia	612,767	(52)	612,715	516,936	(30)	516,906
Italy	489,947	(117)	489,830	204,137	(96)	204,041
Spain	199,284	(17)	199,267	–	–	–
France	56,607	(5)	56,602	–	–	–
Poland	51,710	(11)	51,699	20,175	(8)	20,167
Great Britain	47,685	(4)	47,681	–	–	–
Austria	5,400	–	5,400	–	–	–
	1,463,400	(206)	1,463,194	741,248	(134)	741,114
North America						
Canada	99,361	(17)	99,344	–	–	–

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

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

2018 € '000	Financial assets at AC:				Financial assets at FVOCI – debt securities	Financial commit-ments and contin-gencies
	Banks	Public admini-stration	Corporate	Retail*		
Agriculture, forestry and fishing	–	–	177,803	27,312	–	51,408
Mining and quarrying	–	–	49,379	99	–	43,796
Manufacturing	–	–	744,818	30,820	–	775,217
Electricity, gas, steam and air conditioning supply	–	–	680,627	1,228	–	400,955
Water supply	–	62	95,686	2,996	–	23,506
Construction	–	–	204,997	29,031	–	445,655
Wholesale and retail trade	–	–	927,075	72,372	–	389,175
Transport and storage	–	3,188	372,089	19,050	–	156,579
Accommodation and food service activities	–	–	34,413	13,021	–	6,539
Information and communication	–	–	38,527	4,741	–	50,099
Financial and insurance activities**	102,454	–	750,232	289	59,305	253,668
Real estate activities	–	–	461,034	47,886	–	91,428
Professional, scientific and technical activities	–	–	178,408	20,203	–	120,500
Administrative and support service activities	–	–	215,030	4,331	–	44,650
Public Administration and defense, compulsory social security	–	138,324	337	160	681,809	15,737
Education	–	1	576	1,384	–	234
Human health services and social work activities	–	–	22,263	14,234	–	16,387
Arts, entertainment and recreation	–	–	18,240	2,715	–	5,107
Other services	–	22	298,924	119,999	–	35,910
Consumer Loans	–	–	–	1,654,673	–	390,789
Mortgage Loans	–	–	–	6,138,648	–	606,860
	102,454	141,597	5,270,458	8,205,192	741,114	3,924,199

* '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 applicable for corporate and retail exposures is shown below.

Large Corporates above € 500 million turnover	Large Corporates below € 500 million turnover and SME	Retail Small Business ('SB') and Flat Owners Associations ('FOA')	Risk Profile	Description
LC_I1 – LC_I4	I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
LC_I5 – LC_I6	I5 – I6	I5 – I6	Low	Satisfactory quality and chargeability of assets, market penetration and managerial quality on the average; well set solvency, capital structure and debt composition; above average debt coverage capacity.
LC_M1 – LC_M2	M1 – M2	M1 – M2	Lower – Intermediate	Acceptable quality and chargeability of available assets, even if with a not negligible degree of risk; well-balanced solvency, capital structure and debt composition with slight liquidity surplus and weaker debt coverage capacity.
LC_M3 – LC_M4	M3 – M4	M3 – M4	Intermediate	Acceptable quality and chargeability of available assets even if with a significant degree of risk; vulnerable margin at times, capital structure and debt composition that show worsening signals; low level of liquidity and short debt coverage margin.
LC_R1 – LC_R3	R1 – R3	R1 – R3	Upper – Intermediate	Still acceptable asset quality even if with possible liquidity stress; high level of gearing; managerial weakness, little market penetration and positioning; margins and competitiveness under pressure.
LC_R4 – LC_R5	R4 – R5	R4 – R5	High	In addition to riskiness features for R1 – R3 rating, there are evident difficulties as well as problematic debt management.
D	D	D	Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: – 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 the risk profiles.

Retail Mortgages	Unsecured Retail	Risk Profile	Description
L1a – L4	U01a – U02	Very Low	High level of client's socio-demographic information and financial discipline.
N1	U03	Low	Above average level of client's socio-demographic information and financial discipline.
N2 – W1	U04 – U07	Lower – Intermediate	Acceptable level of client's socio-demographic information and financial discipline.
W2	U08 – U09	Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there are some signals of worsening credit quality.
–	U10 – U11	Upper – Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there is worsening credit quality.
W3	U12	High	Acceptable level of client's socio-demographic information and financial discipline, but there is negative credit behaviour.
D	D	Default	A default is considered to have occurred with regard to a particular mortgage/obligor when either or both of the two following events have taken place: – The obligor is past due more than 90 days on any material credit obligation to the VUB Group (absolute threshold is set according to NBS directive); – The VUB Group considers that the obligor is unlikely to pay its credit obligations to the VUB Grouping group in full, without recourse by the VUB Group to actions such as realizing security (if held).

Capital requirement calculation

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

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

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

(Table continues on the next page)

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

(Table continues on the next page)

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

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Unrated	100,678	(656)	100,022
Due from customers:				
Public Administration				
	Unrated	122,805	(1,240)	121,565
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,130,688	(1,176)	1,129,512
	LC_M1 – LC_M4	411,388	(1,639)	409,749
	LC_R1 – LC_R5	10,029	(532)	9,497
	I1 – I6	624,070	(63)	624,007
	M1 – M4	885,504	(949)	884,555
	R1 – R5	169,321	(823)	168,498
	Unrated	171,873	(1,476)	170,397
Specialized Lending – SPV, RED				
	Strong	246,107	(1,509)	244,598
	Good	249,544	(3,388)	246,156
	Satisfactory	256,514	(13,202)	243,312
	Weak	16,701	(2,299)	14,402
	Unrated	3,242	(31)	3,211
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	227,863	(111)	227,752
	LC_M1 – LC_M4	13,554	(86)	13,468
	I1 – I6	238,645	(57)	238,588
	M1 – M4	547	(9)	538
	Unrated	2,897	(73)	2,824
Factoring, Leasing				
	Unrated	308,386	(1,036)	307,350
		4,966,873	(28,459)	4,938,414

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	36,162	(34)	36,128
	M1 – M4	146,832	(661)	146,171
	R1 – R5	31,158	(609)	30,549
	Unrated	15,810	(44)	15,766
Mortgages				
	L1 – L4	5,326,277	(372)	5,325,905
	N1	258,370	(111)	258,259
	N2 – W1	250,524	(307)	250,217
	W2	14,113	(102)	14,011
	W3	2,810	(84)	2,726
	Unrated	2,491	(5)	2,486
Unsecured Retail				
	U01a – U02	317,600	(380)	317,220
	U3	100,649	(247)	100,402
	U04 – U07	411,399	(2,373)	409,026
	U08 – U09	75,986	(1,456)	74,530
	U10 – U11	23,327	(1,248)	22,079
	U12	6,185	(1,127)	5,058
	Unrated	484,502	(9,400)	475,102
Small Business – Leasing, Leasing				
	Unrated	16,070	(43)	16,027
		7,520,265	(18,603)	7,501,662
		12,609,943	(48,302)	12,561,641
		12,710,621	(48,958)	12,661,663
Financial assets at FVOCI – debt securities				
	Unrated	741,248	(134)	741,114

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,054,046	(384)	1,053,662
	LC_M1 – LC_M4	96,444	(156)	96,288
	LC_R1 – LC_R5	21,308	(155)	21,153
	I1 – I6	607,555	(79)	607,476
	M1 – M4	489,537	(520)	489,017
	R1 – R5	52,777	(236)	52,541
	Strong	20,971	(102)	20,869
	Good	88,195	(880)	87,315
	Satisfactory	95,741	(3,415)	92,326
	Weak	469	(43)	426
	L1 – L4	495,541	(52)	495,489
	N1	40,535	(24)	40,511
	N2 – W1	60,397	(120)	60,277
	W2	6,965	(71)	6,894
	W3	200	(12)	188
	U01a – U02	239,286	(39)	239,247
	U3	22,012	(18)	21,994
	U04 – U07	30,685	(79)	30,606
	U08 – U09	1,571	(21)	1,550
	U10 – U11	274	(9)	265
	U12	266	(44)	222
	Unrated	287,423	(534)	286,889
		3,712,198	(6,993)	3,705,205

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

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

(Table continues on the next page)

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

(Table continues on the next page)

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

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks				
	Unrated	2,530	(98)	2,432
Due from customers:				
Public Administration				
	Unrated	21,392	(1,361)	20,031
Corporate				
Large Corporates, SME				
	LC_M1 – LC_M4	23,523	(93)	23,430
	I1 – I6	1,283	(1)	1,282
	M1 – M4	45,615	(67)	45,548
	R1 – R5	155,598	(1,754)	153,844
	Unrated	5,306	(854)	4,452
Specialized Lending – SPV, RED				
	Satisfactory	3,286	(376)	2,910
	Weak	51,519	(9,611)	41,908
Other Non-banking Financial Institutions, Public Sector Entities				
	Unrated	1	–	1
Factoring, Leasing				
	Unrated	23,691	(412)	23,279
		309,822	(13,168)	296,654

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	10	–	10
	M1 – M4	16,571	(397)	16,174
	R1 – R5	40,686	(2,618)	38,068
	Unrated	592	(131)	461
Mortgages				
	L1 – L4	17,699	(106)	17,593
	N1	5,714	(47)	5,667
	N2 – W1	104,171	(1,925)	102,246
	W2	56,954	(1,829)	55,125
	W3	58,647	(4,070)	54,577
	D (default)	3,905	(1,050)	2,855
Unsecured Retail				
	U01a – U02	887	(5)	882
	U3	529	(5)	524
	U04 – U07	69,177	(1,587)	67,590
	U08 – U09	62,161	(3,263)	58,898
	U10 – U11	59,203	(6,061)	53,142
	U12	59,270	(13,076)	46,194
	D (default)	4,297	(1,982)	2,315
	Unrated	64,764	(16,845)	47,919
Small Business – Leasing, Leasing				
	Unrated	452	(58)	394
		625,689	(55,055)	570,634
		956,903	(69,584)	887,319
		959,433	(69,682)	889,751

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies				
	LC_I1 – LC_I6	5,000	(3)	4,997
	LC_M1 – LC_M4	100,182	(150)	100,032
	LC_R1 – LC_R5	988	(44)	944
	I1 – I6	229	–	229
	M1 – M4	7,822	(39)	7,783
	R1 – R5	31,381	(405)	30,976
	Weak	954	(254)	700
	L1 – L4	100	(3)	97
	N2 – W1	2,017	(83)	1,934
	W2	1,109	(75)	1,034
	W3	220	(22)	198
	U01a – U02	75	–	75
	U3	21	–	21
	U04 – U07	8,628	(67)	8,561
	U08 – U09	2,495	(60)	2,435
	U10 – U11	1,182	(63)	1,119
	U12	935	(284)	651
	D (default)	3,624	(284)	3,340
	Unrated	39,626	(1,828)	37,798
		206,588	(3,664)	202,924

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

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

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Public Administration				
	Unrated	1	–	1
Corporate				
Large Corporates, SME				
	M1 – M4	7,562	(2,078)	5,484
	R1 – R5	6,884	(4,504)	2,380
	D (default)	32,252	(27,393)	4,859
	Unrated	5,114	(2,664)	2,450
Specialized Lending – SPV, RED				
	Weak	7,934	(3,339)	4,595
	D (default)	13,465	(12,875)	590
Other Non-banking Financial Institutions, Public Sector Entities				
	M1 – M4	2	(1)	1
	Unrated	7	(1)	6
Factoring, Leasing				
	Unrated	31,996	(16,971)	15,025
		105,216	(69,826)	35,390

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	M1 – M4	6	(5)	1
	R1 – R5	1,198	(952)	246
	D (default)	10,112	(8,126)	1,986
	Unrated	136	(49)	87
Mortgages				
	L1 – L4	1,837	(377)	1,460
	N1	1,056	(166)	890
	N2 – W1	1,702	(328)	1,374
	W2	1,802	(388)	1,414
	W3	28,222	(6,613)	21,609
	D (default)	36,434	(16,201)	20,233
	Unrated	1	–	1
Unsecured Retail				
	U01a – U02	19	(12)	7
	U3	34	(22)	12
	U04 – U07	281	(178)	103
	U08 – U09	398	(254)	144
	U10 – U11	764	(488)	276
	U12	6,326	(4,007)	2,319
	D (default)	154,007	(107,288)	46,719
	Unrated	104,773	(71,229)	33,544
Small Business – Leasing, Leasing				
	Unrated	988	(516)	472
		350,096	(217,200)	132,896
		455,313	(287,026)	168,287
		455,313	(287,026)	168,287

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 3				
Financial commitments and contingencies				
	M1 – M4	8,601	(390)	8,211
	R1 – R5	3,148	(1,996)	1,152
	L1 – L4	168	–	168
	W2	70	–	70
	U01a – U02	25	–	25
	U3	11	–	11
	U04 – U07	87	–	87
	U08 – U09	17	–	17
	U10 – U11	21	–	21
	U12	172	–	172
	D (default)	6,228	(883)	5,345
	Unrated	1,245	(454)	791
		19,793	(3,723)	16,070

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

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

(Table continues on the next page)

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

(Table continues on the next page)

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

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Unrated	103,208	(754)	102,454
Due from customers:				
Public Administration				
	Unrated	141,328	(2,601)	138,727
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,130,688	(1,176)	1,129,512
	LC_M1 – LC_M4	434,911	(1,732)	433,179
	LC_R1 – LC_R5	10,029	(532)	9,497
	I1 – I6	625,353	(64)	625,289
	M1 – M4	938,681	(3,094)	935,587
	R1 – R5	331,803	(7,081)	324,722
	D (default)	32,252	(27,393)	4,859
	Unrated	182,293	(4,994)	177,299
Specialized Lending – SPV, RED				
	Strong	246,107	(1,509)	244,598
	Good	249,544	(3,388)	246,156
	Satisfactory	259,800	(13,578)	246,222
	Weak	76,154	(15,249)	60,905
	D (default)	13,465	(12,875)	590
	Unrated	3,242	(31)	3,211
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	227,863	(111)	227,752
	LC_M1 – LC_M4	13,554	(86)	13,468
	I1 – I6	238,645	(57)	238,588
	M1 – M4	549	(10)	539
	Unrated	2,905	(74)	2,831
Factoring, Leasing				
	Unrated	364,073	(18,419)	345,654
		5,381,911	(111,453)	5,270,458

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	36,172	(34)	36,138
	M1 – M4	163,409	(1,063)	162,346
	R1 – R5	73,042	(4,180)	68,862
	D (default)	10,112	(8,126)	1,986
	Unrated	16,538	(224)	16,314
Mortgages				
	L1 – L4	5,345,813	(855)	5,344,958
	N1	265,140	(324)	264,816
	N2 – W1	356,397	(2,560)	353,837
	W2	72,869	(2,319)	70,550
	W3	89,679	(10,767)	78,912
	D (default)	40,339	(17,251)	23,088
	Unrated	2,492	(5)	2,487
Unsecured Retail				
	U01a – U02	318,506	(397)	318,109
	U3	101,212	(274)	100,938
	U04 – U07	480,857	(4,138)	476,719
	U08 – U09	138,545	(4,973)	133,572
	U10 – U11	83,294	(7,797)	75,497
	U12	71,781	(18,210)	53,571
	D (default)	158,304	(109,270)	49,034
	Unrated	654,039	(97,474)	556,565
Small Business – Leasing, Leasing				
	Unrated	17,510	(617)	16,893
		8,496,050	(290,858)	8,205,192
		14,019,289	(404,912)	13,614,377
		14,122,497	(405,666)	13,716,831
Financial assets at FVOCI – debt securities				
	Unrated	741,248	(134)	741,114

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,059,046	(387)	1,058,659
	LC_M1 – LC_M4	196,626	(306)	196,320
	LC_R1 – LC_R5	22,296	(199)	22,097
	I1 – I6	607,784	(79)	607,705
	M1 – M4	505,960	(949)	505,011
	R1 – R5	87,306	(2,637)	84,669
	Strong	20,971	(102)	20,869
	Good	88,195	(880)	87,315
	Satisfactory	95,741	(3,415)	92,326
	Weak	1,423	(297)	1,126
	L1 – L4	495,809	(55)	495,754
	N1	40,535	(24)	40,511
	N2 – W1	62,414	(203)	62,211
	W2	8,144	(146)	7,998
	W3	420	(34)	386
	U01a – U02	239,386	(39)	239,347
	U3	22,044	(18)	22,026
	U04 – U07	39,400	(146)	39,254
	U08 – U09	4,083	(81)	4,002
	U10 – U11	1,477	(72)	1,405
	U12	1,373	(328)	1,045
	D (default)	9,852	(1,167)	8,685
	Unrated	328,294	(2,816)	325,478
		3,938,579	(14,380)	3,924,199

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

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

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

2018 **€ '000**	**External rating**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at FVOCI – debt securities				
	Aa3	20,175	(8)	20,167
	A2	477,786	(18)	477,768
	Baa1	39,150	(12)	39,138
	Baa3	204,137	(96)	204,041
		741,248	(134)	741,114

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%:

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

2018 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	754	688	(66)	(8.75%)
Due from customers:				
Public Administration				
Municipalities	2,599	2,339	(260)	(10.00%)
Municipalities – Leasing	2	2	–	–
	2,601	2,341	(260)	(13.03%)
Corporate				
Large Corporates	5,484	5,158	(326)	(5.94%)
Large Corporates – debt securities	619	557	(62)	(10.02%)
Specialized Lending	46,630	43,588	(3,042)	(6.52%)
SME	39,963	39,644	(319)	(0.80%)
Other Non-banking Financial Institutions	265	235	(30)	(11.32%)
Public Sector Entities	73	66	(7)	(9.59%)
Leasing	17,200	16,994	(206)	(1.20%)
Factoring	1,219	1,217	(2)	(0.16%)
	111,453	107,459	(3,994)	(3.58%)
Retail				
Small Business	13,377	12,959	(418)	(3.13%)
Small Business – Leasing	400	395	(5)	(1.20%)
Consumer Loans	201,242	196,106	(5,136)	(2.55%)
Mortgages	34,081	33,186	(895)	(2.63%)
Credit Cards	32,705	32,222	(483)	(1.48%)
Overdrafts	8,586	8,411	(175)	(2.04%)
Leasing	217	214	(3)	(1.20%)
Flat Owners Associations	250	224	(26)	(10.40%)
	290,858	283,717	(7,141)	(2.46%)
	404,912	393,517	(11,395)	(2.81%)
	405,666	394,205	(11,461)	(2.83%)
Financial assets at FVOCI – debt securities	134	121	(13)	(9.70%)

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

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

2018 € '000	Base scenario	Increase PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	754	821	67	8.89%
Due from customers:				
Public Administration				
Municipalities	2,599	2,859	260	10.00%
Municipalities – Leasing	2	2	–	0.00%
	2,601	2,861	260	13.07%
Corporate				
Large Corporates	5,484	5,810	326	5.94%
Large Corporates – debt securities	619	681	62	10.02%
Specialized Lending	46,630	49,672	3,042	6.52%
SME	39,963	40,281	318	0.80%
Other Non-banking Financial Institutions	265	296	31	11.70%
Public Sector Entities	73	81	8	10.96%
Leasing	17,200	17,406	206	1.20%
Factoring	1,219	1,221	2	0.16%
	111,453	115,448	3,995	3.58%
Retail				
Small Business	13,377	13,795	418	3.13%
Small Business – Leasing	400	405	5	1.20%
Consumer Loans	201,242	206,377	5,135	2.55%
Mortgages	34,081	34,976	895	2.63%
Credit Cards	32,705	33,187	482	1.47%
Overdrafts	8,586	8,760	174	2.03%
Leasing	217	220	3	1.20%
Flat Owners Associations	250	275	25	10.00%
	290,858	297,995	7,137	2.45%
	404,912	416,304	11,392	2.81%
	405,666	417,125	11,459	2.82%
Financial assets at FVOCI – debt securities	134	147	13	9.70%

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

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

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

2019 € '000					**Stage 1**
Scenario	**Scenario description**		**Impairment losses**	**Provisions**	**Total**
Base	without stressing				
		ECL	940	327	1,267
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	943	328	1,271
		Absolute change	3	1	4
		Relative change	0.30%	0.26%	0.29%
UR stress 10%	UR increase by 15 bps				
		ECL	953	331	1,284
		Absolute change	13	4	17
		Relative change	1.38%	1.23%	1.34%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	956	332	1,288
		Absolute change	16	5	21
		Relative change	1.69%	1.50%	1.64%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	948	330	1,278
		Absolute change	8	3	11
		Relative change	0.86%	0.77%	0.84%
UR stress 30%	UR increase by 45 bps				
		ECL	980	339	1,319
		Absolute change	39	12	51
		Relative change	4.16%	3.69%	4.04%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	988	342	1,330
		Absolute change	47	15	62
		Relative change	5.04%	4.47%	4.90%

2019 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	8,752	298	9,050
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 bps				
		ECL	8,779	299	9,078
		Absolute change	27	0	27
		Relative change	0.31%	0.15%	0.30%
UR stress 10%	UR increase by 15 bps				
		ECL	8,802	299	9,101
		Absolute change	50	1	51
		Relative change	0.57%	0.29%	0.56%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	8,829	299	9,128
		Absolute change	77	1	78
		Relative change	0.88%	0.44%	0.86%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	8,832	299	9,131
		Absolute change	79	1	80
		Relative change	0.91%	0.45%	0.89%
UR stress 30%	UR increase by 45 bps				
		ECL	8,902	301	9,202
		Absolute change	149	3	152
		Relative change	1.71%	0.85%	1.68%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	8,980	302	9,282
		Absolute change	228	4	232
		Relative change	2.60%	1.30%	2.56%

2018 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 1 Total
Base	without stressing				
		ECL	976	279	1,255
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 30 bps				
		ECL	983	281	1,264
		Absolute change	7	2	9
		Relative change	0.69%	0.64%	0.68%
CPI stress 10%	CPI decrease by 1 bps				
		ECL	977	279	1,256
		Absolute change	1	–	1
		Relative change	0.09%	0.08%	0.08%
GDP and CPI stress 10%	GDP growth decrease by 30 bps and CPI decrease by 1 bps				
		ECL	984	281	1,265
		Absolute change	8	2	10
		Relative change	0.76%	0.71%	0.75%
GDP stress 30%	GDP growth decrease by 91 bps				
		ECL	996	285	1,281
		Absolute change	20	6	26
		Relative change	2.05%	1.91%	2.02%
CPI stress 30%	CPI decrease by 3 bps				
		ECL	979	280	1,259
		Absolute change	3	1	4
		Relative change	0.23%	0.22%	0.23%
GDP and CPI stress 30%	GDP growth decrease by 91 bps and CPI decrease by 3 bps				
		ECL	999	285	1,284
		Absolute change	23	6	29
		Relative change	2.28%	2.11%	2.24%

2018 € '000 Scenario	Scenario description		Impairment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	9,027	183	9,210
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 30 bps				
		ECL	9,056	183	9,239
		Absolute change	29	–	29
		Relative change	0.32%	0.33%	0.32%
CPI stress 10%	CPI decrease by 1 bps				
		ECL	9,030	183	9,213
		Absolute change	3	–	3
		Relative change	0.04%	0.04%	0.04%
GDP and CPI stress 10%	GDP growth decrease by 30 bps and CPI decrease by 1 bps				
		ECL	9,059	184	9,243
		Absolute change	32	1	33
		Relative change	0.36%	0.36%	0.36%
GDP stress 30%	GDP growth decrease by 91 bps				
		ECL	9,114	185	9,299
		Absolute change	87	2	89
		Relative change	0.97%	0.98%	0.97%
CPI stress 30%	CPI decrease by 3 bps				
		ECL	9,036	183	9,219
		Absolute change	9	–	9
		Relative change	0.11%	0.11%	0.11%
GDP and CPI stress 30%	GDP growth decrease by 91 bps and CPI decrease by 3 bps				
		ECL	9,124	185	9,309
		Absolute change	97	2	99
		Relative change	1.07%	1.08%	1.07%

4.1.12. Credit risk of financial derivatives

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

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

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

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

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

€ '000	2019	2018
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	40,070	87,565
Derivatives – Hedge accounting	137,860	65,113
	177,930	152,678

4.2. Market risk

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

4.2.1. Management of market risk

The VUB Group separates its exposures to market risk between trading ('trading book') and non-trading portfolios ('banking book'). Trading portfolios are held by the Trading sub-department and include positions arising from market-making and proprietary position taking. All foreign exchange risk within the VUB

Group is transferred each day to the Trading sub-department and forms part of the trading portfolio for risk management purposes. The non-trading portfolios are managed by the sub-department Asset Liability Management ('ALM'), and include all positions which are not intended for trading.

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. All other financial instruments are part of the banking book.

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

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

4.2.2. Exposure to market risk – trading portfolios

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

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

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

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

				2019				2018
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	31	49	133	5	44	43	124	12
Interest rate risk	98	570	1,956	71	343	1,492	3,942	343
Total VaR	101	573	1,966	80	332	1,495	3,926	332
Total sVaR	184	1,534	3,073	184	791	1,479	3,445	334

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

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

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

4.2.3. Exposure to interest rate risk

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

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

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

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

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

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

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

Each financial and non-financial instrument is mapped to a gap based on its contractual or behavioural re-pricing date:

Contractual category

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 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 most probable behaviour of these items. The assumptions are based on a detailed analysis of the VUB Group's historical time series data and statistical models.

At 31 December 2019, 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 € 32,545 thousand (31 December 2018: € 20,778 thousand).

At 31 December 2019, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (19,725) thousand (31 December 2018: € (23,039) thousand).

At 31 December 2019, 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 € (44,375) thousand (31 December 2018: € (36,246) thousand).

At 31 December 2019, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € 7,898 thousand (31 December 2018: € (240) thousand).

At 31 December 2019, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (1,274) thousand (31 December 2018: € (2,301) thousand).

At 31 December 2019, the sensitivity of the CF hedges reserve in equity to a 100 basis points rise in interest rates was € nil thousand (31 December 2018: € 391 thousand).

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

	2019	2018
Financial assets		
Cash and cash equivalents	1.32%	0.01%
Financial assets at FVTPL	1.10%	1.45%
Financial assets at FVOCI	0.47%	1.85%
Financial assets at AC:		
Due from other banks	2.42%	1.16%
Due from customers	2.49%	2.96%
Financial liabilities		
Financial liabilities at AC:		
Due to banks	0.34%	0.43%
Due to customers	0.19%	0.35%
Debt securities in issue	0.79%	1.17%

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:

2019 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	996,446	–	–	–	–	–	996,446
Financial assets at FVTPL (excluding Trading derivatives)	584	–	–	–	–	–	584
Financial assets at FVOCI	101,868	269,588	173,469	342,332	675,280	12,012	1,574,549
Financial assets at AC:							
Due from other banks	8,983	82,253	2,668	–	64,434	22,153	180,491
Due from customers	2,002,245	1,586,533	1,881,905	7,700,792	989,288	216,251	14,377,014
	3,110,126	1,938,374	2,058,042	8,043,124	1,729,002	250,416	17,129,084
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(51,249)	(34,961)	(171,234)	(242,420)	(50,047)	(2,056)	(551,967)
Due to customers	(5,932,177)	(1,411,613)	(2,223,146)	(2,119,514)	(264,567)	–	(11,951,017)
Subordinated debt	–	(200,143)	–	–	–	–	(200,143)
Debt securities in issue*	(21,165)	(31,794)	(216,630)	(1,556,317)	(1,294,789)	–	(3,120,695)
	(6,004,591)	(1,678,511)	(2,611,010)	(3,918,251)	(1,609,403)	(2,056)	(15,823,822)
Net position of financial instruments	(2,894,465)	259,863	(552,968)	4,124,873	119,599	248,360	1,305,262
Cumulative net position of financial instruments	(2,894,465)	(2,634,602)	(3,187,570)	937,303	1,056,902	1,305,262	–
Cash inflow from derivatives	2,399,133	2,369,212	1,971,202	1,764,051	1,677,643	–	10,181,241
Cash outflow from derivatives	(2,076,929)	(1,127,853)	(1,704,183)	(4,332,493)	(944,445)	–	(10,185,903)
Net position from derivatives	322,204	1,241,359	267,019	(2,568,442)	733,198	–	(4,662)
Total net position	(2,572,261)	1,501,222	(285,949)	1,556,431	852,797	248,360	1,300,600
Cumulative total net position	(2,572,261)	(1,071,039)	(1,356,988)	199,443	1,052,240	1,300,600	–

2018 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	1,769,134	–	–	–	–	–	1,769,134
Financial assets at FVTPL (excluding Trading derivatives)	440	–	–	–	–	–	440
Financial assets at FVOCI	117	39,138	578,559	103,373	28,787	–	749,974
Financial assets at AC:							
Due from other banks	236	66,211	4,897	–	–	31,110	102,454
Due from customers	2,038,895	1,735,677	1,470,639	7,174,877	995,414	201,745	13,617,247
	3,808,822	1,841,026	2,054,095	7,278,250	1,024,201	232,855	16,239,249
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(414,891)	(35,994)	(444,673)	(294,744)	–	(1,713)	(1,192,015)
Due to customers	(4,858,318)	(1,205,604)	(2,615,554)	(2,189,620)	(261,541)	–	(11,130,637)
Subordinated debt	–	(200,181)	–	–	–	–	(200,181)
Debt securities in issue*	(8,802)	(3,197)	(266,640)	(1,003,053)	(1,050,561)	–	(2,332,253)
	(5,282,011)	(1,444,976)	(3,326,867)	(3,487,417)	(1,312,102)	(1,713)	(14,855,086)
Net position of financial instruments	(1,473,189)	396,050	(1,272,772)	3,790,833	(287,901)	231,142	1,384,163
Cumulative net position of financial instruments	(1,473,189)	(1,077,139)	(2,349,911)	1,440,922	1,153,021	1,384,163	–
Cash inflow from derivatives	3,089,568	2,766,558	1,804,562	1,751,119	1,815,018	–	11,226,825
Cash outflow from derivatives	(3,848,480)	(1,637,784)	(722,597)	(4,126,768)	(891,236)	–	(11,226,865)
Net position from derivatives	(758,912)	1,128,774	1,081,965	(2,375,649)	923,782	–	(40)
Total net position	(2,232,101)	1,524,824	(190,807)	1,415,184	635,881	231,142	1,384,123
Cumulative total net position	(2,232,101)	(707,277)	(898,084)	517,100	1,152,981	1,384,123	–

* Fair value adjusts to the hedged covered bonds are reported in time bucket corresponding to the maturity of nominal of the covered bonds.

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 positions and the application of a matrix of exposure and position limits.

2019 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	849,199	1,436	140,244	5,567	996,446
Financial assets at FVTPL	21,575	1,259	1,200	4	24,038
Derivatives – Hedge accounting	79,985	–	2,516	–	82,501
Financial assets at FVOCI	1,563,409	11,140	–	–	1,574,549
Financial assets at AC:					
Due from other banks	162,992	13,721	–	3,778	180,491
Due from customers	13,691,567	223,105	374,008	88,334	14,377,014
Fair value changes of the hedged items in portfolio hedge of IRR	13,840	–	–	–	13,840
	16,382,567	250,661	517,968	97,683	17,248,879
Financial liabilities					
Financial liabilities at FVTPL	21,850	760	2,131	9	24,750
Derivatives – Hedge accounting	50,996	5,794	–	3,043	59,833
Financial liabilities at AC:					
Due to banks	534,737	11,470	5,760	–	551,967
Due to customers	11,380,115	187,822	308,349	74,731	11,951,017
Subordinated debt	200,143	–	–	–	200,143
Debt securities in issue	3,120,695	–	–	–	3,120,695
Fair value changes of the hedged items in portfolio hedge of IRR	4,580	–	–	–	4,580
	15,313,116	205,846	316,240	77,783	15,912,985
Net position	1,069,451	44,815	201,728	19,900	1,335,894

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

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

2018 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	658,403	1,287	1,104,881	4,563	1,769,134
Financial assets at FVTPL	37,155	1,673	1,142	18	39,988
Derivatives – Hedge accounting	23,960	55	2,676	74	26,765
Financial assets at FVOCI	749,974	–	–	–	749,974
Financial assets at AC:					
Due from other banks	84,308	15,086	–	3,060	102,454
Due from customers	13,007,972	218,559	309,120	81,596	13,617,247
Fair value changes of the hedged items in portfolio hedge of IRR	9,183	–	–	–	9,183
	14,570,955	236,660	1,417,819	89,311	16,314,745
Financial liabilities					
Financial liabilities at FVTPL	36,718	1,341	1,272	4	39,335
Derivatives – Hedge accounting	12,130	2,665	–	431	15,226
Financial liabilities measured at AC:					
Due to banks	1,170,534	13,412	–	8,069	1,192,015
Due to customers	10,748,479	176,360	127,476	78,322	11,130,637
Subordinated debt	200,181	–	–	–	200,181
Debt securities in issue	2,283,820	48,433	–	–	2,332,253
Fair value changes of the hedged items in portfolio hedge of IRR	1,499	–	–	–	1,499
	14,453,361	242,211	128,748	86,826	14,911,146
Net position	117,594	(5,551)	1,289,071	2,485	1,403,599

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

€ '000	EUR	USD	CZK	Other	Total
Receivables	1,448,171	78,067	32,021	103,953	1,662,212
Payables	(166,826)	(94,706)	(1,290,481)	(110,202)	(1,662,215)
Net position from derivatives	1,281,345	(16,639)	(1,258,460)	(6,249)	(3)

4.3. Liquidity risk

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

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

The basic principles underpinning the Liquidity Policy of the VUB Group are:
– The existence of an operating structure that works within set of limits and of a control structure that is independent from the operating structure;

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

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

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

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

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

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

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

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

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

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

2018 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	1,769,134	–	1,769,134
Financial assets at FVTPL	6,028	33,960	39,988
Derivatives – Hedge accounting	686	26,079	26,765
Financial assets at FVOCI	528,662	221,312	749,974
Financial assets at AC:			
Due from other banks	34,397	68,057	102,454
Due from customers	2,354,319	11,262,928	13,617,247
Fair value changes of the hedged items in portfolio hedge of IRR	–	9,183	9,183
Investments in subsidiaries, joint ventures and associates	–	8,758	8,758
Property and equipment	–	91,683	91,683
Intangible assets	–	92,863	92,863
Goodwill	–	29,305	29,305
Current income tax assets	1,181	–	1,181
Deferred income tax assets	1,573	69,158	70,731
Other assets	23,747	–	23,747
Non-current assets classified as held for sale	26,922	–	26,922
	4,746,649	11,913,286	16,659,935
Liabilities			
Financial liabilities at FVTPL	(6,665)	(32,670)	(39,335)
Derivatives – Hedge accounting	(1,208)	(14,018)	(15,226)
Financial liabilities measured at AC:			
Due to banks	(757,273)	(434,742)	(1,192,015)
Due to customers	(1,759,245)	(9,371,392)	(11,130,637)
Subordinated debt	(181)	(200,000)	(200,181)
Debt securities in issue	(262,291)	(2,069,962)	(2,332,253)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(1,499)	(1,499)
Current income tax liabilities	(10,724)	–	(10,724)
Provisions	–	(24,723)	(24,723)
Other liabilities	(96,640)	(2,749)	(99,389)
	(2,894,227)	(12,151,755)	(15,045,982)
Net position	1,852,422	(238,469)	1,613,953

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

2019 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	996,446	–	–	–	–	–	996,446
Financial assets at FVTPL (excluding Trading derivatives)	28	–	–	83	2,110	584	2,805
Financial assets at FVOCI	1,938	250,499	295,890	361,495	664,498	12,012	1,586,332
Financial assets at AC:							
Due from other banks	44,455	1,475	8,789	55,818	80,894	–	191,431
Due from customers	1,012,094	365,066	1,528,147	5,358,209	8,175,574	239,121	16,678,211
	2,054,961	617,040	1,832,826	5,775,605	8,923,076	251,717	19,455,225
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(64,431)	(4,732)	(127,888)	(307,206)	(76,922)	–	(581,179)
Due to customers	(9,464,134)	(838,523)	(1,479,042)	(174,803)	–	–	(11,956,502)
Subordinated debt	–	(1,440)	(4,364)	(23,416)	(215,894)	–	(245,114)
Debt securities in issue**	(3,602)	(13,553)	(249,575)	(1,657,456)	(1,335,905)	–	(3,260,091)
	(9,532,167)	(858,248)	(1,860,869)	(2,162,881)	(1,628,721)	–	(16,042,886)
Net position of financial instruments	(7,477,206)	(241,208)	(28,043)	3,612,724	7,294,355	251,717	3,412,339
Cash inflows from derivatives	250,632	100,688	95,759	99,980	159,783	–	706,842
Cash outflows from derivatives	(252,501)	(101,273)	(96,212)	(117,533)	(112,768)	–	(680,287)
Net position from derivatives	(1,869)	(585)	(453)	(17,553)	47,015	–	26,555
Net position from financial commitments and contingencies	(3,901,055)	–	–	–	–	–	(3,901,055)

2018 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	1,769,134	–	–	–	–	–	1,769,134
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	440	440
Financial assets at FVOCI	127	46	530,417	192,693	20,150	8,860	752,293
Financial assets at AC:							
Due from other banks	31,338	1,052	3,726	50,763	23,864	–	110,743
Due from customers	1,015,480	415,193	1,193,934	5,535,845	8,158,229	196,041	16,514,722
	2,816,079	416,291	1,728,077	5,779,301	8,202,243	205,341	19,147,332
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(41,387)	(312,825)	(435,268)	(386,471)	(44,428)	–	(1,220,379)
Due to customers	(8,588,987)	(597,275)	(1,637,741)	(233,995)	(78,320)	–	(11,136,318)
Subordinated debt	–	(1,027)	452	(1,385)	(207,488)	–	(209,448)
Debt securities in issue**	(3,595)	(3,255)	(285,861)	(1,031,670)	(1,215,320)	–	(2,539,701)
	(8,633,969)	(914,382)	(2,358,418)	(1,653,521)	(1,545,556)	–	(15,105,846)
Net position of financial instruments	(5,817,890)	(498,091)	(630,341)	4,125,780	6,656,687	205,341	4,041,486
Cash inflows from derivatives	1,400,348	113,652	78,210	35,538	130,651	–	1,758,399
Cash outflows from derivatives	(1,405,695)	(111,797)	(76,382)	(38,202)	(111,243)	–	(1,743,319)
Net position from derivatives	(5,347)	1,855	1,828	(2,664)	19,408	–	15,080
Net position from financial commitments and contingencies	(3,938,579)	–	–	–	–	–	(3,938,579)

* 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.

** Fair value adjusts to the hedged covered bonds are reported in time bucket corresponding to the maturity of nominal of the covered bonds.

4.4. Operational risk

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

4.4.1. Operational risk management strategies and processes

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

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

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

4.4.2. Organisational structure of the associated risk management function

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

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

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

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

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

4.4.4. Policies for hedging and mitigating risk

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

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

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

Replacement of EONIA

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

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

No impact on hedge accounting is expected.

Change of EURIBOR calculation

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

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

Replacement of LIBOR

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

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

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

5. Estimated fair value of financial assets and financial liabilities

See accounting policy in note 3.4.7.

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

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

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

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

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

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

(a) Cash, balances at central banks

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

(b) Due from other banks

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

(c) Due from customers

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

(d) Due to banks and Due to customers

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

(e) Subordinated debt

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

(f) Debt securities in issue

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

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

2018 € '000	Note	At amortised cost	At fair value	Carrying amount Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash, balances at central banks	7	1,769,134	–	1,769,134	–	1,769,134	–	1,769,134
Financial assets at FVTPL	8	–	39,988	39,988	440	39,548	–	39,988
Derivatives – Hedge accounting	9	–	26,765	26,765	–	26,765	–	26,765
Financial assets at FVOCI	10	–	749,974	749,974	225,760	524,214	–	749,974
Financial assets at AC:	11							
Due from other banks		102,454	–	102,454	–	102,454	–	102,454
Due from customers		13,617,247	–	13,617,247	–	–	14,087,382	14,087,382
		15,488,835	816,727	16,305,562	226,200	2,462,115	14,087,382	16,775,697
Financial liabilities								
Financial liabilities at FVTPL	8	–	39,335	39,335	–	39,335	–	39,335
Derivatives – Hedge accounting	9	–	15,226	15,226	–	15,226	–	15,226
Financial liabilities at AC:	11							
Due to banks		1,192,015	–	1,192,015	–	1,192,015	–	1,192,015
Due to customers		11,130,637	–	11,130,637	–	11,136,701	–	11,136,701
Subordinated debt		200,181	–	200,181	–	180,158	–	180,158
Debt securities in issue		2,332,253	–	2,332,253	–	2,314,698	–	2,314,698
		14,855,086	54,561	14,909,647	–	14,878,133	–	14,878,133

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

6. Segment reporting

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

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

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

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

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

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

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

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

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

2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	244,596	121,484	11,951	9,892	387,923
Interest and similar expense	(12,512)	(6,245)	(20,186)	(8,808)	(47,751)
Inter-segment revenue	(23,936)	(25,170)	49,400	(294)	–
Net interest income	208,148	90,069	41,165	790	340,172
Net fee and commission income (note 27)	101,442	28,524	1,087	(3,373)	127,680
Dividend income	–	–	–	–	–
Net trading result	4,675	5,581	(17,311)	(458)	(7,513)
Other operating income	356	5,065	7	3,163	8,591
Other operating expense	(11,726)	(3,100)	–	(5,009)	(19,835)
Special levy of selected financial institutions*	–	–	–	(29,695)	(29,695)
Salaries and employee benefits*	–	–	–	(125,349)	(125,349)
Other administrative expenses*	–	–	–	(78,302)	(78,302)
Amortisation	(4,752)	(500)	(7)	(7,395)	(12,654)
Depreciation	(3,018)	(2,436)	(3)	(8,829)	(14,286)
Profit before provisions, impairment and tax	295,125	123,203	24,938	(254,457)	188,809
Provisions*	–	(141)	–	5,068	4,927
Impairment losses	(34,534)	(4,855)	211	127	(39,051)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(5,438)	575	–	(20)	(4,883)
Profit before tax	255,153	118,782	25,149	(249,282)	149,802
Segment assets	8,820,626	5,684,316	2,571,592	563,962	17,640,496
Segment liabilities	7,325,048	4,429,522	4,184,034	88,895	16,027,499

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

2018 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	280,276	107,235	18,555	10,446	416,512
Interest and similar expense	(10,129)	(6,557)	(24,921)	(8,092)	(49,699)
Inter-segment revenue	(22,429)	(16,329)	33,447	5,311	–
Net interest income	247,718	84,349	27,081	7,665	366,813
Net fee and commission income	100,245	29,027	2,167	(3,501)	127,938
Net trading result	4,059	5,608	29,799	308	39,774
Other operating income	316	4,399	66	1,578	6,359
Other operating expense	(7,878)	(2,708)	–	(5,506)	(16,092)
Special levy of selected financial institutions*	–	–	–	(26,286)	(26,286)
Salaries and employee benefits*	–	–	–	(129,223)	(129,223)
Other administrative expenses*	–	–	–	(85,793)	(85,793)
Amortisation	(5,482)	(351)	(7)	(6,608)	(12,448)
Depreciation	(4,861)	(2,908)	(4)	(3,035)	(10,808)
Profit before provisions, impairment and tax	334,117	117,416	59,102	(250,401)	260,234
Provisions*	–	–	–	(340)	(340)
Impairment losses	(60,698)	4,745	55	(5,499)	(61,397)
Net gain/(loss) arising from the derecognition of financial assets at AC	5,003	(1,380)	–	(98)	3,525
Profit before tax	278,422	120,781	59,157	(256,338)	202,022
Segment assets	8,025,859	5,089,247	2,952,393	592,436	16,659,935
Segment liabilities	6,426,304	4,455,865	3,784,197	379,616	15,045,982

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

7. Cash and cash equivalents

'Cash and cash equivalents' comprise the following balances:

€ '000	2019	2018
Cash in hand	161,622	155,057
Balances at central banks:		
Compulsory minimum reserves	690,985	493,053
Current accounts	4	44
Term deposits	47,227	27,211
Loans and advances	78,749	1,069,327
	816,965	1,589,635
Due from other banks:		
Current accounts	17,859	24,442
	996,446	1,769,134

At 31 December 2019 the balance of 'Loans and advances' comprised of one reverse repo trade concluded with ČNB in the nominal amount of CZK 2,000 million (€ 78,709 thousand) (31 December 2018: four reverse repo trades, CZK 27,500 million (€ 1,068,999 thousand)). The repo trade was secured by 1,986 treasury bill of ČNB (31 December 2018: 27,329 treasury bills of ČNB).

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

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation. The compliance with the 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	2019	2018
Financial assets held for trading:		
Trading derivatives	21,251	39,548
Government debt securities of European Union countries	2,203	–
	23,454	39,548
Non-trading financial assets at fair value through profit or loss:		
Equities	584	440
Financial liabilities held for trading:		
Trading derivatives	24,750	39,335

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	2019 Assets	2018 Assets	2019 Liabilities	2018 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	17,919	33,346	19,318	32,585
Foreign currency instruments:				
Forwards and swaps	2,614	5,428	4,781	5,943
Options	93	163	95	215
	2,707	5,591	4,876	6,158
Equity and commodity instruments:				
Equity options	229	446	229	443
Commodity forwards and swaps	396	165	327	149
	625	611	556	592
	21,251	39,548	24,750	39,335

€ '000	2019 Assets	2018 Assets	2019 Liabilities	2018 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	1,764,501	3,927,603	1,764,501	3,927,603
Options	184,435	66,105	184,435	66,105
Futures	12,072	–	12,072	–
	1,961,008	3,993,708	1,961,008	3,993,708
Foreign currency instruments:				
Forwards and swaps	473,297	1,519,362	475,958	1,520,462
Options	17,872	24,171	17,872	24,256
	491,169	1,543,533	493,830	1,544,718
Equity and commodity instruments:				
Equity options	2,100	5,487	2,100	5,487
Commodity forwards and swaps	26,284	5,675	26,284	5,675
	28,384	11,162	28,384	11,162
	2,480,561	5,548,403	2,483,222	5,549,588

9. Derivatives – Hedge accounting

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

2018 € '000	Assets	Liabilities
Cash flow hedges of interest rate risk	–	10
Fair value hedges of interest rate risk	26,765	15,216
	26,765	15,226

9.1. Cash flow hedges of interest rate risk

The VUB Group used one interest rate swap to hedge the interest rate risk arising from the issuance of one variable rate covered bond denominated in EUR. The cash flows on the floating leg of these interest rate swap substantially matched the cash flows profile of the variable rate covered bond. The fix deal interest rate was (0.21%). The hedge ended in June 2019.

2019 € '000	Assets	Liabilities	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Change in fair value recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from hedge reserve to profit or loss
	Fair values	Fair values	Notional values	Notional values				
Micro hedges								
Interest rate instruments:								
Swaps	–	–	–	–	6	6	–	–

2018 € '000	Assets	Liabilities	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Change in fair value recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from hedge reserve to profit or loss
	Fair values	Fair values	Notional values	Notional values				
Micro hedges								
Interest rate instruments:								
Swaps	–	10	80,000	80,000	(94)	(94)	–	(689)

2018 € '000	Line item in SOFP	Carrying amount	Change in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve after termination of hedging relationship
Covered bonds	Financial liabilities at AC: Debt securities in issue	80,000	(24)	(6)	–

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

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

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

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

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

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

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

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

The VUB Group used three interest rate swaps to hedge the interest rate risk of three loans received from European Investment Bank ('EIB'). The changes in fair value of these interest rate swaps substantially offset the changes in fair value of these loans in relation to changes of interest rates.

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

In 2019, the VUB Group recognised a net gain of € 41,789 thousand (2018: net gain of € 714 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 41,920 thousand (2018: net loss of € 542 thousand). Both items are disclosed within 'Net trading result' on the line 'Net result from hedging transactions'.

2019 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge inef-fectiveness	Ineffec-tivness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	2,981	24,234	960,900	960,900	(5,836)	–
Hedge of corporate loans	2,524	2,906	401,123	401,123	4,159	18
Hedge of loans received from EIB	444	802	50,000	50,000	(817)	(105)
Hedge of covered bonds	67,486	5,300	2,568,200	2,568,200	53,077	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	–	8,837	92,460	94,474	(6,319)	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of corporate loans	–	–	–	–	(189)	5
Hedge of mortgage loans	3,526	16,894	2,740,000	2,740,000	(5,467)	(149)
Hedge of TLTROs	–	–	–	–	–	(18)
Hedge of current accounts	5,540	860	612,500	612,500	3,181	118

2018 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	247	1,503	156,371	156,371	1,486	–
Hedge of corporate loans	2,897	2,101	471,464	471,464	(1,559)	–
Hedge of covered bonds	20,720	533	1,944,036	1,944,036	12,044	4
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	74	2,839	135,430	134,285	(1,235)	9
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of corporate loans	–	181	63,000	63,000	(140)	7
Hedge of mortgage loans	944	8,059	1,892,000	1,892,000	(11,478)	84
Hedge of TLTROs	7	–	250,000	250,000	(1)	17
Hedge of current accounts	1,876	–	565,500	565,500	1,597	51

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

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

2018 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffectiveness	Accumulated amount of fair value adjustment after termination of hedging relationship
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	124,832	(836)	(1,486)	–
Corporate loans	Financial assets at AC: Due from customers	604,713	(1,036)	2,803	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1,370,550	24,521	12,040	5,798
Macro hedges					
Corporate loans	Financial assets at AC: Due from customers	63,146	146	147	–
Mortgage loans	Financial assets at AC: Due from customers	1,899,246	7,246	11,562	1,790
TLTROs	Financial liabilities at AC: Due to banks	247,842	(18)	(18)	–
Current accounts	Financial liabilities at AC: Due to customers	626,017	1,517	1,546	–

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

€ '000	Less than 1 year	1 – 5 years	2018 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	86,671	50,000	20,000
	1.15%	0.26%	0.32%
Hedge of corporate loans	13,606	366,812	154,046
	0.83%	0.07%	0.52%
Hedge of mortgage loans	159,000	1,733,000	–
	(0.26%)	(0.07%)	–
Hedge of TLTROs	250,000	–	–
	(0.35%)	–	–
Hedge of current account	512,000	–	112,500
	(0.35%)	–	0.64%
Hedge of covered bonds	670,736	321,000	952,300
	0.17%	0.66%	1.14%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	41,847	5,382	87,057
	0.00%	0.00%	2.63%

10. Financial assets at fair value through other comprehensive income

€ '000	2019	2018
Government debt securities of European Union countries	1,174,127	681,809
of which Italian government debt securities	*489,830*	*204,041*
Bank debt securities	357,806	59,305
Other debt securities	30,605	–
Equity instruments:		
VISA Inc. Seria C	11,139	7,676
Intesa Sanpaolo S.p.A.	797	1,112
S.W.I.F.T.	75	72
	12,011	8,860
	1,574,549	749,974

At 31 December 2019, bonds in the total nominal amount of € 725,500 thousand were pledged by the Bank to secure collateralized transactions (31 December 2018: € 599,935). These bonds were pledged in favor of the ECB within the pool of assets which can be immediately used as collateral for received funds needed for liquidity management purposes.

11. Financial assets and financial liabilities at amortised cost

11.1. Due from other banks

€ '000	Note	2019	2018
Loans and advances:			
with contractual maturity over 90 days		136,788	72,098
Cash collateral		44,191	31,110
Impairment losses	21	(488)	(754)
		180,491	102,454

11.2. Due from customers

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

2018 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public Administration			
Single resolution fund	2,870	–	2,870
Municipalities	140,781	(2,599)	138,182
Municipalities – Leasing	547	(2)	545
	144,198	(2,601)	141,597
Corporate			
Large Corporates	2,144,957	(5,484)	2,139,473
Large Corporates – debt securities	53,360	(619)	52,741
Specialized Lending	848,312	(46,630)	801,682
SME	1,487,693	(39,963)	1,447,730
Other Non-banking Financial Institutions	480,611	(265)	480,346
Public Sector Entities	2,905	(73)	2,832
Leasing	258,736	(17,200)	241,536
Factoring	105,337	(1,219)	104,118
	5,381,911	(111,453)	5,270,458
Retail			
Small Business	265,987	(13,377)	252,610
Small Business – Leasing	13,243	(400)	12,843
Consumer Loans	1,726,500	(201,242)	1,525,258
Mortgages	6,172,729	(34,081)	6,138,648
Credit Cards	183,527	(32,705)	150,822
Overdrafts	96,511	(8,586)	87,925
Leasing	4,267	(217)	4,050
Flat Owners Associations	33,286	(250)	33,036
	8,496,050	(290,858)	8,205,192
	14,022,159	(404,912)	13,617,247

At 31 December 2019, the 20 largest corporate customers represented a total balance of € 1,448,591 thousand (31 December 2018: € 1,523,949 thousand) or 10.08% (31 December 2018: 11.19%) of the 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	2019
Up to one year	100,582
one to two years	70,291
two to three years	53,302
three to four years	30,622
four to five years	15,660
Over five years	15,074
	285,531
Unearned future finance income on finance leases	(13,403)
Impairment losses	(13,229)
	258,899

11.3. Due to banks

€ '000	2019	2018
Due to central banks:		
Current accounts	920	658
Loans received from central banks	148,219	247,860
	149,139	248,518
Due to other banks:		
Current accounts	22,811	20,337
Term deposits	5,019	620,785
Loans received from other banks	353,471	301,765
Revaluation of fair value hedged loans received	(712)	–
Cash collateral received	22,239	610
	402,828	943,497
	551,967	1,192,015

At 31 December 2019, 'Loans received from central banks' contains two loans (31 December 2018: three loans) from National Bank of Slovakia in the nominal amount of € 100,000 thousand and € 50,000 thousand (31 December 2018: € 100,000 thousand, € 100,000 thousand and € 50,000 thousand). The interest rate for all loans is (0.4%) (31 December 2018: (0.4%)) and the maturity is in 2020 and 2021 (31 December 2018: 2020 and 2021). 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	2019	2018
Intesa Sanpaolo S. p. A.	170,204	13,345
European Investment Bank	170,175	152,790
European Bank for Reconstruction and Development	9,655	13,437
Council of Europe Development Bank	3,437	7,042
CIB Bank Zrt.	–	50,001
Intesa Sanpaolo Bank Ireland P. L. C.	–	35,026
Intesa Sanpaolo Bank Luxembourg S. A.	–	30,123
Other	–	1
	353,471	301,765

Intesa Sanpaolo S. p. A.

At 31 December 2019, there were four loan arrangements concluded with the Parent Company (31 December 2018: one loan arrangements) in the nominal amount of € 50,000 thousand, € 50,000 thousand, € 50,000 thousand and € 20,000 thousand (31 December 2018: € 13,000 thousand) maturing since 2020 to 2022 (31 December 2018: 2019) and with the fixed interest rate in the range of 0.16% and 0.42% (31 December 2017: 2.76%). The principal is payable at maturity of the loan and the interest is payable on an annual basis.

European Investment Bank

Loans from the European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2019, the balance comprised of thirteen loans in the nominal amount of € 47,368 thousand, € 9,087 thousand, € 5,817 thousand, € 4,375 thousand, € 1,904 thousand, € 1,541 thousand, € 1,495 thousand with variable interest rates and € 50,000 thousand, € 14,985 thousand, € 14,985 thousand, € 9,990 thousand, € 4,995 thousand and € 3,571 thousand with fixed interest rate. The interest rates were between 0.00% and 1.73% (31 December 2018: fourteen loans in the nominal amount of € 50,000 thousand, € 10,904 thousand, € 8,750 thousand, € 8,286 thousand, € 7,479 thousand, € 2,856 thousand, € 1,827 thousand with variable interest rates and € 14,985 thousand, € 14,985 thousand, € 9,900 thousand, € 7,691 thousand, € 5,000 thousand, € 4,995 thousand, € 4,995 thousand with fixed interest rate between 0.00% and 1.73%) and with maturity between 2020 and 2028 (31 December 2018: 2019 and 2028). The principal of the loans is payable on an annual or semi-annual basis and the interest is payable semi-annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

European Bank for Reconstruction and Development ('EBRD')

Loans received from the EBRD represented funds granted to support energy savings in large corporations. At 31 December 2019, there were five loan arrangements concluded in the nominal amount of € 2,500 thousand, € 2,143 thousand, € 2,143 thousand, € 2,143 thousand and € 714 thousand (31 December 2018: five loan arrangements in the nominal amount of € 3,571 thousand, € 3,571 thousand, € 3,571 thousand, € 2,143 thousand and € 558 thousand). The maturity of the loans is between 2020 and 2024 (31 December 2018: 2020 and 2023). At 31 December 2019 the variable interest rates are in the range between 0.20% and 0.35% (31 December 2018: 0.35% and 1.64%). The frequency of the repayment of both the interest and the principal is semi-annual.

Council of Europe Development Bank

At 31 December 2019, loans from the Council of Europe Development Bank comprised of three loans in the nominal amount of € 2,000 thousand, € 1,000 thousand and € 437 thousand (31 December 2018: four loans in the nominal amount of of € 2,667 thousand, € 2,000 thousand, € 1,500 thousand and € 874 thousand). The purpose of these loans is to fund SME projects and development of municipalities in the Slovak republic. The interest rates of these loans are linked to 3M Euribor and are between 0.00% and 0.39% at 31 December 2019 (31 December 2018: 0.15% and 0.30%)The maturity of the individual loans is between 2020 and 2022 (31 December 2018: 2019 and 2022). The interest is payable quarterly and the principal is payable on an annual basis.

CIB Bank Zrt.

In 2018 the VUB Group received from CIB Bank Zrt. two loans both in the nominal amount of € 25,000 thousand. The variable interest rates of both loans were 0.08% as at 31 December 2018. The principal is payable at maturity in 2019 and the interest are payable monthly.

Intesa Sanpaolo Bank Ireland P. L. C.

Loans received as at 31 December 2018 from the Intesa Sanpaolo Bank Ireland P. L. C. consisted of two loans in the nominal amount of € 25,000 thousand and € 10,000 thousand with the fixed interest rates 0.15% and 0.19%, both maturing in 2019. The principal is payable at maturity and the interest are payable annually.

Intesa Sanpaolo Bank Luxembourg S. A.

As at 31 December 2018 the loans from the Intesa Sanpaolo Bank Luxembourg S. A. consisted of two loans in the nominal amount of € 20,000 thousand and € 10,000 thousand. The fixed interest rates are 1.52% and 2.10%, respectively, the interest is payable quarterly and the principal is payable at the maturity of the loan contracts in 2019.

11.4. Due to customers

€ '000	2019	2018
Current accounts	8,016,211	7,395,934
Term deposits	2,633,491	2,475,038
Government and municipal deposits	904,185	850,893
Savings accounts	245,816	246,494
Lease liabilities	20,068	–
Loans received	26,188	76,201
Other deposits	105,058	86,077
	11,951,017	11,130,637

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

		Cash flow			Non-cash changes			
2019 € '000	1 January*	Proceeds	Repay-ments	Accruals	Revalua-tion	Ex-change differ-rence	Other	31 Decem-ber
Lease liabilities	14,584	11,965	(6,116)	(365)	–	–	–	20,068

* First time adoption of IFRS 16.

The following table sets out a maturity analysis of lease liabilities, showing the undiscounted lease payments to be payable after the reporting date.

€ '000	2019
Up to one month	590
one to three months	1,167
three months to one year	4,394
one to five years	15,053
Over five years	96
	21,300

11.5. Subordinated debt

€ '000	2019	2018
Subordinated debt	200,143	200,181

At 31 December 2019, the balance of subordinated debt comprised of one ten-year loan drawn on 22 December 2016, in the nominal amount of € 200,000 thousand (31 December 2018: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. The variable interest rate was 2.89% as at 31 December 2019 (31 December 2018: 2.96%). 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.

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The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2019 € '000	1 January	Cash flow	Accruals	Non-cash changes Re-valuation	Exchange difference	Other	31 December
Subordinated debt	200,181	–	(38)	–	–	–	200,143

2018 € '000	1 January	Cash flow	Accruals	Non-cash changes Re-valuation	Exchange difference	Other	31 December
Subordinated debt	200,164	–	17	–	–	–	200,181

11.6. Debt securities in issue

€ '000	2019	2018
Covered bonds	1,710,540	838,698
Covered bonds subject to cash flow hedges	–	80,378
Covered bonds subject to fair value hedges	1,334,575	1,388,658
	3,045,115	2,307,734
Revaluation of fair value hedged covered bonds	57,211	18,722
Unamortized part of revaluation related to terminated fair value hedges	18,369	5,797
	3,120,695	2,332,253

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

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2019 € '000	1 January	Cash flow Proceeds from issue	Repay-ments	Accruals	Non-cash changes Re-valuation	Exchange differ-rence	Other	31 De-cember
Covered bonds	2,332,253	1,000,000	(258,035)	(4,582)	51,059	–	–	3,120,695

2018 € '000	1 January	Cash flow Proceeds from issue	Repay-ments	Accruals	Non-cash changes Re-valuation	Exchange differ-rence	Other	31 De-cember
Covered bonds	2,252,380	300,000	(235,545)	2,618	10,259	2,541	–	2,332,253

Name	Interest rate (%)	Currency	Number in circulation as at 31 December 2019	Nominal value in original currency per piece	Issue date	Maturity date	2019 € '000	2018 € '000
Mortgage bonds VÚB, a. s. XX.	4.300	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a. s. XXX.	5.000	EUR	1,000	33,194	5.9.2007	5.9.2032	33,494	33,476
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,752	19,738
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	560	33,194	31.3.2008	31.3.2020	19,239	19,189
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,262	16,165
Mortgage bonds VÚB, a. s. 58.	–	EUR	–	1,000,000	10.12.2010	10.12.2019	–	80,073
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,496	25,479
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	50,881	50,838
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	72,061	72,014
Mortgage bonds VÚB, a. s. 75.	–	EUR	–	100,000	5.4.2013	5.4.2019	–	30,447
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	905	10,000	3.3.2014	3.3.2020	9,213	9,220
Mortgage bonds VÚB, a. s. 79.	2.000	EUR	10,000	1,000	24.3.2014	24.9.2020	10,154	10,154
Mortgage bonds VÚB, a. s. 80.	1.850	EUR	31	1,000,000	27.3.2014	27.3.2021	31,539	31,622
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	39,294	39,425
Mortgage bonds VÚB, a. s. 82.	1.650	EUR	1,701	1,000	16.6.2014	16.12.2020	1,716	1,716
Mortgage bonds VÚB, a. s. 83.	–	EUR	–	100,000	28.7.2014	28.7.2019	–	50,151
Mortgage bonds VÚB, a. s. 84.	–	EUR	–	100,000	29.9.2014	30.9.2019	–	50,040
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,676	49,628
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	1,000	100,000	27.4.2015	27.4.2020	100,083	99,610
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	98,655	98,281
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	965	100,000	11.9.2015	11.9.2020	96,673	96,704
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,584	99,456
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,368	98,192
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	100,160	100,066
Mortgage bonds VÚB, a. s. 92.	–	USD*	–	100,000	27.6.2016	27.6.2019	–	48,433
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	249,142	248,641
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	248,662	248,253
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	249,178	248,789

(Table continues on the next page)

Name	Interest rate (%)	Currency	Number in circulation as at 31 December 2019	Nominal value in original currency per piece	Issue date	Maturity date	2019 € '000	2018 € '000
Covered bonds VÚB, a. s. 1	0.500	EUR	2,500	100,000	26.6.2018	26.6.2023	249,836	249,605
Covered bonds VÚB, a. s. 2	1.500	EUR	500	100,000	5.10.2018	15.12.2027	49,945	50,082
Covered bonds VÚB, a. s. 3	0.250	EUR	5,000	100,000	26.3.2019	26.3.2024	497,215	–
Covered bonds VÚB, a. s. 4	0.500	EUR	5,000	100,000	26.6.2019	26.6.2029	496,590	–
							3,045,115	2,307,734

* The VUB Group issued the mortgage bonds in USD due to lower funding costs in USD, funding needs in USD and interests from investor side regarding securities denominated in USD.

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

€ '000	2019	2018
Financial assets at AC:		
Due from customers:		
Corporate	–	147
Retail		
Mortgages	13,840	9,036
	13,840	9,183
Financial liabilities at AC:		
Due to banks	–	(18)
Due to customers	4,580	1,517
	4,580	1,499

13. Investments in joint ventures and associates

2019 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50.00%	16,597	(5,045)	11,552
SBCB	33.33%	3	80	83
		16,600	(4,965)	11,635

2018 € '000	Share	Cost	Revaluation	Carrying amount
VÚB Generali	50.00%	16,597	(7,920)	8,677
SBCB	33.33%	3	78	81
		16,600	(7,842)	8,758

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

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

VÚB Generali and SBCB are incorporated in the Slovak Republic.

The following is summarised selected financial information of the VUB Group's associates and joint ventures together with the reconciliation to the carrying amount of the VUB Group's interest in these companies:

		2019		2018
€ '000	**VÚB Generali**	**SBCB**	**VÚB Generali**	**SBCB**
Net profit for the year*	8,726	17	4,233	44
Other comprehensive income	1,019	–	(690)	–
Total comprehensive income for the year	9,745	17	3 543	44
Assets**	25,321	269	18,216	241
Liabilities	(2,217)	(21)	(856)	(6)
Equity	23,104	248	17,360	235
VUB Group's interest on equity at 1 January	8,680	77	8,905	67
Share of profit	4,363	6	2,117	14
Share of other comprehensive income	509	–	(345)	–
Dividends received during the year	(2,000)	–	(2,000)	–
VUB Group's interest on equity at 31 December	11,552	83	8,677	81
Carrying amount at 31 December	11,552	83	8,677	81
** includes: Interest income*	401	–	372	–
Depreciation and amortization	(160)	–	(92)	(2)
Income tax expense	(2,328)	–	(1,133)	–
*** includes: Cash and cash equivalents*	7	3	12	7

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

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

2019 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 31 December 2018	103,400	56,940	50,704	5,388	216,432
Impact of adopting IFRS 16	14,570	–	–	–	14,570
At 1 January	117,970	56,940	50,704	5,388	231,002
Additions	11,314	2	–	11,817	23,133
Revaluation	2	–	–	–	2
Disposals	(24,940)	(3,165)	(8,457)	–	(36,562)
Transfers	2,288	2,229	5,662	(10,179)	–
Exchange differences	6	–	1	–	7
At 31 December	106,640	56,006	47,910	7,026	217,582
Accumulated depreciation					
At 1 January	(4,355)	(51,924)	(34,331)	–	(90,610)
Depreciation for the year	(8,731)	(2,202)	(3,353)	–	(14,286)
Revaluation	11	–	–	–	11
Disposals	1,290	3,159	6,305	–	10,754
Exchange differences	(2)	(1)	–	–	(3)
At 31 December	(11,787)	(50,968)	(31,379)	–	(94,134)
Impairment losses (note 21)					
At 1 January	(7,090)	–	(127)	–	(7,217)
Creation	–	–	(226)	–	(226)
Release	4,762	–	28	–	4,790
At 31 December	(2,328)	–	(325)	–	(2,653)
Carrying amount					
At 31 December 2018	91,955	5,016	16,246	5,388	118,605
Impact of adopting IFRS 16	14,570	–	–	–	14,570
At 1 January	106,525	5,016	16,246	5,388	133,175
At 31 December	92,525	5,038	16,206	7,026	120,795

2018 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	103,635	62,138	49,609	4,042	219,424
Additions	9	4	4	11,386	11,403
Disposals	(489)	(7,801)	(6,104)	–	(14,394)
Transfers	246	2,599	7,195	(10,040)	–
Exchange differences	(1)	–	–	–	(1)
At 31 December	103,400	56,940	50,704	5,388	216,432
Accumulated depreciation					
At 1 January	–	(57,328)	(35,157)	–	(92,485)
Depreciation for the year	(4,764)	(2,641)	(3,403)	–	(10,808)
Disposals	409	7,780	4,494	–	12,683
Transfers	–	265	(265)	–	–
At 31 December	(4,355)	(51,924)	(34,331)	–	(90,610)
Impairment losses (note 21)					
At 1 January	–	–	(91)	–	(91)
Creation	(7,090)	–	(36)	–	(7,126)
At 31 December	(7,090)	–	(127)	–	(7,217)
Carrying amount					
At 1 January	103,635	4,810	14,361	4,042	126,848
At 31 December	91,955	5,016	16,246	5,388	118,605

Of which owned and leased property and equipment:

2019 € '000	Equipment	Other tangibles	Assets in progress	Total
Cost				
At 1 January	–	21,717	106	21,823
Additions	–	–	5,664	5,664
Disposals	–	(5,001)	–	(5,001)
Transfers	284	4,615	(4,899)	–
At 31 December	284	21,331	871	22,486
Accumulated depreciation				
At 1 January	–	(6,503)	–	(6,503)
Depreciation for the year	(19)	(2,915)	–	(2,934)
Disposals	–	3,000	–	3,000
At 31 December	(19)	(6,418)	–	(6,437)
Impairment losses				
At 1 January	–	(127)	–	(127)
Creation	–	(226)	–	(226)
Release	–	28	–	28
At 31 December	–	(325)	–	(325)
Carrying amount				
At 1 January	–	15,087	106	15,193
At 31 December	265	14,588	871	15,724

Of which right-of-use assets:

2019 € '000	Buildings and land
Cost	
At 1 January	14,570
Additions	11,314
Disposals	(129)
Exchange differences	5
At 31 December	25,760
Accumulated depreciation	
At 1 January	–
Depreciation for the period	(5,689)
Disposals	31
Exchange differences	(1)
At 31 December	(5,659)
Carrying amount	
At 1 January	14,570
At 31 December	20,101

In order to optimize costs, the VUB Group decided to sell part of its own buildings, which it did not use or used only part of its premises primarily as its branches. During November and December 2019, these buildings were sold, and approximately 35% of the premises were subsequently rented back by the VUB Group to continue to use them. The VUB Group thus entered into sale and leaseback transactions. The buildings sold were excluded from property and equipment and the premises that the VUB Group began to lease back were falling back to property and equipment as rights of use. At the same time, lease liabilities of the same amount as the rights of use were recognized. The gains from these transactions were € 0 thousand, as the selling price corresponded to their fair value, in which these buildings were also recognized in the accounting under the revaluation model. The contracts were concluded under current market conditions. The lease term was agreed in the contracts for an average of four years.

In 2019 the VUB Group reviewed the carrying amount of its property and equipment. An impairment test was carried out to determine the recoverable amount of these assets which was based on the fair value less costs to sell. As a result of the impairment test the VUB Group recognized an impairment loss in total amount of € 2,653 thousand (31 December 2018: € 7,090 thousand).

For 'Buildings and land' the VUB Group uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The VUB Group uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs.

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2019	2018
Cost	105,661	174,242
Accumulated depreciation	(52,622)	(98,506)
Impairment losses	(2,328)	(10,438)
	50,711	65,298

The VUB Group held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2019	2018
Cost	1,585	35,141
Accumulated depreciation	(28)	(1,129)
Impairment losses	(912)	(7,090)
	645	26,922

At 31 December 2019, the gross book value of fully depreciated tangible assets that are still used by the VUB Group amounted to € 81,923 thousand (31 December 2018: € 84,232 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

At 31 December 2019, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2018: € nil thousand).

The VUB Group's insurance covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism and other damages).

15. Intangible assets

2019 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	251,907	10,833	36,357	299,097
Additions	63	95	32,212	32,370
Disposals	(18)	–	–	(18)
Transfers	24,831	–	(24,831)	–
Exchange differences	7	3	–	10
At 31 December	276,790	10,931	43,738	331,459
Accumulated amortisation				
At 1 January	(196,308)	(9,926)	–	(206,234)
Amortization for the period	(12,249)	(405)	–	(12,654)
Disposals	18	–	–	18
Exchange differences	(5)	(1)	–	(6)
At 31 December	(208,544)	(10,332)	–	(218,876)
Carrying amount				
At 1 January	55,599	907	36,357	92,863
At 31 December	68,246	599	43,738	112,583

2018 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	239,425	19,483	24,238	283,146
Additions	–	–	25,212	25,212
Disposals	(137)	(8,983)	(137)	(9,257)
Transfers	12,622	334	(12,956)	–
Exchange differences	(3)	(1)	–	(4)
At 31 December	251,907	10,833	36,357	299,097
Accumulated amortisation				
At 1 January	(184,525)	(18,521)	–	(203,046)
Amortization for the year	(12,059)	(389)	–	(12,448)
Disposals	274	8,983	–	9,257
Exchange differences	2	1	–	3
At 31 December	(196,308)	(9,926)	–	(206,234)
Carrying amount				
At 1 January	54,900	962	24,238	80,100
At 31 December	55,599	907	36,357	92,863

Assets in progress include mainly the costs for the technical upgrade of software and for the development of new software applications that have not yet been put in use.

At 31 December 2019, the gross book value of fully amortised intangible assets that are still used by the VUB Group amounted to € 147,486 thousand (31 December 2018: € 141,180 thousand).

At 31 December 2019, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € 1,442 thousand (31 December 2018: € nil thousand).

16. Goodwill

€ ’000	2019	2018
VÚB Leasing, a. s.	10,434	10,434
Consumer Finance Holding, a. s.	18,871	18,871
	29,305	29,305

Goodwill related to VÚB Leasing includes both goodwill related to the majority (70%) shareholding in the amount of € 7,304 thousand (Sk 219 million) from 2007 and goodwill arising from the purchase of the remaining 30% shareholding in the amount of € 3,130 thousand (Sk 96 million from 2010).

Goodwill related to Consumer Finance Holding, a. s. was merged in 2018 into VUB. It was originally recognized in 2005 on the acquisition of this company operating in the field of consumer loans.

Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses on goodwill were recognized during 2019.

The VUB Group uses CAPM for impairment testing, using cash flow projections based on the most recent financial budgets approved by senior management covering a budgeted five-year period. The discount rates applied to cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on ISP Group level specifically for the Slovak market.

The following rates are used by the VUB Group:

€ ’000	2019	2018
Discount rate – cash flows	6.06%	6.39%
Discount rate – terminal value	7.20%	7.81%
Projected growth rate	4.42%	4.48%

The calculation considers the following key assumptions:
- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

17. Current and deferred income tax assets and liabilities

€ '000	2019	2018
Current income tax assets	28,342	1,181
Deferred income tax assets	66,118	70,731
Current income tax assets liabilities	–	10,724

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2018: 21%) as follows:

€ '000	2019	Profit/(loss) (note 35)	Equity	Impact of adopting IFRS 16 profit/(loss)	2018
Derivative financial instruments designated as cash flow hedges	–	–	(2)	–	2
Financial assets at FVOCI	(1,769)	–	(317)	–	(1,452)
Financial assets at AC:	–	–	–	–	–
Due from other banks	95	(64)	–	–	159
Due from customers	58,880	(20,056)	741	–	78,195
Property and equipment	(8,589)	(2,137)	2,098	(3,063)	(5,487)
Other assets	7	–	–	–	7
Financial liabilities at AC:					
Due to customers	4,264	1,201	–	3,063	–
Provisions	1,856	1,240	–	–	616
Other liabilities	9,049	(736)	–	–	9,785
Other	2,325	12,987	432	–	(11,094)
	66,118	(7,565)	2,952	–	70,731

18. Other assets

€ '000	Note	2019	2018
Operating receivables and advances		15,279	17,836
Prepayments and accrued income		8,959	5,664
Inventories		1,303	1,393
Other tax receivables		731	1,504
Settlement of operations with financial instruments		25	9
Receivables from termination of leasing		27	42
Other		893	637
Impairment losses	21	(4,378)	(3,338)
		22,839	23,747

19. Provisions

€ '000	Note	2019	2018
Financial guarantees and commitments	21	9,370	14,380
Litigation	22, 24	3,920	9,408
Restructuring provision	22	334	924
Other provisions	22	1	11
		13,625	24,723

20. Other liabilities

€ '000	2019	2018
Various creditors	53,321	51,771
Settlement with employees	32,024	33,314
Severance and Jubilee benefits	5,633	5,411
VAT payable and other tax payables	3,333	2,313
Accruals and deferred income	2,673	2,749
Settlement with shareholders	1,753	1,723
Investment certificates	641	434
Share remuneration scheme	584	440
Settlement of operations with financial instruments	5	1
Other	922	1,233
	100,889	99,389

At 31 December 2019 and 31 December 2018 there were no overdue balances within 'Other liabilities'.

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

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

	2019		2018	
	Jubilee benefits	Retirement benefits	Jubilee benefits	Retirement benefits
Discount rate	(0.28%)	0.55%	(0.28%)	1.23%
Growth of wages*	–	3.00%	–	4.00%
Future growth of wages*	–	4.50%	–	4.00%
Turnover rate (based on age)	5.9% – 41.3%	5.9% – 41.3%	6.1% – 41.6%	6.1% – 41.6%
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:

2019 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	2,801	1,197	(1,959)	2,039

2018 € '000	1 January	Creation (note 31)	Use	31 December
Social fund	614	3,919	(1,733)	2,801

21. Movements in impairment losses

2019 € '000	Note	1 January	Net creation/ (release) (note 34)	Assets written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		134	90	–	–	–	224
Financial assets at AC:	11						
Due from other banks		754	(369)	–	103	–	488
Due from customers		404,912	43,347	(90,396)	(126)	(8,989)	348,748
Property and equipment and Non-current assets classified as held for sale	14	7,217	198	(4,762)	–	–	2,653
Other assets	18	3,338	1,040	–	–	–	4,378
		416,355	44,306	(95,158)	(23)	(8,989)	356,491
Financial guarantees and commitments	19, 34	14,380	(5,255)	–	254	–	9,370
		430,735	39,051	(95,158)	222	(8,989)	365,861

2018 € '000	Note	31 December 2017	FTA	1 January	Net creation (note 33)	Assets written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		–	226	226	(92)	–	–	–	134
Financial assets at AC:	11								
Due from other banks		73	482	555	130	–	69	–	754
Due from customers		373,577	45,604	419,181	59,375	(61,877)	(1,271)	(10,496)	404,912
Property and equipment and Non-current assets classified as held for sale	14	91	–	91	7,126	–	–	–	7,217
Other assets	18	2,669	32	2,701	205	–	–	432	3,338
		376,410	46,344	422,754	66,744	(61,877)	(1,202)	(10,064)	416,355
Financial guarantees and commitments	19, 34	19,781	(1,498)	18,283	(5,347)	–	1,444	–	14,380
		396,191	44,846	441,037	61,397	(61,877)	242	(10,064)	430,735

* 'Other' represents:
- The interest portion (unwinding of interest);
- Change in reporting due to merger with CFH the on the line 'Other assets'.

22. Movements in provisions

2019 € '000	Note	1 January	Net release*	Use	Other	31 December
Litigation	19, 24, 33	9,408	(4,917)	(571)	–	3,920
Restructuring provision	19, 33	924	–	(590)	–	334
Other provisions	19, 33	11	–	(10)	–	1
		10,343	(4,917)	(1,171)	–	4,255

2018 € '000	Note	1 January	Net creation	Use	Other	31 December
Litigation	19, 24, 33	8,991	390	(14)	41	9,408
Restructuring provision	19, 33	924	1,210	(1,210)	–	924
Other provisions	19, 33	47	11	(47)	–	11
		9,962	1,611	(1,271)	41	10,343

* On the basis of success in litigation and mainly as a result of an independent assessment, based on which management revised the expected probability of success, the provision was released for € 4,917 thousand.

23. Equity

€ '000	2019	2018
Share capital – authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,719	13,719
Reserves	110,665	116,472
Retained earnings (excluding net profit for the period)	937,723	892,625
	1,492,926	1,453,635

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.

	2019	2018
Net profit for the period attributable to shareholders in € '000	120,071	160,318

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	2019	2018
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.16%	2.08%
Foreign shareholders	0.81%	0.89%
	100.00%	100.00%

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

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

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

€ '000	2019	2018
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings*	929,259	883,770
Other reserves	97,450	98,232
Accumulated other comprehensive income	21,679	27,493
(-) Value adjustments due to the requirements for prudent valuation	(57)	–
Fair value gains and losses arising from the VUB Group's own credit risk related to derivative liabilities	–	(6)
Other transitional adjustments to CET1 Capital	38,102	42,633
CET1 capital elements or deductions — other	(3,876)	(2,872)
Less goodwill and intangible assets	(141,888)	(122,168)
Less IRB shortfall of credit risk adjustments to expected losses	(8,958)	–
	1,376,249	1,371,229
Tier 2 capital		
IRB excess of provisions over expected losses eligible	–	21,091
Subordinated debt	200,000	200,000
Other transitional adjustments to T2 Capital	(8,739)	(9,767)
	191,261	211,324
Total regulatory capital	1,567,510	1,582,553

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

€ '000	2019	2018
Retained earnings	1,057,794	1,052,943
Net profit for the period/year	(120,071)	(160,318)
Other capital funds	(8,464)	(8,855)
	929,259	883,770

€ '000	2019	2018	2019 Required	2018 Required
Tier 1 capital	1,376,249	1,371,229	721,529	736,961
Tier 2 capital	191,261	211,323	191,261	211,323
Total regulatory capital	1,567,510	1,582,552	721,529	736,961
Total Risk Weighted Assets	9,019,114	9,212,015	9,019,114	9,212,015
CET 1 capital ratio	15.26%	14.89%	13.00%	13.00%
Total capital ratio	17.38%	17.18%	15.50%	15.00%

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

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2019 and 31 December 2018 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU ('CRD IV') and in the CRR Regulation of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that the VUB Group must comply with on sub-consolidated and individual level. Starting from 1 January 2019, the overall capital requirement the VUB Group has to meet in terms of Common Equity Tier 1 ratio is 10.5%. This is the result of:

- the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.5%, entirely of Common Equity Tier 1 ratio;
- additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an Other Systemically Important Institutions Buffer ('O-SII Buffer') of 1% and Systemic Risk Buffer ('SRB') of 1%.

For the sake of completeness, please note that CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer ('CCyB') starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Slovakia by National Bank of Slovakia in relevant regulation, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the National Bank of Slovakia decided to set the countercyclical ratio (relating to the exposures towards Slovak counterparties) for period starting 1 August 2017 at 0.5%, since 1 August 2018 at 1.25% and since 1 August 2019 at 1.5% (bringing the total CET1 capital requirement to 12.75% since 1 January 2019 and 13.0% since 1 August 2019 including Pillar 2 Capital Guidance buffer of 1%).

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

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

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

Impact of the introduction of IFRS 9 on own funds

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

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

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

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

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

- the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9,
- the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the aforementioned Regulation, aimed at mitigating the impact of FTA;
- the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
- the reduction of the risk-weighted assets (RWA) on standard exposures which, as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
- the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

24. Financial commitments and contingencies

24.1. Issued guarantees and commitments and undrawn credit facilities

€ '000	2019	2018
Issued guarantees	762,567	772,588
Commitments and undrawn credit facilities	3,138,488	3,165,991
of which revocable	*464,586*	*310,169*
	3,901,055	3,938,579

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

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

24.2. Operating leasing

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

€ '000	2019
Up to one year	2,997
One to two years	1,986
Two to three years	857
Three to four years	260
Four to five years	80
	6,180

€ '000	2018
Up to one year	3,531
One to five years	4,074
	7,605

24.3. Legal proceedings

In the normal course of business, the VUB Group is subject to a variety of legal actions. The VUB Group conducted a review of legal proceedings outstanding against it as of 31 December 2019. Pursuant to this review, management has recorded total provisions of € 3 920 thousand (31 December 2018: € 9,408 thousand) in respect of such legal proceedings (note 19). The VUB Group will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 30,902 thousand, as at 31 December 2019 (31 December 2018: € 32,039 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	2019	2018
Legal proceedings related to leasing contracts	2,974	2,833
Legal proceedings on credit collection	602	593
Legal proceedings related to credit contracts	344	392
Legal proceedings for damages	–	5,589
Legal proceedings to rates, interests calculation and other economic conditions applied	–	1
	3,920	9,408

25. Net interest income

€ '000	2019	2018
Interest and similar income		
Financial assets at FVTPL	199	114
Financial assets at FVOCI	7,430	17,838
Financial assets at AC:		
Due from other banks	19,428	12,159
Due from customers	371,673	394,156
Derivatives – Hedge accounting	(13,250)	(9,912)
Interest income on liabilities	2,443	2,157
	387,923	416,512
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(1,891)	(2,766)
Due to customers and Subordinated debt	(22,710)	(19,197)
of which lease liabilities	*(69)*	–
Debt securities in issue	(32,556)	(33,697)
Derivatives – Hedge accounting	10,546	7,177
Interest expense on assets	(1,140)	(1,216)
	(47,751)	(49,699)
	340,172	366,813

€ '000	2019	2018
Interest and similar income		
Total interest income calculated using the effective interest method	381,148	409,093
Other interest income – interest income on finance leases	6,576	7,305
Other interest income – interest income on financial assets at FVTPL	199	114
	387,923	416,512

€ '000	2019	2018
Net interest income		
Financial assets at FVOCI	7,430	17,838
Financial assets at AC	383,386	405,099
	390,816	422,937
Financial liabilities at AC	(54,713)	(53,503)

Interest income on impaired loans and advances to customers for 2019 amounted to € 9,335 thousand (2018: € 12,802 thousand).

26. Net fee and commission income

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

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

Revenue recognition under IFRS 15:

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

2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38,894	3,340	–	8	42,242
Cards	40,400	347	–	1	40,748
Payments and cash management	9,887	6,649	347	5	16,888
Indirect deposits	8,241	7,247	–	671	16,159
Loans	16,025	–	–	–	16,025
Insurance	11,782	1	–	25	11,808
Trade finance	18	6,650	1,174	–	7,842
Factoring	–	1,466	–	–	1,466
Structured finance	–	1,127	–	–	1,127
Other	482	1,964	218	827	3,491
	125,729	28,791	1,739	1,537	157,796
Fee and commission expense					
Cards	(23,753)	–	–	–	(23,753)
Payments and cash management	(31)	(8)	(562)	(443)	(1,044)
Current accounts	–	–	–	(589)	(589)
Insurance	(402)	–	–	–	(402)
Factoring	–	(247)	–	–	(247)
Indirect deposits	(7)	(10)	–	–	(17)
Other	(94)	(2)	(90)	(3,878)	(4,064)
	(24,287)	(267)	(652)	(4,910)	(30,116)
Net fee and commission income	101,442	28,524	1,087	(3,373)	127,680

2018 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	39,029	3,108	–	7	42,144
Cards	38,901	349	–	–	39,250
Payments and cash management	11,037	6,485	372	5	17,899
Loans	7,606	7,463	–	863	15,932
Indirect deposits	15,006	–	–	–	15,006
Insurance	11,730	5	–	–	11,735
Trade finance	19	6,971	2,738	–	9,728
Structured finance	–	1,677	–	–	1,677
Factoring	–	1,503	–	–	1,503
Other	681	1,799	30	305	2,815
	124,009	29,360	3,140	1,180	157,689
Fee and commission expense					
Cards	(23,125)	–	–	–	(23,125)
Payments and cash management	(31)	(8)	(874)	(449)	(1,362)
Current accounts	–	–	–	(517)	(517)
Insurance	(376)	–	–	–	(376)
Factoring	–	(295)	–	–	(295)
Indirect deposits	(9)	(30)	–	–	(39)
Other	(223)	–	(99)	(3,715)	(4,037)
	(23,764)	(333)	(973)	(4,681)	(29,751)
Net fee and commission income	100,245	29,027	2,167	(3,501)	127,938

27. Net trading result

€ '000	2019	2018
Customer foreign exchange margins	6,805	7,431
Financial assets measured at FVOCI	2,005	32,193
Interest rate derivatives	1,426	1,278
Financial assets held for trading – debt securities	1,044	429
Non-trading financial assets measured at FVTPL	211	(151)
Dividends from equity shares measured at FVOCI	154	168
Other derivatives	141	(67)
Dividends from equity shares held in FVTPL	37	55
Equity derivatives	(2)	(7)
Net result from hedging transactions	(132)	172
Cross currency swaps	(6,131)	266
Foreign currency derivatives and transactions	(13,071)	(1,993)
	(7,513)	39,774

28. Other operating income

€ '000	2019	2018
Income from operating leasing	4,927	4,293
Financial revenues	1,763	68
Net profit from sale of fixed assets	838	244
Services	16	37
Rent	–	698
Other	1,047	1,019
	8,591	6,359

29. Other operating expenses

€ '000	2019	2018
Resolution fund*	(5,701)	(6,336)
Contribution to the Deposit Protection Fund**	(547)	(541)
Other damages	(335)	(485)
Other	(13,252)	(8,730)
	(19,835)	(16,092)

* 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 2019 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2019, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2019 was set at 0.0075% p. q. of the amount of protected deposits.

30. Special levy of selected financial institutions

€ '000	2019	2018
Special levy of selected financial institutions	(29,695)	(26,286)

The special levy of selected financial institutions was set to 0.2% p. a. of selected liabilities for the year 2018 and 2019.

31. Salaries and employee benefits

€ '000	2019	2018
Remuneration	(89,439)	(89,610)
Social security costs	(35,081)	(35,010)
Social fund	(1,197)	(3,919)
Severance and Jubilee benefits	(222)	(684)
Termination benefit	590	–
	(125,349)	(129,223)

At 31 December 2019, the total number of employees of the VUB Group was 3,742 (31 December 2018: 3,809). The average number of employees of the VUB Group during the period ended as at 31 December 2019 was 3,772 (31 December 2018: 3,868).

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

32. Other administrative expenses

€ '000	2019	2018
Third parties' services	(16,116)	(6,665)
Information technologies systems maintenance	(15,135)	(22,485)
Advertising and sponsorship	(7,128)	(7,142)
Maintenance and repairs	(5,603)	(7,428)
Postage costs	(4,224)	(3,888)
Energy costs	(3,816)	(2,709)
Rental of buildings and related expenses**	(3,575)	(8,782)
Telephone and telecommunication costs	(2,973)	(5,998)
Forms and office supplies	(2,861)	(3,471)
Indirect personnel costs and compensation	(2,732)	(2,828)
Cleaning of premises	(1,884)	(1,621)
Transport	(1,641)	(1,739)
Cost of legal services	(1,583)	(1,384)
Electronic data processing system leasing**	(1,577)	(1,310)
Security	(1,484)	(1,555)
Consultations and other fees*	(1,065)	(900)
Insurance	(1,059)	(1,161)
Archives and documents	(1,032)	(968)
Information and research	(237)	(1,545)
Other rentals**	(82)	(1,525)
Other expenses	(2,858)	(2,431)
Value added tax and other taxes	(309)	(333)
Reinvoicing	672	2,075
	(78,302)	(85,793)

* 'Consultations and other fees' includes the fee for the statutory audit of € 256 thousand (2018: € 259 thousand). Other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the VUB Group's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the VUB Group's compliance with the covenants of the loan agreement between the VUB Group and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h – 71k of the Act No. 566/2001 Coll on securities, assurance work related to the Bank's obligations towards the NBS regarding information on loans and advances used as collateral within the monetary operations of the Eurosystem, assurance work and agreed upon procedures in respect of issuance of covered bonds and agreed-upon procedures on the merger of a Bank's subsidiary with the VUB Group amounted to € 453 thousand (2018: € 369 thousand).

** These items includes among other things:

€ '000	2019
Expenses relating to short-term leases	304
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	1,643
	1,947

33. Provisions

€ '000	Note	2019	2018
Net release/(creation) and use of provisions for litigations	20, 23, 25	4,917	(376)
Net release and use of provisions for other provisions	20, 23	10	36
		4,927	(340)

34. Impairment losses and Net (loss)/gain arising from the derecognition of financial assets at amortised cost

€ '000	Note	2019	2018
Net creation of impairment losses		(44,306)	(66,744)
Net release of provisions for financial guarantees and commitments	21	5,255	5,347
		(39,051)	(61,397)
Net (loss)/gain arising from the derecognition of financial assets at AC		(4,883)	3,525

35. Income tax expense

€ '000	Note	2019	2018
Current income tax	17	(26,534)	(51,559)
Deferred income tax	17	(7,565)	7,724
		(34,099)	(43,835)

The movement in deferred taxes in the statement of profit or loss and other comprehensive income is as follows:

€ '000	2019	2018
Due from other banks	(64)	42
Due from customers	(20,056)	12,189
Property and equipment	(2,137)	5,333
Due to customers	1,201	
Provisions	1,240	(137)
Other liabilities	(736)	536
Other	12,987	(10,239)
	(7,565)	7,724

The effective tax rate differs from the statutory tax rate in 2019 and in 2018. The reconciliation of the VUB Group's profit before tax with the actual corporate income tax is as follows:

€ '000	Note	2019 Tax base	2019 Tax at applicable tax rate (21%)	2018 Tax base	2018 Tax at applicable tax rate (21%)
Profit before tax		154,170	(32,376)	204,153	(42,872)
Tax effect of expenses that are not deductible in determining taxable profit:					
Creation of provisions and other reserves		72,317	(15,186)	73,923	(15,524)
Creation of impairment losses		243,921	(51,223)	257,970	(54,174)
Write-off and sale of assets		20,279	(4,259)	14,653	(3,077)
Other		27,327	(5,739)	36,020	(7,564)
		363,844	(76,407)	382,566	(80,339)
Tax effect of revenues that are deductible in determining taxable profit:					
Release of provisions and other reserves		(83,419)	17,518	(71,664)	15,050
Release of impairment losses		(288,204)	60,523	(256,111)	53,783
Dividends		(191)	40	(223)	47
Other		(20,687)	4,344	(9,687)	2,034
		(392,501)	82,425	(337,685)	70,914
Adjustments for current tax of prior periods		833	(175)	(3,524)	740
Withholding tax paid abroad – settlement of advance payments		5	(1)	10	(2)
Current income tax		126,351	(26,534)	245,520	(51,559)
Deferred income tax at 21 %	17		(7,565)		7,724
Income tax expense			(34,099)		(43,835)
Effective tax rate			22.12%		21.47%

36. Other comprehensive income

€ '000	2019	2018
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation gains arising during the year	3,123	680
Reclassification adjustment for profit on sale of FVOCI equities within equity	360	–
	3,483	683
Reversal of deferred income tax on disposed property and equipment	2,101	–
Net revaluation gain from property and equipment	13	3
	5,597	683
Items that may be reclassified to statement of profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation gains/(losses) arising during the year	8	(689)
Change in value of financial assets at FVOCI (debt instruments):		
Gains/(losses) arising during the year	237	(13,894)
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(1,919)	(36,435)
	(1,682)	(50,329)
Exchange difference on translation foreign operation	343	(400)
	(1,331)	(51,418)
Total other comprehensive income	4,266	(50,735)
Income tax relating to components of other comprehensive income (note 37)	(459)	10,654
Other comprehensive income for the year after tax	3,807	(40,081)

37. Income tax effects relating to other comprehensive income

€ '000	Before tax amount	Tax (expense)/ benefit	Net of tax amount 2019	Before tax amount	Tax (expense)/ benefit	Net of tax amount 2018
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)	3,483	(807)	2,676	680	(143)	537
Reversal of deferred income tax on disposed property and equipment	2,101	–	2,101	–	–	–
Net revaluation gain from property and equipment	13	(3)	10	3	(1)	2
	5,597	(810)	4,787	683	(144)	539
Items that may be reclassified to statement of profit or loss in the future						
Change in value of cash flow hedges	8	(2)	6	(689)	145	(544)
Change in value of financial assets at FVOCI (debt instruments)	(1,682)	353	(1,329)	(50,329)	10,569	(39,760)
Exchange differences on translation foreign operations	343	–	343	(400)	84	(316)
	(1,331)	351	(980)	(51,418)	10,798	(40,620)
	4,266	(459)	3,807	(50,735)	10,654	(40,081)

38. 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 2019, the remuneration and other benefits provided to members of the Management Board were € 2,870 thousand (2018: € 3,497 thousand), of which the severance benefits € 112 thousand (2018: € 30 thousand), and to members of the Supervisory Board € 99 thousand (2018: € 94 thousand).

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

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

As at 31 December 2018, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets						
Financial assets at FVTPL:						
Financial assets held for trading	–	–	–	124	28,540	28,664
Non-trading financial assets at FVTPL	–	–	–	440	–	440
Derivatives – Hedge accounting	–	–	–	–	26,638	26,638
Financial assets at FVOCI	–	–	–	1,112	–	1,112
Financial assets at AC:						
Due from other banks	–	–	–	8,641	31,908	40,549
Due from customers	291	4	–	–	–	295
Other assets	–	7	–	6	2,518	2,531
	291	11	–	10,323	89,604	100,229
Liabilities						
Financial liabilities at FVTPL:						
Financial liabilities held for trading	–	–	–	3,998	30,645	34,643
Derivatives – Hedge accounting	–	–	–	–	11,010	11,010
Financial liabilities at AC:						
Due to banks	–	–	–	580,743	180,883	761,626
Due to customers	1,821	–	228	–	80,736	82,785
Subordinated debt	–	–	–	–	200,181	200,181
Debt securities in issue	–	–	–	–	80,073	80,073
Other liabilities	440	–	–	–	4,387	4,827
	2,261	–	228	584,741	587,915	1,175,145

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

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

As at 31 December 2018, the outstanding off-balance sheet balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	–	–	–	3,848	–	3,848
Issued guarantees	–	–	–	15,024	1,819	16,843
Received guarantees	–	–	–	32,542	14,783	47,325
Derivative transactions (notional amount – receivable)	–	–	–	1,118,191	8,781,977	9,900,168
Derivative transactions (notional amount – payable)	–	–	–	1,123,156	8,778,591	9,901,747

For the year ended 31 December 2019, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	3	–	–	47	4	54
Interest and similar expense	(2)	–	–	(465)	(7,338)	(7,805)
Fee and commission income	1	–	1	197	13,989	14,188
Fee and commission expense	–	–	–	(548)	(11)	(559)
Net trading result	–	–	–	(12,224)	31,536	19,312
Other operating income	–	20	–	270	82	372
Other operating expenses	–	–	–	(511)	–	(511)
Other administrative expenses	–	13	–	(11,249)	(272)	(11,508)
Impairment losses	–	–	(8)	(1)	–	(9)
	2	33	(7)	(24,484)	37,990	13,534

For the year ended 31 December 2018, the outstanding balances with related parties comprised:

€ '000	KMP	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items						
Interest and similar income	3	–	–	173	47	223
Interest and similar expense	(3)	–	–	(590)	(10,218)	(10,811)
Fee and commission income	1	–	–	90	13,364	13,455
Fee and commission expense	–	–	–	(449)	(23)	(472)
Net trading result	–	–	–	1,605	275	1,880
Other operating income	–	–	–	–	306	306
Other operating expenses	–	39	–	(220)	–	(181)
Impairment losses	–	–	–	367	(10,021)	(9,654)
	1	39	–	976	(6,270)	(5,254)

39. Events after the end of the reporting period

As at 1 January 2020 the amendment of the Act No. 384/2011 on the Special levy of selected financial institutions from 28 November 2019 became effective and the rate of levy will be raised to 0.4% p. a. of selected liabilities.

From 31 December 2019, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue by the Management Board on 21 February 2020.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
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 2019

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

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

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Všeobecná úverová banka, a. s. ("the Bank"), which comprise the separate statement of financial position as at 31 December 2019, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section. We are independent of the Bank in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

KPMG Slovensko spol. s r. o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of district court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number: 31 348 238
Evidenčné číslo licencie audítora: 96
Licence number of statutory auditor: 96

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Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2019: € 14,078,141 thousand; impairment loss recognised in 2019: € 35,416 thousand; total impairment loss as at 31 December 2019: € 321,122 thousand.

Refer to Note 3 (Significant accounting policies) and Notes 11.2, 21 and 34 (Due from customers, Movements in impairment losses and Impairment losses and Net gain arising from the derecognition of financial assets measured at amortised cost) to the separate financial statements.

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the expected credit losses within Financial assets at amortised cost at the reporting date. We focused on this area as the determination of impairment allowances requires significant judgment from the Management Board over both the timing of recognition and the amount of any such impairment.	Our audit procedures in this area included, among others: • Inspecting the Bank's ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors, including inspecting validation reports; • Making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for data security and access, assisted by our own IT specialists; • Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances;

Key audit matter	Our response
Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below EUR 500 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. For non-performing exposures exceeding EUR 500 thousand, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required increased attention. Accordingly, we considered the area to be a key audit matter.	• With respect to impairment accounting under IFRS 9: – Assessing whether the definition of default and the staging criteria were consistently applied. Also assessing whether the definition of default applied for each segment/portfolio is appropriate based on the requirements of IFRS 9 (e.g. taking into account the 90-day presumption of default); – Evaluating the overall modelling approach, of calculation of ECLs, including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD)); – Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank's ECL assessment. Assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information. Challenging LGD and PD parameters used by the Bank, by reference to historically realised losses on defaults; • Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage; • For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2019;

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	• For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing respective independent recalculations, where relevant.

IT systems and controls over financial reporting

Key audit matter	Our response
The Bank has a complex information technology ("IT") environment and operates various IT systems and applications. The financial accounting and reporting systems are heavily dependent on these complex IT solutions and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	Our audit procedures included, among others: • Using our internal IT specialists, updating our understanding of the Bank's IT environment and the framework of governance over the IT organization, including the understanding of the controls over program development and changes, access to programs and data and IT operations; • Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting; • Testing certain aspects of the security of the IT systems, including access management and segregation of duties; and • Where relevant, assessing whether compensating controls were effective in mitigating deficiencies identified either by the Bank or by us independently.

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

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

In preparing the separate financial statements, the Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Separate Annual Report

The Management Board is responsible for the information in the separate annual report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). The Management Board presented the disclosures in respect of the separate annual report required by the Act on Accounting in the consolidated annual report ("the annual report") of the Bank and we will therefore refer to this report further on. Our opinion on the separate financial statements does not cover other information in the annual report.

In connection with our audit of the separate financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the audited separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report of the Bank, we consider whether it includes the disclosures required by the Act on Accounting.

Based on the work undertaken in the course of the audit of the separate financial statements, in our opinion:

- the information given in the annual report for the year 2019 is consistent with the separate financial statements prepared for the same financial year; and

- the annual report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the Bank and its environment obtained in the course of our audit, we are required to report if we have identified material misstatement in the Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in this respect.

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

Appointment and approval of an auditor

We have been appointed as statutory auditor by the Management Board of the Bank on 8 July 2019 on the basis of our approval by the General Meeting of the Bank on 5 April 2019. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is eight years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

21 February 2020
Bratislava, Slovak Republic

Slovenská komora audítorov
SKAU
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Slovensko spol. s r.o.

Auditing company: KPMG Slovensko spol. s r.o. License SKAU No. 96	Responsible auditor: Ing. Mgr. Peter Špeťko, PhD., FCCA License UDVA No. 994

Separate statement of financial position as at 31 December 2019 (In thousands of euro)

	Note	2019	2018
Assets			
Cash and cash equivalents	7	996,438	1,769,121
Financial assets at fair value through profit or loss:	8		
Financial assets held for trading		23,454	39,548
Non-trading financial assets at fair value through profit or loss		584	440
Derivatives – Hedge accounting	9	82,501	26,765
Financial assets at fair value through other comprehensive income	10	1,574,549	749,974
of which pledged as collateral		*773,472*	*620,922*
Financial assets at amortised cost:	11		
Due from other banks		180,491	102,454
Due from customers		14,078,141	13,327,533
of which pledged as collateral		*190,060*	*199,170*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	13,840	9,183
Investments in subsidiaries, joint ventures and associates	13	63,629	42,186
Property and equipment	14	106,554	76,294
Intangible assets	15	112,046	92,201
Goodwill	16	18,871	18,871
Current income tax assets	17	25,309	1,181
Deferred income tax assets	17	63,157	66,298
Other assets	18	20,988	20,300
Non-current assets classified as held for sale	14	645	26,922
		17,361,197	16,369,271
Liabilities			
Financial liabilities at fair value through profit or loss:	8		
Financial liabilities held for trading		24,750	39,335
Derivatives – Hedge accounting	9	59,833	15,226
Financial liabilities at amortised cost:	11		
Due to banks		325,769	992,079
Due to customers		11,927,060	11,055,766
Subordinated debt		200,143	200,181
Debt securities in issue		3,120,695	2,332,253
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	4,580	1,499
Current income tax liabilities	17	–	8,955
Provisions	19	10,671	21,918
Other liabilities	20	90,757	93,371
		15,764,258	14,760,583
Equity	23		
Share capital		430,819	430,819
Share premium		13,719	13,719
Legal reserve fund		87,493	87,493
Retained earnings		1,043,673	1,049,076
Equity reserves		21,235	27,581
		1,596,939	1,608,688
		17,361,197	16,369,271

The accompanying notes on pages 251 to 438 form an integral part of these financial statements.

Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2019 (In thousands of euro)

	Note	2019	2018
Interest income calculated using the effective interest method		371,235	398,528
Other interest income		199	114
Interest and similar expense		(46,603)	(47,632)
Net interest income	25	324,831	351,010
Fee and commission income		155,952	156,078
Fee and commission expense		(29,913)	(29,645)
Net fee and commission income	26	126,039	126,433
Dividend income		2,000	2,000
Net trading result	27	(7,509)	39,779
Other operating income	28	3,220	1,642
Other operating expenses	29	(16,618)	(13,233)
Special levy of selected financial institutions	30	(29,695)	(26,286)
Salaries and employee benefits	31	(121,329)	(124,491)
Other administrative expenses	32	(75,058)	(83,434)
Amortisation	15	(12,383)	(12,272)
Depreciation	16	(11,731)	(7,774)
Profit before provisions, impairment and tax		181,767	253,374
Provisions	22, 33	5,068	(166)
Impairment losses	21, 34	(35,416)	(56,341)
Net (loss)/gain arising from the derecognition of financial assets at amortised cost	34	(4,514)	3,441
Profit before tax		146,905	200,308
Income tax expense	35	(32,818)	(44,022)
NET PROFIT FOR THE YEAR		114,087	156,286
Other comprehensive income for the year, after tax:	36, 37		
Items that shall not be reclassified to profit or loss in the future:			
Change in value of financial assets at fair value through other comprehensive income (equity instruments)		2,676	537
Reversal of deferred income tax on disposed property and equipment		2,101	–
Net revaluation gain from property and equipment		10	2
		4,787	539
Items that may be reclassified to profit or loss in the future:			
Change in value of cash flow hedges		6	(544)
Change in value of financial assets at fair value through other comprehensive income (debt instruments)		(1,838)	(39,419)
Exchange difference on translation of foreign operations		344	(224)
		(1,488)	(40,187)
Other comprehensive income for the year, net of tax		3,299	(39,648)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		117,386	116,638
Basic and diluted earnings per € 33.2 share in €		8.79	12.04

The accompanying notes on pages 251 to 438 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2019

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2019	430,819	13,719	87,493	1,049,076	21,967	5,634	(6)	(14)	1,608,688
Total comprehensive income for the year, net of tax	–	–	–	114,087	2,111	838	6	344	117,386
Transactions under common control (note 2.2)	–	–	–	(4,301)	–	–	–	–	(4,301)
Gain on disposal of property and equipment	–	–	–	10,005	(10,005)	–	–	–	–
Losses on the sale of shares at FVOCI	–	–	–	(360)	–	360	–	–	–
Transactions with owners, recorded directly in equity									
Dividends to shareholders (note 39)	–	–	–	*(125,049)*	–	–	–	–	*(125,049)*
Reversal of dividends distributed but not collected	–	–	–	*215*	–	–	–	–	*215*
	–	–	–	(124,834)	–	–	–	–	(124,834)
At 31 December 2019	430,819	13,719	87,493	1,043,673	14,073	6,832	–	330	1,596,939

The accompanying notes on pages 251 to 438 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2019 (continued)

(In thousands of euro)

	Share capital	Share premium	Legal reserve fund	Retained earnings	Buildings and land	Financial assets at FVOCI	Cash flow hedges	Translation of foreign operation	Total
At 1 January 2018	430,819	13,719	87,493	966,981	21,700	44,516	538	210	1,565,976
Total comprehensive income for the year, net of tax	–	–	–	156,286	2	(38,882)	(544)	(224)	116,638
Transactions under common control	–	–	–	69,449	265	–	–	–	69,714
Exchange difference	–	–	–	203	–	–	–	–	203
Transactions with owners, recorded directly in equity									
Dividends to shareholders	–	–	–	*(144,025)*	–	–	–	–	*(144,025)*
Reversal of dividends distributed but not collected	–	–	–	*182*	–	–	–	–	*182*
	–	–	–	(143,843)	–	–	–	–	(143,843)
At 31 December 2018	430,819	13,719	87,493	1,049,076	21,967	5,634	(6)	(14)	1,608,688

The accompanying notes on pages 251 to 438 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2019

(In thousands of euro)

	Note	2019	2018
Cash flows from operating activities:			
Profit before tax		146,905	200,308
Adjustments for:			
Interest income	25	(371,434)	(398,642)
Interest expense	25	46,603	47,632
Dividend income		(2,000)	(2,000)
Gain from sale/revaluation of financial assets at fair value through other comprehensive income		(26,983)	(502)
Loss on sale of intangible assets and property and equipment	29	46	60
Loss/(gain) from revaluation of debt securities in issue		51,065	(12,256)
Amortisation	15	12,383	12,272
Depreciation	14	11,731	7,774
Impairment losses and similar charges	33, 34	66,073	78,630
Exchange difference on translation of foreign operations	36, 37	344	(224)
Interest received		378,368	408,521
Interest paid		(50,684)	(45,712)
Tax paid		(59,086)	(43,239)
Decrease/(increase) in financial assets at fair value through profit or loss		15,976	(8,714)
Increase in derivatives – hedge accounting (assets)		(55,736)	(2,400)
Financial assets at amortised cost:			
Increase in due from other banks		(76,266)	(36,884)
Increase in due from customers		(820,614)	(1,849,906)
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (assets)		(4,657)	(11,616)
(Increase)/decrease in other assets		(1,657)	4,338
(Decrease)/increase in financial liabilities at fair value through profit or loss		(14,585)	1,793
Increase in derivatives – hedge accounting (liabilities)		44,607	584
Financial liabilities measured at amortised cost:			
(Decrease)/increase in due to banks		(666,868)	532,737
Increase in due to customers		850,349	1,200,266
Increase in fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		3,081	1,469
(Decrease)/increase in provisions		(5,985)	1,454
(Decrease)/increase in other liabilities		(2,865)	449
Net cash (used in)/ from operating activities		(531,889)	86,192
Cash flows from investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(1,516,232)	(220,000)
Disposal of financial assets at fair value through other comprehensive income		400,943	244,393
Repayments of financial assets at fair value through other comprehensive income		311,355	150,000
Purchase of intangible assets and property and equipment		(50,301)	(30,103)
Disposal of intangible assets and property and equipment		18,910	61
Dividends received		2,000	2,000
Increase of share capital in subsidiary		(30,000)	(3,982)
Net cash (used in)/from investing activities		(863,325)	142,369

(Table continues on the next page)

The accompanying notes on pages 251 to 438 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2019

(In thousands of euro)

(continued)

	Note	2019	2018
Cash flows from financing activities:			
Proceeds from issue of debt securities		1,000,000	300,000
Repayments of debt securities in issue		(258,035)	(235,545)
Proceeds from lease liabilities		11,965	–
Repayments of lease liabilities		(6,350)	–
Dividends paid		(125,049)	(144,025)
Net cash from/(used in) financing activities		622,531	(79,570)
Net change in cash and cash equivalents		(772,683)	148,991
Cash and cash equivalents at the beginning of the year	7	1,769,121	1,620,130
Cash and cash equivalents at 31 December	7	996,438	1,769,121

The accompanying notes on pages 251 to 438 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 2019, the Bank had a network of 203 points of sale (including Retail Branches, Corporate Branches and Mortgage centres) located throughout Slovakia (31 December 2018: 212). The Bank also has one branch in the Czech Republic (31 December 2018: 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 2019, the members of the Management Board are Alexander Resch (Chairman), Antonio Bergalio, Peter Magala, Martin Techman, Roberto Vercelli and Andrej Viceník.

Another member of the Management Board was Peter Novák (until 30 June 2019).

At 31 December 2019, the members of the Supervisory Board are Ignacio Jaquotot (Chairman), Elena Kohútiková (Vice Chairman), Marco Fabris (from 2 May 2019), Peter Gutten (from 19 December 2019), Paolo Sarcinelli, Christian Schaack and Róbert Szabo.

Another member of the Supervisory Board were Luca Finazzi (until 15 April 2019) and Andrej Straka (until 10 December 2019).

1.2. Basis of accounting

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

The separate financial statements of the Bank for the year ended 31 December 2018 were authorised for issue by the Management Board on 22 February 2019.

The consolidated financial statements of the VUB Group for the year ended 31 December 2019 were issued on 21 February 2020 and are available at the registered office of the Bank.

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

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

1.3. Functional and presentation currency

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

Negative balances are presented in brackets.

1.4. Use of judgements and estimates

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

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

1.4.1. Judgements

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

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

1.4.2. Assumptions and estimation uncertainties

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

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

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

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

– Valuation of lease liabilities (note 11.4) and right-of-use assets (note 14)
  The application of Financial Reporting Standard 16 Leases ('IFRS 16') requires the 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 previously estimated the length of the contract to be equal to notice period which was usually three months. The Bank has reassessed its estimation of the non-cancellable period of such types of leases to be five years. The above described changes were considered as change in estimate and were applied prospectively and resulted in an increase of the lease liabilities balance of approximately 278% compared to non-cancellable leases reported under IAS 17. The Bank will continue to monitor these assumptions in the future as a result of a review of the industry practice and the evolution of the accounting interpretations in relation to estimation of the lease terms among peer financial entities and make adjustments, if necessary.

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

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

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

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

2. Changes in accounting policies

The Bank has initially adopted IFRS 16 from 1 January 2019.

A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the financial statements.

Due to the transition method chosen by the Bank in applying IFRS 16, comparative information throughout the financial statements has not been restated to reflect its requirements.

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. Adoption of IFRS 16

IFRS 16 supersedes International Accounting Standard 17 Leases ('IAS 17') and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:
- 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).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

Leases in which the Bank is a lessee

The new Standard, when initially applied, had a significant impact on the financial statements, since it requires the Bank to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Bank acts as a lessee.

The Bank recognises new assets as Property and equipment (note 3.12) and liabilities as Financial liabilities at amortised cost (note 3.7.2) in the statement of financial position for its operating leases in respect of branch and office premises, lands under automated teller machines ('ATMs') and fleet of cars. The nature and expenses related to those leases was changed because the Bank will recognise a depreciation charge for right-of-use assets as Depreciation and interest expense on the lease liabilities as Interest and similar expense (note 3.21) in the statement of profit or loss.

Previously, the Bank recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense being recognised.

In addition the Bank will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Bank will include payments due under the lease in lease liability.

The Bank recognised lease liability along with right-of-use asset in amount of € 16,443 thousand as at 1 January 2019.

As at 31 December 2018 the Bank disclosed minimum lease payments under non-cancellable leases in amount of € 4,351 thousand. Under this approach the Bank considered leases with undetermined contractual maturity only for the duration of the cancellation period which was generally three months.

As for the fleet of cars, which represent € 2,187 thousand of the abovementioned lease liability, the Bank will use rates implicit in the contracts. The average rate of these contracts is 4.35%. The cars are generally used for five years and the fleet is being renewed according to the needs of the Bank.

As for the Banks branch and office premises and lands under ATMs, which represent an amount of € 14,256 thousand of the abovementioned lease liability, the Bank will use incremental borrowing rates as at 1 January 2019. The average rate of these contracts is 0.51%. The management has made judgement to rent premises and lands with no contractual maturity for five years with regard to ongoing rationalisation of Bank's retail branch network.

The adoption of IFRS 16 had no material impact on risk-weighted assets ('RWA') and capital adequacy.

Transition to IFRS 16

The Bank applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore no adjustment to the opening balance of retained earnings at 1 January 2019 was recognised, with no restatement of comparative information.

In the transition the Bank applied the practical expedient to grandfather the definition of lease on transition. This means that it applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4 Determining whether an arrangement contains a lease. The Bank also used practical expedient regarding operating leases for which the lease term ends within 12 months of the date of initial application and treated such leases as short-term leases.

The explanation of differences between minimum lease payment for operating lease according to IAS 17 and lease liabilities recognised in the statement of financial position at the date of initial application:

€ '000	1 January 2019
Minimum lease payment for operating lease according to IAS 17	4,351
Change from three months non-cancellable period to useful life of right of use	13,868
Leases with a lease term of 12 months or less (short-term leases)	(812)
Non-lease components	(496)
Gross lease liabilities	16,911
Discounting	(468)
Total lease liabilities according to IFRS 16	16,443

2.2. Group restructuring under common control

On 1 October 2019 the cross-border merger of CONSUMER FINANCE HOLDING ČESKÁ REPUBLIKA, a. s. ('CFH CZ') registered in Czech republic as the merging company into the Bank as the successor company become effective. The merging entity was wound up without liquidation. The decisive accounting date is 1 January 2019.

The merger was accounted for under continuity of values principle, where the IFRS compliant book values of CFH CZ were used. The accounting steps were as follows:
1. The values from 2018 separate financial statements were taken from CFH CZ.
2. Intercompany transactions were eliminated.
3. Investment in VUB presented under 'Investments in subsidiaries, joint ventures and associates' was derecognised against net equity of CFH CZ.
4. Remaining net equity of CFH CZ in amount of € (4,301) thousand was transferred into 'Retained earnings' of VUB.

The reconciliation to the amount presented in Transactions under common control in 'Retained earnings' in the Statement of changes in equity is as follows:

€ '000	1 January 2019
Retained earnings of CFH CZ	(4,061)
Translation of foreign operation reserve of CFH CZ	(31)
Eliminations:	
Pre-acquisition reserves of CFH CZ	(240)
Translation of foreign operation reserve of CFH CZ	31
	(4,301)

The impact of the merger on the Statement of financial position is as follows:

€ '000	31 December 2018	Merger of CFH CZ	Eliminations	1 January 2019
Assets				
Cash and cash equivalents	1,276,068	–	–	1,276,068
Balances at central banks	493,053	–	–	493,053
Financial assets at fair value through profit or loss:				
Financial assets held for trading	39,548	–	–	39,548
Non-trading financial assets at fair value through profit or loss	440	–	–	440
Derivatives – Hedge accounting	26,765	–	–	26,765
Financial assets at fair value through other comprehensive income	749,974	–	–	749,974
Financial assets at amortised cost:				
Due from other banks	102,454	1,094	(1,094)	102,454
Due from customers	13,327,533	16,495	(14,600)	13,329,428
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9,183	–	–	9,183
Investments in subsidiaries, joint ventures and associates	42,186	–	(8,557)	33,629
Property and equipment	76,294	40	–	76,334
Intangible assets	92,201	104	–	92,305
Goodwill	18,871	–	–	18,871
Current income tax assets	1,181	–	–	1,181
Deferred income tax assets	66,298	1,573	–	67,871
Other assets	20,300	62	(46)	20,316
Non-current assets classified as held for sale	26,922	–	–	26,922
	16,369,271	19,368	(24,297)	16,364,342
Liabilities				
Financial liabilities at fair value through profit or loss:				
Financial liabilities held for trading	39,335	–	–	39,335
Derivatives – Hedge accounting	15,226	–	–	15,226
Financial liabilities measured at amortised cost:				
Due to banks	992,079	14,600	(14,600)	992,079
Due to customers	11,055,766	–	(1,094)	11,054,672
Subordinated debt	200,181	–	–	200,181
Debt securities in issue	2,332,253	–	–	2,332,253
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,499	–	–	1,499
Current income tax liabilities	8,955	–	–	8,955
Provisions	21,918	–	–	21,918
Other liabilities	93,371	512	(46)	93,837
	14,760,583	15,112	(15,740)	14,759,955
Equity				
Share capital	430,819	8,348	(8,348)	430,819
Share premium	13,719	–	–	13,719
Legal reserve fund	87,493	–	–	87,493
Retained earnings	1,049,076	(4,061)	(240)	1,044,775
Equity reserves	27,581	(31)	31	27,581
	1,608,688	4,256	(8,557)	1,604,387
	16,369,271	19,368	(24,297)	16,364,342

2.3. Changes in presentation

The Bank created the new item 'Cash and cash equivalents' in the statement of financial position in line with the same item in the statement of cash flows. The receivables from the Single Resolution Fund were transferred from the item 'Cash, balances at central banks' to the item 'Due from customer' to the sector public administration, in order to comply with the National Bank of Slovakia ('NBS') Sector Manual. The comparatives were restated.

€ '000	Note	December 2018	Changes	Restated December 2018
Cash and cash equivalents	7	–	1,769,121	1,769,121
Cash, balances at central banks		1,747,556	(1,747,556)	–
Financial assets at amortised cost:				
Due from other banks	11.1	126,889	(24,435)	102,454
Due from customers	11.2	13,324,663	2,870	13,327,533

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

€ '000	Note	December 2018	Changes	Restated December 2018
Interest and similar income		398,528	(398,528)	–
Interest income calculated using the effective interest method	25	–	398,528	398,528
Other interest income	25	–	114	114
Net trading result	27	39,893	(114)	39,779

2.4. Standards and interpretations relevant to Bank's operations issued but not yet effective

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

Amendments to IFRS 3 Business Combinations

Effective for annual periods beginning on or after 1 January 2020.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Bank does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures

Interest Rate Benchmark Reform ('IBOR reform')

Effective from 1 January 2020. Early application is permitted.

The amendments address issues affecting financial reporting in the period leading up to the IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform.

All companies with hedges affected by the IBOR reform are required to:
- assume that the interest rate benchmark on which hedged cash flows are based is not altered as a result of the IBOR reform when assessing whether the future cash flows are highly probable. Also, for discontinued hedging relationships, the same assumption is applied for determining whether the hedged future cash flows are expected to occur.
- assess whether the economic relationship between the hedged item and the hedging instrument exists based on the assumptions that the interest rate benchmark on which the hedged item and the hedging instrument are based is not altered as a result of the IBOR reform.
- not discontinue a hedging relationship during the period of uncertainty arising from the IBOR reform solely because the actual results of the hedge are outside the range of 80 – 125 per cent.
- apply the separately identifiable requirement only at the inception of the hedging relationship. A similar exception is also provided for redesignation of hedged items in hedges where dedesignation and redesignation take place frequently – e.g. macro hedges.

The Bank does not expect the amendments to have a material impact on its financial statements when initially applied. (note 4.5)

Other standards

The following standards and amendments to standards are not expected to have a significant impact on the Bank's financial statements:
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures; Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely);
- IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively; Early application is permitted).

3. Significant accounting policies

3.1. Foreign currency transactions

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

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

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income ('OCI'):
- qualifying cash flow hedges to the extent that the hedge is effective; and
- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.

3.2. Foreign operations

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

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

3.3. Cash and cash equivalents

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

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

3.4. Financial assets and financial liabilities

3.4.1. Recognition and initial measurement

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

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

3.4.2. Classification

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

Assessment of whether contractual cash flows are SPPI

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

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

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

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

Reclassifications

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

3.4.3. Subsequent measurement

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

3.4.4. Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than due to substantial modification

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

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

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

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

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

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

3.4.5. Modifications

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

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

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

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

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

3.4.6. Offsetting

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

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

3.4.7. Fair value measurement

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

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

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

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

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

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

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

3.5.1. Financial assets and financial liabilities held for trading

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

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

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

Derivative financial instruments

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

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

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

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

Embedded derivatives

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

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

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

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

3.5.2. Financial assets at fair value through profit or loss

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

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

3.6. Financial assets at fair value through other comprehensive income

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

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

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

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

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

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

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

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

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

3.7. Financial assets and financial liabilities at amortised costs

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

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

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

Due from other banks

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

Due from customers

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

Impairment

The detailed description of policy is in the note 4.1.2.

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

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

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

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

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

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

3.8. Repurchase and reverse repurchase agreements

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

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

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

3.9. Derivatives – Hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

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

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

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 'Dividend discount model'.

Dividend discount model

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

3.11. Transactions under common control

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

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

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

3.12. Property and equipment

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

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

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

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

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

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

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

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

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

3.13. Intangible assets

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

	Years
Software and Other intangible assets	7

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. (note 2.1)

Leases in which the Bank is a lessee

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

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

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

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

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

	Years
Buildings	2 – 6
Other tangibles	2 – 5

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

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

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

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

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

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

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

Leases in which the Bank is a lessor

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

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

3.17. Provisions

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

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

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

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

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

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

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

3.18. Provisions for employee benefits

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

3.19. Equity reserves

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

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

3.20. Net interest income

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

3.21. Net fee and commission income

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

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

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

3.22. Net trading result

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

3.23. Dividend income

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

3.24. Special levy of selected financial institutions

Commencing 1 January 2012, banks operating in the Slovak Republic are subject to a special levy of selected financial institutions calculated from selected liabilities. Based on the amendment to the Act No. 384/2011 on the Special levy of selected financial institutions from 12 October 2016, the levy rate has been set to 0.2% p. a. for the years 2017 to 2020. The levy is recognized in the statement of profit or loss and other comprehensive income on an accrual basis and is payable at the beginning of each quarter. (note 30)

3.25. Current and deferred income tax

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

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

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

4. Financial and operational risk management

The Bank has exposure to the following risks from its use of financial instruments:
– Credit risk,
– Market risk,
– Liquidity risk,
– Operational risk.

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

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

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

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

4.1. Credit risk

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

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

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

4.1.1. Management of credit risk

The Risk Management Division is established within the Bank as a Control Unit and managed by the Chief Risk Officer, who is a member of the Bank's Management Board. The Risk Management Division is organisationally structured to provide support to the Business Units, as well as to provide reporting of credit, market and operational risks to the Supervisory Board and Management Board. The Risk Management Division is responsible for overseeing the Bank's credit risk including:
- The development of credit risk strategies, policies, processes and procedures covering rules for credit assessment, collateral requirements, risk grading and reporting;
- Setting limits for the concentration of exposure to counterparties, related parties, countries and total assets and monitoring compliance with those limits;
- Establishment of the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are set in the CRC;
- Credit risk assessment according to defined policy;
- Monitoring of quality portfolio performance and its compliance with set limits (regulatory, internal). Regular reports are provided to the Management Board and the CRC on the credit quality of the Bank's portfolios;
- Development, maintenance and validation of scoring and rating models – both application and behavioural;
- Development, maintenance and back-testing of impairment loss models.

4.1.2. Impairment losses

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

If there is evidence of impairment for any individually significant client of the Bank, such as a breach of contract, problems with repayments or collateral, the Bank transfers such a client to management of the Recovery Department for pursuing collection activities. Such clients exceeding significant thresholds (€ 500 thousand) are considered to be individually impaired. For collective impairment (other than individually significant client), the Bank uses historical evidence of impairment 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.

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

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

For PD models of the portfolios where the 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 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.

Days past due ('DPD') methodology

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

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

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

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

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

The absolute threshold is exceeded when:

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

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

The relative threshold is exceeded when:

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

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

Staging methodology

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

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

The 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
	Defaulted exposures classified as Performing	
	Performing exposures with significant increase in PD	

In general following rules are applied:
- At origination financial instruments are classified in Stage 1, except instruments which are deteriorated at the date of acquisition, which are classified in the relevant stage;
- If there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2;
- At the date of acquisition all defaulted loans are classified in Stage 3.

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

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

Stage 2 criterion: Forborne performing exposures

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

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 and light blue EWS should be classified into Stage 2.

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

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

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

Stage 2 criterion: Defaulted exposures classified asperforming

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

Stage 2 criterion: Performing exposures with significant increase in PD

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

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

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

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

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

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

Stage 3 criterion

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

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

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

Staging criteria for debt securities

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

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

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

In addition to the above-mentioned criteria, the following rules should be followed for Stage Assignment:
- at origination financial instruments are classified in Stage 1;
- if there is not enough information to determine if credit has deteriorated significantly since origination, a financial instrument is classified into Stage 2;
- at the date of acquisition all defaulted bonds are classified in Stage 3.

Staging criteria for Low Default Portfolio and Intragroup exposures

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

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

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

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

Expected loss calculation

Stage 1

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

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

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

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

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

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 1 year :

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

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

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

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

where:

- EAD_1, EAD_2, EAD_3 are exposure at default at the beginning of each residual year;
- PD_1 is probability that exposure enters in default during the first year of residual maturity;
- $PD_2 – PD_1$ is marginal Lifetime PD that represents the probability that exposure enters in default during its second year of residual maturity;
- $PD_3 – PD_2$ is marginal Lifetime PD that represents the probability that exposure enters in default during its third year of residual maturity;
- $LGD_{1,}$ $LGD_{2,}$ LGD_3 is percentage of loss in case of default of each residual year;
- EIR is Effective Interest Rate.

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

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

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

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

Stage 3

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

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

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

where:

- PCBS is the provision calculated based on scenarios determined by the Bank on NPLs;
- $\text{Add-on}_{Performing}$ is calculated as the average of Add-ons estimated for performing Lifetime LGD obtained with Best, Most-likely and Worst scenarios from satellite models or obtained with scenarios given by EBA Stress Test coefficients.

Incorporation of forward-looking information

The Bank incorporates forward-looking information by using the Base scenario from the internal satellite models or the Baseline stress test coefficient issued by EBA. Other scenarios are incorporated in the form of „add-on".

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

The Bank uses also the stress test coefficients issued by EBA. Since EBA issues the coefficients only for Adverse and Baseline scenario, the Best coefficient is calculated additionally based on these two scenarios. The scenarios are then used for the calculation of the add-on. Using the EBA coefficients is characteristic for LGD models. Moreover, a similar approach is used for the calculation of add-on for the exposures in stage 3.

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

The Bank identified risk drivers which are the main inputs for the models for each portfolio. The relevant drivers were selected to obtain the final models for each portfolio. The economic scenarios used the following ranges of the inputs for the quarters of years 2020 and 2021 by the satellite model development in 2018.

	GDP, (constant prices, % change)		Unemployment rate (Labour Force Sample Survey, %)		Consumer prices index (quarterly average, % change)		EURIBOR 3M (end of period)	
	Base scenario	Range	Base scenario	Range	Base scenario	Range	Base scenario	Range
1Q 2020	3.9	(8.2) – 9.0	6.5	5.8 – 11.7	2.3	(0.3) – 4.8	0.08	(1.1) – 0.75
2Q 2020	3.9	(5.1) – 8.9	6.5	5.7 – 11.8	2.3	(0.3) – 5.1	0.08	(1.1) – 1.00
3Q 2020	3.8	(4.3) – 8.3	6.5	5.5 – 11.9	2.3	(0.3) – 5.4	0.19	(1.1) – 1.25
4Q 2020	3.6	(2.3) – 7.0	6.5	5.5 – 11.9	2.3	(0.3) – 4.6	0.34	(1.1) – 1.50
1Q 2021	3.1	(1.2) – 6.0	6.2	5.5 – 12.4	2.0	(0.3) – 4.8	0.37	(1.1) – 1.75
2Q 2021	2.7	(0.7) – 5.6	6.2	5.4 – 12.5	2.0	(0.3) – 5.1	0.54	(1.1) – 2.00
3Q 2021	2.6	(0.4) – 5.3	6.5	5.2 – 12.5	2.0	(0.3) – 5.4	0.62	(1.1) – 2.25
4Q 2021	2.6	0.0 – 5.1	6.3	5.2 – 12.5	2.0	(0.3) – 4.6	0.74	(1.1) – 2.50

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

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

2019 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	180,136	(482)	179,654	–	–	–
Due from customers:						
Public administration	116,207	(1,068)	115,139	–	–	–
Corporate	4,804,645	(17,427)	4,787,218	–	–	–
Retail	8,058,776	(12,739)	8,046,037	–	–	–
	12,979,628	(31,234)	12,948,394	–	–	–
	13,159,764	(31,716)	13,128,048	–	–	–
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–
Financial commitments and contingencies	3,846,979	(4,253)	3,842,726	–	–	–

2018 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 1						
Financial assets at AC:						
Due from other banks	100,678	(656)	100,022	–	–	–
Due from customers:						
Public administration	122,147	(1,238)	120,909	–	–	–
Corporate	4,852,563	(26,166)	4,826,397	–	–	–
Retail	7,369,968	(15,408)	7,354,560	–	–	–
	12,344,678	(42,812)	12,301,866	–	–	–
	12,445,356	(43,468)	12,401,888	–	–	–
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–
Financial commitments and contingencies	3,814,268	(7,021)	3,807,247	–	–	–

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

2019 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	843	(6)	837	–	–	–
Due from customers:						
Public administration	18,503	(1,182)	17,321	–	–	–
Corporate	412,992	(14,356)	398,636	–	–	–
Retail	584,731	(43,764)	540,967	–	–	–
	1,016,226	(59,302)	956,924	–	–	–
	1,017,069	(59,308)	957,761	–	–	–
Financial commitments and contingencies	134,792	(1,710)	133,082	–	–	–

2018 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 2						
Financial assets at AC:						
Due from other banks	2,530	(98)	2,432	–	–	–
Due from customers:						
Public administration	21,392	(1,361)	20,031	–	–	–
Corporate	298,271	(11,939)	286,332	–	–	–
Retail	613,750	(52,066)	561,684	–	–	–
	933,413	(65,366)	868,047	–	–	–
	935,943	(65,464)	870,479	–	–	–
Financial commitments and contingencies	206,588	(3,664)	202,924	–	–	–

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

2019 € '000	Portfolio assessed Gross amount	Impairment losses	Net amount	Individually assessed Gross amount	Impairment losses	Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Public administration	50	(8)	42	–	–	–
Corporate	7,076	(2,672)	4,404	70,217	(44,930)	25,287
Retail	320,198	(178,225)	141,973	5,868	(4,751)	1,117
	327,324	(180,905)	146,419	76,085	(49,681)	26,404
	327,324	(180,905)	146,419	76,085	(49,681)	26,404
Financial commitments and contingencies	4,363	(1,055)	3,308	18,284	(2,373)	15,911

2018 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Stage 3						
Financial assets at AC:						
Due from customers:						
Public administration	1	–	1	–	–	–
Corporate	14,091	(4,003)	10,088	64,545	(47,336)	17,209
Retail	336,571	(207,623)	128,948	5,032	(3,658)	1,374
	350,663	(211,626)	139,037	69,577	(50,994)	18,583
	350,663	(211,626)	139,037	69,577	(50,994)	18,583
Financial commitments and contingencies	7,875	(1,305)	6,570	11,918	(2,418)	9,500

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

2019 € '000	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
			Portfolio assessed			Individually assessed
Financial assets at AC:						
Due from other banks	180,979	(488)	180,491	–	–	–
Due from customers:						
Public administration	134,760	(2,258)	132,502	–	–	–
Corporate	5,224,713	(34,455)	5,190,258	70,217	(44,930)	25,287
Retail	8,963,705	(234,728)	8,728,977	5,868	(4,751)	1,117
	14,323,178	(271,441)	14,051,737	76,085	(49,681)	26,404
	14,504,157	(271,929)	14,232,228	76,085	(49,681)	26,404
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–
Financial commitments and contingencies	3,986,134	(7,018)	3,979,116	18,284	(2,373)	15,911

2018 € '000	Portfolio assessed Gross amount	 Impairment losses	 Net amount	Individually assessed Gross amount	 Impairment losses	 Net amount
Financial assets at AC:						
Due from other banks	103,208	(754)	102,454	–	–	–
Due from customers:						
Public administration	143,540	(2,599)	140,941	–	–	–
Corporate	5,164,925	(42,108)	5,122,817	64,545	(47,336)	17,209
Retail	8,320,289	(275,097)	8,045,192	5,032	(3,658)	1,374
	13,628,754	(319,804)	13,308,950	69,577	(50,994)	18,583
	13,731,962	(320,558)	13,411,404	69,577	(50,994)	18,583
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–
Financial commitments and contingencies	4,028,731	(11,990)	4,016,741	11,918	(2,418)	9,500

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:

2019 € '000	1 January	Merger	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written off/sold	31 December
Stage 1										
Financial assets at FVOCI	134	–	587	(381)	–	–	–	(116)	–	224
Financial assets at AC:										
Due from other banks	656	–	1,655	35	–	–	–	(1,864)	–	482
Due from customers	42,812	545	26,706	(59,375)	54,686	(19,045)	(2,314)	(12,781)	–	31,234
	43,468	545	28,361	(59,340)	54,686	(19,045)	(2,314)	(14,645)	–	31,716
Financial commitments and contingencies	7,022	–	6,167	(10,779)	6,638	(1,768)	(741)	(2,286)	–	4,253
Stage 2										
Financial assets at AC:										
Due from other banks	98	–	–	(92)	–	–	–	–	–	6
Due from customers	65,366	774	–	58,127	(48,662)	26,155	(29,624)	(12,834)	–	59,302
	65,464	774	–	58,035	(48,662)	26,155	(29,624)	(12,834)	–	59,308
Financial commitments and contingencies	3,664	–	–	2,011	(5,110)	2,368	(402)	(821)	–	1,710
Stage 3										
Financial assets at AC:										
Due from customers	262,620	970	–	31,014	(6,024)	(7,110)	31,938	–	(82,822)	230,586
Financial commitments and contingencies	3,723	–	–	3,555	(1,528)	(600)	1,143	(2,865)	–	3,428

(Table continues on the next page)

2019 € '000	1 January	Merger	Origina-tion	Changes in credit risk (net)	Trans-fer to Stage 1	Trans-fer to Stage 2	Trans-fer to Stage 3	Derecog-nition	Assets written off/sold	31 De-cember
Total										
Financial assets at FVOCI	134	–	587	(381)	–	–	–	(116)	–	224
Financial assets at AC:										
Due from other banks	754	–	1,655	(57)	–	–	–	(1,864)	–	488
Due from customers	370,798	2,289	26,706	29,766	–	–	–	(25,615)	(82,822)	321,122
	371,552	2,289	28,361	29,709	–	–	–	(27,479)	(82,822)	321,610
Financial commitments and contingencies	14,409	–	6,167	(5,213)	–	–	–	(5,972)	–	9,391

2018 € '000	1 January	Merger	Origination	Changes in credit risk (net)	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Derecognition	Assets written off/sold	31 December
Stage 1										
Financial assets at FVOCI	226	–	38	(79)	–	–	–	(51)	–	134
Financial assets at AC:										
Due from other banks	205	–	1,569	232	–	–	–	(1,350)	–	656
Due from customers	39,378	7,592	35,591	(62,327)	62,879	(20,850)	(4,891)	(14,560)	–	42,812
	39,583	7,592	37,160	(62,095)	62,879	(20,850)	(4,891)	(15,910)	–	43,468
Financial commitments and contingencies	7,275	–	10,587	(14,226)	8,097	(1,287)	(1,432)	(1,993)	–	7,022
Stage 2										
Financial assets at AC:										
Due from other banks	350	–	–	(252)	–	–	–	–	–	98
Due from customers	52,641	12,012	–	46,512	(48,628)	39,914	(29,114)	(7,971)	–	65,366
	52,991	12,012	–	46,260	(48,628)	39,914	(29,114)	(7,971)	–	65,464
Financial commitments and contingencies	8,296	–	–	2,149	(7,154)	1,488	(711)	(404)	–	3,664
Stage 3										
Financial assets at AC:										
Due from customers	219,318	57,537	–	48,254	(14,251)	(19,064)	34,005	(2,445)	(60,734)	262,620
Financial commitments and contingencies	2,712	–	–	1,107	(943)	(201)	2,143	(1,095)	–	3,723

(Table continues on the next page)

2018 € '000	1 January	Merger	Origina-tion	Changes in credit risk (net)	Trans-fer to Stage 1	Trans-fer to Stage 2	Trans-fer to Stage 3	Derecog-nition	Assets written off/sold	31 De-cember
Total										
Financial assets at FVOCI	226	–	38	(79)	–	–	–	(51)	–	134
Financial assets at AC:										
Due from other banks	555	–	1,569	(20)	–	–	–	(1,350)	–	754
Due from customers	311,337	77,141	35,591	32,439	–	–	–	(24,976)	(60,734)	370,798
	311,892	77,141	37,160	32,419	–	–	–	(26,326)	(60,734)	371,552
Financial commitments and contingencies	18,283	–	10,587	(10,970)	–	–	–	(3,492)	–	14,408

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:

2019 € '000	1 January	Merger	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	741,114	–	1,549,860	–	–	–	(327,493)	(400,943)	1,562,538
Financial assets at AC:									
Due from other banks	100,678	–	9,897,008	–	(135)	–	(9,817,415)	–	180,136
Due from customers	12,344,678	386	5,913,018	1,263,096	(2,263,879)	(41,248)	(4,236,423)	–	12,979,628
	12,445,356	386	15,810,026	1,263,096	(2,264,014)	(41,248)	(14,053,838)	–	13,159,764
Financial commitments and contingencies	3,814,268	–	3,134,542	237,277	(260,288)	(14,067)	(3,064,753)	–	3,846,979
Stage 2									
Financial assets at AC:									
Due from other banks	2,530	–	–	–	135	–	(1,822)	–	843
Due from customers	933,413	2,179	–	(1,249,051)	2,280,895	(144,289)	(806,921)	–	1,016,226
	935,943	2,179	–	(1,249,051)	2,281,030	(144,289)	(808,743)	–	1,017,069
Financial commitments and contingencies	206,588	–	–	(233,454)	262,226	(6,582)	(93,986)	–	134,792
Stage 3									
Financial assets at AC:									
Due from customers	420,240	1,619	–	(14,045)	(17,016)	185,537	(60,646)	(112,280)	403,409
Financial commitments and contingencies	19,793	–	–	(3,823)	(1,938)	20,649	(12,034)	–	22,647

(Table continues on the next page)

2019 € '000	1 January	Merger	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	741,114	–	1,549,860	–	–	–	(327,493)	(400,943)	1,562,538
Financial assets at AC:									
Due from other banks	103,208	–	9,897,008	–	–	–	(9,819,237)	–	180,979
Due from customers	13,698,331	4,184	5,913,018	–	–	–	(5,103,990)	(112,280)	14,399,263
	13,801,539	4,184	15,810,026	–	–	–	(14,923,227)	(112,280)	14,580,242
Financial commitments and contingencies	4,040,649	–	3,134,542	–	–	–	(3,170,773)	–	4,004,418

2018 € '000	1 January (after IFRS 9)	Merger	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	947,387	–	275,406	–	–	–	(237,286)	(244,393)	741,114
Financial assets at AC:									
Due from other banks	61,557	–	11,817,717	–	–	–	(11,778,596)	–	100,678
Due from customers	10,963,398	–	7,757,507	994,727	(1,439,757)	(28,637)	(5,637,295)	–	12,344,678
	11,024,955	–	19,575,224	994,727	(1,439,757)	(28,637)	(17,415,891)	–	12,445,356
Financial commitments and contingencies	3,102,039	–	4,699,351	342,016	(229,201)	(11,705)	(4,190,302)	–	3,814,268
Stage 2									
Financial assets at AC:									
Due from other banks	4,217	–	–	–	–	–	(1,687)	–	2,530
Due from customers	906,875	–	–	(968,301)	1,504,704	(133,643)	(352,732)	–	933,413
	911,092	–	–	(968,301)	1,504,704	(133,643)	(354,419)	–	935,943
Financial commitments and contingencies	440,323	–	–	(329,461)	230,282	(11,054)	(123,502)	–	206,588
Stage 3									
Financial assets at AC:									
Due from customers	505,785	–	–	(26,426)	(64,947)	162,280	(37,027)	(82,857)	420,240
Financial commitments and contingencies	20,617	–	–	(12,555)	(1,081)	22,759	(9,947)	–	19,793

(Table continues on the next page)

2018 € '000	1 January (after IFRS 9)	Merger	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	947,387	–	275,406	–	–	–	(237,286)	(244,393)	741,114
Financial assets at AC:									
Due from other banks	65,774	–	11,817,717	–	–	–	(11,780,283)	–	103,208
Due from customers	11,761,775	181,167	7,619,348	–	–	–	(5,781,102)	(82,857)	13,698,331
	11,827,549	181,167	19,437,065	–	–	–	(17,561,385)	(82,857)	13,801,539
Financial commitments and contingencies	3,642,125	–	4,722,275	–	–	–	(4,323,751)	–	4,040,649

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.

Implementation of new definition of Non-performing loan classification took place in November 2019 according to EBA/GL/2016/07 and ISP guidelines.

The main changes consist of:
– Calculation of new days past due (see methodology in section Days past due (DPD) methodology) with regulatory absolute and relative thresholds;
– Incorporating of cure period;
– Definition of default and Non-performing definition are in line.

As at 30 November 2019 the impact of new NPL definition represents a € 19.62 million increase at Non-performing level and a € 13.66 million increase at provisions level.

30 November 2019 € '000 000	Financial assets at AC	Financial assets at AC	Financial commitments and contingencies	Financial commitments and contingencies	Impact
	New methodology	Original methodology	New methodology	Original methodology	New methodology
Gross amount					
Non-performing (Stage 3):					
Doubtful	281.75	280.17	5.58	5.06	2.10
Unlikely to pay	103.93	102.25	20.85	20.81	1.72
Past due	22.00	6.33	0.36	0.23	15.80
	407.68	388.75	26.79	26.10	19.62
Performing:					
Stage 1	14,806.52	14,819.10	3,657.68	3,657.35	(12.25)
Stage 2	1,048.95	1,055.30	182.83	183.85	(7.37)
	15,855.47	15,874.40	3,840.51	3,841.20	(19.62)
	16,263.15	16,263.15	3,867.30	3,867.30	–
Impairment losses					
Non-performing (Stage 3):					
Doubtful	178.91	177.78	0.81	0.73	1.21
Unlikely to pay	45.59	45.09	2.62	2.41	0.71
Past due	9.28	2.97	0.08	0.05	6.34
	233.78	225.84	3.51	3.19	8.26
Performing:					
Stage 1	31.72	31.86	4.22	4.24	(0.16)
Stage 2	62.89	57.91	2.89	2.31	5.56
	94.61	89.77	7.11	6.55	5.40
	328.39	315.61	10.62	9.74	13.66

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

2019 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	180,979	(488)	180,491
Due from customers:				
Public administration				
	Performing	134,710	(2,250)	132,460
	Past due	50	(8)	42
		134,760	(2,258)	132,502
Corporate				
	Performing	5,217,637	(31,783)	5,185,854
	Past due	1,290	(22)	1,268
	Unlikely to pay	37,492	(15,653)	21,839
	Doubtful	38,511	(31,927)	6,584
		5,294,930	(79,385)	5,215,545
Retail				
	Performing	8,643,507	(56,503)	8,587,004
	Past due	30,841	(13,129)	17,712
	Unlikely to pay	50,707	(23,883)	26,824
	Doubtful	244,518	(145,964)	98,554
		8,969,573	(239,479)	8,730,094
		14,399,263	(321,122)	14,078,141
		14,580,242	(321,610)	14,258,632
Financial assets at FVOCI – debt securities				
	Performing	1,562,762	(224)	1,562,538
Financial commitments and contingencies				
	Performing	3,981,771	(5,963)	3,975,808
	Past due	326	(92)	234
	Unlikely to pay	18,506	(2,182)	16,324
	Doubtful	3,815	(1,154)	2,661
		4,004,418	(9,391)	3,995,027

2018 € '000	Category	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Performing	103,208	(754)	102,454
Due from customers:				
Public administration				
	Performing	143,539	(2,599)	140,940
	Doubtful	1	–	1
		143,540	(2,599)	140,941
Corporate				
	Performing	5,150,834	(38,105)	5,112,729
	Past due	8,050	(17)	8,033
	Unlikely to pay	30,748	(13,866)	16,882
	Doubtful	39,838	(37,456)	2,382
		5,229,470	(89,444)	5,140,026
Retail				
	Performing	7,983,718	(67,474)	7,916,244
	Past due	13,183	(7,586)	5,597
	Unlikely to pay	46,146	(26,323)	19,823
	Doubtful	282,274	(177,372)	104,902
		8,325,321	(278,755)	8,046,566
		13,698,331	(370,798)	13,327,533
		13,801,539	(371,552)	13,429,987
Financial assets at FVOCI – debt securities				
	Performing	741,248	(134)	741,114
Financial commitments and contingencies				
	Performing	4,020,857	(10,686)	4,010,171
	Past due	179	(39)	140
	Unlikely to pay	13,127	(2,790)	10,337
	Doubtful	6,486	(893)	5,593
		4,040,649	(14,408)	4,026,241

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

2019 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	180,979	(488)	180,491
Due from customers:			
Public administration			
No delinquency	134,085	(2,249)	131,836
1 – 30 days	625	(1)	624
91 – 180 days	50	(8)	42
	134,760	(2,258)	132,502
Corporate			
No delinquency	5,235,056	(43,360)	5,191,696
1 – 30 days	12,970	(106)	12,864
31 – 60 days	13,260	(8,234)	5,026
61 – 90 days	1,604	(1,530)	74
91 – 180 days	1,011	(87)	924
Over 181 days	31,029	(26,068)	4,961
	5,294,930	(79,385)	5,215,545
Retail			
No delinquency	8,594,518	(54,637)	8,539,881
1 – 30 days	77,025	(12,779)	64,246
31 – 60 days	14,489	(3,419)	11,070
61 – 90 days	12,392	(3,519)	8,873
91 – 180 days	41,031	(19,562)	21,469
Over 181 days	230,118	(145,563)	84,555
	8,969,573	(239,479)	8,730,094
	14,399,263	(321,122)	14,078,141
	14,580,242	(321,610)	14,258,632
Financial assets at FVOCI – debt securities			
No delinquency	1,562,762	(224)	1,562,538
Financial commitments and contingencies			
No delinquency	4,004,418	(9,391)	3,995,027

2018 € '000	Gross amount	Impairment losses	Net amount
Financial assets at AC:			
Due from other banks			
No delinquency	102,114	(726)	101,388
1 – 30 days	1,094	(28)	1,066
	103,208	(754)	102,454
Due from customers:			
Public administration			
No delinquency	143,372	(2,599)	140,773
1 – 30 days	167	–	167
Over 181 days	1	–	1
	143,540	(2,599)	140,941
Corporate			
No delinquency	5,164,979	(56,966)	5,108,013
1 – 30 days	25,658	(1,498)	24,160
31 – 60 days	4,728	(1,348)	3,380
61 – 90 days	455	(18)	437
91 – 180 days	3,565	(1,725)	1,840
Over 181 days	30,085	(27,889)	2,196
	5,229,470	(89,444)	5,140,026
Retail			
No delinquency	7,797,389	(54,391)	7,742,998
1 – 30 days	187,046	(24,174)	162,872
31 – 60 days	43,565	(9,408)	34,157
61 – 90 days	24,701	(7,168)	17,533
91 – 180 days	34,409	(17,356)	17,053
Over 181 days	238,211	(166,258)	71,953
	8,325,321	(278,755)	8,046,566
	13,698,331	(370,798)	13,327,533
	13,801,539	(371,552)	13,429,987
Financial assets at FVOCI – debt securities			
No delinquency	741,248	(134)	741,114
Financial commitments and contingencies			
No delinquency	4,040,649	(14,408)	4,026,241

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

	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
2019 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Financial assets at AC:									
Due from other banks	180,979	(488)	180,491	–	–	–	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	3,876	–	3,876	–	–	–	–	–	–
Municipalities	130,209	(2,249)	127,960	625	(1)	624	50	(8)	42
	134,085	(2,249)	131,836	625	(1)	624	50	(8)	42
Corporate									
Large Corporates	2,213,903	(2,235)	2,211,668	3	–	3	7,069	(2,974)	4,095
Large Corporates – debt securities	124,322	(118)	124,204	–	–	–	–	–	–
Specialized Lending	855,516	(25,068)	830,448	1,880	(20)	1,860	14,586	(13,348)	1,238
SME	1,240,919	(3,775)	1,237,144	2,330	(60)	2,270	50,984	(30,090)	20,894
Other Non-banking Financial Institutions	663,943	(396)	663,547	–	–	–	1	(1)	–
Other Non-banking Financial Institutions – debt securities	25,063	(28)	25,035	–	–	–	–	–	–
Public Sector Entities	1,337	(37)	1,300	–	–	–	7	(1)	6
Factoring	79,202	(9)	79,193	9,219	(37)	9,182	4,646	(1,188)	3,458
	5,204,205	(31,666)	5,172,539	13,432	(117)	13,315	77,293	(47,602)	29,691

(Table continues on the next page)

2019 € '000	Neither past due nor impaired Gross amount	Impair-ment losses	Net amount	Past due but not individually impaired Gross amount	Impair-ment losses	Net amount	Impaired (non-performing) Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	235,684	(3,619)	232,065	2,800	(244)	2,556	13,628	(9,018)	4,610
Consumer Loans	1,299,660	(25,933)	1,273,727	65,213	(11,996)	53,217	195,871	(120,803)	75,068
Mortgages	6,801,375	(8,796)	6,792,579	14,060	(897)	13,163	82,188	(29,147)	53,041
Credit Cards	119,008	(2,552)	116,456	4,256	(892)	3,364	26,809	(18,984)	7,825
Overdrafts	63,369	(1,012)	62,357	1,944	(315)	1,629	7,570	(5,024)	2,546
Flat Owners Associations	36,138	(247)	35,891	–	–	–	–	–	–
	8,555,234	(42,159)	8,513,075	88,273	(14,344)	73,929	326,066	(182,976)	143,090
	13,893,524	(76,074)	13,817,450	102,330	(14,462)	87,868	403,409	(230,586)	172,823
	14,074,503	(76,562)	13,997,941	102,330	(14,462)	87,868	403,409	(230,586)	172,823
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies	3,981,771	(5,963)	3,975,808	–	–	–	22,647	(3,428)	19,219

2018 € '000	Neither past due nor impaired Gross amount	Impair-ment losses	Net amount	Past due but not individually impaired Gross amount	Impair-ment losses	Net amount	Impaired (non-performing) Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks	102,114	(726)	101,388	1,094	(28)	1,066	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	2,870	–	2,870	–	–	–	–	–	–
Municipalities	140,501	(2,598)	137,903	167	–	167	1	–	1
	143,371	(2,598)	140,773	167	–	167	1	–	1
Corporate									
Large Corporates	2,137,176	(3,294)	2,133,882	554	(1)	553	7,227	(2,189)	5,038
Large Corporates – debt securities	53,360	(619)	52,741	–	–	–	–	–	–
Specialized Lending	826,812	(30,414)	796,398	100	(2)	98	21,400	(16,214)	5,186
SME	1,255,147	(3,080)	1,252,067	10,787	(103)	10,684	39,471	(31,785)	7,686
Other Non-banking Financial Institutions	769,192	(450)	768,742	–	–	–	2	(1)	1
Public Sector Entities	2,895	(72)	2,823	3	–	3	7	(1)	6
Factoring	82,531	(12)	82,519	12,277	(58)	12,219	10,529	(1,149)	9,380
	5,127,113	(37,941)	5,089,172	23,721	(164)	23,557	78,636	(51,339)	27,297

(Table continues on the next page)

2018 € '000	Neither past due nor impaired			Past due but not individually impaired			Impaired (non-performing)		
	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	231,639	(3,774)	227,865	6,946	(420)	6,526	11,316	(9,083)	2,233
Consumer Loans	1,270,922	(26,308)	1,244,614	106,758	(18,880)	87,878	211,687	(144,668)	67,019
Mortgages	6,017,227	(5,834)	6,011,393	84,448	(4,173)	80,275	71,054	(24,074)	46,980
Credit Cards	136,531	(4,195)	132,336	9,823	(1,887)	7,936	37,173	(26,623)	10,550
Overdrafts	72,543	(882)	71,661	13,595	(871)	12,724	10,373	(6,833)	3,540
Flat Owners Associations	33,253	(248)	33,005	34	(3)	31	–	–	–
	7,762,115	(41,241)	7,720,874	221,604	(26,234)	195,370	341,603	(211,281)	130,322
	13,032,599	(81,780)	12,950,819	245,492	(26,398)	219,094	420,240	(262,620)	157,620
	13,134,713	(82,506)	13,052,207	246,586	(26,426)	220,160	420,240	(262,620)	157,620
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–	–	–	–
Financial commitments and contingencies	4,020,857	(10,686)	4,010,171	–	–	–	19,792	(3,722)	16,070

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

2019 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from customers:			
Public administration			
1 – 30 days	625	(1)	624
Corporate			
1 – 30 days	12,889	(114)	12,775
31 – 60 days	535	(3)	532
61 – 90 days	8	–	8
	13,432	(117)	13,315
Retail			
1 – 30 days	68,036	(9,328)	58,708
31 – 60 days	11,006	(2,404)	8,602
61 – 90 days	9,231	(2,612)	6,619
	88,273	(14,344)	73,929
	102,330	(14,462)	87,868
	102,330	(14,462)	87,868

2018 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:			
Due from other banks			
1 – 30 days	1,094	(28)	1,066
Due from customers:			
Public administration			
1 – 30 days	167	–	167
Corporate			
1 – 30 days	21,720	(115)	21,605
31 – 60 days	1,618	(33)	1,585
61 – 90 days	383	(16)	367
	23,721	(164)	23,557
Retail			
1 – 30 days	167,809	(15,862)	151,947
31 – 60 days	33,081	(5,578)	27,503
61 – 90 days	15,010	(3,284)	11,726
91 – 180 days	5,523	(1,493)	4,030
Over 181 days	181	(17)	164
	221,604	(26,234)	195,370
	245,492	(26,398)	219,094
	246,586	(26,426)	220,160

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

			Stage 1			Stage 2			Stage 3
2019 € '000	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**	**Gross amount**	**Impair-ment losses**	**Net amount**
Financial assets at AC:									
Due from other banks	180,136	(482)	179,654	843	(6)	837	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	3,876	–	3,876	–	–	–	–	–	–
Municipalities	112,331	(1,068)	111,263	18,503	(1,182)	17,321	50	(8)	42
	116,207	(1,068)	115,139	18,503	(1,182)	17,321	50	(8)	42
Corporate									
Large Corporates	2,137,087	(1,959)	2,135,128	76,819	(276)	76,543	7,069	(2,974)	4,095
Large Corporates – debt securities	124,322	(118)	124,204	–	–	–	–	–	–
Specialized Lending	770,728	(13,890)	756,838	86,668	(11,198)	75,470	14,586	(13,348)	1,238
SME	996,165	(958)	995,207	247,084	(2,877)	244,207	50,984	(30,090)	20,894
Other Non-banking Financial Institutions	663,943	(396)	663,547	–	–	–	1	(1)	–
Other Non-banking Financial Institutions – debt securities	25,063	(28)	25,035	–	–	–	–	–	–
Public Sector Entities	1,337	(37)	1,300	–	–	–	7	(1)	6
Factoring	86,000	(41)	85,959	2,421	(5)	2,416	4,646	(1,188)	3,458
	4,804,645	(17,427)	4,787,218	412,992	(14,356)	398,636	77,293	(47,602)	29,691

(Table continues on the next page)

2019 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	175,975	(871)	175,104	62,509	(2,992)	59,517	13,628	(9,018)	4,610
Consumer Loans	1,131,473	(9,430)	1,122,043	233,400	(28,499)	204,901	195,871	(120,803)	75,068
Mortgages	6,562,236	(941)	6,561,295	253,199	(8,752)	244,447	82,188	(29,147)	53,041
Credit Cards	107,211	(928)	106,283	16,053	(2,516)	13,537	26,809	(18,984)	7,825
Overdrafts	45,743	(322)	45,421	19,570	(1,005)	18,565	7,570	(5,024)	2,546
Flat Owners Associations	36,138	(247)	35,891	–	–	–	–	–	–
	8,058,776	(12,739)	8,046,037	584,731	(43,764)	540,967	326,066	(182,976)	143,090
	12,979,628	(31,234)	12,948,394	1,016,226	(59,302)	956,924	403,409	(230,586)	172,823
	13,159,764	(31,716)	13,128,048	1,017,069	(59,308)	957,761	403,409	(230,586)	172,823
Financial assets at FVOCI – debt securities	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies	3,846,979	(4,253)	3,842,726	134,792	(1,710)	133,082	22,647	(3,428)	19,219

2018 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks	100,678	(656)	100,022	2,530	(98)	2,432	–	–	–
Due from customers:									
Public administration									
Single Resolution Fund	2,870	–	2,870				–	–	–
Municipalities	119,277	(1,238)	118,039	21,392	(1,361)	20,031	1	–	1
	122,147	(1,238)	120,909	21,392	(1,361)	20,031	1	–	1
Corporate									
Large Corporates	2,071,129	(3,177)	2,067,952	66,601	(118)	66,483	7,227	(2,189)	5,038
Large Corporates – debt securities	53,360	(619)	52,741	–	–	–	–	–	–
Specialized Lending	772,107	(20,429)	751,678	54,805	(9,987)	44,818	21,400	(16,214)	5,186
SME	1,106,515	(1,386)	1,105,129	159,419	(1,797)	157,622	39,471	(31,785)	7,686
Other Non-banking Financial Institutions	769,192	(450)	768,742	–	–	–	2	(1)	1
Public Sector Entities	2,897	(72)	2,825	1	–	1	7	(1)	6
Factoring	77,363	(33)	77,330	17,445	(37)	17,408	10,529	(1,149)	9,380
	4,852,563	(26,166)	4,826,397	298,271	(11,939)	286,332	78,636	(51,339)	27,297

(Table continues on the next page)

2018 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
Small Business	180,900	(1,057)	179,843	57,685	(3,137)	54,548	11,316	(9,083)	2,233
Consumer Loans	1,120,112	(11,161)	1,108,951	257,568	(34,027)	223,541	211,687	(144,668)	67,019
Mortgages	5,854,582	(980)	5,853,602	247,092	(9,026)	238,066	71,054	(24,074)	46,980
Credit Cards	124,927	(1,448)	123,479	21,427	(4,634)	16,793	37,173	(26,623)	10,550
Overdrafts	56,194	(514)	55,680	29,944	(1,239)	28,705	10,373	(6,833)	3,540
Flat Owners Associations	33,253	(248)	33,005	34	(3)	31	–	–	–
	7,369,968	(15,408)	7,354,560	613,750	(52,066)	561,684	341,603	(211,281)	130,322
	12,344,678	(42,812)	12,301,866	933,413	(65,366)	868,047	420,240	(262,620)	157,620
	12,445,356	(43,468)	12,401,888	935,943	(65,464)	870,479	420,240	(262,620)	157,620
Financial assets at FVOCI – debt securities	741,248	(134)	741,114	–	–	–	–	–	–
Financial commitments and contingencies	3,814,268	(7,021)	3,807,247	206,588	(3,664)	202,924	19,793	(3,723)	16,070

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

			Stage 1			Stage 2			Stage 3
2019 € '000	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount	Gross amount	Impair-ment losses	Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	180,136	(482)	179,654	843	(6)	837	–	–	–
Due from customers:									
Public administration									
No delinquency	115,582	(1,067)	114,515	18,503	(1,182)	17,321	–	–	–
1 – 30 days	625	(1)	624	–	–	–	–	–	–
91 – 180 days	–	–	–	–	–	–	50	(8)	42
	116,207	(1,068)	115,139	18,503	(1,182)	17,321	50	(8)	42
Corporate									
No delinquency	4,796,306	(17,394)	4,778,912	407,900	(14,270)	393,630	30,850	(11,696)	19,154
1 – 30 days	8,334	(33)	8,301	4,554	(82)	4,472	82	9	91
31 – 60 days	5	–	5	530	(4)	526	12,725	(8,230)	4,495
61 – 90 days	–	–	–	8	–	8	1,596	(1,530)	66
91 – 180 days	–	–	–	–	–	–	1,011	(87)	924
Over 181 days	–	–	–	–	–	–	31,029	(26,068)	4,961
	4,804,645	(17,427)	4,787,218	412,992	(14,356)	398,636	77,293	(47,602)	29,691

(Table continues on the next page)

2019 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	8,042,724	(12,116)	8,030,608	512,510	(30,044)	482,466	39,284	(12,477)	26,807
1 – 30 days	16,052	(623)	15,429	51,984	(8,704)	43,280	8,989	(3,452)	5,537
31 – 60 days	–	–	–	11,006	(2,404)	8,602	3,483	(1,015)	2,468
61 – 90 days	–	–	–	9,231	(2,612)	6,619	3,184	(921)	2,263
91 – 180 days	–	–	–	–	–	–	41,008	(19,548)	21,460
Over 181 days	–	–	–	–	–	–	230,118	(145,563)	84,555
	8,058,776	(12,739)	8,046,037	584,731	(43,764)	540,967	326,066	(182,976)	143,090
	12,979,628	(31,234)	12,948,394	1,016,226	(59,302)	956,924	403,409	(230,586)	172,823
	13,159,764	(31,716)	13,128,048	1,017,069	(59,308)	957,761	403,409	(230,586)	172,823
Financial assets at FVOCI – debt securities									
No delinquency	1,562,762	(224)	1,562,538	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	3,846,979	(4,253)	3,842,726	134,792	(1,710)	133,082	22,647	(3,428)	19,219

2018 € '000	Stage 1 Gross amount	Stage 1 Impairment losses	Stage 1 Net amount	Stage 2 Gross amount	Stage 2 Impairment losses	Stage 2 Net amount	Stage 3 Gross amount	Stage 3 Impairment losses	Stage 3 Net amount
Financial assets at AC:									
Due from other banks									
No delinquency	99,584	(628)	98,956	2,530	(98)	2,432	–	–	–
1 – 30 days	1,094	(28)	1,066	–	–	–	–	–	–
	100,678	(656)	100,022	2,530	(98)	2,432	–	–	–
Due from customers:									
Public administration									
No delinquency	121,980	(1,238)	120,742	21,392	(1,361)	20,031	–	–	–
1 – 30 days	167	–	167	–	–	–	–	–	–
Over 181 days	–	–	–	–	–	–	1	–	1
	122,147	(1,238)	120,909	21,392	(1,361)	20,031	1	–	1
Corporate									
No delinquency	4,839,902	(26,100)	4,813,802	287,211	(11,841)	275,370	37,866	(19,025)	18,841
1 – 30 days	12,661	(66)	12,595	9,060	(48)	9,012	3,937	(1,384)	2,553
31 – 60 days	–	–	–	1,618	(33)	1,585	3,110	(1,315)	1,795
61 – 90 days	–	–	–	382	(17)	365	73	(1)	72
91 – 180 days	–	–	–	–	–	–	3,565	(1,725)	1,840
Over 181 days	–	–	–	–	–	–	30,085	(27,889)	2,196
	4,852,563	(26,166)	4,826,397	298,271	(11,939)	286,332	78,636	(51,339)	27,297

(Table continues on the next page)

2018 € '000	Gross amount	Impair-ment losses	Stage 1 Net amount	Gross amount	Impair-ment losses	Stage 2 Net amount	Gross amount	Impair-ment losses	Stage 3 Net amount
Financial assets at AC:									
Due from customers:									
Retail									
No delinquency	7,308,402	(13,630)	7,294,772	453,713	(27,612)	426,101	35,274	(13,149)	22,125
1 – 30 days	59,064	(1,561)	57,503	108,743	(14,300)	94,443	19,239	(8,313)	10,926
31 – 60 days	1,795	(169)	1,626	31,286	(5,409)	25,877	10,484	(3,830)	6,654
61 – 90 days	548	(48)	500	14,463	(3,236)	11,227	9,690	(3,884)	5,806
91 – 180 days	6	–	6	5,517	(1,493)	4,024	28,886	(15,863)	13,023
Over 181 days	153	–	153	28	(16)	12	238,030	(166,242)	71,788
	7,369,968	(15,408)	7,354,560	613,750	(52,066)	561,684	341,603	(211,281)	130,322
	12,344,678	(42,812)	12,301,866	933,413	(65,366)	868,047	420,240	(262,620)	157,620
	12,445,356	(43,468)	12,401,888	935,943	(65,464)	870,479	420,240	(262,620)	157,620
Financial assets at FVOCI – debt securities									
No delinquency	741,248	(134)	741,114	–	–	–	–	–	–
Financial commitments and contingencies									
No delinquency	3,814,268	(7,021)	3,807,247	206,588	(3,664)	202,924	19,793	(3,723)	16,070

4.1.4. Loans with renegotiated terms and forbearance policy

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

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

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

	Performing forborne			Non-performing forborne		
2019 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	51,648	(4,168)	47,480	39,640	(28,772)	10,868
Retail	47,302	(2,249)	45,053	19,654	(10,904)	8,750
	98,950	(6,417)	92,533	59,294	(39,676)	19,618
Financial commitments and contingencies	1,038	(4)	1,034	1,822	(271)	1,551

	Performing forborne			Non-performing forborne		
2018 **€ '000**	**Gross amount**	**Impairment losses**	**Net amount**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at AC:						
Corporate	56,953	(7,368)	49,585	24,520	(20,154)	4,366
Retail	53,399	(2,605)	50,794	21,175	(12,940)	8,235
	110,352	(9,973)	100,379	45,695	(33,094)	12,601
Financial commitments and contingencies	948	(1)	947	1,480	(876)	604

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.

4.1.6. Collateral Policy

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

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

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

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

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

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

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

		2019		2018
€ '000	**Clients**	**Banks**	**Clients**	**Banks**
Property	7,940,874	–	7,090,201	–
of which covering mortgages:	7,002,416	–	6,299,708	–
LTV* lower than 60%	2,011,790	–	1,768,089	–
LTV higher than 60% and lower than 80%	3,244,878	–	2,582,685	–
LTV higher than 80% and lower than 100%	1,741,780	–	1,943,856	–
LTV higher than 100%	3,969	–	5,078	–
Debt securities	25,631	–	31,312	70,987
Other	536,221	85,186	483,834	–
	8,502,726	85,186	7,605,347	70,987

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

		2019		2018
€ '000	**Clients**	**Banks**	**Clients**	**Banks**
Property	145,989	–	135,921	–
of which covering mortgages:	113,185	–	99,218	–
LTV* lower than 60%	49,450	–	39,519	–
LTV higher than 60% and lower than 80%	47,240	–	41,203	–
LTV higher than 80% and lower than 100%	14,421	–	16,537	–
LTV higher than 100%	2,075	–	1,958	–
Debt securities	–	–	–	–
Other	5,549	–	2,567	–
	151,538	–	138,488	–

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

4.1.7. Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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

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

	Note				Related amounts not offset in SOFP		
2018 € '000		**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	1,069,327	–	1,069,327	(1,069,327)	–	–
Derivative financial instruments	8, 9	57,929	–	57,929	–	(968)	56,961

					Related amounts not offset in SOFP		
2018 € '000		**Gross amount**	**Gross amount offset in SOFP**	**Net amount presented in SOFP**	**Financial instrument and non-cash collateral**	**Cash collateral pledged**	**Net amount**
Types of financial liabilities							
Derivative financial instruments	8, 9	51,774	–	51,774	–	(31,110)	20,664

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

€ '000	Note	2019 Total carrying amount presented in SOFP	In scope of offsetting disclosure	Not in scope of offsetting disclosure	2018 Total carrying amount presented in SOFP	In scope of offsetting disclosure	Not in scope of offsetting disclosure
Financial assets							
Cash and cash equivalents	7	996,438	78,749	917,689	1,769,121	1,069,327	699,794
Financial assets at FVTPL:	8						
Financial assets held for trading		21,251	9,585	11,666	39,548	31,164	8,384
Derivatives – Hedge accounting	9	82,501	82,501	–	26,765	26,765	–
Financial liabilities							
Financial liabilities at FVTPL:	8						
Financial liabilities held for trading		24,750	21,139	3,611	39,548	36,548	3,000
Derivatives – Hedge accounting	9	59,833	59,833	–	15,226	15,226	–

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.

2019 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	130,884	(2,258)	128,626
Corporate	3,440,914	(72,372)	3,368,542
Retail	8,879,306	(237,065)	8,642,241
	12,451,104	(311,695)	12,139,409
Financial assets at FVOCI – debt securities	612,767	(52)	612,715
Financial commitments and contingencies	3,292,072	(8,856)	3,283,216
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	685,372	(2,346)	683,026
Retail	22,212	(1,771)	20,441
	707,584	(4,117)	703,467
Financial commitments and contingencies	25,229	(18)	25,211
Other European countries			
Financial assets at AC:			
Due from other banks	121,832	(131)	121,701
Due from customers:			
Public administration	3,876	–	3,876
Corporate	1,122,789	(4,646)	1,118,143
Retail	59,394	(571)	58,823
	1,186,059	(5,217)	1,180,842
	1,307,891	(5,348)	1,302,543
Financial assets at FVOCI – debt securities	850,633	(154)	850,479
Financial commitments and contingencies	637,455	(480)	636,975

(Table continues on the next page)

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

2018 € '000	Gross amount	Impairment losses/ provisions	Net amount
Slovakia			
Financial assets at AC:			
Due from customers:			
Public administration	140,670	(2,258)	138,412
Corporate	3,313,345	(76,621)	3,236,724
Retail	8,272,080	(277,823)	7,994,257
	11,726,095	(356,702)	11,369,393
Financial assets at FVOCI – debt securities	516,936	(30)	516,906
Financial commitments and contingencies	3,245,230	(12,830)	3,232,400
Czech republic			
Financial assets at AC:			
Due from customers:			
Corporate	750,435	(6,671)	743,764
Retail	10,971	(166)	10,805
	761,406	(6,837)	754,569
Financial commitments and contingencies	275,600	(854)	274,746
Other European countries			
Financial assets at AC:			
Due from other banks	35,708	(404)	35,304
Due from customers:			
Public administration	2,870	–	2,870
Corporate	1,102,135	(5,999)	1,096,136
Retail	36,971	(576)	36,395
	1,141,976	(6,575)	1,135,401
	1,177,684	(6,979)	1,170,705
Financial assets at FVOCI – debt securities	224,312	(104)	224,208
Financial commitments and contingencies	453,760	(625)	453,135

(Table continues on the next page)

2018 € '000	Gross amount	Impairment losses/ provisions	Net amount
North America			
Financial assets at AC:			
Due from customers:			
Corporate	27,398	(106)	27,292
Retail	677	(2)	675
	28,075	(108)	27,967
Financial commitments and contingencies	1,695	–	1,695
Asia			
Financial assets at AC:			
Due from other banks	320	–	320
Due from customers:			
Corporate	35,876	(47)	35,829
Retail	3,436	(154)	3,282
	39,312	(201)	39,111
	39,632	(201)	39,431
Financial commitments and contingencies	43,945	(46)	43,899
Rest of the World			
Financial assets at AC:			
Due from other banks	67,180	(350)	66,830
Due from customers:			
Corporate	281	–	281
Retail	1,186	(34)	1,152
	1,467	(34)	1,433
	68,647	(384)	68,263
Financial commitments and contingencies	20,419	(53)	20,366

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

€ '000	Gross amount	Impairment losses	2019 Net amount	Gross amount	Impairment losses	2018 Net amount
Europe						
Slovakia	612,767	(52)	612,715	516,936	(30)	516,906
Italy	489,947	(117)	489,830	204,137	(96)	204,041
Spain	199,284	(17)	199,267	–	–	–
France	56,607	(5)	56,602	–	–	–
Poland	51,710	(11)	51,699	20,175	(8)	20,167
Great Britain	47,685	(4)	47,681	–	–	–
Austria	5,400	–	5,400	–	–	–
	1,463,400	(206)	1,463,194	741,248	(134)	741,114
North America						
Canada	99,361	(17)	99,344	–	–	–

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

2019 € '000	Financial assets at AC:				Financial assets at FVOCI – debt securities	Financial commit-ments and contin-gencies
	Banks	Public adminis-tration	Corporate	Retail*		
Agriculture, forestry and fishing	–	–	167,180	21,101	–	66,249
Mining and quarrying	–	–	46,671	450	–	37,413
Manufacturing	–	–	742,736	27,727	–	700,300
Electricity, gas, steam and air conditioning supply	–	–	697,879	1,398	–	407,179
Water supply	–	–	97,923	2,617	–	13,742
Construction	–	–	195,838	27,702	–	421,308
Wholesale and retail trade	–	–	836,675	66,336	–	390,648
Transport and storage	–	1,746	273,056	13,491	–	229,113
Accommodation and food service activities	–	–	22,613	12,249	–	3,672
Information and communication	–	–	120,512	5,327	–	54,453
Financial and insurance activities**	180,491	–	799,869	230	388,411	348,391
Real estate activities	–	–	499,488	50,202	–	55,239
Professional, scientific and technical activities	–	–	157,083	19,440	–	168,448
Administrative and support service activities	–	–	198,289	4,857	–	27,456
Public administration and defense, compulsory social security	–	130,755	227	147	1,174,127	9,528
Education	–	1	332	1,056	–	216
Human health services and social work activities	–	–	34,237	14,782	–	14,072
Arts, entertainment and recreation	–	–	23,043	2,124	–	2,353
Other services	–	–	301,894	3,887	–	68,900
Consumer Loans	–	–	–	1,596,188	–	338,582
Mortgage Loans	–	–	–	6,858,783	–	637,765
	180,491	132,502	5,215,545	8,730,094	1,562,538	3,995,027

2018 € '000			Financial assets at AC:		Financial assets at FVOCI – debt securities	Financial commit-ments and contin-gencies
	Banks	Public ad-ministra-tion	Corporate	Retail*		
Agriculture, forestry and fishing	–	–	149,913	24,302	–	51,408
Mining and quarrying	–	–	46,676	99	–	43,796
Manufacturing	–	–	701,835	28,291	–	775,217
Electricity, gas, steam and air conditioning supply	–	–	670,720	1,225	–	400,955
Water supply	–	62	92,792	2,996	–	23,506
Construction	–	–	180,539	25,965	–	445,655
Wholesale and retail trade	–	–	867,044	66,073	–	389,175
Transport and storage	–	3,188	267,761	12,247	–	156,579
Accommodation and food service activities	–	–	29,469	11,991	–	6,539
Information and communication	–	–	35,290	4,677	–	50,099
Financial and insurance activities**	102,454	–	1,033,748	102	59,305	355,709
Real estate activities	–	–	448,760	47,485	–	91,428
Professional, scientific and technical activities	–	–	163,930	19,295	–	120,500
Administrative and support service activities	–	–	189,960	4,007	–	44,650
Public administration and defense, compulsory social security	–	137,690	337	153	681,809	15,737
Education	–	1	74	1,302	–	234
Human health services and social work activities	–	–	12,218	12,930	–	16,387
Arts, entertainment and recreation	–	–	16,864	2,624	–	5,107
Other services	–	–	232,096	3,895	–	35,911
Consumer Loans	–	–	–	1,638,259	–	390,789
Mortgage Loans	–	–	–	6,138,648	–	606,860
	102,454	140,941	5,140,026	8,046,566	741,114	4,026,241

* '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 applicable for corporate and retail exposures is shown below.

Large Corporates above € 500 million turnover	Large Corporates below € 500 million turnover and SME	Retail Small Business ('SB') and Flat Owners Associations ('FOA')	Risk Profile	Description
LC_I1 – LC_I4	I1 – I4	I3 – I4	Very Low	Good quality of assets, strong market penetration, steady activity, proven distinctive managerial skills, broad debt coverage capacity.
LC_I5 – LC_I6	I5 – I6	I5 – I6	Low	Satisfactory quality and chargeability of assets, market penetration and managerial quality on the average; well set solvency, capital structure and debt composition; above average debt coverage capacity.
LC_M1 – LC_M2	M1 – M2	M1 – M2	Lower – Intermediate	Acceptable quality and chargeability of available assets, even if with a not negligible degree of risk; well-balanced solvency, capital structure and debt composition with slight liquidity surplus and weaker debt coverage capacity.
LC_M3 – LC_M4	M3 – M4	M3 – M4	Intermediate	Acceptable quality and chargeability of available assets even if with a significant degree of risk; vulnerable margin at times, capital structure and debt composition that show worsening signals; low level of liquidity and short debt coverage margin.
LC_R1 – LC_R3	R1 – R3	R1 – R3	Upper – Intermediate	Still acceptable asset quality even if with possible liquidity stress; high level of gearing; managerial weakness, little market penetration and positioning; margins and competitiveness under pressure.
LC_R4 – LC_R5	R4 – R5	R4 – R5	High	In addition to riskiness features for R1 – R3 rating, there are evident difficulties as well as problematic debt management.
D	D	D	Default	A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: – 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 the risk profiles.

Retail Mortgages	Unsecured Retail	Risk Profile	Description
L1a – L4	U01a – U02	Very Low	High level of client's socio-demographic information and financial discipline.
N1	U03	Low	Above average level of client's socio-demographic information and financial discipline.
N2 – W1	U04 – U07	Lower – Intermediate	Acceptable level of client's socio-demographic information and financial discipline.
W2	U08 – U09	Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there are some signals of worsening credit quality.
–	U10 – U11	Upper – Intermediate	Acceptable level of client's socio-demographic information and financial discipline, but there is worsening credit quality.
W3	U12	High	Acceptable level of client's socio-demographic information and financial discipline, but there is negative credit behaviour.
D	D	Default	A default is considered to have occurred with regard to a particular mortgage/obligor when either or both of the two following events have taken place: – 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).

Capital requirement calculation

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

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

2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Unrated	180,136	(482)	179,654
Due from customers:				
Public administration				
	Unrated	116,207	(1,068)	115,139
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,252,046	(630)	1,251,416
	LC_M1 – LC_M4	421,166	(1,053)	420,113
	LC_R1 – LC_R5	13,820	(100)	13,720
	I1 – I6	689,500	(96)	689,404
	M1 – M4	649,003	(513)	648,490
	R1 – R5	181,637	(607)	181,030
	Unrated	50,401	(36)	50,365
Specialized Lending – SPV, RED				
	Strong	262,763	(1,468)	261,295
	Good	297,234	(3,459)	293,775
	Satisfactory	193,450	(6,925)	186,525
	Weak	17,281	(2,039)	15,242
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	205,567	(82)	205,485
	LC_R1 – LC_R5	12,832	(126)	12,706
	I1 – I6	136,300	(28)	136,272
	M1 – M4	309,243	(160)	309,083
	Unrated	26,401	(66)	26,335
Factoring				
	Unrated	86,001	(39)	85,962
		4,804,645	(17,427)	4,787,218

(Table continues on the next page)

2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	37,567	(33)	37,534
	M1 – M4	142,111	(631)	141,480
	R1 – R5	32,285	(430)	31,855
	Unrated	150	(24)	126
Mortgages				
	L1 – L4	5,986,179	(357)	5,985,822
	N1	279,305	(105)	279,200
	N2 – W1	277,961	(331)	277,630
	W2	15,895	(110)	15,785
	W3	1,405	(38)	1,367
	Unrated	1,492	–	1,492
Unsecured Retail				
	U01a – U02	338,726	(416)	338,310
	U3	105,062	(244)	104,818
	U04 – U07	427,142	(2,272)	424,870
	U08 – U09	83,470	(1,530)	81,940
	U10 – U11	22,633	(1,187)	21,446
	U12	5,636	(972)	4,664
	Unrated	301,757	(4,059)	297,698
		8,058,776	(12,739)	8,046,037
		12,979,628	(31,234)	12,948,394
		13,159,764	(31,716)	13,128,048
Financial assets at FVOCI – debt securities				
	Unrated	1,562,762	(224)	1,562,538

(Table continues on the next page)

2019 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,232,825	(300)	1,232,525
	LC_M1 – LC_M4	92,185	(121)	92,064
	LC_R1 – LC_R5	11,333	(117)	11,216
	I1 – I6	707,466	(70)	707,396
	M1 – M4	544,022	(348)	543,674
	R1 – R5	84,847	(403)	84,444
	Strong	13,147	(56)	13,091
	Good	96,623	(837)	95,786
	Satisfactory	42,444	(1,291)	41,153
	Weak	25	(2)	23
	L1 – L4	491,139	(45)	491,094
	N1	51,572	(25)	51,547
	N2 – W1	79,904	(138)	79,766
	W2	11,560	(101)	11,459
	W3	486	(19)	467
	U01a – U02	236,228	(34)	236,194
	U3	14,192	(9)	14,183
	U04 – U07	50,103	(78)	50,025
	U08 – U09	2,158	(20)	2,138
	U10 – U11	515	(12)	503
	U12	258	(31)	227
	Unrated	83,947	(196)	83,751
		3,846,979	(4,253)	3,842,726

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from other banks				
	Unrated	100,678	(656)	100,022
Due from customers:				
Public administration				
	Unrated	122,147	(1,238)	120,909
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,130,688	(1,175)	1,129,513
	LC_M1 – LC_M4	411,388	(1,639)	409,749
	LC_R1 – LC_R5	10,029	(532)	9,497
	I1 – I6	624,070	(63)	624,007
	M1 – M4	885,504	(949)	884,555
	R1 – R5	169,321	(823)	168,498
	Unrated	5	–	5
Specialized Lending – SPV, RED				
	Strong	246,107	(1,509)	244,598
	Good	249,544	(3,388)	246,156
	Satisfactory	256,514	(13,202)	243,312
	Weak	16,701	(2,299)	14,402
	Unrated	3,242	(31)	3,211
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	227,863	(111)	227,752
	LC_M1 – LC_M4	13,554	(86)	13,468
	I1 – I6	238,645	(57)	238,588
	M1 – M4	289,130	(196)	288,934
	Unrated	2,897	(72)	2,825
Factoring				
	Unrated	77,361	(34)	77,327
		4,852,563	(26,166)	4,826,397

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 1				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	36,162	(34)	36,128
	M1 – M4	146,832	(661)	146,171
	R1 – R5	31,158	(610)	30,548
	Unrated	1	–	1
Mortgages				
	L1 – L4	5,326,277	(372)	5,325,905
	N1	258,370	(111)	258,259
	N2 – W1	250,524	(307)	250,217
	W2	14,113	(102)	14,011
	W3	2,810	(84)	2,726
	Unrated	2,491	(5)	2,486
Unsecured Retail				
	U01a – U02	317,600	(380)	317,220
	U3	100,649	(247)	100,402
	U04 – U07	411,399	(2,373)	409,026
	U08 – U09	75,986	(1,456)	74,530
	U10 – U11	23,327	(1,248)	22,079
	U12	6,185	(1,127)	5,058
	Unrated	366,084	(6,291)	359,793
		7,369,968	(15,408)	7,354,560
		12,344,678	(42,812)	12,301,866
		12,445,356	(43,468)	12,401,888
Financial assets at FVOCI – debt securities				
	Unrated	741,248	(134)	741,114

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 1				
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,054,046	(384)	1,053,662
	LC_M1 – LC_M4	96,444	(156)	96,288
	LC_R1 – LC_R5	21,308	(155)	21,153
	I1 – I6	607,555	(79)	607,476
	M1 – M4	591,607	(548)	591,059
	R1 – R5	52,777	(236)	52,541
	Strong	20,971	(102)	20,869
	Good	88,195	(880)	87,315
	Satisfactory	95,741	(3,415)	92,326
	Weak	469	(43)	426
	L1 – L4	495,541	(52)	495,489
	N1	40,535	(24)	40,511
	N2 – W1	60,397	(120)	60,277
	W2	6,965	(71)	6,894
	W3	200	(12)	188
	U01a – U02	239,286	(39)	239,247
	U3	22,012	(18)	21,994
	U04 – U07	30,685	(79)	30,606
	U08 – U09	1,571	(21)	1,550
	U10 – U11	274	(9)	265
	U12	266	(44)	222
	Unrated	287,423	(534)	286,889
		3,814,268	(7,021)	3,807,247

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

2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks				
	Unrated	843	(6)	837
Due from customers:				
Public administration				
	Unrated	18,503	(1,182)	17,321
Corporate				
Large Corporates, SME				
	LC_M1 – LC_M4	67,803	(139)	67,664
	I1 – I6	293	–	293
	M1 – M4	9,520	(40)	9,480
	R1 – R5	246,288	(2,973)	243,315
Specialized Lending – SPV, RED				
	Strong	4,612	(308)	4,304
	Good	35,344	(4,285)	31,059
	Satisfactory	32,066	(1,999)	30,067
	Weak	14,646	(4,605)	10,041
Factoring				
	Unrated	2,420	(7)	2,413
		412,992	(14,356)	398,636

(Table continues on the next page)

2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	351	–	351
	M1 – M4	20,172	(453)	19,719
	R1 – R5	41,986	(2,539)	39,447
Mortgages				
	L1 – L4	17,753	(83)	17,670
	N1	6,484	(48)	6,436
	N2 – W1	111,162	(1,821)	109,341
	W2	55,614	(1,633)	53,981
	W3	62,185	(5,167)	57,018
Unsecured Retail				
	U01a – U02	982	(5)	977
	U3	484	(4)	480
	U04 – U07	61,021	(1,404)	59,617
	U08 – U09	56,706	(2,914)	53,792
	U10 – U11	57,406	(5,465)	51,941
	U12	64,497	(15,870)	48,627
	Unrated	27,928	(6,358)	21,570
		584,731	(43,764)	540,967
		1,016,226	(59,302)	956,924
		1,017,069	(59,308)	957,761

(Table continues on the next page)

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

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from other banks				
	Unrated	2,530	(98)	2,432
Due from customers:				
Public administration				
	Unrated	21,392	(1,361)	20,031
Corporate				
Large Corporates, SME				
	LC_M1 – LC_M4	23,523	(93)	23,430
	I1 – I6	1,283	(1)	1,282
	M1 – M4	45,615	(67)	45,548
	R1 – R5	155,598	(1,754)	153,844
Specialized Lending – SPV, RED				
	Satisfactory	3,286	(376)	2,910
	Weak	51,519	(9,611)	41,908
Other Non-banking Financial Institutions, Public Sector Entities				
	Unrated	1	–	1
Factoring				
	Unrated	17,446	(37)	17,409
		298,271	(11,939)	286,332

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 2				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	10	–	10
	M1 – M4	16,571	(397)	16,174
	R1 – R5	40,686	(2,618)	38,068
	Unrated	451	(124)	327
Mortgages				
	L1 – L4	17,699	(106)	17,593
	N1	5,714	(47)	5,667
	N2 – W1	104,171	(1,925)	102,246
	W2	56,954	(1,829)	55,125
	W3	58,647	(4,070)	54,577
	D (default)	3,905	(1,050)	2,855
Unsecured Retail				
	U01a – U02	887	(5)	882
	U3	529	(5)	524
	U04 – U07	69,177	(1,587)	67,590
	U08 – U09	62,161	(3,263)	58,898
	U10 – U11	59,203	(6,061)	53,142
	U12	59,270	(13,076)	46,194
	D (default)	4,297	(1,982)	2,315
	Unrated	53,418	(13,921)	39,497
		613,750	(52,066)	561,684
		933,413	(65,366)	868,047
		935,943	(65,464)	870,479

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 2				
Financial commitments and contingencies				
	LC_I1 – LC_I6	5,000	(3)	4,997
	LC_M1 – LC_M4	100,182	(150)	100,032
	LC_R1 – LC_R5	988	(44)	944
	I1 – I6	229	–	229
	M1 – M4	7,822	(39)	7,783
	R1 – R5	31,381	(405)	30,976
	Weak	954	(254)	700
	L1 – L4	100	(3)	97
	N2 – W1	2,017	(83)	1,934
	W2	1,109	(75)	1,034
	W3	220	(22)	198
	U01a – U02	75	–	75
	U3	21	–	21
	U04 – U07	8,628	(67)	8,561
	U08 – U09	2,495	(60)	2,435
	U10 – U11	1,182	(63)	1,119
	U12	935	(284)	651
	D (default)	3,624	(284)	3,340
	Unrated	39,626	(1,828)	37,798
		206,588	(3,664)	202,924

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

2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Public administration				
	D (default)	50	(8)	42
Corporate				
Large Corporates, SME				
	D (default)	58,053	(33,065)	24,988
Specialized Lending – SPV, RED				
	D (default)	14,586	(13,348)	1,238
Other Non-banking Financial Institutions, Public Sector Entities				
	D (default)	8	(1)	7
Factoring				
	D (default)	4,646	(1,188)	3,458
		77,293	(47,602)	29,691
Retail				
Small Business, Flat Owners Associations				
	D (default)	13,628	(9,018)	4,610
Mortgages				
	D (default)	82,188	(29,147)	53,041
Unsecured Retail				
	D (default)	230,250	(144,811)	85,439
		326,066	(182,976)	143,090
		403,409	(230,586)	172,823
		403,409	(230,586)	172,823
Financial commitments and contingencies				
	D (default)	22,647	(3,428)	19,219

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Public administration				
	Unrated	1	–	1
Corporate				
Large Corporates, SME				
	M1 – M4	7,562	(2,078)	5,484
	R1 – R5	6,884	(4,504)	2,380
	D (default)	32,252	(27,393)	4,859
Specialized Lending – SPV, RED				
	Weak	7,934	(3,339)	4,595
	D (default)	13,465	(12,875)	590
Other Non-banking Financial Institutions, Public Sector Entities				
	M1 – M4	2	(1)	1
	Unrated	7	(1)	6
Factoring				
	Unrated	10,530	(1,148)	9,382
		78,636	(51,339)	27,297

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Stage 3				
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	M1 – M4	6	(5)	1
	R1 – R5	1,198	(952)	246
	D (default)	10,112	(8,126)	1,986
Mortgages				
	L1 – L4	1,837	(377)	1,460
	N1	1,056	(166)	890
	N2 – W1	1,702	(328)	1,374
	W2	1,802	(388)	1,414
	W3	28,222	(6,613)	21,609
	D (default)	36,434	(16,201)	20,233
	Unrated	1	–	1
Unsecured Retail				
	U01a – U02	19	(12)	7
	U3	34	(22)	12
	U04 – U07	281	(178)	103
	U08 – U09	398	(254)	144
	U10 – U11	764	(488)	276
	U12	6,326	(4,007)	2,319
	D (default)	154,007	(107,288)	46,719
	Unrated	97,404	(65,876)	31,528
		341,603	(211,281)	130,322
		420,240	(262,620)	157,620
		420,240	(262,620)	157,620

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Stage 3				
Financial commitments and contingencies				
	M1 – M4	8,601	(390)	8,211
	R1 – R5	3,148	(1,996)	1,152
	L1 – L4	168	–	168
	W2	70	–	70
	U01a – U02	25	–	25
	U3	11	–	11
	U04 – U07	87	–	87
	U08 – U09	17	–	17
	U10 – U11	21	–	21
	U12	172	–	172
	D (default)	6,228	(883)	5,345
	Unrated	1,245	(454)	791
		19,793	(3,723)	16,070

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

2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Unrated	180,979	(488)	180,491
Due from customers:				
Public administration				
	D (default)	50	(8)	42
	Unrated	134,710	(2,250)	132,460
		134,760	(2,258)	132,502
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,252,046	(630)	1,251,416
	LC_M1 – LC_M4	488,969	(1,192)	487,777
	LC_R1 – LC_R5	13,820	(100)	13,720
	I1 – I6	689,793	(96)	689,697
	M1 – M4	658,523	(553)	657,970
	R1 – R5	427,925	(3,580)	424,345
	D (default)	58,053	(33,065)	24,988
	Unrated	50,401	(36)	50,365
Specialized Lending – SPV, RED				
	Strong	267,375	(1,776)	265,599
	Good	332,578	(7,744)	324,834
	Satisfactory	225,516	(8,924)	216,592
	Weak	31,927	(6,644)	25,283
	D (default)	14,586	(13,348)	1,238
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	205,567	(82)	205,485
	LC_R1 – LC_R5	12,832	(126)	12,706
	I1 – I6	136,300	(28)	136,272
	M1 – M4	309,243	(160)	309,083
	D (default)	8	(1)	7
	Unrated	26,401	(66)	26,335
Factoring				
	D (default)	4,646	(1,188)	3,458
	Unrated	88,421	(46)	88,375
		5,294,930	(79,385)	5,215,545

(Table continues on the next page)

2019 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	37,918	(33)	37,885
	M1 – M4	162,283	(1,084)	161,199
	R1 – R5	74,271	(2,969)	71,302
	D (default)	13,628	(9,018)	4,610
	Unrated	150	(24)	126
Mortgages				
	L1 – L4	6,003,932	(440)	6,003,492
	N1	285,789	(153)	285,636
	N2 – W1	389,123	(2,152)	386,971
	W2	71,509	(1,743)	69,766
	W3	63,590	(5,205)	58,385
	D (default)	82,188	(29,147)	53,041
	Unrated	1,492	–	1,492
Unsecured Retail				
	U01a – U02	339,708	(421)	339,287
	U3	105,546	(248)	105,298
	U04 – U07	488,163	(3,676)	484,487
	U08 – U09	140,176	(4,444)	135,732
	U10 – U11	80,039	(6,652)	73,387
	U12	70,133	(16,842)	53,291
	D (default)	230,250	(144,811)	85,439
	Unrated	329,685	(10,417)	319,268
		8,969,573	(239,479)	8,730,094
		14,399,263	(321,122)	14,078,141
		14,580,242	(321,610)	14,258,632
Financial assets at FVOCI – debt securities				
	Unrated	1,562,762	(224)	1,562,538

(Table continues on the next page)

2019 € '000	Internal rating	Gross amount	Provisions	Net amount
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,232,825	(300)	1,232,525
	LC_M1 – LC_M4	164,730	(224)	164,506
	LC_R1 – LC_R5	11,911	(135)	11,776
	I1 – I6	707,896	(70)	707,826
	M1 – M4	548,841	(368)	548,473
	R1 – R5	121,516	(858)	120,658
	Strong	13,155	(56)	13,099
	Good	96,623	(837)	95,786
	Satisfactory	44,004	(1,393)	42,611
	Weak	25	(2)	23
	L1 – L4	491,139	(45)	491,094
	N1	51,572	(25)	51,547
	N2 – W1	80,828	(174)	80,654
	W2	12,138	(141)	11,997
	W3	1,570	(92)	1,478
	U01a – U02	236,228	(34)	236,194
	U3	14,203	(9)	14,194
	U04 – U07	55,270	(116)	55,154
	U08 – U09	3,984	(56)	3,928
	U10 – U11	1,666	(56)	1,610
	U12	1,376	(423)	953
	D (default)	22,647	(3,428)	19,219
	Unrated	90,271	(549)	89,722
		4,004,418	(9,391)	3,995,027

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from other banks				
	Unrated	103,208	(754)	102,454
Due from customers:				
Public administration				
	Unrated	143,540	(2,599)	140,941
Corporate				
Large Corporates, SME				
	LC_I1 – LC_I6	1,130,688	(1,175)	1,129,513
	LC_M1 – LC_M4	434,911	(1,732)	433,179
	LC_R1 – LC_R5	10,029	(532)	9,497
	I1 – I6	625,353	(64)	625,289
	M1 – M4	938,681	(3,094)	935,587
	R1 – R5	331,803	(7,081)	324,722
	D (default)	32,252	(27,393)	4,859
	Unrated	5	–	5
Specialized Lending – SPV, RED				
	Strong	246,107	(1,509)	244,598
	Good	249,544	(3,388)	246,156
	Satisfactory	259,800	(13,578)	246,222
	Weak	76,154	(15,249)	60,905
	D (default)	13,465	(12,875)	590
	Unrated	3,242	(31)	3,211
Other Non-banking Financial Institutions, Public Sector Entities				
	LC_I1 – LC_I6	227,863	(111)	227,752
	LC_M1 – LC_M4	13,554	(86)	13,468
	I1 – I6	238,645	(57)	238,588
	M1 – M4	289,132	(197)	288,935
	Unrated	2,905	(73)	2,832
Factoring				
	Unrated	105,337	(1,219)	104,118
		5,229,470	(89,444)	5,140,026

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Impairment losses	Net amount
Financial assets at AC:				
Due from customers:				
Retail				
Small Business, Flat Owners Associations				
	I1 – I6	36,172	(34)	36,138
	M1 – M4	163,409	(1,063)	162,346
	R1 – R5	73,042	(4,180)	68,862
	D (default)	10,112	(8,126)	1,986
	Unrated	452	(124)	328
Mortgages				
	L1 – L4	5,345,813	(855)	5,344,958
	N1	265,140	(324)	264,816
	N2 – W1	356,397	(2,560)	353,837
	W2	72,869	(2,319)	70,550
	W3	89,679	(10,767)	78,912
	D (default)	40,339	(17,251)	23,088
	Unrated	2,492	(5)	2,487
Unsecured Retail				
	U01a – U02	318,506	(397)	318,109
	U3	101,212	(274)	100,938
	U04 – U07	480,857	(4,138)	476,719
	U08 – U09	138,545	(4,973)	133,572
	U10 – U11	83,294	(7,797)	75,497
	U12	71,781	(18,210)	53,571
	D (default)	158,304	(109,270)	49,034
	Unrated	516,906	(86,088)	430,818
		8,325,321	(278,755)	8,046,566
		13,698,331	(370,798)	13,327,533
		13,801,539	(371,552)	13,429,987
Financial assets at FVOCI – debt securities				
	Unrated	741,248	(134)	741,114

(Table continues on the next page)

2018 € '000	Internal rating	Gross amount	Provisions	Net amount
Financial commitments and contingencies				
	LC_I1 – LC_I6	1,059,046	(387)	1,058,659
	LC_M1 – LC_M4	196,626	(306)	196,320
	LC_R1 – LC_R5	22,296	(199)	22,097
	I1 – I6	607,784	(79)	607,705
	M1 – M4	608,030	(977)	607,053
	R1 – R5	87,306	(2,637)	84,669
	Strong	20,971	(102)	20,869
	Good	88,195	(880)	87,315
	Satisfactory	95,741	(3,415)	92,326
	Weak	1,423	(297)	1,126
	L1 – L4	495,809	(55)	495,754
	N1	40,535	(24)	40,511
	N2 – W1	62,414	(203)	62,211
	W2	8,144	(146)	7,998
	W3	420	(34)	386
	U01a – U02	239,386	(39)	239,347
	U3	22,044	(18)	22,026
	U04 – U07	39,400	(146)	39,254
	U08 – U09	4,083	(81)	4,002
	U10 – U11	1,477	(72)	1,405
	U12	1,373	(328)	1,045
	D (default)	9,852	(1,167)	8,685
	Unrated	328,294	(2,816)	325,478
		4,040,649	(14,408)	4,026,241

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

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

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

2018 **€ '000**	**External rating**	**Gross amount**	**Impairment losses**	**Net amount**
Financial assets at FVOCI – debt securities				
	Aa3	20,175	(8)	20,167
	A2	477,786	(18)	477,768
	Baa1	39,150	(12)	39,138
	Baa3	204,137	(96)	204,041
		741,248	(134)	741,114

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%:

2019 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	488	439	(49)	(10.04%)
Due from customers:				
Municipalities	2,258	2,033	(225)	(9.96%)
Corporate				
Large Corporates	5,209	4,986	(223)	(4.28%)
Large Corporates – debt securities	118	106	(12)	(10.17%)
Specialized Lending	38,436	35,927	(2,509)	(6.53%)
SME	33,925	33,542	(383)	(1.13%)
Other Non-banking Financial Institutions	397	357	(40)	(10.08%)
Other Non-banking Financial Institutions – debt securities	28	25	(3)	(10.71%)
Public Sector Entities	38	34	(4)	(10.53%)
Factoring	1,234	1,230	(4)	(0.32%)
	79,385	76,207	(3,178)	(4.00%)
Retail				
Small Business	12,881	12,495	(386)	(3.00%)
Consumer Loans	158,732	154,939	(3,793)	(2.39%)
Mortgages	38,840	37,871	(969)	(2.49%)
Credit Cards	22,428	22,084	(344)	(1.53%)
Overdrafts	6,351	6,218	(133)	(2.09%)
Flat Owners Associations	247	222	(25)	(10.12%)
	239,479	233,829	(5,650)	(2.36%)
	321,122	312,069	(9,053)	(2.82%)
	321,610	312,508	(9,102)	(2.83%)
Financial assets at FVOCI – debt securities	224	202	(22)	(9.82%)

2018 € '000	Base scenario	Decrease PD by 10%		
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	754	688	(66)	(8.75%)
Due from customers:				
Municipalities	2,599	2,339	(260)	(10.00%)
Corporate				
Large Corporates	5,484	5,158	(326)	(5.94%)
Large Corporates – debt securities	619	557	(62)	(10.02%)
Specialized Lending	46,630	43,588	(3,042)	(6.52%)
SME	34,968	34,649	(319)	(0.91%)
Other Non-banking Financial Institutions	451	421	(30)	(6.65%)
Public Sector Entities	73	66	(7)	(9.59%)
Factoring	1,219	1,217	(2)	(0.16%)
	89,444	85,656	(3,788)	(4.24%)
Retail				
Small Business	13,277	12,858	(419)	(3.16%)
Consumer Loans	189,856	185,475	(4,381)	(2.31%)
Mortgages	34,081	33,186	(895)	(2.63%)
Credit Cards	32,705	32,222	(483)	(1.48%)
Overdrafts	8,586	8,411	(175)	(2.04%)
Flat Owners Associations	250	224	(26)	(10.40%)
	278,755	272,376	(6,379)	(2.29%)
	370,798	360,371	(10,427)	(2.81%)
	371,552	361,059	(10,493)	(2.82%)
Financial assets at FVOCI – debt securities	134	121	(13)	(9.70%)

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

2019 € '000	Base scenario			Increase PD by 10%
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	488	537	49	10.04%
Due from customers:				
Municipalities	2,258	2,483	225	9.96%
Corporate				
Large Corporates	5,209	5,432	223	4.28%
Large Corporates – debt securities	118	130	12	10.17%
Specialized Lending	38,436	40,945	2,509	6.53%
SME	33,925	34,308	383	1.13%
Other Non-banking Financial Institutions	397	437	40	10.08%
Other Non-banking Financial Institutions – debt securities	28	31	3	10.71%
Public Sector Entities	38	42	4	10.53%
Factoring	1,234	1,238	4	0.32%
	79,385	82,563	3,178	4.00%
Retail				
Small Business	12,881	13,267	386	3.00%
Consumer Loans	158,732	162,525	3,793	2.39%
Mortgages	38,840	39,809	969	2.49%
Credit Cards	22,428	22,772	344	1.53%
Overdrafts	6,351	6,484	133	2.09%
Flat Owners Associations	247	272	25	10.12%
	239,479	245,129	5,650	2.36%
	321,122	330,175	9,053	2.82%
	321,610	330,712	9,102	2.83%
Financial assets at FVOCI – debt securities	224	246	22	9.82%

2018 € '000	Base scenario			Increase PD by 10%
	Impairment losses	Impairment losses	Absolute change	Relative change
Financial assets at AC:				
Due from other banks	754	821	67	8.89%
Due from customers:				
Municipalities	2,599	2,859	260	10.00%
Corporate				
Large Corporates	5,484	5,810	326	5.94%
Large Corporates – debt securities	619	681	62	10.02%
Specialized Lending	46,630	49,672	3,042	6.52%
SME	34,968	35,286	318	0.91%
Other Non-banking Financial Institutions	451	482	31	6.87%
Public Sector Entities	73	81	8	10.96%
Factoring	1,219	1,221	2	0.16%
	89,444	93,233	3,789	4.24%
Retail				
Small Business	13,277	13,696	419	3.16%
Consumer Loans	189,856	194,237	4,381	2.31%
Mortgages	34,081	34,976	895	2.63%
Credit Cards	32,705	33,187	482	1.47%
Overdrafts	8,586	8,760	174	2.03%
Flat Owners Associations	250	275	25	10.00%
	278,755	285,131	6,376	2.29%
	370,798	381,223	10,425	2.81%
	371,552	382,044	10,492	2.82%
Financial assets at FVOCI – debt securities	134	147	13	9.70%

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

The behaviour of the model is described by six possible scenarios simulating a worsening of the macroeconomic situation. The scenarios resulted in the increase of expected loss in both stage 1 and stage 2. The simulation was run as an example on the most significant segment Mortgages.

The scenarios and their impact are depicted in the tables below:

2019 € '000					Stage 1
Scenario	Scenario description		Impairment losses	Provisions	Total
Base	without stressing				
		ECL	940	327	1,267
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 basis points ('bps')				
		ECL	943	328	1,271
		Absolute change	3	1	4
		Relative change	0.30%	0.26%	0.29%
UR stress 10%	UR increase by 15 bps				
		ECL	953	331	1,284
		Absolute change	13	4	17
		Relative change	1.38%	1.23%	1.34%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	956	332	1,288
		Absolute change	16	5	21
		Relative change	1.69%	1.50%	1.64%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	948	330	1,278
		Absolute change	8	3	11
		Relative change	0.86%	0.77%	0.84%
UR stress 30%	UR increase by 45 bps				
		ECL	980	339	1,319
		Absolute change	39	12	51
		Relative change	4.16%	3.69%	4.04%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	988	342	1,330
		Absolute change	47	15	62
		Relative change	5.04%	4.47%	4.90%

2019 € '000 Scenario	Scenario description		Impair-ment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	8,752	298	9,050
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 42 bps				
		ECL	8,779	299	9,078
		Absolute change	27	0	27
		Relative change	0.31%	0.15%	0.30%
UR stress 10%	UR increase by 15 bps				
		ECL	8,802	299	9,101
		Absolute change	50	1	51
		Relative change	0.57%	0.29%	0.56%
ALL stress 10%	GDP growth decrease by 42 bps and UR increase by 15 bps				
		ECL	8,829	299	9,128
		Absolute change	77	1	78
		Relative change	0.88%	0.44%	0.86%
GDP stress 30%	GDP growth decrease by 127 bps				
		ECL	8,832	299	9,131
		Absolute change	79	1	80
		Relative change	0.91%	0.45%	0.89%
UR stress 30%	UR increase by 45 bps				
		ECL	8,902	301	9,202
		Absolute change	149	3	152
		Relative change	1.71%	0.85%	1.68%
ALL stress 30%	GDP growth decrease by 127 bps and UR increase by 45 bps				
		ECL	8,980	302	9,282
		Absolute change	228	4	232
		Relative change	2.60%	1.30%	2.56%

2018 € '000					Stage 1
Scenario	**Scenario description**		**Impair-ment losses**	**Provisions**	**Total**
Base	without stressing				
		ECL	976	279	1,255
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 30 bps				
		ECL	983	281	1,264
		Absolute change	7	2	9
		Relative change	0.69%	0.64%	0.68%
CPI stress 10%	CPI decrease by 1 bps				
		ECL	977	279	1,256
		Absolute change	1	–	1
		Relative change	0.09%	0.08%	0.08%
GDP and CPI stress 10%	GDP growth decrease by 30 bps and CPI decrease by 1 bps				
		ECL	984	281	1,265
		Absolute change	8	2	10
		Relative change	0.76%	0.71%	0.75%
GDP stress 30%	GDP growth decrease by 91 bps				
		ECL	996	285	1,281
		Absolute change	20	6	26
		Relative change	2.05%	1.91%	2.02%
CPI stress 30%	CPI decrease by 3 bps				
		ECL	979	280	1,259
		Absolute change	3	1	4
		Relative change	0.23%	0.22%	0.23%
GDP and CPI stress 30%	GDP growth decrease by 91 bps and CPI decrease by 3 bps				
		ECL	999	285	1,284
		Absolute change	23	6	29
		Relative change	2.28%	2.11%	2.24%

2018 € '000 Scenario	Scenario description		Impair-ment losses	Provisions	Stage 2 Total
Base	without stressing				
		ECL	9,027	183	9,210
		Absolute change	–	–	–
		Relative change	–	–	–
GDP stress 10%	GDP growth decrease by 30 bps				
		ECL	9,056	183	9,239
		Absolute change	29	–	29
		Relative change	0.32%	0.33%	0.32%
CPI stress 10%	CPI decrease by 1 bps				
		ECL	9,030	183	9,213
		Absolute change	3	–	3
		Relative change	0.04%	0.04%	0.04%
GDP and CPI stress 10%	GDP growth decrease by 30 bps and CPI decrease by 1 bps				
		ECL	9,059	184	9,243
		Absolute change	32	1	33
		Relative change	0.36%	0.36%	0.36%
GDP stress 30%	GDP growth decrease by 91 bps				
		ECL	9,114	185	9,299
		Absolute change	87	2	89
		Relative change	0.97%	0.98%	0.97%
CPI stress 30%	CPI decrease by 3 bps				
		ECL	9,036	183	9,219
		Absolute change	9	–	9
		Relative change	0.11%	0.11%	0.11%
GDP and CPI stress 30%	GDP growth decrease by 91 bps and CPI decrease by 3 bps				
		ECL	9,124	185	9,309
		Absolute change	97	2	99
		Relative change	1.07%	1.08%	1.07%

4.1.12. Credit risk of financial derivatives

Credit exposure or the replacement cost of derivative financial instruments represents the Bank's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses in the event that counterparties fail to perform their obligations. It is usually a small proportion of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to the generally applicable methodology using the current exposure method and involves the market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of the nominal value, which indicates the potential change in market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity. The Bank assesses the credit risk of all financial instruments on a daily basis.

With regard to IFRS 13 which contains a clarification in reference to non-performance risk in determining the fair value of over-the-counter derivatives, the Bank uses the Bilateral Credit Value Adjustment model ('bCVA'). It takes fully into account the effects of changes in counterparty credit ratings as well as the changes in own credit rating. The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment ('CVA') and Debit Value Adjustment ('DVA'):
- The CVA (negative) takes into account scenarios whereby the counterparty fails before the Bank that has a positive exposure to the counterparty. In these scenarios the Bank suffers a loss equal to the cost of replacing the derivative,
- 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 the derivative.

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	2019	2018
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative financial instruments	40,070	87,565
Derivatives – Hedge accounting	137,860	65,113
	177,930	152,678

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 include positions arising from market-making and proprietary position taking. All foreign exchange risk within the Bank is transferred each day to the Trading sub-department and forms part of the trading portfolio for risk management purposes. The non-trading portfolios are managed by the sub-department Asset Liability Management ('ALM'), and include all positions which are not intended for trading.

Trading portfolios includes derivative financial instruments used for both trading and hedging and debt securities classified as financial assets held for trading. All other financial instruments are part of the banking book.

Overall authority for market risk is vested in ALCO. The Enterprise Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for their implementation and day-to-day 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 the last five years. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the 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 five years of history and observed relationships between different markets and prices, the models generate a wide range of plausible future scenarios for market price movements evaluated in the model. The VaR model was approved by the NBS as a basis for the calculation of the capital charge for market risk of the trading book.

The 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:

				2019				2018
€ '000	Balance	Avg	Max	Min	Balance	Avg	Max	Min
Foreign currency risk	31	49	133	5	44	43	124	12
Interest rate risk	98	570	1,956	71	343	1,492	3,942	343
Total VaR	101	573	1,966	80	332	1,495	3,926	332
Total sVaR	184	1,534	3,073	184	791	1,479	3,445	334

Although VaR is a popular and widely used risk management tool, there are known limitations, among which the following are the most important ones:
- VaR does not measure the worst case loss, since a 99% confidence interval means that in 1% of cases the loss is expected to be greater than the VaR amount;
- VaR calculated using a one day holding period assumes hedge or disposal of a position within one day, which might not be realistic in the case of a longer illiquid situation on the market;
- For calculating VaR of a portfolio, the return, the volatility but also the correlation between various assets needs to be recognized which might represent a difficult task when taking into account the growing number and diversity of positions in a given portfolio.

These limitations are recognized, by supplementing VaR limits with other position limit structures. In addition, the Bank uses a wide range of stress tests, to model the financial impact of a variety of exceptional market scenarios on the Bank's position. Furthermore, integrating the sVaR measure into the VaR concept adds to mitigation of the limitation of using historical series and possibly omitting scenarios of an extraordinary nature.

4.2.3. Exposure to interest rate risk

Interest rate risk comprises of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and of the risk that the maturities of interest earning assets differ from the maturities of the interest bearing liabilities used to fund those assets. The length of time for which the interest rate is fixed on a financial instrument therefore indicates the extent to which it is exposed to interest rate risk.

All the assumptions, methodologies and responsibilities are described in internal documents 'Guidelines on the Governance of Interest Rate Risk in the Banking Book' ('IRRBB') and 'Rules on the Measurement and Control of IRRBB in VÚB Group' which are approved by the Management Board and are consistent with ISP Group IRRBB Guidelines and Rules.

The main risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to a change in market interest rates. Interest rate risk is managed mainly through the monitoring of interest rate gaps. Financial instruments are mapped to re-pricing gaps either by maturity for fixed rate instruments, or by next re-pricing date for floating rate instruments. Assets and liabilities that do not have a contractual maturity date are mapped according to internal models based on behavioural assumptions.

The Risk Management division is responsible for monitoring and reporting of these gaps at least on a monthly basis. The management of interest rate risk is measured by shift sensitivity of fair value analysis (change in present value). In line with the ISP Group methodology, the shift sensitivity analysis is done through baseline, internal stress and regulatory scenarios. Baseline scenarios are defined as a parallel and instantaneous shift of +/- 100 basis points of the yield curve. Internal stress scenarios have been introduced in 2017, measuring the shift sensitivity through parallel and instantaneous shift of +/-200 basis points, and non-parallel steepening and flattening scenarios. Six regulatory scenarios, according to the Interest Rate Risk in the Banking Book Guidelines published by Basel Committee on Banking Supervision, have been introduced in 2017. All scenarios are applied on monthly basis as from September 2019.

The sensitivity of the interest margin is also measured with a set of scenarios similar to shift sensitivity analysis – baseline, internal stress and regulatory scenarios. The baseline scenario is represented by parallel and instantaneous of +/-50 bps shocks in the yield curve, in a period of following 12 months. Furthermore, additional internal stress and regulatory scenarios are applied: +/-100, +/-200 and six stress scenarios according to the Interest Rate Risk in the Banking Book Guidelines published by the Basel Committee on Banking Supervision.

Overall banking book interest rate risk positions are managed by the Treasury and ALM Department, which uses different on balance and off balance sheet instruments to manage the overall positions arising from the banking book activities.

Models applied for the interest rate risk ('IRR') calculation

Each financial and non-financial instrument is mapped to a gap based on its contractual or behavioural re-pricing date:

Contractual 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 most probable behaviour of these items. The assumptions are based on a detailed analysis of the Bank's historical time series data and statistical models.

At 31 December 2019, 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 € 31,907 thousand (31 December 2018: € 20,882 thousand).

At 31 December 2019, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of plus 100 basis points, reached the value of € (13,605) thousand (31 December 2018: € (15,745) thousand).

At 31 December 2019, 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 € (43,699) thousand (31 December 2018: € (36,287) thousand).

At 31 December 2019, the interest rate risk generated by the banking book, measured through shift sensitivity analysis of minus 100 basis points, reached the value of € 3,951 thousand (31 December 2018: € (9,675) thousand).

At 31 December 2019, the sensitivity of the FVOCI reserve in equity related to the non-hedged part of the portfolio to 100 basis points rise in interest rates was € (1,274) thousand (31 December 2018: € (2,301) thousand).

At 31 December 2019, the sensitivity of the CF hedges reserve in equity to a 100 basis points rise in interest rates was € nil thousand (31 December 2018: € 391 thousand).

The average interest rates for financial assets and financial liabilities were as follows:

	2019	2018
Financial assets		
Cash and cash equivalents	1.32%	0.82%
Financial assets at FVTPL	1.10%	0.80%
Financial assets at FVOCI	0.47%	1.85%
Financial assets at AC:		
Due from other banks	2.42%	1.46%
Due from customers	2.43%	2.89%
Financial liabilities		
Financial liabilities at AC:		
Due to banks	0.36%	0.35%
Due to customers	0.18%	0.17%
Debt securities in issue	0.79%	1.17%

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:

2019 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	996,438	–	–	–	–	–	996,438
Financial assets at FVTPL (excluding Trading derivatives)	584	–	–	–	–	–	584
Financial assets at FVOCI	101,868	269,588	173,469	342,332	675,280	12,012	1,574,549
Financial assets at AC:							
Due from other banks	8,992	82,253	2,668	–	64,461	22,117	180,491
Due from customers	1,972,740	1,555,331	1,795,699	7,596,015	967,796	190,560	14,078,141
	3,080,622	1,907,172	1,971,836	7,938,347	1,707,537	224,689	16,830,203
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(51,022)	(3,971)	(106,244)	(112,429)	(50,047)	(2,056)	(325,769)
Due to customers	(5,915,927)	(1,411,613)	(2,223,146)	(2,110,514)	(265,860)	–	(11,927,060)
Subordinated debt	–	(200,143)	–	–	–	–	(200,143)
Debt securities in issue*	(21,165)	(31,794)	(216,630)	(1,556,317)	(1,294,789)	–	(3,120,695)
	(5,988,114)	(1,647,521)	(2,546,020)	(3,779,260)	(1,610,696)	(2,056)	(15,573,667)
Net position of financial instruments	(2,907,492)	259,651	(574,184)	4,159,087	96,841	222,633	1,256,536
Cumulative net position of financial instruments	(2,907,492)	(2,647,841)	(3,222,025)	937,062	1,033,903	1,256,536	–
Cash inflow from derivatives	2,399,133	2,369,212	1,971,202	1,764,051	1,677,643	–	10,181,241
Cash outflow from derivatives	(2,076,929)	(1,127,853)	(1,704,183)	(4,332,493)	(944,445)	–	(10,185,903)
Net position from derivatives	322,204	1,241,359	267,019	(2,568,442)	733,198	–	(4,662)
Total net position	(2,585,288)	1,501,010	(307,165)	1,590,645	830,039	222,633	1,251,874
Cumulative total net position	(2,585,288)	(1,084,278)	(1,391,443)	199,202	1,029,241	1,251,874	–

2018 € '000	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Interest rate bearing financial assets							
Cash and cash equivalents	1,769,121	–	–	–	–	–	1,769,121
Financial assets at FVTPL (excluding Trading derivatives)	440	–	–	–	–	–	440
Financial assets at FVOCI	117	39,138	578,559	103,373	28,787	–	749,974
Financial assets at AC:							
Due from other banks	236	66,211	4,897	–	–	31,110	102,454
Due from customers	2,063,708	1,721,829	1,365,742	7,009,806	979,072	187,376	13,327,533
	3,833,622	1,827,178	1,949,198	7,113,179	1,007,859	218,486	15,949,522
Interest rate bearing financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(351,895)	(5,994)	(359,673)	(272,804)	–	(1,713)	(992,079)
Due to customers	(4,854,875)	(1,189,915)	(2,604,790)	(2,144,645)	(261,541)	–	(11,055,766)
Subordinated debt	–	(200,181)	–	–	–	–	(200,181)
Debt securities in issue*	(8,802)	(3,197)	(266,640)	(1,003,053)	(1,050,561)	–	(2,332,253)
	(5,215,572)	(1,399,287)	(3,231,103)	(3,420,502)	(1,312,102)	(1,713)	(14,580,279)
Net position of financial instruments	(1,381,950)	427,891	(1,281,905)	3,692,677	(304,243)	216,773	1,369,243
Cumulative net position of financial instruments	(1,381,950)	(954,059)	(2,235,964)	1,456,713	1,152,470	1,369,243	–
Cash inflow from derivatives	3,089,568	2,766,558	1,804,562	1,751,119	1,815,018	–	11,226,825
Cash outflow from derivatives	(3,848,480)	(1,637,784)	(722,597)	(4,126,768)	(891,236)	–	(11,226,865)
Net position from derivatives	(758,912)	1,128,774	1,081,965	(2,375,649)	923,782	–	(40)
Total net position	(2,140,862)	1,556,665	(199,940)	1,317,028	619,539	216,773	1,369,203
Cumulative total net position	(2,140,862)	(584,197)	(784,137)	532,891	1,152,430	1,369,203	–

* Fair value adjusts to the hedged covered bonds are reported in time bucket corresponding to the maturity of nominal of the covered bonds.

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 positions and the application of a matrix of exposure and position limits.

2019 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	849,191	1,436	140,244	5,567	996,438
Financial assets at FVTPL	21,575	1,259	1,200	4	24,038
Derivatives – Hedge accounting	79,985	–	2,516	–	82,501
Financial assets at FVOCI	1,563,409	11,140	–	–	1,574,549
Financial assets at AC:					
Due from other banks	162,992	13,721	–	3,778	180,491
Due from customers	13,392,694	223,105	374,008	88,334	14,078,141
Fair value changes of the hedged items in portfolio hedge of IRR	13,840	–	–	–	13,840
	16,083,686	250,661	517,968	97,683	16,949,998
Financial liabilities					
Financial liabilities at FVTPL	21,850	760	2,131	9	24,750
Derivatives – Hedge accounting	50,996	5,794	–	3,043	59,833
Financial liabilities measured at AC:					
Due to banks	308,539	11,470	5,760	–	325,769
Due to customers	11,356,158	187,822	308,349	74,731	11,927,060
Subordinated debt	200,143	–	–	–	200,143
Debt securities in issue	3,120,695	–	–	–	3,120,695
Fair value changes of the hedged items in portfolio hedge of IRR	4,580	–	–	–	4,580
	15,062,961	205,846	316,240	77,783	15,662,830
Net position	1,020,725	44,815	201,728	19,900	1,287,168

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2019 € '000	EUR	USD	CZK	Other	Total
Receivables	399,537	36,896	60,017	70,510	566,960
Payables	(142,749)	(88,137)	(240,619)	(100,045)	(571,550)
Net position from derivatives	256,788	(51,241)	(180,602)	(29,535)	(4,590)

2018 € '000	EUR	USD	CZK	Other	Total
Financial assets					
Cash and cash equivalents	658,390	1,287	1,104,881	4,563	1,769,121
Financial assets at FVTPL	37,155	1,673	1,142	18	39,988
Derivatives – Hedge accounting	23,960	55	2,676	74	26,765
Financial assets at FVOCI	749,974	–	–	–	749,974
Financial assets at AC:					
Due from other banks	84,308	15,086	–	3,060	102,454
Due from customers	12,720,153	218,559	307,225	81,596	13,327,533
Fair value changes of the hedged items in portfolio hedge of IRR	9,183	–	–	–	9,183
	14,283,123	236,660	1,415,924	89,311	16,025,018
Financial liabilities					
Financial liabilities at FVTPL	36,718	1,341	1,272	4	39,335
Derivatives – Hedge accounting	12,130	2,665	–	431	15,226
Financial liabilities measured at AC:					
Due to banks	970,597	13,412	–	8,069	992,078
Due to customers	10,672,514	176,360	128,570	78,322	11,055,766
Subordinated debt	200,181	–	–	–	200,181
Debt securities in issue	2,283,820	48,433	–	–	2,332,253
Fair value changes of the hedged items in portfolio hedge of IRR	1,499	–	–	–	1,499
	14,177,459	242,211	129,842	86,826	14,636,338
Net position	105,664	(5,551)	1,286,082	2,485	1,388,680

Receivables and payables from derivative financial instruments recorded in off-balance sheet:

2018 € '000	EUR	USD	CZK	Other	Total
Receivables	1,448,171	78,067	32,021	103,953	1,662,212
Payables	(166,826)	(94,706)	(1,290,481)	(110,202)	(1,662,215)
Net position from derivatives	1,281,345	(16,639)	(1,258,460)	(6,249)	(3)

4.3. Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit.

The Guidelines for Liquidity Risk Management adopted by the Bank outline the set of principles, methods, regulations and control processes required to prevent the occurrence of a liquidity crisis and call for the Bank to develop prudent approaches to liquidity management, making it possible to maintain the overall risk profile at low levels.

The basic principles underpinning the Liquidity Policy of the Bank are:
- The existence of an operating structure that works within set of limits and of a control structure that is independent from the operating structure;
- A prudential approach to the estimate of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity;
- An assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time;
- The maintenance of an adequate level of unencumbered highly liquid assets, capable of enabling ordinary operations, also on an intraday basis, and overcoming the initial stages of a shock involving the Bank's liquidity or system liquidity.

The Bank is regularly stress testing its liquidity position in order to simulate potential stress scenarios. The level of unencumbered highly liquid assets are kept at levels that, should support the bank also in case of these extraordinary events. The bank is also able to seek short term funding from the parent company or interbank market in order to support its liquidity position. There are no specific lines of credit for liquidity stress situations.

The departments of the Bank responsible for ensuring the correct application of the Guidelines are the Treasury and ALM Department responsible for liquidity management and the Enterprise Risk Management Department responsible for monitoring indicators and verifying the observation of limits. These Guidelines are broken down into three macro areas: 'Short term Liquidity Policy', 'Structural Liquidity Policy' and 'Contingency Liquidity Plan', and constitute an integral part of the Internal Liquidity Adequacy Assessment Process.

The Short term Liquidity Policy includes a set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management. The main regulatory indicator used for monitoring and managing short term liquidity is the Liquidity coverage ratio. It is required by the CRR Regulation, more precisely defined in Delegated Regulation (EU) 2015/61. Main content of the Liquidity coverage ratio: Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows.

The Structural Liquidity Policy of the Bank incorporates a set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.

Together with the Short term and Structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

The Contingency Liquidity Plan sets the objectives of safeguarding the Bank's capital and, at the same time, guarantees the continuity of operations under conditions of extreme liquidity emergency. It also ensures the identification of the pre-warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and intervention measures for the resolution of emergencies. The pre-warning indices, aimed at identifying signs of a potential liquidity strain, both systemic and specific, are continuously recorded and reported to the departments responsible for the management and monitoring of liquidity.

The liquidity position of the Bank is regularly presented by Enterprise Risk Management Department and discussed during the ALCO meetings.

The table below shows an analysis of assets and liabilities (discounted cash flow basis) according to when they are expected to be recovered or settled:

2019 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	996,438	–	996,438
Financial assets at FVTPL	2,058	21,980	24,038
Derivatives – Hedge accounting	252	82,249	82,501
Financial assets at FVOCI	544,623	1,029,926	1,574,549
Financial assets at AC:			
Due from other banks	53,795	126,696	180,491
Due from customers	2,491,027	11,587,114	14,078,141
Fair value changes of the hedged items in portfolio hedge of IRR	–	13,840	13,840
Investments in subsidiaries, joint ventures and associates	–	63,629	63,629
Property and equipment	–	106,554	106,554
Intangible assets	–	112,046	112,046
Goodwill	–	18,871	18,871
Current income tax assets	25,309	–	25,309
Deferred income tax assets	–	63,157	63,157
Other assets	20,988	–	20,988
Non-current assets classified as held for sale	645	–	645
	4,135,135	13,226,062	17,361,197
Liabilities			
Financial liabilities at FVTPL	(3,611)	(21,139)	(24,750)
Derivatives – Hedge accounting	(472)	(59,361)	(59,833)
Financial liabilities measured at AC:			
Due to banks	(109,477)	(216,292)	(325,769)
Due to customers	(1,880,293)	(10,046,767)	(11,927,060)
Subordinated debt	(143)	(200,000)	(200,143)
Debt securities in issue	(270,232)	(2,850,463)	(3,120,695)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(4,580)	(4,580)
Provisions	–	(10,671)	(10,671)
Other liabilities	(85,124)	(5,633)	(90,757)
	(2,349,352)	(13,414,906)	(15,764,258)
Net position	1,785,783	(188,844)	1,596,939

2018 € '000	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	1,769,121	–	1,769,121
Financial assets at FVTPL	6,028	33,960	39,988
Derivatives – Hedge accounting	686	26,079	26,765
Financial assets at FVOCI	528,662	221,312	749,974
Financial assets at AC:			
Due from other banks	34,397	68,057	102,454
Due from customers	2,266,862	11,060,671	13,327,533
Fair value changes of the hedged items in portfolio hedge of IRR	–	9,183	9,183
Investments in subsidiaries, joint ventures and associates	–	42,186	42,186
Property and equipment	–	76,294	76,294
Intangible assets	–	92,201	92,201
Goodwill	–	18,871	18,871
Current income tax assets	1,181	–	1,181
Deferred income tax assets	–	66,298	66,298
Other assets	20,300	–	20,300
Non-current assets classified as held for sale	26,922	–	26,922
	4,654,159	11,715,112	16,369,271
Liabilities			
Financial liabilities at FVTPL	(6,665)	(32,670)	(39,335)
Derivatives – Hedge accounting	(1,208)	(14,018)	(15,226)
Financial liabilities measured at AC:			
Due to banks	(641,924)	(350,155)	(992,079)
Due to customers	(1,759,176)	(9,296,590)	(11,055,766)
Subordinated debt	(181)	(200,000)	(200,181)
Debt securities in issue	(262,291)	(2,069,962)	(2,332,253)
Fair value changes of the hedged items in portfolio hedge of IRR	–	(1,499)	(1,499)
Current income tax liabilities	(8,955)	–	(8,955)
Provisions	–	(21,918)	(21,918)
Other liabilities	(86,297)	(7,074)	(93,371)
	(2,766,697)	(11,993,886)	(14,760,583)
Net position	1,887,462	(278,774)	1,608,688

The remaining maturities of assets and liabilities based on contractual undiscounted cash-flows were as follows:

2019 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	996,438	–	–	–	–	–	996,438
Financial assets at FVTPL (excluding Trading derivatives)	28	–	–	83	2,110	584	2,805
Financial assets at FVOCI	1,938	250,499	295,890	361,495	664,498	12,012	1,586,332
Financial assets at AC:							
Due from other banks	44,462	1,475	8,789	55,818	80,894	–	191,438
Due from customers	994,382	328,399	1,410,807	5,213,559	8,170,100	232,183	16,349,430
	2,037,248	580,373	1,715,486	5,630,955	8,917,602	244,779	19,126,443
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(45,743)	(3,971)	(61,146)	(138,987)	(76,468)	–	(326,315)
Due to customers	(9,447,126)	(838,508)	(1,479,042)	(165,565)	–	–	(11,930,241)
Subordinated debt	–	(1,440)	(4,364)	(23,416)	(215,894)	–	(245,114)
Debt securities in issue**	(3,602)	(13,553)	(249,575)	(1,657,456)	(1,335,905)	–	(3,260,091)
	(9,496,471)	(857,472)	(1,794,127)	(1,985,424)	(1,628,267)	–	(15,761,761)
Net position of financial instruments	(7,459,223)	(277,099)	(78,641)	3,645,531	7,289,335	244,779	3,364,682
Cash inflows from derivatives	250,632	100,688	95,759	99,980	159,783	–	706,842
Cash outflows from derivatives	(252,501)	(101,273)	(96,212)	(117,533)	(112,768)	–	(680,287)
Net position from derivatives	(1,869)	(585)	(453)	(17,553)	47,015	–	26,555
Net position from financial commitments and contingencies	(4,004,418)	–	–	–	–	–	(4,004,418)

2018 € '000	Up to 1 month*	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	1,769,121	–	–	–	–	–	1,769,121
Financial assets at FVTPL (excluding Trading derivatives)	–	–	–	–	–	440	440
Financial assets at FVOCI	127	46	530,417	192,796	20,150	8,860	752,396
Financial assets at AC:							
Due from other banks	34,219	1,052	3,726	50,763	23,854	–	113,614
Due from customers	1,042,309	399,378	1,078,398	5,358,843	8,161,128	146,288	16,186,344
	2,845,776	400,476	1,612,541	5,602,402	8,205,132	155,588	18,821,915
Financial liabilities							
Financial liabilities measured at AC:							
Due to banks	(28,372)	(309,893)	(309,420)	(303,677)	(42,140)	–	(993,502)
Due to customers	(8,589,223)	(596,841)	(1,637,741)	(233,995)	(386)	–	(11,058,186)
Subordinated debt	–	(1,461)	452	(1,385)	(207,488)	–	(209,882)
Debt securities in issue**	(3,595)	(3,255)	(286,295)	(1,031,670)	(1,215,320)	–	(2,540,135)
	(8,621,190)	(911,450)	(2,233,004)	(1,570,727)	(1,465,334)	–	(14,801,705)
Net position of financial instruments	(5,775,414)	(510,974)	(620,463)	4,031,675	6,739,798	155,588	4,020,210
Cash inflows from derivatives	1,400,348	113,652	78,210	35,538	130,651	–	1,758,399
Cash outflows from derivatives	(1,405,695)	(111,797)	(76,382)	(38,202)	(111,243)	–	(1,743,319)
Net position from derivatives	(5,347)	1,855	1,828	(2,664)	19,408	–	15,080
Net position from financial commitments and contingencies	(4,040,649)	–	–	–	–	–	(4,040,649)

* 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.

** Fair value adjusts to the hedged covered bonds are reported in time bucket corresponding to the maturity of nominal of the covered bonds.

4.4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, information and communication technology risk and financial reporting risk; strategic and reputational risk are not included. Operational risk can arise from legal and regulatory requirements, non-compliance with generally accepted standards of corporate behaviour and from all of the Bank's operations.

4.4.1. Operational risk management strategies and processes

The Bank, in coordination with Intesa Sanpaolo, has defined the overall operational risk management framework by setting up a VUB Group policy and organisational process for measuring, managing and controlling operational risk.

The control of operational risk was attributed to the Operational Risk Committee, which identifies risk management policies. The Supervisory and Management Boards of the Bank ensures the functionality, efficiency and effectiveness of the risk management and controls system.

The Operational Risk Committee (composed of the heads of the areas of the governance centre (Chief Executive Officer, Deputy Chief Executive Officer) and of the business areas more involved in operational risk management (voting members: Head of Risk Management Division, Chief Financial Officer, Chief Operating Officer, Head of Compliance Department, Head of Anti-Money Laundering Department; permanent invitees without voting rights**:** Head of Corporate & SME Division, Head of Retail Division, Head of Enterprise Risk Management Department, Head of Legal Department, Head of Human Resources & Organization Department, Head of Internal Audit Department, Head of Information Security sub-department, Head of Business Continuity Management sub-department), has the task of periodically reviewing the VUB Group's overall operational risk profile, authorising any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk transfer strategies.

4.4.2. Organisational structure of the associated risk management function

For some time, the Bank has had a centralised function within the Risk Management Division for the management of the Bank's operational risks. This function is responsible, in coordination with the Parent Company, for the definition, implementation and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to senior Management. In compliance with current requirements, the individual organisational units participate in the process and each of them is responsible for the identification, assessment, management and mitigation of its operational risks. Specific offices and departments have been identified within these organisational units to be responsible for Operational Risk Management. These functions are responsible for the collection and structured census of information relating to operational events, scenario analyses and evaluation of the level of risk associated with the business environment, including information and communication technology risk. The Risk Management Division carries out second level monitoring of these activities.

4.4.3. Scope of application and characteristics of the risk measurement and reporting system

In February 2010 upon a VUB Group request, the Bank as part of the VUB Group received, from the relevant Supervisory authorities an approval for usage and thus adopted the Advanced Measurement Approach ('AMA'), for Operational Risk management and measurement. In June 2013, the Bank as part of the VUB Group received an approval for usage and thus adopted the AMA for the subsidiary VUB Leasing, a. s.. Part of this decision has been an approval of the insurance effect inclusion, as well as approval of a new allocation mechanism, which led to fulfilment of a regulatory condition for the approval of diversification usage.

For the use of the AMA, the Bank has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, a system for the management of operational risk certified by the process of annual self-assessment carried out by the Bank and the subsidiary VUB Leasing, a. s. that fall within the scope of AMA. This process is verified by the Internal Audit Department and submitted to the relevant Bank's Committee for the annual certification of compliance with the requirements established by the regulation.

Under the AMA approach, the capital requirement is calculated by an internal model, which combines all elements stipulated in Supervisory regulation, allowing to measure the exposure in a more risk-sensitive way. Monitoring of operational risks is performed by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.

4.4.4. Policies for hedging and mitigating risk

The Bank, in coordination with its Parent Company, has set up a traditional operational risk transfer policy (insurance) aimed at mitigating the impact of any unexpected losses. The AMA calculation does include the benefit from this transfer of operational risk through insurance policies, which contributes to reducing the risk capital calculated through the internal models.

4.5. Interest rate benchmark reform

The Interbank offered rate ('IBOR') replacement represents one of the major undertakings for the financial services industry in the coming years. For the Bank the impact is not expected to be material and can be split into three main categories:
– Replacement of Euro OverNight Index Average ('EONIA');
– Change of Euro Interbank Offered Rate ('EURIBOR') calculation;
– Replacement of London Interbank Offered Rate ('LIBOR').

Replacement of EONIA

Replacement of EONIA has only limited impact on the Bank as this change affects only a few number of customer (up to fifteen) and the contracts are in the process of amendment to replace EONIA with the new Euro Short-Term Rate ('€STR').

VUB has few interbank derivatives which are linked to EONIA. Majority will mature before end of 2021. For the remaining swaps the Bank will look how the market will adjust to this change and how the existing contracts will be amended – as we expect some general approach from the market. Potentially, these swaps might be closed.

No impact on hedge accounting is expected.

Change of EURIBOR calculation

Change of the calculation of EURIBOR by the panel banks doesn't represent any issue for the Bank.

In case Euribor will be fixed instead of T+2 just T+1, the contracts with the customers will be amended and the Bank will adjust its internal IT systems to be compliant with the mentioned change.

Replacement of LIBOR

The Bank has only few loans which are linked to Libor, since most of the Bank's loans are in EUR and thus if floaters then they are linked to Euribor. For loans in USD or GBP, the Bank will wait till a new tenor benchmark in these currencies is created and then the existing contracts with the customers will be amended.

Similar to the loans also in the area of derivatives there are only few interbank hedging derivatives linked to Libor.

Also here we will wait for the general market approach and based on this the contracts will be amended.

5. Estimated fair value of financial assets and financial liabilities

See accounting policy in note 3.4.7.

The Bank uses the following fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the Bank as at the measurement date;
Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be measured; and
Level 3: inputs unobservable for the asset or liability.

The highest priority is attributed to effective market quotes (level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (level 2) and the lowest priority to unobservable inputs (level 3). Following this hierarchy, where available, fair value estimates made by the Bank are based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, fair value is estimated using discounted cash flow models or other pricing models as appropriate.

Under level 2, the principal valuation technique used by the Bank for debt instruments involves the method of discounting future cash flows. The calculation takes into account the time value of money (risk-free rate of interest) and the credit risk expressed in the form of credit spreads applied to the bonds' yield and representing the risk premium the investor claims against a risk free investment. In the case of derivative financial instruments the Bank uses standard fair value calculation models based on the principal net present value using the yield curve to discount all future cash flows from derivatives for all relevant currencies. The principal input parameters used by the models comprise interest rate curves, volatility curves, spot and forward prices and the correlation between underlying assets. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. The Bank also considers its own and counterparty's credit risk.

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument. The Bank monitors the occurrence of these changes and accordingly reassesses the classification into the fair value hierarchy. For determining the timing of the transfers between the levels, the Bank uses the end of the reporting period as the day when the transfer is deemed to have occurred.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

(a) Cash and cash equivalents

The carrying values of cash and cash equivalents are deemed to approximate their fair value.

(b) Due from other banks

The fair value of due from other banks balances with maturities more than one year and material amounts is estimated using discounted cash flow analyses, based upon the risk free interest rate curve. For maturities up to one year and not significant balances, the carrying amounts of amounts due from other banks approximates their fair value. Impairment losses are taken into consideration when calculating fair values.

(c) Due from customers

The fair value of loans and advances to customers is estimated using discounted cash flow analyses, based upon the risk free interest rate curve and risk reflecting credit-worthiness of the counterparty. Impairment losses are taken into consideration when calculating fair values.

(d) Due to banks and Due to customers

The carrying amounts of due to banks approximates their fair value. The fair value of due to customers is estimated by discounting their future expected cash flows using the risk free interest rate curve.

(e) Subordinated debt

The fair value of subordinated debt is discounted using the risk free interest rate curve and own credit risk.

(f) Debt securities in issue

The fair value of debt securities issued by the Bank is based on quoted market prices. Where no market prices are available, the fair value was calculated by discounting future cash flows using the risk free interest rate curve adjusted by credit spreads reflecting the credit quality of VUB as the issuer.

2019 € '000	Note	Carrying amount At amortised cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Fair value Total fair value
Financial assets								
Cash and cash equivalents	7	996,438	–	996,438	–	996,438	–	996,438
Financial assets at FVTPL	8	–	24,038	24,038	584	23,454	–	24,038
Derivatives – Hedge accounting	9	–	82,501	82,501	–	82,501	–	82,501
Financial assets at FVOCI	10	–	1,574,549	1,574,549	950,619	623,930	–	1,574,549
Financial assets at AC:	11							
Due from other banks		180,491	–	180,491	–	180,491	–	180,491
Due from customers		14,078,141	–	14,078,141	–	75,252	14,536,140	14,611,392
		15,255,070	1,681,088	16,936,158	951,203	1,982,066	14,536,140	17,469,409
Financial liabilities								
Financial liabilities at FVTPL	8	–	24,750	24,750	–	24,750	–	24,750
Derivatives – Hedge accounting	9	–	59,833	59,833	–	59,833	–	59,833
Financial liabilities at AC:	11							
Due to banks		325,769	–	325,769	–	325,769	–	325,769
Due to customers		11,927,060	–	11,927,060	–	11,934,000	–	11,934,000
Subordinated debt		200,143	–	200,143	–	192,743	–	192,743
Debt securities in issue		3,120,695	–	3,120,695	–	3,164,185	–	3,164,185
		15,573,667	84,583	15,658,250	–	15,701,280	–	15,701,280

2018 € '000	Note	At amortised cost	At fair value	Total carrying amount (Carrying amount)	Level 1	Level 2	Level 3	Total fair value (Fair value)
Financial assets								
Cash and cash equivalents	7	1,769,121	–	1,769,121	–	1,769,121	–	1,769,121
Financial assets at FVTPL	8	–	39,988	39,988	440	39,548	–	39,988
Derivatives – Hedge accounting	9	–	26,765	26,765	–	26,765	–	26,765
Financial assets at FVOCI	10	–	749,974	749,974	225,760	524,214	–	749,974
Financial assets at AC:	11							
Due from other banks		102,454	–	102,454	–	102,454	–	102,454
Due from customers		13,327,533	–	13,327,533	–	–	13,791,635	13,791,635
		15,199,108	816,727	16,015,835	226,200	2,462,102	13,791,635	16,479,937
Financial liabilities								
Financial liabilities at FVTPL	8	–	39,335	39,335	–	39,335	–	39,335
Derivatives – Hedge accounting	9	–	15,226	15,226	–	15,226	–	15,226
Financial liabilities at AC:	11							
Due to banks		992,079	–	992,079	–	992,079	–	992,079
Due to customers		11,055,766	–	11,055,766	–	11,061,829	–	11,061,829
Subordinated debt		200,181	–	200,181	–	180,158	–	180,158
Debt securities in issue		2,332,253	–	2,332,253	–	2,314,698	–	2,314,698
		14,580,279	54,561	14,634,840	–	14,603,325	–	14,603,325

There were no other transfers of financial instruments among the levels during 2019 and 2018.

6. Segment reporting

The Bank reports financial and descriptive information about its operating segments in the financial statements. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank), whose operating results are regularly reviewed by the Bank's management to make decisions about resources to be allocated to the segment and to assess its performance, and for which separate financial information is available.

The Bank operates in three operating segments – Retail Banking, Corporate Banking and Central Treasury. Each segment is exposed to different risks and differs in the nature of its services, business processes and types of customers for its products and services.

For all segments the Bank reports a measure of segment assets and liabilities and income and expense items, a reconciliation of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the financial statements.

Most of the transactions of the Bank are related to the Slovak market. Due to the market size, the Bank operates as a single geographical segment unit.

Operating segments pay and receive interest to and from the Central Treasury on an arm's length basis in order to reflect the costs of funding.

Retail Banking includes loans, deposits and other transactions and balances with households, sole traders and small business segment.

Corporate Banking comprises SME, the Corporate Customer Desk ('CCD'), Municipalities and Public Sector Entities. SME includes loans, deposits and other transactions and balances with SME (company revenue in the range of € 1 million to € 50 million; if revenue information is not available, bank account turnover is used). The CCD includes loans, deposits and other transactions and balances with large corporate customers (company revenue over € 50 million).

Central Treasury undertakes the 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.

2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	243,678	105,913	11,951	9,892	371,434
Interest and similar expense	(12,512)	(5,674)	(19,609)	(8,808)	(46,603)
Inter-segment revenue	(23,936)	(25,170)	49,400	(294)	–
Net interest income	207,230	75,069	41,742	790	324,831
Net fee and commission income (note 26)	101,360	26,978	1,074	(3,373)	126,039
Dividend income	–	–	–	2,000	2,000
Net trading result	4,679	5,581	(17,311)	(458)	(7,509)
Other operating income	–	–	7	3,213	3,220
Other operating expense	(11,563)	–	–	(5,055)	(16,618)
Special levy of selected financial institutions*	–	–	–	(29,695)	(29,695)
Salaries and employee benefits*	–	–	–	(121,329)	(121,329)
Other administrative expenses*	–	–	–	(75,058)	(75,058)
Amortisation	(4,739)	(242)	(7)	(7,395)	(12,383)
Depreciation	(2,854)	(45)	(3)	(8,829)	(11,731)
Profit before provisions, impairment and tax	294,113	107,341	25,502	(245,189)	181,767
Provisions*	–	–	–	5,068	5,068
Impairment losses	(34,355)	(1,402)	211	130	(35,416)
Net (loss)/ gain arising from the derecognition of financial assets at amortised cost	(5,420)	922	–	(16)	(4,514)
Profit before tax	254,338	106,861	25,713	(240,007)	146,905
Segment assets	8,668,025	5,521,616	2,571,592	599,964	17,361,197
Segment liabilities	7,325,048	4,431,980	3,957,858	49,372	15,764,258

* The Bank does not allocate these items to the individual segments.

2018 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
External revenue:					
Interest and similar income	278,144	91,498	18,555	10,445	398,642
Interest and similar expense	(10,129)	(5,884)	(23,527)	(8,092)	(47,632)
Inter-segment revenue	(22,429)	(16,329)	33,447	5,311	–
Net interest income	245,586	69,285	28,475	7,664	351,010
Net fee and commission income	100,149	27,631	2,155	(3,502)	126,433
Dividend income	–	–	–	2,000	2,000
Net trading result	4,063	5,608	29,799	309	39,779
Other operating income	–	–	66	1,576	1,642
Other operating expense	(7,733)	(6)	–	(5,494)	(13,233)
Special levy of selected financial institutions*	–	–	–	(26,286)	(26,286)
Salaries and employee benefits*	–	–	–	(124,491)	(124,491)
Other administrative expenses*	–	–	–	(83,434)	(83,434)
Amortisation	(5,474)	(206)	(7)	(6,585)	(12,272)
Depreciation	(4,710)	(38)	(4)	(3,022)	(7,774)
Profit before provisions, impairment and tax	331,881	102,274	60,484	(241,265)	253,374
Provisions*	–	–	–	(166)	(166)
Impairment losses	(58,848)	7,950	55	(5,498)	(56,341)
Net gain/(loss) arising from the derecognition of financial assets at AC	4,996	(1,457)	–	(98)	3,441
Profit before tax	278,029	108,767	60,539	(247,027)	200,308
Segment assets	8,009,364	5,392,811	2,461,426	505,670	16,369,271
Segment liabilities	6,426,304	4,457,663	3,559,978	316,638	14,760,583

* 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	2019	2018
Cash in hand	161,621	155,051
Balances at central banks:		
Compulsory minimum reserves	690,985	493,053
Current accounts	4	44
Term deposits	47,227	27,211
Loans and advances	78,749	1,069,327
	816,965	1,589,635
Due from other banks:		
Current accounts	17,852	24,435
	996,438	1,769,121

At 31 December 2019 the balance of 'Loans and advances' comprised of one reverse repo trade concluded with ČNB in the nominal amount of CZK 2,000 million (€ 78,709 thousand) (31 December 2018: four reverse repo trades, CZK 27,500 million (€ 1,068,999 thousand)). The repo trade was secured by 1,986 treasury bill of ČNB (31 December 2018: 27,329 treasury bills of ČNB).

The compulsory minimum reserve is maintained as an interest bearing deposit under the regulations of the NBS and Česká národní banka ('ČNB'). The amount of the compulsory minimum reserve depends on the level of customer deposits accepted by the Bank and the amount of issued bonds, both with a maturity of up to two years. The rate for the calculation of the compulsory minimum reserve is 1% for the reserves held at the NBS and 2% for the reserves held at ČNB. The required balance is calculated as the total of individual items multiplied by the valid rate.

The daily balance of the compulsory minimum reserve can vary significantly based on the amount of incoming and outgoing payments. The Bank's ability to withdraw the compulsory minimum reserve is restricted by local legislation. The compliance with the 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	2019	2018
Financial assets held for trading:		
Trading derivatives	21,251	39,548
Government debt securities of European Union countries	2,203	–
	23,454	39,548
Non-trading financial assets at fair value through profit or loss:		
Equities	584	440
Financial liabilities held for trading:		
Trading derivatives	24,750	39,335

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	2019 Assets	2018 Assets	2019 Liabilities	2018 Liabilities
Trading derivatives – Fair values				
Interest rate instruments:				
Forwards and swaps	17,919	33,346	19,318	32,585
Foreign currency instruments:				
Forwards and swaps	2,614	5,428	4,781	5,943
Options	93	163	95	215
	2,707	5,591	4,876	6,158
Equity and commodity instruments:				
Equity options	229	446	229	443
Commodity forwards and swaps	396	165	327	149
	625	611	556	592
	21,251	39,548	24,750	39,335

€ '000	2019 Assets	2018 Assets	2019 Liabilities	2018 Liabilities
Trading derivatives – Notional values				
Interest rate instruments:				
Forwards and swaps	1,764,501	3,927,603	1,764,501	3,927,603
Options	184,435	66,105	184,435	66,105
Futures	12,072	–	12,072	–
	1,961,008	3,993,708	1,961,008	3,993,708
Foreign currency instruments:				
Forwards and swaps	473,297	1,519,362	475,958	1,520,462
Options	17,872	24,171	17,872	24,256
	491,169	1,543,533	493,830	1,544,718
Equity and commodity instruments:				
Equity options	2,100	5,487	2,100	5,487
Commodity forwards and swaps	26,284	5,675	26,284	5,675
	28,384	11,162	28,384	11,162
	2,480,561	5,548,403	2,483,222	5,549,588

9. Derivatives – Hedge accounting

2019 € '000	Assets	Liabilities
Fair value hedges of interest rate, foreign currency and inflation risk	82,501	59,833

2018 € '000	Assets	Liabilities
Cash flow hedges of interest rate risk	–	10
Fair value hedges of interest rate risk	26,765	15,216
	26,765	15,226

9.1. Cash flow hedges of interest rate risk

The Bank used one interest rate swap to hedge the interest rate risk arising from the issuance of one variable rate covered bond denominated in EUR. The cash flows on the floating leg of these interest rate swap substantially matched the cash flows profile of the variable rate covered bond. The fix deal interest rate was (0.21%). The hedge ended in June 2019.

2019 € '000	Assets	Liabilities	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Change in fair value recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from hedge reserve to profit or loss
	Fair values	Fair values	Notional values	Notional values				
Micro hedges								
Interest rate instruments:								
Swaps	–	–	–	–	6	6	–	–

2018 € '000	Assets	Liabilities	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Change in fair value recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from hedge reserve to profit or loss
	Fair values	Fair values	Notional values	Notional values				
Micro hedges								
Interest rate instruments:								
Swaps	–	10	80,000	80,000	(94)	(94)	–	(689)

2018 € '000	Line item in SOFP	Carrying amount	Change in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve after termination of hedging relationship
Covered bonds	Financial liabilities at AC: Debt securities in issue	80,000	(24)	(6)	–

9.2. Fair value hedges of interest rate, foreign currency and inflation risk

The Bank used thirty interest rate swaps to hedge the interest rate risk of a pool of mortgage loans. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the mortgage loans in relation to changes of interest rates.

The Bank used twenty four interest rate swaps to hedge the interest rate risk of a pool of current accounts. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the current accounts in relation to changes of interest rates.

The Bank used twenty one interest rate swaps to hedge the interest rate risk of twelve 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 three interest rate swap to hedge the inflation and interest rate risk of two inflation bond from the FVOCI portfolio. The changes in fair value of interest rate swap substantially offset the changes in fair value of inflation bond in relation to both changes of interest rates and inflation reference index.

The Bank used eight interest rate swaps to hedge the interest rate risk of eight fixed rate bank bonds from the FVOCI portfolio. The changes in fair value of these swaps substantially offset the changes in fair value of FVOCI portfolio bonds in relation to changes of interest rates.

The Bank used twelve interest rate swaps and one cross currency swap to hedge the interest rate risk of thirteen corporate loans. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of interest rates.

The Bank used two cross currency swaps to hedge the interest rate and foreign currency risk of two corporate loans denominated in GBP and USD. The changes in fair value of these swaps substantially offset the changes in fair value of the loans in relation to changes of both interest rates and foreign exchange rates.

The Bank used three interest rate swaps to hedge the interest rate risk of three loans received from European Investment Bank (‘EIB’). The changes in fair value of these interest rate swaps substantially offset the changes in fair value of these loans in relation to changes of interest rates.

The Bank used thirty seven interest rate swaps to hedge the interest rate risk arising from the issuance of nineteen fixed rate covered bonds. The changes in fair value of these interest rate swaps substantially offset the changes in fair value of the covered bonds in relation to changes of interest rates.

In 2019, the Bank recognised a net gain of € 41,789 thousand (2018: net gain of € 714 thousand) in relation to the fair value hedging instruments above. The net loss on hedged items attributable to the hedged risks amounted to € 41,920 thousand (2018: net loss of € 542 thousand). Both items are disclosed within ‘Net trading result’ on the line ‘Net result from hedging transactions’.

2019 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	2,981	24,234	960,900	960,900	(5,836)	–
Hedge of corporate loans	2,524	2,906	401,123	401,123	4,159	18
Hedge of loans received from EIB	444	802	50,000	50,000	(817)	(105)
Hedge of covered bonds	67,486	5,300	2,568,200	2,568,200	53,077	–
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	–	8,837	92,460	94,474	(6,319)	–
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of corporate loans	–	–	–	–	(189)	5
Hedge of mortgage loans	3,526	16,894	2,740,000	2,740,000	(5,467)	(149)
Hedge of TLTROs	–	–	–	–	–	(18)
Hedge of current accounts	5,540	860	612,500	612,500	3,181	118

2018 € '000	Assets Fair values	Liabilities Fair values	Assets Notional values	Liabilities Notional values	Change in fair value used for calculating hedge ineffectiveness	Ineffectivness recognised in profit or loss
Micro hedges						
Interest rate instruments:						
Swaps						
Hedge of debt securities at FVOCI	247	1,503	156,371	156,371	1,486	–
Hedge of corporate loans	2,897	2,101	471,464	471,464	(1,559)	–
Hedge of covered bonds	20,720	533	1,944,036	1,944,036	12,044	4
Foreign currency instruments:						
Swaps						
Hedge of corporate loans	74	2,839	135,430	134,285	(1,235)	9
Macro hedges						
Interest rate instruments:						
Swaps						
Hedge of corporate loans	–	181	63,000	63,000	(140)	7
Hedge of mortgage loans	944	8,059	1,892,000	1,892,000	(11,478)	84
Hedge of TLTROs	7	–	250,000	250,000	(1)	17
Hedge of current accounts	1,876	–	565,500	565,500	1,597	51

The amounts relating to items designated as hedged items were as follows:

2019 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffectiveness	Accumulated amount of fair value adjustment after termination of hedging relationship
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	987,302	–	5,836	–
Corporate loans	Financial assets at AC: Due from customers	495,597	184	2,178	1,131
Loans received from EIB	Financial assets at AC: Due to banks	50,000	712	(712)	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1,334,575	57,211	53,077	18,369
Macro hedges					
Corporate loans	Financial assets at AC: Due from customers	–	–	194	–
Mortgage loans	Financial assets at AC: Due from customers	2,740,000	12,688	5,318	1,152
TLTROs	Financial liabilities at AC: Due to banks	–	–	18	–
Current accounts	Financial liabilities at AC: Due to customers	612,500	4,580	3,063	–

2018 € '000	Line item in SOFP	Carrying amount	Accumulated amount of fair value adjustments included in carrying amount	Change in fair value used for calculating hedge ineffectiveness	Accumulated amount of fair value adjustment after termination of hedging relationship
Micro hedges					
Debt securities at FVOCI	Financial assets at FVOCI	124,832	(836)	(1,486)	–
Corporate loans	Financial assets at AC: Due from customers	604,713	(1,036)	2,803	–
Covered bonds	Financial liabilities at AC: Debt securities in issue	1,370,550	24,521	12,040	5,798
Macro hedges					
Corporate loans	Financial assets at AC: Due from customers	63,146	146	147	–
Mortgage loans	Financial assets at AC: Due from customers	1,899,246	7,246	11,562	1,790
TLTROs	Financial liabilities at AC: Due to banks	247,842	(18)	(18)	–
Current accounts	Financial liabilities at AC: Due to customers	626,017	1,517	1,546	–

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	2019 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	–	324,400	636,500
	–	0.06%	0.12%
Hedge of corporate loans	150,000	251,123	–
	(0.30%)	0.19%	–
Hedge of mortgage loans	640,000	2,100,000	–
	(0.25%)	(0.03%)	–
Hedge of loans received from other banks	–	–	50,000
	–	–	0.32%
Hedge of current account	500,000	–	112,500
	(0.62%)	–	0.64%
Hedge of covered bonds	150,000	509,000	1,109,200
	(0.15%)	0.72%	1.11%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	–	4,628	89,846
	–	0.00%	2.63%

€ '000	Less than 1 year	1 – 5 years	2018 More than 5 years
Interest rate instruments:			
Swaps			
Hedge of debt securities at FVOCI	86,671	50,000	20,000
	1.15%	0.26%	0.32%
Hedge of corporate loans	13,606	366,812	154,046
	0.83%	0.07%	0.52%
Hedge of mortgage loans	159,000	1,733,000	–
	(0.26%)	(0.07%)	–
Hedge of TLTROs	250,000	–	–
	(0.35%)	–	–
Hedge of current account	512,000	–	112,500
	(0.35%)	–	0.64%
Hedge of covered bonds	670,736	321,000	952,300
	0.17%	0.66%	1.14%
Foreign currency instruments:			
Swaps			
Hedge of corporate loans	41,847	5,382	87,057
	0.00%	0.00%	2.63%

10. Financial assets at fair value through other comprehensive income

€ '000	2019	2018
Government debt securities of European Union countries	1,174,127	681,809
of which Italian government debt securities	*489,830*	*204,041*
Bank debt securities	357,806	59,305
Other debt securities	30,605	–
Equity instruments:		
VISA Inc. Seria C	11,139	7,676
Intesa Sanpaolo S.p.A.	797	1,112
S.W.I.F.T.	75	72
	12,011	8,860
	1,574,549	749,974

At 31 December 2019, bonds in the total nominal amount of € 725,500 thousand were pledged by the Bank to secure collateralized transactions (31 December 2018: € 599,935). These bonds were pledged in favor of the ECB within the pool of assets which can be immediately used as collateral for received funds needed for liquidity management purposes.

11. Financial assets and financial liabilities at amortised cost

11.1. Due from other banks

€ '000	Note	2019	2018
Loans and advances:			
with contractual maturity over 90 days		136,788	72,098
Cash collateral		44,191	31,110
Impairment losses	21	(488)	(754)
		180,491	102,454

11.2. Due from customers

2019 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public Administration			
Single Resolution Fund	3,876	–	3,876
Municipalities	130,884	(2,258)	128,626
	134,760	(2,258)	132,502
Corporate			
Large Corporates	2,220,975	(5,209)	2,215,766
Large Corporates – debt securities	124,322	(118)	124,204
Specialized Lending	871,982	(38,436)	833,546
SME	1,294,233	(33,925)	1,260,308
Other Non-banking Financial Institutions	663,944	(397)	663,547
Other Financial Institutions – Debt securities	25,063	(28)	25,035
Public Sector Entities	1,344	(38)	1,306
Factoring	93,067	(1,234)	91,833
	5,294,930	(79,385)	5,215,545
Retail			
Small Business	252,112	(12,881)	239,231
Consumer Loans	1,560,744	(158,732)	1,402,012
Mortgages	6,897,623	(38,840)	6,858,783
Credit Cards	150,073	(22,428)	127,645
Overdrafts	72,883	(6,351)	66,532
Flat Owners Associations	36,138	(247)	35,891
	8,969,573	(239,479)	8,730,094
	14,399,263	(321,122)	14,078,141

2018 € '000	Gross amount	Impairment losses (note 21)	Carrying amount
Public Administration			
Single Resolution Fund	2,870	–	2,870
Municipalities	140,670	(2,599)	138,071
	143,540	(2,599)	140,941
Corporate			
Large Corporates	2,144,957	(5,484)	2,139,473
Large Corporates – debt securities	53,360	(619)	52,741
Specialized Lending	848,312	(46,630)	801,682
SME	1,305,405	(34,968)	1,270,437
Other Non-banking Financial Institutions	769,194	(451)	768,743
Public Sector Entities	2,905	(73)	2,832
Factoring	105,337	(1,219)	104,118
	5,229,470	(89,444)	5,140,026
Retail			
Small Business	249,901	(13,277)	236,624
Consumer Loans	1,589,367	(189,856)	1,399,511
Mortgages	6,172,729	(34,081)	6,138,648
Credit Cards	183,527	(32,705)	150,822
Overdrafts	96,511	(8,586)	87,925
Flat Owners Associations	33,286	(250)	33,036
	8,325,321	(278,755)	8,046,566
	13,698,331	(370,798)	13,327,533

At 31 December 2019, the 20 largest corporate customers represented a total balance of € 1,710,697 thousand (31 December 2018: € 1,762,523 thousand) or 12.15% (31 December 2018: 13.23%) of the total loan portfolio.

11.3. Due to banks

€ '000	2019	2018
Due to central banks:		
Current accounts	920	658
Loans received from central banks	148,219	247,860
	149,139	248,518
Due to other banks:		
Current accounts	22,811	20,337
Term deposits	5,019	620,785
Loans received from other banks	127,273	101,829
Revaluation of fair value hedged loans received	(712)	–
Cash collateral received	22,239	610
	176,630	743,561
	325,769	992,079

At 31 December 2019, 'Loans received from central banks' contains two loans (31 December 2018: three loans) from National Bank of Slovakia in the nominal amount of € 100,000 thousand and € 50,000 thousand (31 December 2018: € 100,000 thousand, € 100,000 thousand and € 50,000 thousand). The interest rate for all loans is (0.4%) (31 December 2018: (0.4%)) and the maturity is in 2020 and 2021 (31 December 2018: 2020 and 2021). 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	2019	2018
European Investment Bank	114,181	81,350
European Bank for Reconstruction and Development	9,655	13,437
Council of Europe Development Bank	3,437	7,042
	127,273	101,829

European Investment Bank

Loans from the European Investment Bank were provided to fund development of SME, large sized companies and infrastructure projects. At 31 December 2019, the balance comprised of seven loans in the nominal amount of € 47,368 thousand, € 5,817 thousand, € 4,375 thousand, € 1,541 thousand, € 1,495 thousand with variable interest rates and € 50,000 thousand and € 3,571 thousand with fixed interest rate. The interest rates were between 0.00% and 1.73% (31 December 2018: six loans in the nominal amount of € 50,000 thousand, € 8,750 thousand, € 8,286 thousand, € 7,479 thousand, € 1,827 thousand with variable interest rates and € 5,000 thousand with fixed interest rate between 0.00% and 1.73%) and with maturity between 2020 and 2028 (31 December 2018: 2020 and 2028). The principal of the loans is payable on an annual or semi-annual basis and the interest is payable semi-annually or quarterly, depending on the periodicity agreed in the individual loan contracts.

European Bank for Reconstruction and Development ('EBRD')

Loans received from the EBRD represented funds granted to support energy savings in large corporations. At 31 December 2019, there were five loan arrangements concluded in the nominal amount of € 2,500 thousand, € 2,143 thousand, € 2,143 thousand, € 2,143 thousand and € 714 thousand (31 December 2018: five loan arrangements in the nominal amount of € 3,571 thousand, € 3,571 thousand, € 3,571 thousand, € 2,143 thousand and € 558 thousand). The maturity of the loans is between 2020 and 2024 (31 December 2018: 2020 and 2023). At 31 December 2019 the variable interest rates are in the range between 0.20% and 0.35% (31 December 2018: 0.35% and 1.64%). The frequency of the repayment of both the interest and the principal is semi-annual.

Council of Europe Development Bank

At 31 December 2019, loans from the Council of Europe Development Bank comprised of three loans in the nominal amount of € 2,000 thousand, € 1,000 thousand and € 437 thousand (31 December 2018: four loans in the nominal amount of of € 2,667 thousand, € 2,000 thousand, € 1,500 thousand and € 874 thousand). The purpose of these loans is to fund SME projects and development of municipalities in the Slovak republic. The interest rates of these loans are linked to 3M Euribor and are between 0.00% and 0.39% at 31 December 2019 (31 December 2018: 0.15% and 0.30%)The maturity of the individual loans is between 2020 and 2022 (31 December 2018: 2019 and 2022). The interest is payable quarterly and the principal is payable on an annual basis.

11.4. Due to customers

€ '000	2019	2018
Current accounts	8,016,452	7,397,264
Term deposits	2,633,491	2,475,038
Government and municipal deposits	904,185	850,893
Savings accounts	245,816	246,494
Lease liabilities	22,058	–
Other deposits	105,058	86,077
	11,927,060	11,055,766

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

		Cash flow			Non-cash changes			
2019 € '000	1 January*	Proceeds	Repay-ments	Accruals	Reva-luation	Exchange differrence	Other	31 December
Lease liabilities	16,443	11,965	(6,350)	–	–	–	–	22,058

* First time adoption of IFRS 16.

The following table sets out a maturity analysis of lease liabilities, showing the undiscounted lease payments to be payable after the reporting date.

€ '000	2019
Up to one month	646
one to three months	1,277
three months to one year	4,817
one to five years	15,531
Over five years	96
	22,367

11.5. Subordinated debt

€ '000	2019	2018
Subordinated debt	200,143	200,181

At 31 December 2019, the balance of subordinated debt comprised of one ten-year loan drawn on 22 December 2016, in the nominal amount of € 200,000 thousand (31 December 2018: € 200,000 thousand) from Intesa Sanpaolo Holding International S. A. Maturity is in 2026. The variable interest rate was 2.89% as at 31 December 2019 (31 December 2018: 2.96%). 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:

2019 € '000	1 January	Cash flow	Accruals	Revaluation	Non-cash changes Exchange difference	Other	31 December
Subordinated debt	200,181	–	38	–	–	–	200,143

2018 € '000	1 January	Cash flow	Accruals	Revaluation	Non-cash changes Exchange difference	Other	31 December
Subordinated debt	200,164	–	17	–	–	–	200,181

11.6. Debt securities in issue

€ '000	2019	2018
Covered bonds	1,710,540	838,698
Covered bonds subject to cash flow hedges	–	80,378
Covered bonds subject to fair value hedges	1,334,575	1,388,658
	3,045,115	2,307,734
Revaluation of fair value hedged covered bonds	57,211	18,722
Unamortized part of revaluation related to terminated fair value hedges	18,369	5,797
	3,120,695	2,332,253

The repayment of covered bonds is funded by the mortgage loans denominated in euro provided to customers of the Bank (note 11.2.).

The disclosure of changes arising from cash flows and non-cash changes in liabilities arising from financing activities:

2019 € '000	1 January	Cash flow Proceeds from issue	Cash flow Repayments	Accruals	Revaluation	Non-cash changes Exchange difference	Other	31 December
Covered bonds	2,332,253	1,000,000	(258,035)	(4,582)	51,059	–	–	3,120,695

2018 € '000	1 January	Cash flow Proceeds from issue	Cash flow Repayments	Accruals	Revaluation	Non-cash changes Exchange difference	Other	31 December
Covered bonds	2,252,380	300,000	(235,545)	2,618	10,259	2,541	–	2,332,253

Name	Interest rate (%)	Currency	Number in circulation as at 31 December 2019	Nominal value in original currency per piece	Issue date	Maturity date	2019 € '000	2018 € '000
Mortgage bonds VÚB, a. s. XX.	4.300	EUR	50	331,939	9.3.2006	9.3.2021	17,176	17,176
Mortgage bonds VÚB, a. s. XXX.	5.000	EUR	1,000	33,194	5.9.2007	5.9.2032	33,494	33,476
Mortgage bonds VÚB, a. s. 31.	4.900	EUR	600	33,194	29.11.2007	29.11.2037	19,752	19,738
Mortgage bonds VÚB, a. s. 36.	4.750	EUR	560	33,194	31.3.2008	31.3.2020	19,239	19,189
Mortgage bonds VÚB, a. s. 43.	5.100	EUR	500	33,194	26.9.2008	26.9.2025	16,262	16,165
Mortgage bonds VÚB, a. s. 58.	–	EUR	–	1,000,000	10.12.2010	10.12.2019	–	80,073
Mortgage bonds VÚB, a. s. 67.	5.350	EUR	300	50,000	29.11.2011	29.11.2030	15,071	15,071
Mortgage bonds VÚB, a. s. 72.	4.700	EUR	250	100,000	21.6.2012	21.6.2027	25,496	25,479
Mortgage bonds VÚB, a. s. 73.	4.200	EUR	500	100,000	11.7.2012	11.7.2022	50,881	50,838
Mortgage bonds VÚB, a. s. 74.	3.350	EUR	700	100,000	16.1.2013	15.12.2023	72,061	72,014
Mortgage bonds VÚB, a. s. 75.	–	EUR	–	100,000	5.4.2013	5.4.2019	–	30,447
Mortgage bonds VÚB, a. s. 78.	2.160	EUR	905	10,000	3.3.2014	3.3.2020	9,213	9,220
Mortgage bonds VÚB, a. s. 79.	2.000	EUR	10,000	1,000	24.3.2014	24.9.2020	10,154	10,154
Mortgage bonds VÚB, a. s. 80.	1.850	EUR	31	1,000,000	27.3.2014	27.3.2021	31,539	31,622
Mortgage bonds VÚB, a. s. 81.	2.550	EUR	38	1,000,000	27.3.2014	27.3.2024	39,294	39,425
Mortgage bonds VÚB, a. s. 82.	1.650	EUR	1,701	1,000	16.6.2014	16.12.2020	1,716	1,716
Mortgage bonds VÚB, a. s. 83.	–	EUR	–	100,000	28.7.2014	28.7.2019	–	50,151
Mortgage bonds VÚB, a. s. 84.	–	EUR	–	100,000	29.9.2014	30.9.2019	–	50,040
Mortgage bonds VÚB, a. s. 85.	2.250	EUR	500	100,000	14.11.2014	14.11.2029	49,676	49,628
Mortgage bonds VÚB, a. s. 86.	0.300	EUR	1,000	100,000	27.4.2015	27.4.2020	100,083	99,610
Mortgage bonds VÚB, a. s. 87.	1.250	EUR	1,000	100,000	9.6.2015	9.6.2025	98,655	98,281
Mortgage bonds VÚB, a. s. 88.	0.500	EUR	965	100,000	11.9.2015	11.9.2020	96,673	96,704
Mortgage bonds VÚB, a. s. 89.	1.200	EUR	1,000	100,000	29.9.2015	29.9.2025	99,584	99,456
Mortgage bonds VÚB, a. s. 90.	1.600	EUR	1,000	100,000	29.10.2015	29.10.2030	98,368	98,192
Mortgage bonds VÚB, a. s. 91.	0.600	EUR	1,000	100,000	21.3.2016	21.3.2023	100,160	100,066
Mortgage bonds VÚB, a. s. 92.	–	USD*	–	100,000	27.6.2016	27.6.2019	–	48,433
Mortgage bonds VÚB, a. s. 93.	0.500	EUR	2,500	100,000	18.1.2017	18.1.2024	249,142	248,641
Mortgage bonds VÚB, a. s. 94.	1.050	EUR	2,500	100,000	27.4.2017	27.4.2027	248,662	248,253
Mortgage bonds VÚB, a. s. 95.	0.375	EUR	2,500	100,000	26.9.2017	26.9.2022	249,178	248,789

(Table continues on the next page)

Name	Interest rate (%)	Currency	Number in circulation as at 31 December 2019	Nominal value in original currency per piece	Issue date	Maturity date	2019 € '000	2018 € '000
Covered bonds VÚB, a. s. 1	0.500	EUR	2,500	100,000	26.6.2018	26.6.2023	249,836	249,605
Covered bonds VÚB, a. s. 2	1.500	EUR	500	100,000	5.10.2018	15.12.2027	49,945	50,082
Covered bonds VÚB, a. s. 3	0.250	EUR	5,000	100,000	26.3.2019	26.3.2024	497,215	–
Covered bonds VÚB, a. s. 4	0.500	EUR	5,000	100,000	26.6.2019	26.6.2029	496,590	–
							3,045,115	2,307,734

* The Bank issued the mortgage bonds in USD due to lower funding costs in USD, funding needs in USD and interests from investor side regarding securities denominated in USD.

12. Fair value changes of the hedged items in portfolio hedge of interest rate risk

€ '000	2019	2018
Financial assets at AC:		
Due from customers:		
Corporate	–	147
Retail		
Mortgages	13,840	9,036
	13,840	9,183
Financial liabilities at AC:		
Due to banks	–	(18)
Due to customers	4,580	1,517
	4,580	1,499

13. Investments in subsidiaries, joint ventures and associates

2019 € '000	Share	Cost	Impairment losses (note 21)	Carrying amount
VÚB Leasing, a. s.	100.00%	74,410	(27,381)	47,029
VÚB Generali d. s. s., a. s.	50.00%	16,597	–	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3
		91,010	(27,381)	63,629

2018 € '000	Share	Cost	Impairment losses (note 21)	Carrying amount
VÚB Leasing, a. s.	100.00%	44,410	(27,381)	17,029
Consumer Finance Holding ČR, a. s.	100.00%	8,557	–	8,557
VÚB Generali d. s. s., a. s.	50.00%	16,597	–	16,597
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3
		69,567	(27,381)	42,186

VÚB Leasing, a. s., VÚB Generali d. s. s., a. s. and Slovak Banking Credit Bureau, s. r. o. are incorporated in the Slovak Republic.

Consumer Finance Holding ČR, a. s. was incorporated in the Czech Republic.

Investments in subsidiaries, joint ventures and associates are tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses were recognized during 2019.

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 cash flow projections beyond the five year period are adjusted by the projected growth rate. Both discount rates and growth rates are determined on ISP Group level specifically for the Slovak market.

The following rates are used by the Bank:

€ '000	2019	2018
Discount rate – cash flows	6.06%	6.39%
Discount rate – terminal value	7.20%	7.81%
Projected growth rate	4.42%	4.48%

The calculation considers the following key assumptions:
- interest margins – the development of margins and volumes by product line,
- discount rates – based on CAPM,
- market share during the budget period,
- projected growth rates used to extrapolate cash flows beyond the budget period,
- current local GDP,
- local inflation rates.

The impairment calculation is most sensitive to market interest rates, expected cash-flows and growth rates.

14. Property and equipment and Non-current assets classified as held for sale

2019 € '000	Owned	Right-of-use	Total
Buildings and land	72,421	19,876	92,297
Equipment	4,767	–	4,767
Other tangibles	1,046	2,187	3,233
Assets in progress	6,902	–	6,902
	85,136	22,063	107,199

2019 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 31 December 2018	103,383	56,781	28,363	5,281	193,808
Impact of adopting IFRS 16	14,256	–	2,187	–	16,443
At 1 January	117,639	56,781	30,550	5,281	210,251
Additions from merger	18	65	–	–	83
Additions	11,314	2	651	6,134	18,101
Revaluation	2	–	–	–	2
Disposals	(24,921)	(3,165)	(3,209)	–	(31,295)
Transfers	2,269	1,945	299	(4,513)	–
Exchange differences	8	–	1	–	9
At 31 December	106,329	55,628	28,292	6,902	197,151
Accumulated depreciation					
At 1 January	(4,353)	(51,800)	(27,349)	–	(83,502)
Additions from merger	(6)	(40)	–	–	(46)
Revaluation	11	–	–	–	11
Depreciation for the period	(8,644)	(2,179)	(908)	–	(11,731)
Disposals	1,290	3,159	3,198	–	7,647
Exchange differences	(2)	(1)	–	–	(3)
At 31 December	(11,704)	(50,861)	(25,059)	–	(87,624)
Impairment losses (note 21)					
At 1 January	(7,090)	–	–	–	(7,090)
Release	4,762	–	–	–	4,762
At 31 December	(2,328)	–	–	–	(2,328)
Carrying amount					
At 31 December 2018	91,940	4,981	1,014	5,281	103,216
Impact of adopting IFRS 16	14,256	–	2,187	–	16,443
At 1 January	106,196	4,981	3,201	5,281	119,659
At 31 December	92,297	4,767	3,233	6,902	107,199

2018 € '000	Buildings and land	Equipment	Other tangibles	Assets in progress	Total
Cost or fair value					
At 1 January	102,617	60,026	28,931	3,432	195,006
Additions from merger	983	1,673	618	42	3,316
Additions	7	4	4	5,046	5,061
Disposals	(489)	(7,801)	(1,286)	–	(9,576)
Transfers	264	2,879	96	(3,239)	–
Revaluation	2	–	–	–	2
Exchange differences	(1)	–	–	–	(1)
At 31 December	103,383	56,781	28,363	5,281	193,808
Accumulated depreciation					
At 1 January	–	(55,703)	(27,791)	–	(83,494)
Additions from merger	–	(1,251)	(475)	–	(1,726)
Depreciation for the year	(4,762)	(2,626)	(386)	–	(7,774)
Disposals	409	7,780	1,303	–	9,492
At 31 December	(4,353)	(51,800)	(27,349)	–	(83,502)
Impairment losses (note 21)					
At 1 January	–	–	–	–	–
Creation	(7,090)	–	–	–	(7,090)
At 31 December	(7,090)	–	–	–	(7,090)
Carrying amount					
At 1 January	102,617	4,323	1,140	3,432	111,512
At 31 December	91,940	4,981	1,014	5,281	103,216

Of which right-of-use assets:

2019 € '000	Buildings and land	Other tangibles	Total
Cost			
At 1 January	14,256	2,187	16,443
Additions	11,314	651	11,965
Disposals	(129)	(10)	(139)
Exchange differences	7	–	7
At 31 December	25,448	2,828	28,276
Accumulated depreciation			
At 1 January	–	–	–
Depreciation for the period	(5,602)	(647)	(6,249)
Disposals	31	6	37
Exchange differences	(1)	–	(1)
At 31 December	(5,572)	(641)	(6,213)
Carrying amount			
At 1 January	14,256	2,187	16,443
At 31 December	19,876	2,187	22,063

In order to optimize costs, the Bank decided to sell part of its own buildings, which it did not use or used only part of its premises primarily as its branches. During November and December 2019, these buildings were sold, and approximately 35% of the premises were subsequently rented back by the Bank to continue to use them. The Bank thus entered into sale and leaseback transactions. The buildings sold were excluded from property and equipment and the premises that the Bank began to lease back were falling back to property and equipment as rights of use. At the same time, lease liabilities of the same amount as the rights of use were recognized. The gains from these transactions were € 0 thousand, as the selling price corresponded to their fair value, in which these buildings were also recognized in the accounting under the revaluation model. The contracts were concluded under current market conditions. The lease term was agreed in the contracts for an average of four years.

In 2019 the Bank reviewed the carrying amount of its property and equipment. An impairment test was carried out to determine the recoverable amount of these assets which was based on the fair value less costs to sell. As a result of the impairment test the Bank recognized an impairment loss in total amount of € 2,328 thousand (31 December 2018: € 7,090 thousand).

For 'Buildings and land' the Bank uses the revaluation model for subsequent measurement. Management determined that these constitute one class of asset, based on the nature, characteristics and risks. The Bank uses the income method, using market rents and yields as key inputs. Fair values are based on valuations performed by an accredited independent valuer. The revaluation model aligned the book value to the current market value. Level 3 revaluation was recognised due to significant unobservable estimated valuation inputs.

If 'Buildings and land' were measured using the cost model, the carrying amounts would be, as follows:

€ '000	2019	2018
Cost	105,661	174,242
Accumulated depreciation	(52,622)	(98,506)
Impairment losses	(2,328)	(10,438)
	50,711	65,298

The Bank held in its portfolio of non-current assets classified as held for sale buildings and land in the amount of:

€ '000	2019	2018
Cost	1,585	35,141
Accumulated depreciation	(28)	(1,129)
Impairment losses	(912)	(7,090)
	645	26,922

At 31 December 2019, the gross book value of fully depreciated tangible assets that are still used by the Bank amounted to € 81,631 thousand (31 December 2018: € 83,855 thousand).

There are no restrictions on title and no 'Property and equipment' is pledged as security for liabilities.

At 31 December 2019, the amount of irrevocable contractual commitments for the acquisition of tangible assets was € nil thousand (31 December 2018: € nil thousand).

The Bank's insurance covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism and other damages).

15. Intangible assets

2019 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	250,475	10,833	36,357	297,665
Additions from merger	158	–	–	158
Additions	63	95	31,961	32,119
Disposals	(18)	–	–	(18)
Transfers	24,580	–	(24,580)	–
Exchange differences	7	3	–	10
At 31 December	275,265	10,931	43,738	329,934
Accumulated amortisation				
At 1 January	(195,538)	(9,926)	–	(205,464)
Additions from merger	(54)	–		(54)
Amortization for the period	(11,978)	(405)	–	(12,383)
Disposals	18	–	–	18
Exchange differences	(4)	(1)	–	(5)
At 31 December	(207,556)	(10,332)	–	(217,888)
Carrying amount				
At 1 January	54,937	907	36,357	92,201
At 31 December	67,709	599	43,738	112,046

2018 € '000	Software	Other intangible assets	Assets in progress	Total
Cost				
At 1 January	225,628	10,500	23,633	259,761
Additions from merger	12,657	–	246	12,903
Additions	–	–	25,005	25,005
Transfers	12,193	334	(12,527)	–
Exchange differences	(3)	(1)	–	(4)
At 31 December	250,475	10,833	36,357	297,665
Accumulated amortisation				
At 1 January	(175,341)	(9,538)	–	(184,879)
Additions from merge	(8,317)	–	–	(8,317)
Amortization for the year	(11,883)	(389)	–	(12,272)
Exchange differences	3	1	–	4
At 31 December	(195,538)	(9,926)	–	(205,464)
Carrying amount				
At 1 January	50,287	962	23,633	74,882
At 31 December	54,937	907	36,357	92,201

Assets in progress include mainly the costs for the technical upgrade of software and for the development of new software applications that have not yet been put in use.

At 31 December 2019, the gross book value of fully amortised intangible assets that are still used by the Bank amounted to € 147,373 thousand (31 December 2018: € 141,180 thousand).

At 31 December 2019, the amount of irrevocable contractual commitments for the acquisition of intangible assets was € 1,442 thousand (31 December 2018: € nil thousand).

16. Goodwill

€ '000	2019	2018
Consumer Finance Holding, a. s.	18,871	18,871

Goodwill related to Consumer Finance Holding, a. s. was merged in 2018 into VUB. It was originally recognized in 2005 on the acquisition of this company operating in the field of consumer loans.

Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. No impairment losses on goodwill were recognized during 2019. The calculation is based on the same procedures as for the impairment testing of 'Investments in subsidiaries, joint ventures and associates' (note 13).

17. Current and deferred income tax assets and liabilities

€ '000	2019	2018
Current income tax assets	25,309	1,181
Deferred income tax assets	63,157	66,298
Current income tax assets liabilities	–	8,955

Deferred income taxes are calculated on all temporary differences using a tax rate of 21% (31 December 2018: 21%) as follows:

€ '000	2019	Profit/ (loss) (note 35)	Equity	Impact of adopting IFRS 16 profit/ (loss)	Merger	2018
Derivative financial instruments designated as cash flow hedges	–	–	(2)	–	–	2
Financial assets at FVOCI	(1,769)	–	(317)	–	–	(1,452)
Financial assets at AC:	–	–	–	–	–	–
Due from other banks	95	(64)	–	–	–	159
Due from customers	56,166	(19,294)	–	–	–	75,460
Property and equipment	(7,374)	(1,682)	2,098	(3,442)	–	(4,348)
Other assets	7	–	–	–	–	7
Financial liabilities at AC:	–	–	–	–	–	–
Due to customers	4,643	1,201	–	3,442	–	–
Provisions	1,856	1,240	–	–	–	616
Other liabilities	8,715	(805)	–	–	–	9,520
Other	818	12,633	278	–	1,573	(13,666)
	63,157	(6,771)	2,057	–	1,573	66,298

18. Other assets

€ '000	Note	2019	2018
Operating receivables and advances		14,216	15,840
Prepayments and accrued income		8,641	5,057
Other tax receivables		732	999
Inventories		513	550
Settlement of operations with financial instruments		25	9
Impairment losses	21	(3,139)	(2,155)
		20,988	20,300

19. Provisions

€ '000	Note	2019	2018
Financial guarantees and commitments	21	9,391	14,409
Litigation	22, 24	946	6,575
Restructuring provision	22	334	924
Other provisions	22	–	10
		10,671	21,918

20. Other liabilities

€ '000	2019	2018
Various creditors	45,687	47,153
Settlement with employees	30,726	32,091
Severance and Jubilee benefits	5,633	5,411
Accruals and deferred income	2,673	2,749
VAT payable and other tax payables	2,245	2,223
Settlement with shareholders	1,753	1,723
Investment certificates	641	434
Share remuneration scheme	584	440
Settlement of operations with financial instruments	5	1
Other	810	1,146
	90,757	93,371

At 31 December 2019 and 31 December 2018 there were no overdue balances within 'Other liabilities'.

Severance and Jubilee benefits are discounted to determine their present value. The discount rate is determined by reference to current rates of return on Slovak government bonds with a fifteen years duration that represents the period which is closest to the average benefit duration. The calculation is performed using the Projected Unit Credit Method. For the calculation th 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 of the Bank are covered by the retirement and jubilee employee benefits program.

The calculation for the respective program takes into account the following parameters:

		2019		2018
	Jubilee benefits	**Retirement benefits**	**Jubilee benefits**	**Retirement benefits**
Discount rate	(0.28%)	0.55%	(0.28%)	1.23%
Growth of wages*	–	3.00%	–	4.00%
Future growth of wages*	–	4.50%	–	4.00%
Turnover rate (based on age)	5.9% – 41.3%	5.9% – 41.3%	6.1% – 41.6%	6.1% – 41.6%
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:

2019 € '000	**1 January**	**Creation (note 31)**	**Use**	**31 December**
Social fund	2,795	1,150	(1,946)	1,999

2018 € '000	**1 January**	**Creation (note 31)**	**Use**	**31 December**
Social fund	594	3,887	(1,686)	2,795

21. Movements in impairment losses

2019 € '000	Note	1 January	Merger	Net creation /(release) (note 34)	Assets written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		134	–	90	–	–	–	224
Financial assets at AC:	11							
Due from other banks		754	–	(369)	–	103	–	488
Due from customers		370,798	2,289	39,973	(82,822)	(127)	(8,989)	321,122
Investments in subsidiaries, joint ventures and associates	13	27,381	–	–	–	–	–	27,381
Property and equipment and Non-current assets classified as held for sale	14	7,090	–	–	(4,762)	–	–	2,328
Other assets	18	2,155	–	984	–	–	–	3,139
		408,312	2,289	40,678	(87,584)	(24)	(8,989)	354,682
Financial guarantees and commitments	19, 34	14,409	–	(5,262)	–	244	–	9,391
		422,721	2,289	35,416	(87,584)	220	(8,989)	364,073

2018 € '000	Note	1 January	Merger	Net creation (note 34)	Assets written off/sold	Exchange difference	Other*	31 December
Financial assets at FVOCI		226	–	(92)	–	–	–	134
Financial assets at AC:	11							
Due from other banks		555	–	130	–	69	–	754
Due from customers		311,336	77,141	54,642	(60,734)	(1,091)	(10,496)	370,798
Investments in subsidiaries, joint ventures and associates	13	37,914	(10,533)	–	–	–	–	27,381
Property and equipment and Non-current assets classified as held for sale	14	–		7,090	–	–	–	7,090
Other assets	18	2,024	235	(104)	–	–	–	2,155
		352,055	66,843	61,666	(60,734)	(1,022)	(10,496)	408,312
Financial guarantees and commitments	19, 34	18,283	–	(5,325)	–	1,451	–	14,409
		370,338	66,843	56,341	(60,734)	429	(10,496)	422,721

* 'Other' represents:
  – the interest portion (unwinding of interest).

22. Movements in provisions

2019 € '000	Note	1 January	Merger	Net release*	Use	Other	31 December
Litigation	19, 24, 33	6,575	–	(5,058)	(571)	–	946
Restructuring provision	19, 33	924	–	–	(590)	–	334
Other provisions	19, 33	10	–	–	(10)	–	–
		7,509	–	(5,058)	(1,171)	–	1,280

2018 € '000	Note	1 January	Merger	Net creation	Use	Other	31 December
Litigation	19, 24, 33	6,331	38	217	(14)	3	6,575
Restructuring provision	19, 33	924	–	1,210	(1,210)	–	924
Other provisions	19, 33	47	–	11	(47)	(1)	10
		7,302	38	1,438	(1,271)	2	7,509

* On the basis of success in litigation and mainly as a result of an independent assessment, based on which management revised the expected probability of success, the provision was released for € 5,058 thousand.

23. Equity

€ '000	2019	2018
Share capital – authorised, issued and fully paid:		
89 ordinary shares of € 3,319,391.89 each, not traded	295,426	295,426
4,078,108 ordinary shares of € 33.2 each, publicly traded	135,393	135,393
	430,819	430,819
Share premium	13,719	13,719
Reserves	108,728	115,074
Retained earnings (excluding net profit for the period)	929,586	892,790
	1,482,852	1,452,402

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.

	2019	2018
Net profit for the period attributable to shareholders in € '000	114,087	156,286
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 €	8.79	12.04

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	2019	2018
Intesa Sanpaolo Holding International S. A.	97.03%	97.03%
Domestic shareholders	2.16%	2.08%
Foreign shareholders	0.81%	0.89%
	100.00%	100.00%

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have been made in the objectives, policies and processes from the previous years.

The Bank's regulatory capital position was determined based on the rules for capital adequacy calculation set by the CRR Regulation:

€ '000	2019	2018
Tier 1 capital		
Share capital	430,819	430,819
Share premium	13,719	13,719
Retained earnings*	921,122	884,326
Other reserves	95,957	95,957
Accumulated other comprehensive income	21,235	27,587
(-) Value adjustments due to the requirements for prudent valuation	(57)	–
Fair value gains and losses arising from the Bank's own credit risk related to derivative liabilities	–	(6)
Other transitional adjustments to CET1 Capital	35,146	39,281
CET1 capital elements or deductions — other	(3,876)	(2,872)
Less goodwill and intangible assets	(130,916)	(111,072)
Less IRB shortfall of credit risk adjustments to expected losses	(8,958)	–
	1,374,191	1,377,739
Tier 2 capital		
IRB excess of provisions over expected losses eligible	–	21,091
Subordinated debt	200,000	200,000
Other transitional adjustments to T2 Capital	(8,739)	(9,767)
	191,261	211,324
Total regulatory capital	1,565,452	1,589,063

* Excluding net profit for the period/year, profit in approval and other capital funds.

€ '000	2019	2018
Retained earnings	1,043,673	1,049,076
Net profit for the period/year	(114,087)	(156,286)
Other capital funds	(8,464)	(8,464)
	921,122	884,326

€ '000	2019	2018	2019 Required	2018 Required
Tier 1 capital	1,374,191	1,377,739	708,897	722,920
Tier 2 capital	191,261	211,324	191,261	211,323
Total regulatory capital	1,565,452	1,589,063	708,897	722,920
Total Risk Weighted Assets	8,861,215	9,036,500	8,861,215	9,036,500
CET 1 capital ratio	15.51%	15.25%	13.00%	12.50%
Total capital ratio	17.67%	17.58%	15.50%	15.00%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings without profit for the current year, accumulated other comprehensive income, foreign currency translation and reserves. The deducted amounts in Tier 1 capital are goodwill, intangible assets and irrevocable payment commitments (contribution to Single Resolution Fund) and IRB shortfall. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the CRR Regulation. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and IRB excess of provisions over expected losses.

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2019 and 31 December 2018 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU ('CRD IV') and in the CRR Regulation of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws.

Following the Supervisory Review and Evaluation Process ('SREP'), the ECB annually makes a final decision on the capital requirement that the Bank must comply with on sub-consolidated and individual level. Starting from 1 January 2019, the overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 10.5%. This is the result of:

- the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 capital requirement of 1.5%, entirely of Common Equity Tier 1 ratio;
- additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 2.5%, and an Other Systemically Important Institutions Buffer ('O-SII Buffer') of 1% and Systemic Risk Buffer ('SRB') of 1%.

For the sake of completeness, please note that CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer ('CCyB') starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Slovakia by National Bank of Slovakia in relevant regulation, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the National Bank of Slovakia decided to set the countercyclical ratio (relating to the exposures towards Slovak counterparties) for period starting 1 August 2017 at 0.5%, since 1 August 2018 at 1.25% and since 1 August 2019 at 1.5% (bringing the total CET1 capital requirement to 12.75% since 1 January 2019 and 13.0% since 1 August 2019 including Pillar 2 Capital Guidance buffer of 1%).

The Overall Capital Requirement was as of 1 January 2019 set at 15.25% and from 1 August 2019 at 15.5%.

Since November 2014, the Bank has been under the supervision of the European Central Bank.

Internally, within its Risk Appetite framework, the Bank has set internal limits for both OCR and CET1, managing the regulatory capital requirements additionally with an internal management buffer.

Impact of the introduction of IFRS 9 on own funds

In December 2017, the European Parliament and the European Council issued Regulation (EU) No 2017/2395 amending the CRR Regulation as regard transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, integrating the CRR Regulation with Article 473 "Introduction of IFRS 9". The new Article allows Banks to re-introduce in their Common Equity Tier 1 ('CET 1') a decreasing quota of the impact of IFRS 9 in a five-year transitional period (2018 – 2022). That amount shall be determined using the static approach which will be adopted by the Bank. It refers only to the impact of FTA resulting from the comparison of IAS 39 impairments as at 31 December 2017 and IFRS 9 impairments as at 1 January 2018 – including both performing loans classified in Stages 1 and 2 and adjustments to non-performing loans (Stage 3) – to which is applied a decreasing factor (95% for 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022) to set the amount to be included in CET 1. The static transitional approach is not applicable to the changes in valuation reserves deriving from re-classification of financial instruments during FTA (impact resulting from classification and measurement).

€ '000	2018	2019	2020	2021	2022
Decreasing factor	95%	85%	70%	50%	25%
Impact to CET 1	39,281	35,146	28,944	20,674	10,337

Furthermore, under paragraph 7 of Article 473 of the CRR Regulation, ISP Group companies adopting the transitional approach shall update calculation of the following components relevant to the determination of supervisory capital requirements, so as to avoid inappropriate benefits:
– Deferred tax assets deducted from CET 1 relating to Standard and Internal ratings-based ('IRB') exposures;
– Determination of Exposure At Default using the scaling factor to assess the Risk Weighted Assets of Standard exposures;
– Tier 2 elements relating to IRB weighted exposures.

The impact on own funds of the first-time adoption of IFRS 9 and the adoption of the "static" approach during the transitional period (2018 – 2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios (with and without applying the transitional provisions for IFRS 9) following:
– the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9,
– the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the aforementioned Regulation, aimed at mitigating the impact of FTA;
– the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
– the reduction of the risk-weighted assets (RWA) on standard exposures 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.

24. Financial commitments and contingencies

24.1. Issued guarantees and commitments and undrawn credit facilities

€ '000	2019	2018
Issued guarantees	762,567	772,588
Commitments and undrawn credit facilities	3,241,851	3,238,061
of which revocable	*567,948*	*387,128*
	4,004,418	4,040,649

Issued guarantees represent irrevocable assurances that the Bank will make payments in the event that a borrower cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Bank recognizes provisions for these instruments. (note 19)

The primary purpose of commitments to extend credit is to ensure that funds are available to the customer as required. Commitments and undrawn credit facilities represent undrawn portions of commitments, credit facilities and approved overdraft loans.

24.2. 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 2019. Pursuant to this review, management has recorded total provisions of € 946 thousand (31 December 2018: € 6,575 thousand) in respect of such legal proceedings (note 19). The Bank will continue to defend its position in respect of each of these legal proceedings. In addition to the legal proceedings covered by provisions, there are contingent liabilities arising from legal proceedings in the total amount of € 30,902 thousand, as at 31 December 2019 (31 December 2018: € 32,039 thousand). This amount represents existing legal proceedings against the Bank that will most probably not result in any payments due by the Bank.

€ '000	2019	2018
Legal proceedings on credit collection	602	593
Legal proceedings related to credit contracts	344	392
Legal proceedings for damages	–	5,589
Legal proceedings to rates, interests calculation and other economic conditions applied	–	1
	946	6,575

25. Net interest income

€ '000	2019	2018
Interest and similar income		
Financial assets at FVTPL	199	114
Financial assets at FVOCI	7,430	17,838
Financial assets at AC:		
Due from other banks	19,428	12,159
Due from customers	355,184	376,286
Derivatives – Hedge accounting	(13,250)	(9,912)
Interest income on liabilities	2,443	2,157
	371,434	398,642
Interest and similar expense		
Financial liabilities at AC:		
Due to banks	(1,316)	(699)
Due to customers and Subordinated debt	(22,137)	(19,197)
of which lease liabilities	*(157)*	–
Debt securities in issue	(32,556)	(33,697)
Derivatives – Hedge accounting	10,546	7,177
Interest expense on assets	(1,140)	(1,216)
	(46,603)	(47,632)
	324,831	351,010

€ '000	2019	2018
Interest and similar income		
Total interest income calculated using the effective interest method	371,235	398,528
Other interest income – interest income on financial assets at FVTPL	199	114
	371,434	398,642

€ '000	2019	2018
Net interest income		
Financial assets at FVOCI	7,430	17,838
Financial assets at AC	373,472	387,229
	380,902	405,067
Financial liabilities at AC	(53,566)	(51,436)

Interest income on impaired loans and advances to customers for 2019 amounted to € 8,551 thousand (2018: € 11,923 thousand).

26. Net fee and commission income

Nature and timing of satisfaction of performance obligations, including significant payment terms:

Current accounts	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.
Cards	Credit card and debit card fees relate to both fees for issuance of credit card for the period of card's validity as well as fees for specific transactions.
Payments and cash management	Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.
Loans	Services for loans comprise mainly fees for overdrafts, which are recognised on a straight-line basis over the overdraft duration. They also include other servicing fees which are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.
Indirect deposits	These fees mainly relate to providing Bank's retail network for the mediation of investments into funds. These fees are paid to the Bank by VÚB Asset Management, správ. spol., a. s. Since the Bank does not have any ongoing performance obligation regarding these fees, they are recognised in full when charged.
Insurance	The Bank provides insurance mediation along with selling its products. Except for life insurance mediation, only aliquot part of commission is sent by the insurance company on monthly basis, therefore the Bank only recognises aliquot part of commission as income with the passage of time. In case client cancels insurance contract with insurance company, the insurance company stops paying the aliquot part of the commission and the Bank therefore stops to recognise these fees. The Bank is not liable to return aliquot part of commissions recognised in fees to insurance company. Regarding life insurance mediation the Bank is exposed to clawbacks if client cancels the insurance contract within certain periods. The Bank calculated effect of IFRS 15 impact and evaluated this impact as non-material and continues to recognise income on these fees as the related mediation service is provided.
Trade finance, Structured finance	Fees for loan commitments which are not expected to result in the draw-down of a loan are recognised on a straight-line basis over the commitment period. Administration of a loan syndication, execution of client transactions with exchanges and securities underwriting, charges for premature termination of loans and other are charged when transaction takes place.
Factoring	Services related to factoring include: – Facility commitment, where fee is recognised on a straight-line basis over the commitment period; – Invoice processing fee, where fixed amount for each processed invoice is charged; – Factoring fee, where fee represent a percentage on a total receivable amount factored.

Revenue recognition under IFRS 15:

Current accounts	Revenue from account service and servicing fees is recognised over time as the services are provided.
Cards	Revenue from card issuance is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Payments and cash management	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loans	Overdraft fee is recognised on a straight-line basis over the overdraft duration. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Indirect deposits	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Insurance	Revenue from insurance mediation services is recognised over time for the duration of contract, except for life insurance mediation where service fee is recognised when service is provided and clawbacks are recognised when they occur.
Trade finance, Structured finance	Loan commitment fee is recognised on a straight-line basis over the commitment period. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Factoring	Facility fee is recognised on a straight-line basis over the commitment period. Revenues related to invoice processing and factoring fee are recognised at the point in time when the transaction takes place.

2019 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	38,894	3,340	–	8	42,242
Cards	40,400	347	–	1	40,748
Payments and cash management	9,887	6,649	347	5	16,888
Loans	8,241	7,247	–	671	16,159
Indirect deposits	16,025	–	–	–	16,025
Insurance	11,782	1	–	25	11,808
Trade finance	18	6,650	1,174	–	7,842
Factoring	–	1,466	–	–	1,466
Structured finance	–	1,127	–	–	1,127
Other	400	418	205	624	1,647
	125,647	27,245	1,726	1,334	155,952
Fee and commission expense					
Cards	(23,753)	–	–	–	(23,753)
Payments and cash management	(31)	(8)	(562)	(443)	(1,044)
Current accounts	–	–	–	(589)	(589)
Insurance	(402)	–	–	–	(402)
Factoring	–	(247)	–	–	(247)
Indirect deposits	(7)	(10)	–	–	(17)
Other	(94)	(2)	(90)	(3,675)	(3,861)
	(24,287)	(267)	(652)	(4,707)	(29,913)
Net fee and commission income	101,360	26,978	1,074	(3,373)	126,039

2018 € '000	Retail Banking	Corporate Banking	Central Treasury	Other	Total
Fee and commission income					
Current accounts	39,029	3,108	–	7	42,144
Cards	38,901	349	–	–	39,250
Payments and cash management	11,037	6,485	372	5	17,899
Loans	7,606	7,463	–	863	15,932
Indirect deposits	15,006	–	–	–	15,006
Insurance	11,673	5	–	–	11,678
Trade finance	19	6,971	2,738	–	9,728
Structured finance	–	1,677	–	–	1,677
Factoring	–	1,503	–	–	1,503
Other	545	403	20	293	1,261
	123,816	27,964	3,130	1,168	156,078
Fee and commission expense					
Cards	(23,125)	–	–	–	(23,125)
Payments and cash management	(31)	(8)	(874)	(449)	(1,362)
Current accounts	–	–	–	(517)	(517)
Insurance	(376)	–	–	–	(376)
Factoring	–	(295)	–	–	(295)
Indirect deposits	(9)	(30)	–	–	(39)
Other	(126)	–	(101)	(3,704)	(3,931)
	(23,667)	(333)	(975)	(4,670)	(29,645)
Net fee and commission income	100,149	27,631	2,155	(3,502)	126,433

27. Net trading result

€ '000	2019	2018
Customer foreign exchange margins	6,805	7,431
Financial assets measured at FVOCI	2,005	32,193
Financial assets held for trading – debt securities	1,044	429
Interest rate derivatives	1,426	1,278
Non-trading financial assets measured at FVTPL	211	(151)
Dividends from equity shares measured at FVOCI	154	168
Other derivatives	141	(67)
Dividends from equity shares held in FVTPL	37	55
Net result from hedging transactions	(132)	172
Equity derivatives	(2)	(7)
Cross currency swaps	(6,131)	266
Foreign currency derivatives and transactions	(13,067)	(1,988)
	(7,509)	39,779

28. Other operating income

€ '000	2019	2018
Financial revenues	1,763	109
Income from operating leasing	523	–
Services	4	34
Rent	–	698
Other	930	801
	3,220	1,642

29. Other operating expenses

€ '000	2019	2018
Resolution fund*	(5,701)	(6,336)
Contribution to the Deposit Protection Fund**	(547)	(541)
Other damages	(261)	(383)
Net loss from sale of fixed assets	(46)	(60)
Other	(10,063)	(5,913)
	(16,618)	(13,233)

* 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 2019 was determined by the Deposit Protection Fund under the valid methodology. As at 31 December 2019, the Bank expensed the full amount of such contribution. The quarterly contribution to the Deposit Protection Fund for 2019 was set at 0.0075% p. q. of the amount of protected deposits.

30. Special levy of selected financial institutions

€ '000	2019	2018
Special levy of selected financial institutions	(29,695)	(26,286)

The special levy of selected financial institutions was set to 0.2% p. a. of selected liabilities for the year 2018 and 2019.

31. Salaries and employee benefits

€ '000	2019	2018
Remuneration	(86,548)	(86,221)
Social security costs	(33,999)	(33,699)
Social fund	(1,150)	(3,887)
Severance and Jubilee benefits	(222)	(684)
Termination benefit	590	–
	(121,329)	(124,491)

At 31 December 2019, the total number of employees of the Bank was 3,657 (31 December 2018: 3,692). The average number of employees of the Bank during the period ended 31 December 2019 was 3,677 (31 December 2018: 3,741).

The Bank does not have any pension arrangements separate from the pension system established by law, which requires mandatory contributions of a certain percentage of gross salaries to the State owned social insurance and privately owned pension funds. These contributions are recognised in the period when salaries are earned by employees. No further liabilities are arising to the Bank from the payment of pensions to employees in the future.

32. Other administrative expenses

€ '000	2019	2018
Third parties' services	(16,213)	(6,624)
Information technologies systems maintenance	(14,727)	(22,201)
Advertising and sponsorship	(7,078)	(7,113)
Maintenance and repairs	(5,536)	(7,337)
Postage costs	(4,163)	(3,808)
Energy costs	(3,816)	(2,702)
Rental of buildings and related expenses**	(3,516)	(8,646)
Telephone and telecommunication costs	(2,959)	(5,964)
Forms and office supplies	(2,842)	(3,440)
Indirect personnel costs and compensation	(2,685)	(2,761)
Cleaning of premises	(1,872)	(1,610)
Cost of legal services	(1,583)	(1,374)
Electronic data processing system leasing**	(1,577)	(1,300)
Transport	(1,560)	(1,663)
Security	(1,484)	(1,552)
Archives and documents	(1,028)	(966)
Consultations and other fees*	(990)	(797)
Insurance	(972)	(1,110)
Other rentals**	(786)	(1,525)
Information and research	(237)	(1,545)
Other expenses	(2,814)	(2,305)
Value added tax and other taxes	(256)	(244)
Reinvoicing	3,636	3,153
	(75,058)	(83,434)

* 'Consultations and other fees' includes the fee for the statutory audit of € 170 thousand (2018: € 170 thousand). Other audit-related assurance services and non-audit services performed by the statutory auditor related to audit and review of the group reporting and to audit of the Bank's prudential returns, preparation of the long form report as required by the Act on Banks, audit procedures on capital adequacy, agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development, agreed upon procedure on compliance with articles 71h – 71k of the Act No. 566/2001 Coll on securities, assurance work related to the Bank's obligations towards the NBS regarding information on loans and advances used as collateral within the monetary operations of the Eurosystem, assurance work and agreed upon procedures in respect of issuance of covered bonds and agreed-upon procedures on the merger of a Bank's subsidiary with the Bank amounted to € 409 thousand (2018: € 337 thousand).

** These items includes among other things:

€ '000	2019
Expenses relating to short-term leases	304
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	1,643
	1,947

33. Provisions

€ '000	Note	2019	2018
Net release/(creation) and use of provisions for litigations	19, 22, 24	5,058	(202)
Net release and use of provisions for other provisions	19, 22	10	36
		5,068	(166)

34. Impairment losses and Net (loss)/gain arising from the derecognition of financial assets at amortised cost

€ '000	Note	2019	2018
Net creation of impairment losses		(40,678)	(61,666)
Net release of provisions for financial guarantees and commitments	19	5,262	5,325
		(35,416)	(56,341)
Net (loss)/gain arising from the derecognition of financial assets at AC		(4,514)	3,441

35. Income tax expense

€ '000	Note	2019	2018
Current income tax	17	(26,047)	(49,454)
Deferred income tax	17	(6,771)	5,432
		(32,818)	(44,022)

The movement in deferred taxes in the statement of profit or loss and other comprehensive income is as follows:

€ '000	2019	2018
Due from other banks	(64)	42
Due from customers	(19,294)	11,713
Property and equipment	(1,682)	5,507
Due to customers	1,201	–
Provisions	1,240	(146)
Other liabilities	(805)	739
Other	12,633	(12,423)
	(6,771)	5,432

The effective tax rate differs from the statutory tax rate in 2019 and in 2018. The reconciliation of the Bank's profit before tax with the actual corporate income tax is as follows:

€ '000	Note	2019 Tax base	2019 Tax at applicable tax rate (21%)	2018 Tax base	2018 Tax at applicable tax rate (21%)
Profit before tax		146,905	(30,850)	200,308	(42,065)
Tax effect of expenses that are not deductible in determining taxable profit:					
Creation of provisions and other reserves		68,303	(14,344)	72,618	(15,250)
Creation of impairment losses		243,285	(51,090)	256,573	(53,880)
Write-off and sale of assets		19,459	(4,086)	14,602	(3,066)
Other		26,628	(5,592)	30,574	(6,421)
		357,675	(75,112)	374,367	(78,617)
Tax effect of revenues that are deductible in determining taxable profit:					
Release of provisions and other reserves		(79,367)	16,667	(70,825)	14,873
Release of impairment losses		(283,571)	59,550	(256,111)	53,783
Dividends		(2,191)	460	(2,223)	467
Other		(16,257)	3,414	(6,509)	1,367
		(381,386)	80,091	(335,668)	70,490
Adjustments for current tax of prior periods		833	(175)	(3,524)	740
Withholding tax paid abroad – settlement of advance payments		5	(1)	10	(2)
Current income tax		124,032	(26,047)	235,493	(49,454)
Deferred income tax at 21 %	17		(6,771)		5,432
Income tax expense			(32,818)		(44,022)
Effective tax rate			22.34%		21.98%

36. Other comprehensive income

€ '000	2019	2018
Items that shall not be reclassified to statement of profit or loss in the future		
Change in value of financial assets at FVOCI (equity instruments):		
Revaluation gains arising during the year	3,123	680
Reclassification adjustment for profit on sale of FVOCI equities within equity	360	–
	3,483	680
Reversal of deferred income tax on disposed property and equipment	2,101	–
Net revaluation gain from property and equipment	13	3
	5,597	683
Items that may be reclassified to statement of profit or loss in the future		
Change in value of cash flow hedges:		
Revaluation gains/(losses) arising during the year	8	(689)
Change in value of financial assets at FVOCI (debt instruments):		
Losses arising during the year	(408)	(13,462)
Reclassification adjustment for profit on sale of FVOCI bonds included in the profit or loss	(1,919)	(36,435)
	(2,327)	(49,897)
Exchange difference on translation foreign operation	344	(224)
	(1,975)	(50,810)
Total other comprehensive income	3,622	(50,127)
Income tax relating to components of other comprehensive income (note 37)	(323)	10,479
Other comprehensive income for the year after tax	3,299	(39,648)

37. Income tax effects relating to other comprehensive income

			2019			2018
€ '000	Before tax amount	Tax (expense) /benefit	Net of tax amount	Before tax amount	Tax (expense) /benefit	Net of tax amount
Items that shall not be reclassified to statement of profit or loss in the future						
Change in value of financial assets at FVOCI (equity instruments)	3,483	(807)	2,676	680	(143)	537
Reversal of deferred income tax on disposed property and equipment	2,101	–	2,101	–	–	–
Net revaluation gain from property and equipment	13	(3)	10	3	(1)	2
	5,597	(810)	4,787	683	(144)	539
Items that may be reclassified to statement of profit or loss in the future						
Change in value of cash flow hedges	8	(2)	6	(689)	145	(544)
Change in value of financial assets at FVOCI (debt instruments)	(2,327)	489	(1,838)	(49,897)	10,478	(39,419)
Exchange differences on translation foreign operations	344	–	344	(224)	–	(224)
	(1,975)	487	(1,488)	(50,810)	10,623	(40,187)
	3,622	(323)	3,299	(50,127)	10,479	(39,648)

38. 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 2019, the remuneration and other benefits provided to members of the Management Board were € 2,441 thousand (2018: € 3,111 thousand), of which the severance benefits € 112 thousand (2018: € 30 thousand), and to members of the Supervisory Board € 99 thousand (2018: € 94 thousand).

As at 31 December 2019, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Financial assets at FVTPL:							
Financial assets held for trading	–	–	–	–	590	8,332	8,922
Non-trading financial assets at FVTPL	–	–	–	–	584	–	584
Derivatives – Hedge accounting	–	–	–	–	–	82,501	82,501
Financial assets at FVOCI	–	–	–	–	797	–	797
Financial assets at AC:							
Due from other banks	–	–	–	–	5,411	40,675	46,086
Due from customers	285	297,780	5	–	–	–	298,070
Property and equipment	–	1,532	–	–	–	–	1,532
Other assets	–	882	–	–	6	1,221	2,109
	285	300,194	5	–	7,388	132,729	440,601
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	–	–	–	–	510	17,293	17,803
Derivatives – Hedge accounting	–	–	–	–	–	37,065	37,065
Financial liabilities at AC:							–
Due to banks	–	–	–	–	18,896	28,075	46,971
Due to customers	1,600	2,458	–	257	–	1,067	5,382
Subordinated debt	–	–	–	–	–	200,143	200,143
Provisions	–	21	–	–	14	2	37
Other liabilities	584	390	–	–	2,615	–	3,589
	2,184	2,869	–	257	22,035	283,645	310,990

As at 31 December 2018, the outstanding balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Assets							
Financial assets at FVTPL:							
Financial assets held for trading	–	–	–	–	124	28,540	28,664
Non-trading financial assets at FVTPL	–	–	–	–	440	–	440
Derivatives – Hedge accounting	–	–	–	–	–	26,638	26,638
Financial assets at FVOCI	–	–	–	–	1,112	–	1,112
Financial assets at AC:							
Due from other banks	–	–	–	–	8,641	31,908	40,549
Due from customers	291	288,397	4	–	–	–	288,692
Other assets	–	15	7	–	6	2,517	2,545
	291	288,412	11	–	10,323	89,603	388,640
Liabilities							
Financial liabilities at FVTPL:							
Financial liabilities held for trading	–	–	–	–	3,998	30,645	34,643
Derivatives – Hedge accounting	–	–	–	–	–	11,010	11,010
Financial liabilities at AC:							
Due to banks	–	–	–	–	567,398	65,734	633,132
Due to customers	1,821	1,329	–	228	–	4,535	7,913
Subordinated debt	–	–	–	–	–	200,181	200,181
Debt securities in issue	–	–	–	–	–	80,073	80,073
Provisions	–	28	–	–	–	–	28
Other liabilities	440	441	–	–	–	4,387	5,268
	2,261	1,798	–	228	571,396	396,565	972,248

As at 31 December 2019, the outstanding off-balance sheet balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	323	103,362	–	–	2,596	–	106,281
Issued guarantees	–	–	–	–	14,317	1,877	16,194
Received guarantees	–	–	–	–	18,000	–	18,000
Derivative transactions (notional amount – receivable)	–	–	–	–	150,387	8,552,538	8,702,925
Derivative transactions (notional amount – payable)	–	–	–	–	149,116	8,552,540	8,701,656

As at 31 December 2018, the outstanding off-balance sheet balances with related parties comprised:

€ '000	Key management personnel ('KMP')	Subsidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Commitments and undrawn credit facilities	–	102,099	–	–	3,848	–	105,947
Issued guarantees	–	–	–	–	15,024	1,819	16,843
Received guarantees	–	–	–	–	32,542	14,783	47,325
Derivative transactions (notional amount – receivable)	–	–	–	–	1,118,191	8,781,977	9,900,168
Derivative transactions (notional amount – payable)	–	–	–	–	1,123,156	8,778,591	9,901,747

For the year ended 31 December 2019, the outstanding balances with related parties comprised:

€ '000	KMP	Sub-sidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	3	1,869	–	–	47	4	1,923
Interest and similar expense	(2)	(89)	–	–	(241)	(6,478)	(6,810)
Fee and commission income	1	13	–	1	197	13,989	14,201
Fee and commission expense	–	–	–	–	(446)	(11)	(457)
Dividend income	–	–	2,000	–	–	–	2,000
Net trading result	–	–	–	–	(12,224)	31,536	19,312
Other operating income	–	50	20	–	270	56	396
Other operating expenses	–	–	–	–	(511)	–	(511)
Other administrative expenses	–	1,955	13	–	(11,151)	(272)	(9,455)
Depreciation	–	(641)	–	–	–	–	(641)
Impairment losses	–	59	–	(8)	(1)	–	50
	2	3,216	2,033	(7)	(24,060)	38,824	20,008

For the year ended 31 December 2018, the outstanding balances with related parties comprised:

€ '000	KMP	Sub-sidiaries	Joint ventures	Associates	Intesa Sanpaolo	ISP Group companies	Total
Income and expense items							
Interest and similar income	3	1,829	–	–	173	47	2,052
Interest and similar expense	(3)	(1)	–	–	(48)	(8,909)	(8,961)
Fee and commission income	1	43	–	–	90	13,364	13,498
Fee and commission expense	–	(1)	–	–	(449)	(23)	(473)
Dividend income	–	–	2,000	–	–	–	2,000
Net trading result	–	–	–	–	1,605	275	1,880
Other operating income	–	159	–	–	–	288	447
Other operating expenses	–	–	–	–	(220)	–	(220)
Other administrative expenses	–	930	39	–	367	(9,955)	(8,619)
Impairment losses	–	(163)	–	–	–	–	(163)
	1	2,796	2,039	–	1,518	(4,913)	1,441

39. Profit distribution

On 5 April 2019, the Bank's shareholders approved the following profit distribution for 2018:

€ '000	
Dividends to shareholders (€ 9.64 per € 33.2 share)	125,049
Retained earnings	31,237
	156,286

The Management Board will propose the following 2019 profit distribution:

€ '000	
Dividends to shareholders (€ 7.03 per € 33.2 share)	91,255
Retained earnings	22,832
	114,087

40. Events after the end of the reporting period

As at 1 January 2020 the amendment of the Act No. 384/2011 on the Special levy of selected financial institutions from 28 November 2019 became effective and the rate of levy will be raised to 0.4% p. a. of selected liabilities.

From 31 December 2019, up to the date when these financial statements were authorised for issue, there were no further events identified that would require adjustments to or disclosure in these financial statements.

These financial statements were authorised for issue by the Management Board on 21 February 2020.

Alexander Resch
Chairman of the Management Board

Antonio Bergalio
Member of the Management Board

Information on Securities issued by the Bank

Debt securities issued by the Bank

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., XX.	SK4120004946	9.3.2006	9.3.2021	EUR	331,939.19	50	4.30%	annually	no
Mortgage bonds VÚB, a.s., XXX.	SK4120005547	5.9.2007	5.9.2032	EUR	33,193.92	1,000	5.00%	annually	no
Mortgage bonds VÚB, a.s., 31	SK4120005679	29.11.2007	29.11.2037	EUR	33,193.92	600	4.90%	annually	no
Mortgage bonds VÚB, a.s., 36	SK4120005893	31.3.2008	31.3.2020	EUR	33,193.92	560	4.75%	annually	no
Mortgage bonds VÚB, a.s., 43	SK4120006271	26.9.2008	26.9.2025	EUR	33,193.92	500	5.10%	annually	no
Mortgage bonds VÚB, a.s., 67	SK4120008228	29.11.2011	29.11.2030	EUR	50,000.00	300	5.35%	annually	no
Mortgage bonds VÚB, a.s., 72	SK4120008608	21.6.2012	21.6.2027	EUR	100,000.00	250	4.70%	annually	no
Mortgage bonds VÚB, a.s., 73	SK4120008624	11.7.2012	11.7.2022	EUR	100,000.00	500	4.20%	annually	no
Mortgage bonds VÚB, a.s., 74	SK4120008939	16.1.2013	15.12.2023	EUR	100,000.00	700	3.35%	annually	no
Mortgage bonds VÚB, a.s., 78	SK4120009820	3.3.2014	3.3.2020	EUR	10,000.00	905	2.16%	annually	no
Mortgage bonds VÚB, a.s., 79	SK4120009846	24.3.2014	24.9.2020	EUR	1,000.00	10,000	2.00%	annually	no
Mortgage bonds VÚB, a.s., 80	SK4120009879	27.3.2014	27.3.2021	EUR	1,000,000.00	31	1.85%	annually	no
Mortgage bonds VÚB, a.s., 81	SK4120009887	27.3.2014	27.3.2024	EUR	1,000,000.00	38	2.55%	annually	no
Mortgage bonds VÚB, a.s., 82	SK4120010042	16.6.2014	16.12.2020	EUR	1,000.00	1,701	1.65%	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., 86	SK4120010646	27.4.2015	27.4.2020	EUR	100,000.00	1,000	0.30%	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., 88	SK4120011040	11.9.2015	11.9.2020	EUR	100,000.00	965	0.50%	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

ISSUE NAME	I S I N	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OPTION
Mortgage bonds VÚB, a.s., 93	SK4120012469	18.1.2017	18.1.2024	EUR	100,000.00	2,500	0.50%	annually	no
Mortgage bonds VÚB, a.s., 94	SK4120012824	27.4.2017	27.4.2027	EUR	100,000.00	2,500	1.05%	annually	no
Mortgage bonds VÚB, a.s., 95	SK4120013251	26.9.2017	26.9.2022	EUR	100,000.00	2,500	0.375%	annually	no
Covered bonds VÚB, a.s., 1	SK4120014168	26.6.2018	26.6.2023	EUR	100,000.00	2,500	0.50%	annually	no
Covered bonds VÚB, a.s., 2	SK4120014531	5.10.2018	15.12.2027	EUR	100,000.00	500	1.50%	annually	no
Covered bonds VÚB, a.s., 3	SK4120015108	26.3.2019	26.3.2024	EUR	100,000.00	5,000	0.25%	annually	no
Covered bonds VÚB, a.s., 4	SK4000015475	26.6.2019	26.6.2029	EUR	100,000.00	5,000	0.50%	annually	no

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 2019 VÚB, a.s., did not issue and did not decide to issue bonds with pre-emption rights or convertible rights associated therewith.

The bonds are transferable to another holder without any restrictions. The rights associated with the bonds are based on the terms and conditions of the bonds pursuant to Act No. 530/1990 Coll. on Bonds as amended, Act No 483/2001 Coll. on Banks as amended, Act No 566/2001 Coll. on Securities as amended and in accordance with applicable legislation.

Investment certificates issued by the Bank

ISSUE NAME	ISIN	ISSUE DATE	MATURITY DATE	DENOMI-NATION	NOMINAL VALUE	PIECES	COUPON	COUPON PAYMENTS	PUT OP-TION
Investment certificates VÚB, a.s., 2020	SK5110000687	23.6.2017	23.6.2020	EUR	1.00	48,000	0.00%	–	no
Investment certificates VÚB, a.s., 2020 02	SK5110000745	18.12.2017	18.12.2020	EUR	1.00	38,400	0.00%	–	no
Investment certificates VÚB, a.s., 2021	SK5110000828	28.6.2018	28.6.2021	EUR	1.00	231,300	0.00%	–	no
Investment certificates VÚB, a.s., 2020 03	SK4000015574	27.6.2019	27.6.2020	EUR	1.00	47,500	0.00%	–	no
Investment certificates VÚB, a.s., 2022	SK4000015582	27.6.2019	27.6.2022	EUR	1.00	198,900	0.00%	–	no

During the accounting year 2019, the company issued the Investment certificates VÚB, a.s., 2020 03 and Investment certificates VÚB, a.s., 2022. The reason for issuing investment certificates was to fulfil the obligations arising from the Act on Banks no. 483/2001 Coll. as amended in conjunction with Regulation EU No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and the internal procedure of VÚB, a.s. – Remuneration Policy. Based on these documents, part of the variable component of total compensation, severance payments, retirement allowances and other compensation payable to selected personnel acc. to § 23a par. 1 of the Act on Banks is provided in the form of securities or other financial instruments.

Investment certificates issued by VUB, a.s., are registered securities in book-entry form. No person has taken any guarantee for the repayment of the nominal value and/or coupon payment.

No pre-emption or convertible rights are associated with investment certificates.

Investment certificates are not transferable to another holder. The rights associated with the investment certificates are based on the applicable legislation of the Slovak Republic, in particular on Act No 566/2001 Coll. on Securities as amended and in the relevant issue conditions and prospectus of the investment certificates.

List of VUB Retail Branches

Name	Postcode	Address
Regional Retail Business Network Bratislava		
Bratislava - Poštová	811 01	Poštová 1
Bratislava - OC Aupark	851 01	Einsteinova 18
Bratislava - Páričkova	821 08	Páričkova 2
Bratislava - Ružinov	827 61	Kaštielska 2
Bratislava - OC Vivo	831 04	Vajnorská 100
Bratislava - Dúbravka	841 01	Sch. Trnavského 6/A
Bratislava - OC Eurovea	811 09	Pribinova 8
Bratislava - Dolné Hony	821 06	Kazanská 41
Bratislava - OC Centrál	821 08	Metodova 6
Bratislava - OC Avion	82104	Ivánska cesta 16
Bratislava - Dunajská	811 08	Dunajská 24
Bratislava - Šintavská	851 05	Šintavská 24
Bratislava - Devínska N. Ves	841 07	Eisnerova 48
Bratislava - Špitálska	811 01	Špitálska 10
Bratislava - Vlastenecké nám.	851 01	Vlastenecké námestie 6
Bratislava - Furdekova	851 04	Furdekova 16
Bratislava - Dlhé Diely	841 05	Ľ. Fullu 5
Bratislava - OC BORY MALL	841 03	Lamač 6780
Bratislava - Dulovo nám.	821 08	Dulovo nám. 1
Bratislava - Rača	831 06	Detvianska 22
Bratislava - Herlianska	821 03	Komárnická 11
Bratislava - Lamač	841 03	Heyrovského 1
Bratislava - Magnifica	811 09	Pribinova 8
Mortgage Centres		
Bratislava - Poštová	811 01	Poštová 1
Bratislava - OC Aupark	851 01	Einsteinova 18
Bratislava - Páričkova	821 08	Páričkova 2
Regional Retail Business Network West		
Trnava - Dolné bašty	917 68	Dolné bašty 2
Piešťany	921 01	Námestie slobody 11
Nové Zámky	940 33	Hlavné námestie 5
Komárno	945 23	Tržničné námestie 1
Dunajská Streda	929 35	Alžbetínske nám. 328
Galanta	924 41	Mierové námestie 2
Topoľčany - Moyzesova	955 19	Moyzesova 585/2
Malacky	901 01	Záhorácka 15
Hlohovec	920 01	Podzámska 37
Trnava - Hlavná	917 68	Hlavná 31
Senica	905 33	Nám. oslobodenia 8
Šaľa	927 00	Hlavná 5
Bánovce nad Bebravou	957 01	Námestie Ľ. Štúra 5/5
Partizánske	958 01	L. Svobodu 4
Nové Mesto nad Váhom	915 01	Hviezdoslavova 19
Pezinok	902 01	Štefánikova 14
Senec	903 01	Námestie 1. mája 25

Stupava	900 31	Mlynská 1
Trnava - OC Arkadia	917 01	Veterná 40/A
Holíč	908 51	Bratislavská 1518/7
Myjava	907 01	Nám. M.R.Štefánika 525/21
Skalica	909 01	Potočná 20
Šamorín	931 01	Hlavná 64
Sereď	926 00	Cukrovarská 3013/1
Vrbové	922 03	Nám. Slobody 285/9
Topoľčany - Pribinova	955 01	Pribinova 2
Stará Turá	916 01	SNP 275/67
Hurbanovo	947 01	Komárňanská 98
Ivanka pri Dunaji	900 28	Štefánikova 25/A
Smolenice	919 04	SNP 81
Šaštín - Stráže	908 41	Námestie slobody 648
Veľký Meder	932 01	Komárňanská 135/22
Gabčíkovo	930 05	Mlynársky rad 185/1
Sládkovičovo	925 21	Fučíkova 131
Trnava - Magnifica	917 68	Dolné bašty 2
Mortgage Centres		
Trnava - Dolné bašty	917 68	Dolné bašty 2

Regional Retail Business Network Centre

Prievidza	971 01	Námestie slobody 10
Banská Bystrica	975 55	Námestie slobody 1
Nitra - Štefánikova 44	949 31	Štefánikova 44
Levice	934 01	Štúrova 21
Zvolen	960 94	Námestie SNP 2093/13
Nitra - OC Mlyny	949 01	Štefánikova 61
Žiar nad Hronom	965 01	Námestie Matice slov. 21
Lučenec	984 35	T. G. Masaryka 24
Veľký Krtíš	990 20	Novohradská 7
Rimavská Sobota	979 13	Francisciho 1
Zlaté Moravce	953 00	Župná 10
Banská Bystrica - SC Európa	974 01	Na troskách 26
Handlová	972 51	SNP 1
Prievidza - Bojnická cesta	971 01	Bojnická cesta 15
Vráble	952 01	Levická 1288/16
Nitra - OC Centro	949 01	Akademická 1/A
Štúrovo	943 01	Hlavná 59
Šurany	942 01	SNP 25
Želiezovce	937 01	Komenského 8
Turčianske Teplice	039 01	Hájska 3
Brezno	977 01	Boženy Němcovej 1/A
Banská Štiavnica	969 01	Radničné námestie 15
Nová Baňa	968 01	Námestie slobody 11
Žarnovica	966 81	Námestie SNP 26
Krupina	963 01	Svätotrojičné námestie 8
Detva	962 11	M. R. Štefánika 65
Zvolen - SC Európa	960 01	Námestie SNP 9690/63
Fiľakovo	986 01	Biskupická 1
Hnúšťa	981 01	Francisciho 372
Revúca	050 01	Námestie slobody 3

Tornaľa	982 01	Mierová 37
Nitrianske Pravno	972 13	Námestie SNP 389
Poltár	987 01	Sklárska 289
Nitra - Magnifica	949 31	Štefánikova 44
Banská Bystrica - Magnifica	975 55	Námestie slobody 1
Mortgage Centres		
Nitra	949 31	Štefánikova 44
Banská Bystrica	975 55	Námestie slobody 1

Regional Retail Business Network North

Považská Bystrica	017 01	Nám. A. Hlinku 23/28
Žilina	010 01	Na bráne 1
Martin	036 01	M. R. Štefánika 2
Trenčín	911 01	Mierové námestie 37
Poprad	058 17	Mnoheľova 2832/9
Čadca	022 24	Fraňa Kráľa 1504
Dubnica nad Váhom	018 41	Nám. Matice slov. 1712/7
Púchov	020 01	Námestie slobody 1657
Dolný Kubín	026 01	Radlinského 1712/34
Liptovský Mikuláš	031 31	Štúrova 19
Žilina - OC Dubeň	010 08	Vysokoškolákov 52
Žilina - OC Aupark	010 01	Veľká okružná 59A
Ružomberok	034 01	Podhora 48
Trenčín - OC Laugarício	911 01	Belá 7271
Trenčín - Legionárska	911 01	Legionárska 7158/5
Ilava	019 01	Mierové námestie 77
Nová Dubnica	018 51	Mierove námestie 29/34
Bytča	014 01	Sidónie Sakalovej 138/1
Žilina - Nám. A. Hlinku	010 43	Nám. A. Hlinku 1
Kysucké Nové Mesto	024 01	Námestie Slobody 184
Turzovka	023 54	R. Jašíka 20
Námestovo	029 01	Hviezdoslavovo nám. 200/5
Tvrdošín	027 44	Trojičné nám. 191
Trstená	028 01	Nám. M. R. Štefánika 15
Martin - OC Tulip	036 01	Pltníky 2
Kežmarok	060 01	Hviezdoslavova 5
Spišská Belá	059 01	SNP 2522
Poprad - OC Forum	058 01	Nám. sv. Egídia 3290/124
Nižná	027 43	Nová Doba 481
Trenčín - Magnifica	911 01	Legionárska 7158/5
Žilina - Magnifica	010 43	Na bráne 1
Mortgage Centres		
Trenčín	911 01	Legionárska 7158/5
Žilina	010 43	Na bráne 1
Poprad	058 17	Mnoheľova 2832/9

Regional Retail Business Network East

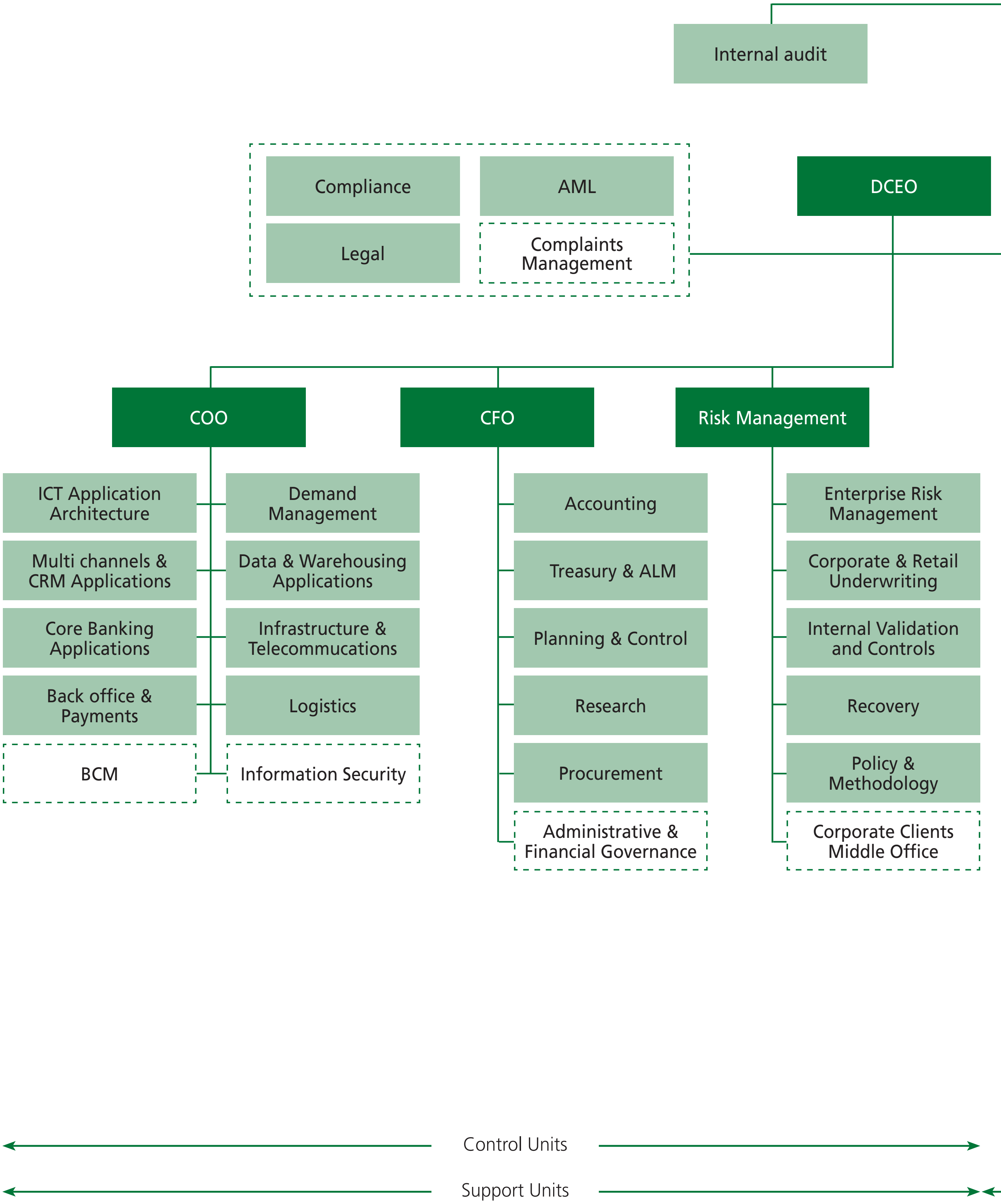
Prešov	080 01	Masarykova 13
Michalovce	071 80	Námestie slobody 3
Rožňava	048 73	Šafárikova 21
Spišská Nová Ves	052 14	Letná 33

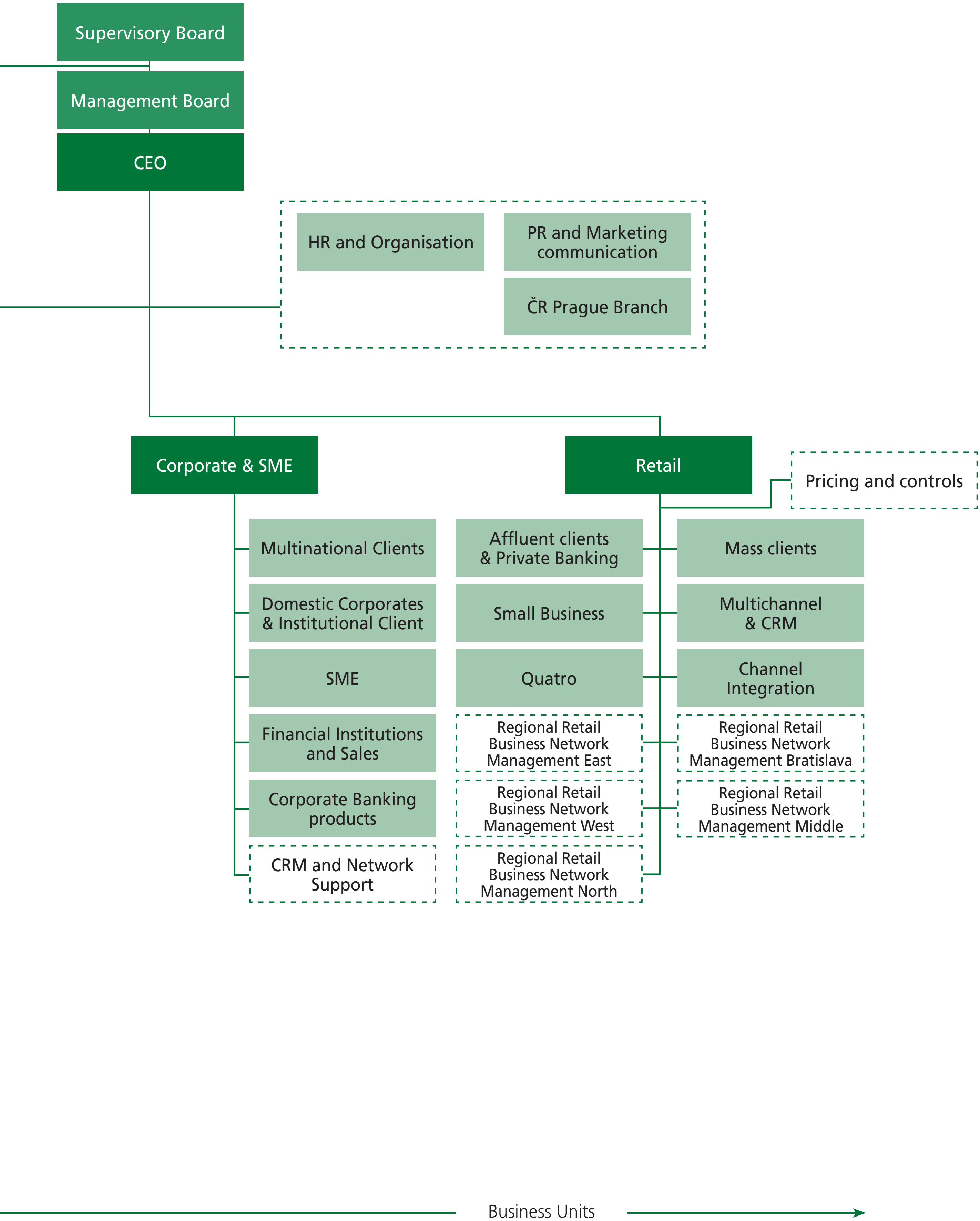
Stará Ľubovňa	064 01	Nám. SV. Mikuláša 27
Vranov nad Topľou	093 01	Námestie slobody 6
Bardejov	085 01	Kellerova 1
Humenné	066 01	Námestie slobody 26/10
Košice - Štúrova	040 01	Štúrova 27/A
Košice - Hlavná 1	042 31	Hlavná 1
Košice - Letná	040 01	Letná 40
Trebišov	075 17	M.R. Štefánika 3197/32
Košice - OC Aupark	040 01	Námestie osloboditeľov 1
Levoča	054 01	Nám. Majstra Pavla 38
Krompachy	053 42	Lorencova 20
Gelnica	056 01	Banícke nám. 52
Sabinov	083 01	Námestie slobody 90
Lipany	082 71	Nám. sv. Martina 8
Prešov - Hlavná	080 01	Hlavná 61
Prešov - OC MAX	080 01	Vihorlatská 2A
Svidník	089 27	Centrálna 584/5
Stropkov	091 01	Mlynská 692/1
Snina	069 01	Strojárska 2524
Medzilaborce	068 10	Mierová 289/1
Košice - Bukovecká	040 12	Bukovecká 18
Košice - OC Optima	040 11	Moldavská cesta 32
Košice - OC Galéria	040 11	Toryská 5
Moldava nad Bodvou	045 01	Hviezdoslavova 13
Michalovce - mesto	071 01	Nám. Osloboditeľov 2
Kráľovský Chlmec	077 01	Hlavná 710
Veľké Kapušany	079 01	Sídl.P.O.Hviezdoslava 79
Hanušovce nad Topľou	094 31	Komenského 52
Giraltovce	087 01	Dukelská 58
Košice - Sídlisko KVP	040 23	Trieda KVP 1
Sobrance	073 01	Štefánikova 9
Prešov - Magnifica	081 86	Masarykova 13
Košice - Magnifica	042 31	Štúrova 27/A
Mortgage Centres		
Prešov	081 86	Masarykova 13
Košice	042 31	Štúrova 27/A

List of VUB Corporate branches

Corporate Business Centre Bratislava		
BRATISLAVA	Mlynské nivy 1	02 / 5055 2765
Corporate Business Centre Trnava		
TRNAVA	Dolné bašty 2	033 / 485 4447
SENICA	Nám. oslobodenia 8	034 / 485 6037
Corporate Business Centre Nitra		
NITRA	Štefánikova 44	037 / 485 4844
TOPOĽČANY	Moyzesova 585/2	038 / 485 6237
LEVICE	Štúrova 21	036 / 485 6134
Corporate Business Centre Nové Zámky		
NOVÉ ZÁMKY	Hlavné námestie 5	035 / 485 4738
KOMÁRNO	Tržničné nám. 1	035 / 485 4766
GALANTA	Mierové námestie 2	031 / 485 4054
DUNAJSKÁ STREDA	Alžbetínske nám. 328	031 / 485 4025
Corporate Business Centre Trenčín		
TRENČÍN	Legionárska 7158/5	032 / 485 4230
POVAŽSKÁ BYSTRICA	Nám. A. Hlinku 23/28	042 / 485 6537
PRIEVIDZA	Námestie slobody 10	046 / 485 7137
Corporate Business Centre Žilina		
ŽILINA	Na bráne 1	041 / 485 6346
MARTIN	M.R.Štefánika 2	043 / 485 6661
ČADCA	Fraňa Kráľa 1504	041 / 485 6400
DOLNÝ KUBÍN	Radlinského 1712/34	043 / 485 6696
Corporate Business Centre Banská Bystrica		
ŽIAR NAD HRONOM	Nám. Matice slovenskej 21	045 / 485 6883
ZVOLEN	Námestie SNP 2093/13	045 / 485 6842
BANSKÁ BYSTRICA	Námestie slobody 1	048 / 485 5506
LUČENEC	T.G. Masaryka 24	047/ 485 7224
RIMAVSKÁ SOBOTA	Francisciho 1	047 / 485 7248
Corporate Business Centre Poprad		
POPRAD	Mnoheľova 2832/9	052 / 485 7866
LIPTOVSKÝ MIKULÁŠ	Štúrova 19	044 / 485 7035
SPIŠSKÁ NOVÁ VES	Letná 33	053 / 485 7623
Corporate Business Centre Prešov		
PREŠOV	Masarykova 13	051 / 485 7564
BARDEJOV	Kellerova 1	054 / 485 8330
VRANOV NAD TOPĽOU	Námestie slobody 6	057 / 485 8560
HUMENNÉ	Námestie slobody 26/10	057 / 485 8523
Corporate Business Centre Košice		
KOŠICE	Štúrova 27/A	055 / 485 8046
MICHALOVCE	Námestie slobody 3	056 / 485 8430

Organization Chart of VUB
as at 31 December 2019


Internal audit
Compliance
AML
Legal
Complaints Management
DCEO
COO
CFO
Risk Management
ICT Application Architecture
Demand Management
Multi channels & CRM Applications
Data & Warehousing Applications
Core Banking Applications
Infrastructure & Telecommucations
Back office & Payments
Logistics
BCM
Information Security
Accounting
Treasury & ALM
Planning & Control
Research
Procurement
Administrative & Financial Governance
Enterprise Risk Management
Corporate & Retail Underwriting
Internal Validation and Controls
Recovery
Policy & Methodology
Corporate Clients Middle Office
Control Units
Support Units


Supervisory Board
Management Board
CEO
HR and Organisation
PR and Marketing communication
ČR Prague Branch
Corporate & SME
Retail
Pricing and controls
Multinational Clients
Domestic Corporates & Institutional Client
SME
Financial Institutions and Sales
Corporate Banking products
CRM and Network Support
Affluent clients & Private Banking
Small Business
Quatro
Regional Retail Business Network Management East
Regional Retail Business Network Management West
Regional Retail Business Network Management North
Mass clients
Multichannel & CRM
Channel Integration
Regional Retail Business Network Management Bratislava
Regional Retail Business Network Management Middle
Business Units

Lucia Oleňová
(1992, Bratislava)
The Immense dept
2019, acrylic, oil on canvas, cut and stitched canvas, 170 × 200 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 fourteen 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 Slovak painting, curators abroad become increasingly aware of the young Slovak painting opening the door to the world to the artists.