



INTESA SANPAOLO BANK

Slovenia

2022 Annual Report

ANNUAL REPORT 2022



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Business
Report
2022

Management overview

1. MANAGEMENT BOARD'S FOREWORD

At the beginning of 2022, just as it looked like we had successfully overcome the crisis caused by the pandemic, and the situation in society and the economy was starting to return to normal, the world was stunned by the news of the outbreak of war in Ukraine. After the initial shock and hope that peace would soon reign, the consequences of the war eventually began to show and only intensified throughout the year. Drastic rises in the prices of energy products and record-high inflation are just some of the consequences felt by businesses and consumers. We responded immediately to the growing uncertainty, first by helping refugees from Ukraine with a donation to the Slovenian Red Cross and later, in the second half of the year, by helping the Bank's employees with a one-off donation in response to the rising cost of living.

During the year, the cost of banks' borrowing from central banks also increased, and, as a result, interest rates on bank loans to businesses and households also rose. Even as household crediting gradually started to ease over the year, crediting to the economy strengthened further. Intesa Sanpaolo Bank made the most of the market conditions and its potential, which was positively reflected in the results. They are a testament to the Bank's ability to deliver significant and sustainable profitability and improved performance across all key indicators, even in extremely challenging circumstances. We also recorded growth in the volume of loans to both households and legal entities. With higher operating income and strict cost control discipline, we ended the year with a net profit of EUR 16.4 million.

One of the important activities is the continuous reduction of non-performing loans (NPLs), resulting in a good-quality loan portfolio. Together with good capital adequacy, a sound funding structure and a good liquidity position, they represent the Bank's main strengths. Our capital structure remains extremely strong and well above regulatory requirements. Thus, the Common Equity Tier 1 (CET1) ratio on the last day of the year 2022 was 15.88%, and the Capital Adequacy Ratio (CAR) was 16.15%.

In a complex situation, it was of utmost importance to focus on the activities that are key to maintaining the Bank's competitive advantage and further development. We have thus reached another important milestone in digitalisation, as we were the first bank in Slovenia to offer the Slovenian public the Google Pay mobile payment service. Together with Apple Pay, we are the only bank on the Slovenian market to offer our customers two of the world's most widely used mobile payment services. We have also been ranked by an independent survey as one of the top-tier banks for digital banking solutions for the third year in a row, confirming our position as a leader in this area, which is an excellent steppingstone to effectively support Slovenian consumers and the economy, whose business is increasingly migrating to the digital space.

In the area of development and in cooperation with other subsidiary banks within the parent banking group, we have developed a solution specifically for companies involved in international business flows that is designed to finance the supply chain (so-called 'reverse factoring'). The Confirming service represents a new platform for factoring solutions.

The second half of the year was also marked by the opening of a fully modern, state-of-the-art branch in the centre of Ljubljana, the largest in the city. Bank branches will continue to be key to quality customer contact, especially when it comes to more sophisticated financial services such as taking out a housing loan or investing in mutual funds. In this sense, it is irreplaceable and successfully complements the role of digital ways of doing business.

Recognising that the synergies brought by the combination of banking and insurance products contribute to creating financial stability and comfort in the personal or professional lives of our customers, Intesa Sanpaolo Bank has entered into an important partnership with Generali to strengthen its bancassurance business on the Slovenian market and to expand its range of products and services for individuals, families and small businesses. This opens a new chapter in retail and small business banking, where the bank is no longer just a provider of banking services.

Alongside our ongoing commercial and development activities, we have not forgotten our commitment to creating a better tomorrow. We have reached a point where each business plan also contains a set of actions to advance the Bank's sustainability performance, considering various ESG factors. The most important objective to which all banks are committed is the fight against climate change. This is a pressing problem that requires systematically organised and well-planned actions to ensure that banks, under the vigilant supervision and guidance of central banks and with the active involvement of their customers in addressing the problem, will make a significant contribution to achieving the goal of net-zero carbon emissions by 2050.

A more sustainable future is, of course, not just about climate. Several years ago, we committed to creating an environment in our bank where employees' work will be recognized, and people will feel fulfilled and have the same opportunities for personal and business growth. For this, we need a solid business culture built on values that are crucial to effectively face all the challenges brought by the rapidly changing world and banking industry in particular. TOGETHER, DETERMINATION, FOCUS and SOLUTIONS are the values that will bind us even more in the future and guide us in identifying and confirming only good actions, both for ourselves and our customers.

2. CHAIRMAN OF THE SUPERVISORY BOARD FOREWORD

In 2022, Banka Intesa Sanpaolo d.d. confirmed its capacity to perform successfully despite the unfavourable economic environment that emerged after Russia's military aggression against Ukraine and the inflationary and recessionary pressures that ensued therefrom.

Against this background, the Bank highlighted sound and robust economic results, mainly stemming from the consistent pursuance of a sustainable business model centred around a well-balanced blend of corporate and retail business. Both these commercial segments conspicuously grew throughout the year, yielding increased interest and commission income.

In the core activities of lending and deposit-taking, in 2022 the Bank attained new highs: the yearly growth of gross loans to customer reached 9.4%, whilst on the liabilities' side, deposits from customers increased by an appreciable 15%. These outcomes ultimately attested to the growing degree of trust that the bank earned in the local business community and among the Slovenian society at large.

By the same token, the Bank undertook significant effort to support the financial needs of the domestic business and household sectors. Over the course of the year, this endeavour eventually materialised into a 14.5% annual growth for mortgage loans and an increase of 6.5% and 16.5% respectively of loans to the Corporate and Small business segments. This enabled the Bank to qualify as one of the major banking players in the country, also in view of the substantive market share of deposits entrusted to it by its retail as well as by its corporate customers.

From a more qualitative standpoint, it is worth pointing out that the Bank maintained a prudent profile in managing its credit portfolio, exhibiting a Non-Performing Exposure (NPE) ratio of 0.73%, which compares favourably with the Slovenian banking system. In addition, it kept its level of capitalization - with a CET1 Ratio at 15.88%, against the prescribed 7.25% - comfortably above the regulatory requirements.

Finally, the Bank corroborated its quest for quality through a strong commitment to creating good banking practices as a constituent part of its corporate culture in areas such as diversity & inclusion as well as in the Environmental, Social and Governance (ESG) sphere. To this effect, it promoted relevant actions – a job rotation program and the renewal and promotion of corporate values being just two examples – for all levels of its personnel, leveraging on these initiatives to establish the foundation of its future growth and success.

In view of all the foregoing, the Supervisory Board has assessed that, under the circumstances in which it conducted its business, the Bank was successful during 2022, and on this occasion, it would like to express its deep gratitude and warm congratulations to all the management and to the staff of Banka Intesa Sanpaolo d.d. for the commitment and professionalism that they showed over the course of the year.

Intesa Sanpaolo Bank at a glance

Intesa Sanpaolo Bank is part of the Intesa Sanpaolo Group, the second largest banking group in the euro area. Together with its majority owner, Privredna banka Zagreb, it represents an important hub of expertise and advanced banking services in the region. It is one of the most digitally advanced banks in Slovenia, as it dictated the early development of card and mobile payments as well as digital banking in Slovenia in general through award winning solutions.

With a personal approach and flexible services, the Bank enjoys the trust of a wide range of private and business users, from sole proprietors to large companies. Intesa Sanpaolo Bank is also one of the leading Slovenian banks in the field of corporate lending. With advanced services and strong connections from abroad, provided by the umbrella group Intesa Sanpaolo, it provides effective support to Slovenian companies.

In response to the rapidly changing business environment in the last decade, the Bank has outlined a new business strategy, using the experience from the transformation and optimization of business processes in previous years and the changed organizational culture. The new business plan until 2025 provides a stronger basis for business growth in key business segments, focusing equally on all Slovenian regions. The establishment of a new business centre in Ljubljana, with which the Bank has already greatly strengthened its visibility and market position, was upgraded with the opening of the so-called Flagship (representative) branches in the centre of the capital in October 2022.

The bank operates in accordance with the values and principles defined in various internal documents, such as the Code of Ethics. As a business company, it is aware that its operation goes beyond merely meeting the financial needs of individuals but also has a significant impact on the wider social community. Consistent adherence to written principles and the active involvement of employees in various internal initiatives increases the consistency of operations and strengthens trust among clients, employees and the wider local environment. It also encourages employees to cooperate and act responsibly, trains them to successfully perform their duties and directs them to acquire additional skills.

Ownership structure of Intesa Sanpaolo Bank

Shareholders	Equity holding in per cent	
	31. 12. 2022	31. 12. 2021
Privredna banka Zagreb d.d.	51.0%	51.0%
Intesa Sanpaolo S.P.A.	48.1%	48.1%
Minority shareholders	0.9%	0.9%

Milestones in the bank's corporate history

1955

Establishment of Istrska komunalna banka.



1992

Withdrawal from the Ljubljanska banka banking system. Development of the first Slovenian payment card (Activa).

2005

First smart payment card with the highest level of security.



2001

Preparations for strategic alliance with the Sanpaolo IMI, S.p.A. Banking Group and the establishment of an Open-ended Mutual Pension Fund.

2007

Integration into the international banking group Intesa Sanpaolo.

2017

Privredna banka Zagreb becomes the majority owner. Name changed to Intesa Sanpaolo Bank. Contactless mobile payments with Activa Visa Inspire card. Investment Advisory Services under the MiFID II regulation.

2002

Sanpaolo IMI, S.p.A. becomes a majority shareholder.

2016

First contactless mobile payment in Slovenia.



1997

Name changed to Banka Koper.



2008

State-of-the-art online banking.



2011

Digital signature in banking transactions.

2018

Confirmation and implementation of the bank's new business strategy. Management of the Umbrella Pension Fund Moj Steber.

2019

Opening of a new business centre in Ljubljana. First Slovenian bank offering the Apple Pay service to Visa Inspire cardholders. Ruled based-automatized approval process for consumer loans.



2022

Opening of a flagship branch in Ljubljana. Strengthening of the partnership with Generali in the field of bancassurance. First Slovenian bank offering the Google Pay service to Visa Inspire cardholders.



1998

Development of online banking for natural persons.



2013

Mobile bank for natural persons. Launch of the Visa Inspire debit card.



2015

Acquisition of the Finor Leasing subsidiary. Development of cashless payments (scanning of QR code with a smartphone) and instant money transfer services between mobile phone users.

2020

New online and mobile bank. Possibility to open a current account entirely online. Apple Pay also for Mastercard card users. Pioneers in domestic and cross-border instant payments. Consumer loans for individuals available entirely online.



2021

A revamped mortgage process to respond faster and more efficiently to customer needs. The extension of the online and mobile banking with possibility to directly invest in mutual funds and to activate the advisory services. The introduction of payments with installments with credit cards.

3. BODIES OF CORPORATE GOVERNANCE

Supervisory Board

The Supervisory Board of Banka Intesa Sanpaolo d.d. is composed of seven members and is chaired by Mr Giancarlo Miranda as an independent member. Four members are representatives of Privredna banka Zagreb d.d., and the remaining two are representatives of the Intesa Sanpaolo Group.

In 2022, the 3-year term of office of the Supervisory Board expired. On 16 June 2022, at the Annual General Shareholders Meeting, the shareholders of Banka Intesa Sanpaolo d.d. re-appointed all members for the following 3-year term of office.

Management Board

The Management Board of Banka Intesa Sanpaolo d.d. has four Members.

In 2022, the composition of the Management Board changed. The Supervisory Board appointed two new Members of the Management Board. Mr Matija Birov was appointed on 1 February 2022, and he replaced the previous Member of the Management Board, Ms Irena Džaković. His term of office started on 2 May 2022. Mr Ivan Ivičić resigned from his position as Member of the Management Board effective as of 31 March 2022. He was replaced by Ms Mojca Kovač. She was appointed by the Supervisory Board on 21 April 2023, and her term of office started on 20 July 2022.

Members of the Supervisory Board

as at 31 December 2022:	
Giancarlo Miranda	<i>Chairman</i>
Alessio Cioni	<i>Deputy Chairman</i>
Antonio Bergalio	<i>Member</i>
Amina Carnabuci	<i>Member</i>
Miroslav Halužan	<i>Member</i>
Andrea Pavlović	<i>Member</i>
Andrea Tondo	<i>Member</i>

Members of the Bank's Management Board

as at 31 December 2022:	
Jozef Kausich	<i>President</i>
Matija Birov	<i>Member</i>
Drago Kavšek	<i>Member</i>
Mojca Kovač	<i>Member</i>

4. ECONOMIC AND BANKING ENVIRONMENT

Business in 2022 was marked by great uncertainty in the international environment. In addition to the situation in the energy markets, long-term high inflation and the extent and impact of the tightening of monetary policy are among the important risks. The above-mentioned factors were reflected in the decline in economic activity in the euro area in the last quarter of 2022. The ECB estimates that the growth of the euro economies will slow in 2023 from last year's 3.4% to 0.5%, and in 2024 it will recover moderately to 1.9%.

In Slovenia, the recovery of sectors involved in international trade continued in 2022. The growth of economic activity slowed down in most segments in the last quarter of 2022, including export-oriented sectors. Household spending was slightly lower, especially in trade. Real income in most market service activities and the value of construction works also decreased. Year-on-year GDP growth was 4.7% (in 2021, growth was 8.2%).

In 2022, conditions on the labour market improved. Unemployment continued to decrease as the number of employees continued to increase. With record high employment, the year-on-year growth in the number of employed persons was 2.1%. Growth remained high, especially in the construction industry, which stands out due to the share of foreign workers and the large labour shortage. At the end of December 2022, 53,181 unemployed persons were registered, which means that the number of unemployed was lower by 19.4% year-on-year. With high inflation, the average gross salary was lower year-on-year in real terms.

The year-on-year growth of consumer prices remained at a high level, amounting to 10.3% in December 2022. Inflation is broad-based, and the biggest contributor to it was the increase in the prices of food and non-alcoholic beverages. There was also a high contribution from the growth in prices of energy products, especially the prices of solid fuels and petroleum products.

The deficit of the consolidated balance of public financing increased towards the end of 2022 but was significantly smaller than in the same period in 2021. The smaller deficit was strongly influenced by lower expenditures for mitigating the covid epidemic, while at the same time the scope of measures to mitigate the consequences of the high energy price increased.

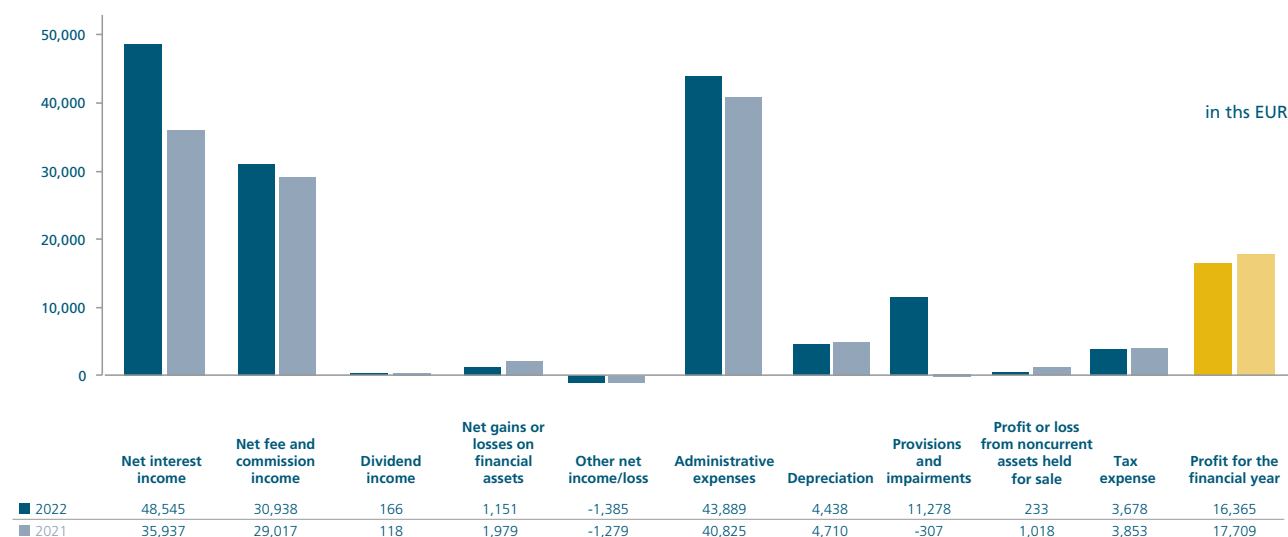
Favourable economic activity in the Slovenian economy had a significant impact on the operations of the banking system in the first ten months of 2022. Negative factors strengthened in the euro area and globally in the second half of the year, and future prospects are also worse. Deterioration of macroeconomic conditions, high and persistent inflation, increases in key interest rates and tightening of financing conditions are significantly changing the environment in which banks operate.

The year-on-year growth of loans to the non-banking sector in Slovenia increased rapidly in 2022 and was among the highest in the euro area. Intensive crediting of non-financial companies contributed the most to growth. The growth was broad-based in terms of sectors and company size, while the purpose was dominated by loans to finance working capital. The indicators of the quality of bank investments remain favourable and stable, with deteriorations present only in a small part of the portfolio. Year-on-year growth in deposits of the non-banking sector strengthened in 2022, mainly due to growth in deposits by households and non-financial corporations. The majority of banks refrained from raising deposit interest rates, which is why the share of sight deposits further strengthened. The higher profit of banks compared to 2021 is the result of the growth of net interest income and net non-interest income, with a moderate increase in operating costs. The capital position and liquidity of the Slovenian banking system remain adequate despite the reduction of some indicators.

5. FINANCIAL RESULTS

In 2022, the bank generated EUR 20.0 million in profit before taxation and EUR 16.4 million in net profit. The Bank's pre-tax profit in 2022 is EUR 1.5 million lower than in 2021.

Income statement categories



In 2022, the Bank realized EUR 79.4 million in net operating and financial income.

EUR 48.5 million of **net interest** was achieved, which is 35.1% more than in 2021. Interest income of EUR 52.8 million represents the largest share of the Bank's income. The largest share of interest income comes from credit activity to clients, while the largest share of interest expenses is interest from client deposits. In 2022, the bank realized EUR 12.8 million more interest income than in 2021, which is a 32.0% increase, mainly due to increase of EURIBOR and related interest rates and due to the larger volume of loans granted. Interest expenses are higher by EUR 0.2 million compared to 2021.

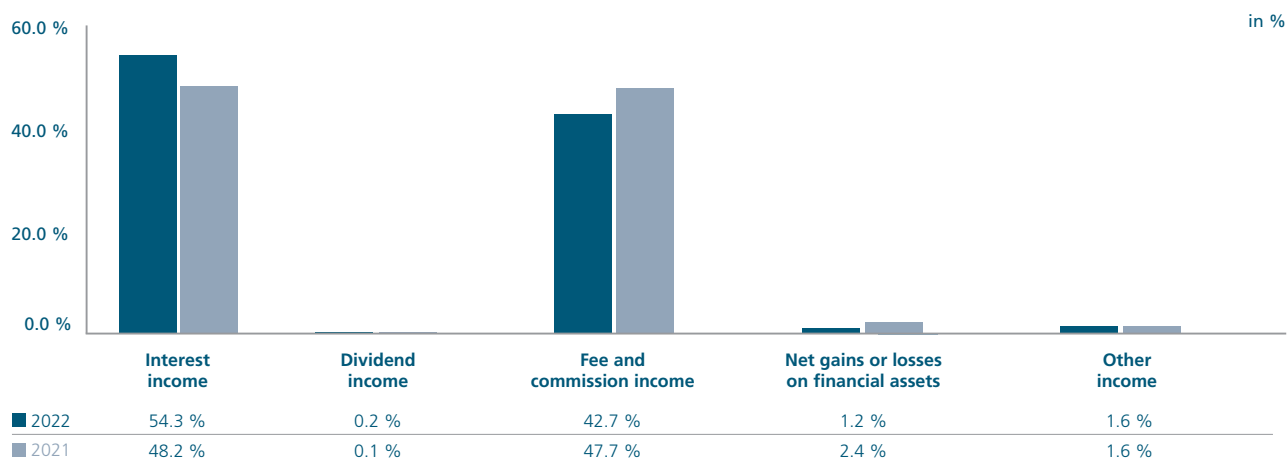
Net fees for banking services amounted to EUR 30.9 million in 2022. Compared to 2021, net fees are higher by EUR 1.9 million or by 6.6%. The largest share of fees received (26.8%) is income from fees for credit cards, followed by fees for local payment transactions at 17.1%.

In the structure of revenues, **revenues from financial transactions** represent EUR 1.1 million, which is a 41.8% decrease compared to 2021.

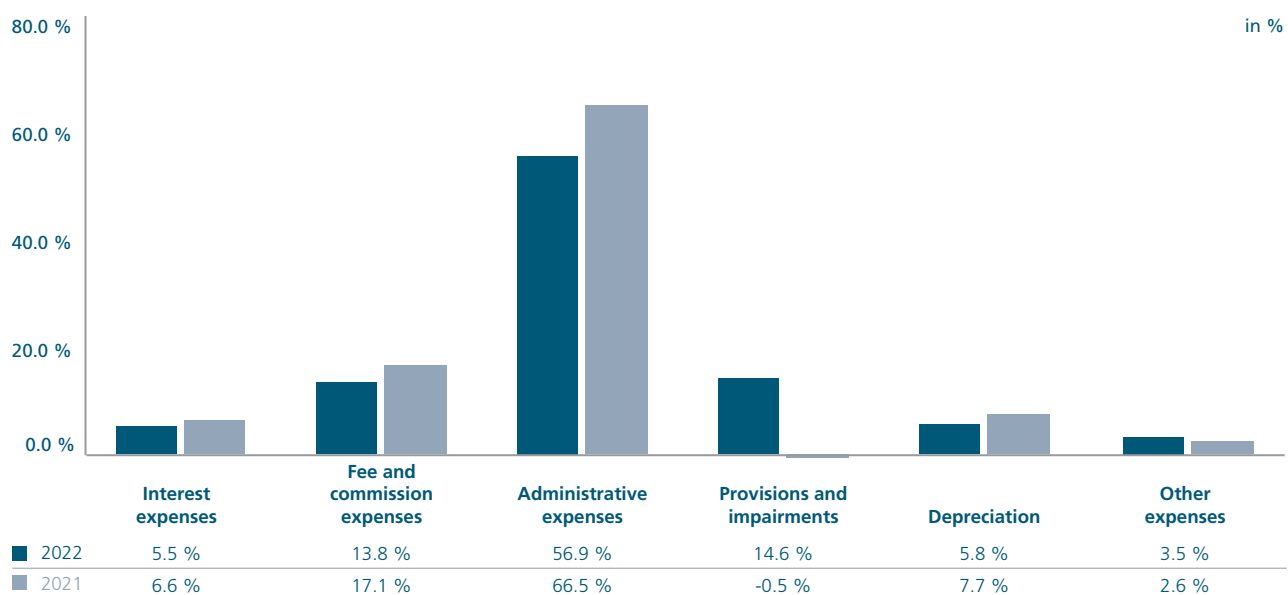
Other revenues amounted to EUR 1.5 million in 2022 and were realized from the sale of long-term assets held for sale.

Income from dividends in 2022 amounted to EUR 0.2 million. It is income from the ownership stake in the companies Bankart and Visa.

Revenue structure

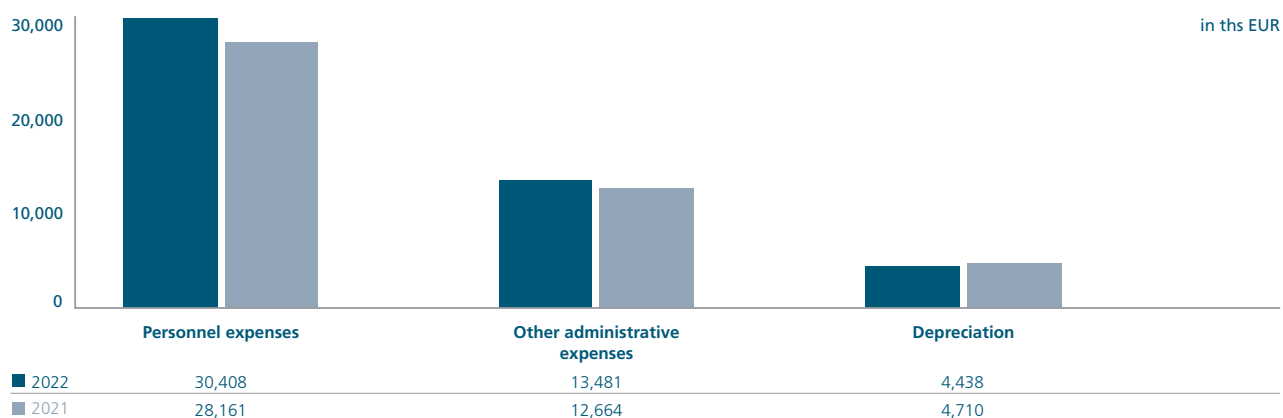


Expense structure



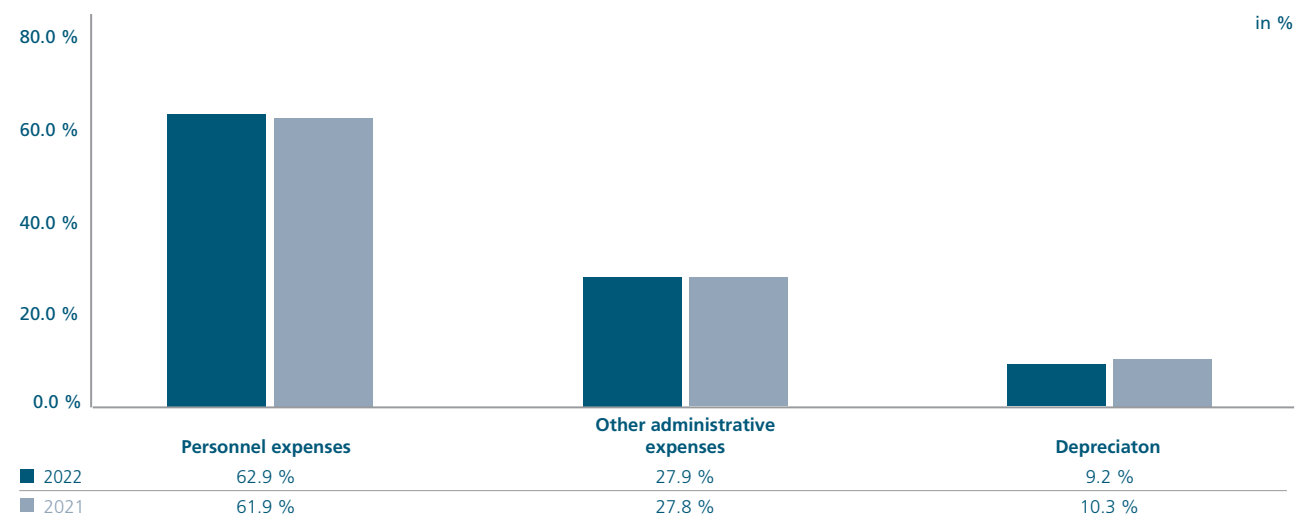
Operating costs, which include personnel costs, material and service costs and depreciation, amounted to EUR 48.3 million in 2022 and are EUR 2.8 million higher than in 2021, or by 6.1%

Operating costs



Personnel expenses amounted to EUR 30.4 million or 62.9% of all operating expenses. Compared to 2021, personnel costs are EUR 2.2 million higher. The costs of materials and services amount to EUR 13.5 million and are higher by 6.5% than the costs realized in 2021. Depreciation costs for 2022 were calculated in the amount of EUR 4.4 million and are by EUR 0.3 million or 5.8% lower than in 2021.

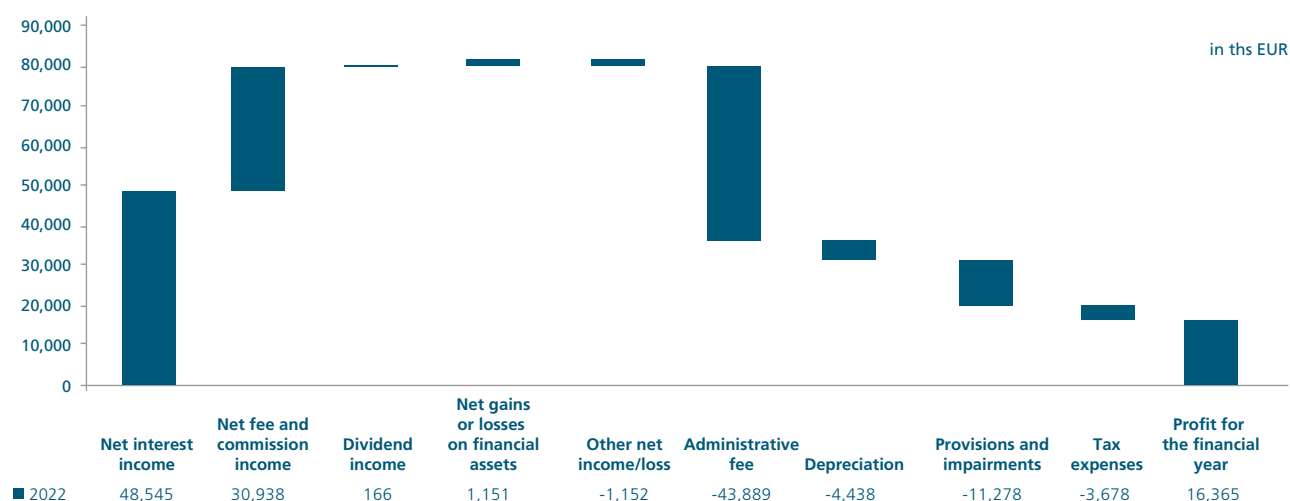
Operating costs structure



Impairments and provisions of financial assets

In 2022, the bank formed EUR 11.3 million of impairments and provisions of financial assets, while in 2021 it released EUR 0.3 million of impairments and provisions. The largest share of the impairments and provisions formed in 2022 represent loans impairments (EUR 3.9 million). Provisions of EUR 2.0 million were made for acceptances and guarantees given and provisions of EUR 5.3 million for pending lawsuits and other potential obligations.

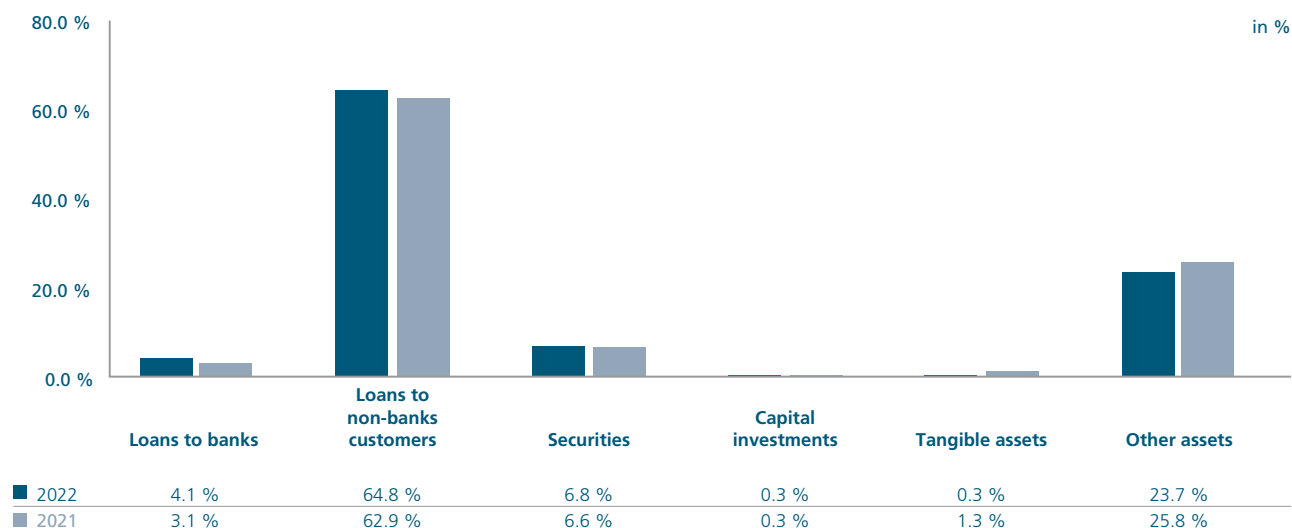
Components of net profit



6. FINANCIAL POSITION OF THE BANK

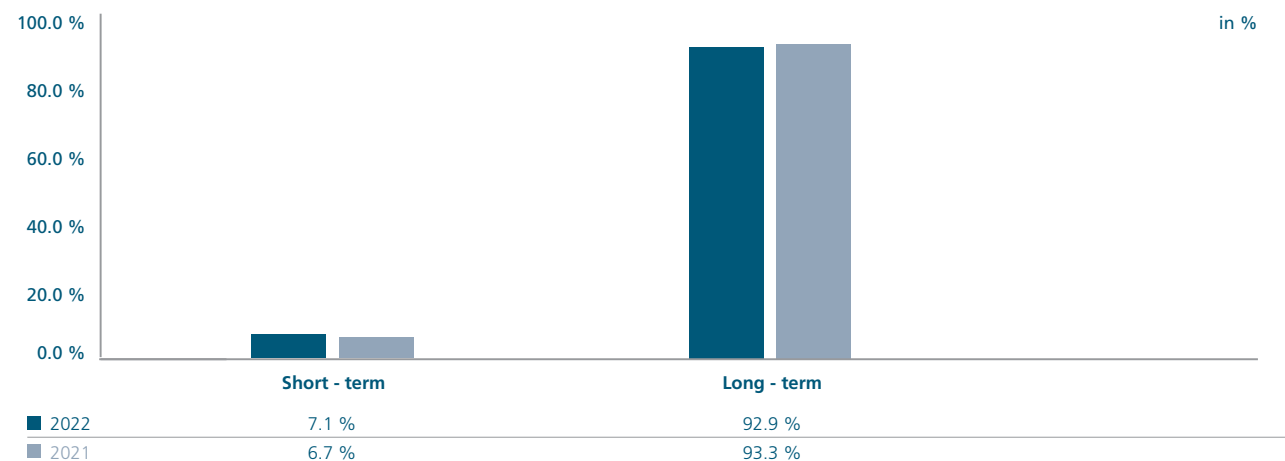
Banka Intesa Sanpaolo concluded the year 2022 with a balance sheet total of EUR 3,692.5 million, which represents an increase of EUR 219.9 million or 6.3% compared to 2021. Based on total assets, the Bank's market share increased by 10 basis points to 7.3%.

The structure of assets



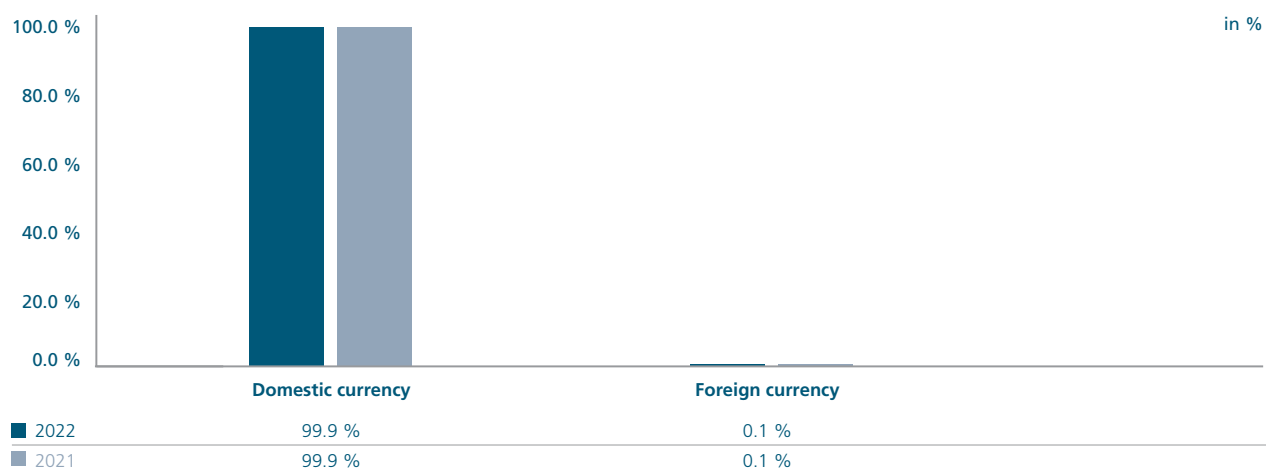
As of 31 December 2022, net loans represent 68.9% of the balance sheet total. Compared to 2021, loans to banks increased by 40.5% or EUR 43.7 million. Loans to the non-banking sector represent the most important balance sheet item, with a 64.7% share of the Bank's total assets. On 31 December 2022, net loans to the non-banking sector amounted to EUR 2,391.6 million, which is EUR 206.0 million or 9.4% more than the end of 2021.

Gross lending to the non-banking sector by maturity



In terms of maturity, in 2022 the share of short-term loans to the non-banking sector increased from 6.7% to 7.1% and the share of long-term credits decreased from 93.3% to 92.9%.

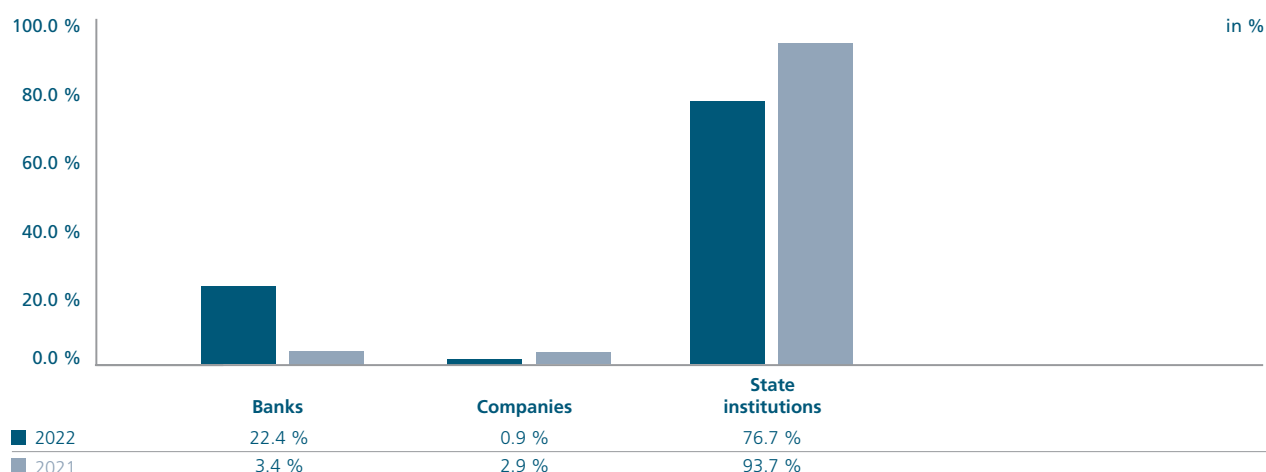
Gross lending to the non-banking sector by currency



The vast majority of loans granted by the Bank to the non-banking sector are denominated in euros, namely 99.9%; only 0.1% of credits are nominated in other currencies.

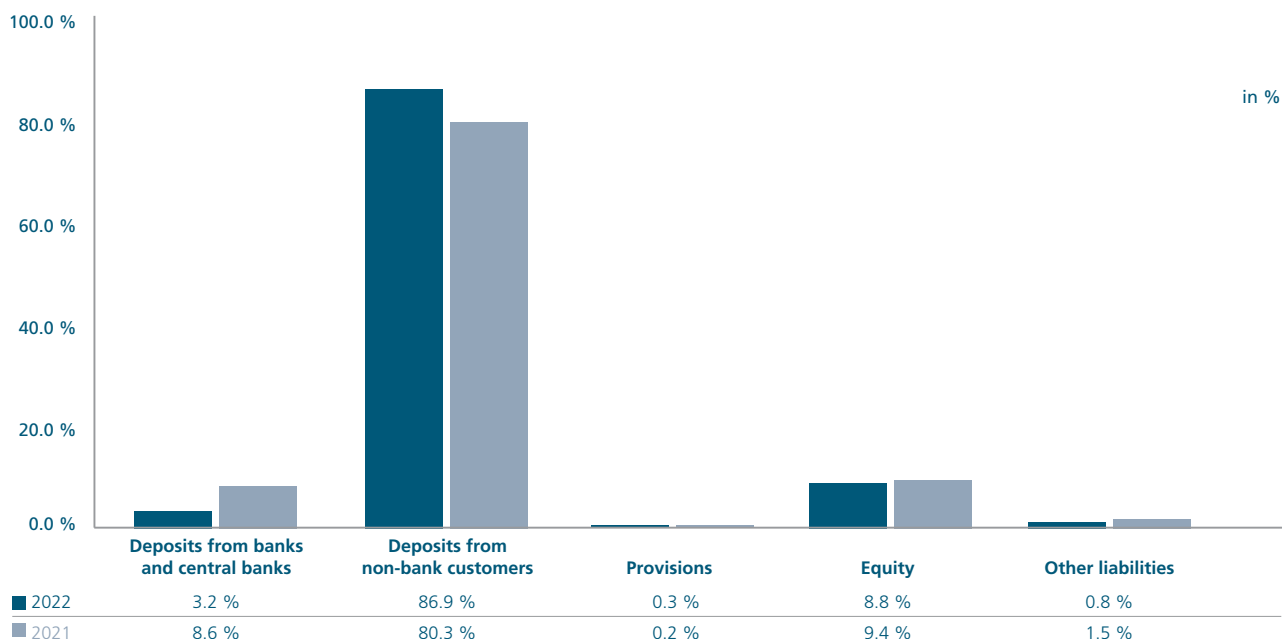
Investments in securities

Investments in securities amounted to EUR 250.2 million on 31 December 2022, or 6.8% of the balance sheet total. The value of securities at the end of 2022 is higher by EUR 21.7 million or 9.5% compared to the situation at the end of 2021.



In the structure of securities, debt securities represent 99.6% or EUR 249.1 million and shares 0.4% or EUR 1.1 million.

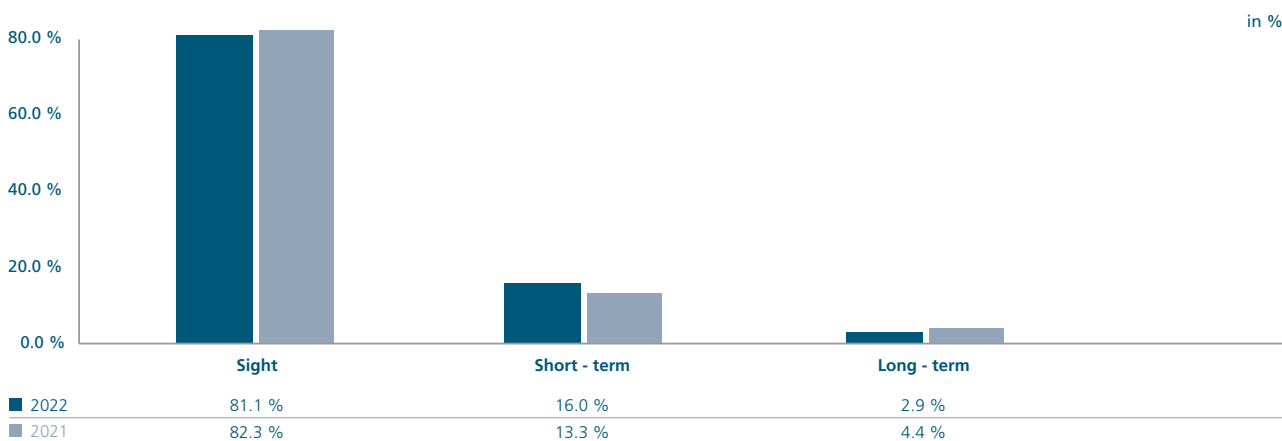
The structure of liabilities



Liabilities to banks amounted to EUR 117.7 million at the end of 2022, which is a 3.2% share of total liabilities. Compared to 2021, the volume of liabilities to banks decreased by EUR 182.1 million or 60.7%.

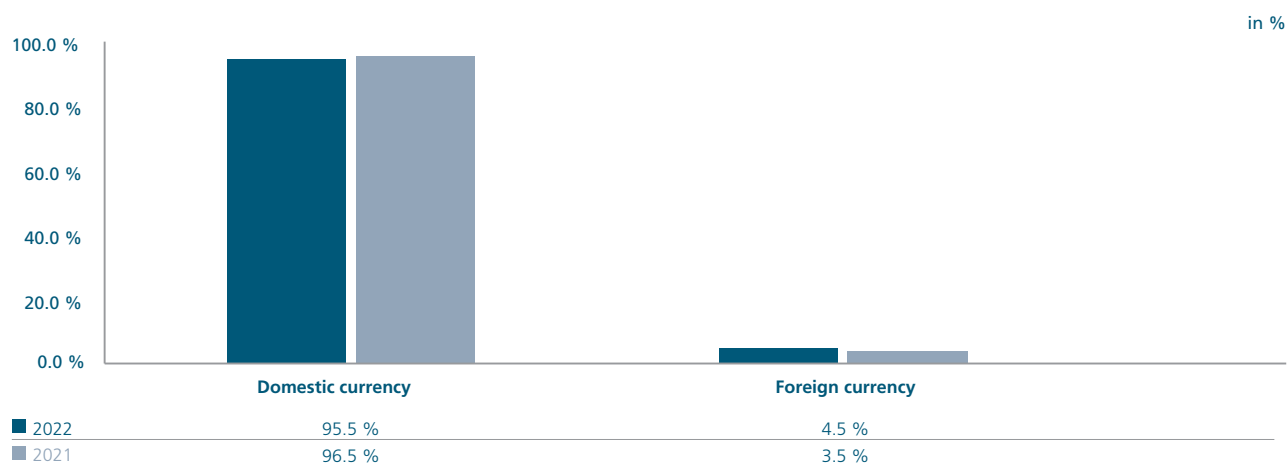
In the structure of liabilities, the share of deposits from the non-banking sector increased from 80.3% in 2021 to 86.9% in 2022. Deposits from the non-banking sector amounted to EUR 3,207.8 million at the end of 2022, which is EUR 418.8 million or 15.0% more than at the end of 2021.

Deposits of the non-banking sector by maturity



In terms of maturity, the share of short-term deposits increased, while the share of sight and long-term deposits decreased.

Deposits of the non-banking sector by currency



The bank has the majority of deposits in euros, namely 95.5%, and 4.5% of deposits in other currencies.

The Bank's provisions represent 0.3% of the balance sheet total or EUR 12.0 million. Compared to 2021, provisions are 101.3% higher. The largest share of provisions is represented by provisions for off-balance sheet liabilities (35.2% or EUR 2.2 million), provisions for pending lawsuits (27.8% or EUR 3.4 million), provisions for pensions and other similar obligations to employees (16.6% or EUR 2.0 million) and other provisions (20.4% or EUR 2.5 million).

As of 31 December 2022, the Bank's capital amounted to EUR 324.6 million, which is EUR 2.1 million or 0.6% less than at the end of 2021.

7. RISK MANAGEMENT STRATEGY

The Bank's business ambitions are tightly interconnected with its appetite for risk. Therefore, the Bank assesses its budget and business plan from the risk perspective on an annual basis. Based on key business plan projections and analyses of the macroeconomic and regulatory environment, limits for key risks are defined. To be able to support our clients in their personal and professional aspirations, the Bank's most important commitment is to be and remain a financially stable institution. This is ensured through a system of checks and balances, where dedicated control functions are committed to monitoring of exposures towards key risk drivers. Additionally, a robust stress testing framework ensures that the Bank can remain at the client's disposal even in times of severe macroeconomic distress.

As the Bank's main mission is to operate as a retail and commercial bank, its most important risk factor is credit risk. The Bank manages this risk in an effective but prudent credit approval process that is focused on providing service to clients with the strong creditworthiness. Additionally, the Bank monitors multiple portfolio metrics to determine possible risks arising from single name concentration, sector concentration, deterioration of value of collateral, etc.

Not only long term solvency but also long term liquidity of the Bank is of major importance to achieve our strategic goals. Therefore, the Bank maintains a risk appetite for liquidity risk well above regulatory limits. The Bank consistently operates with a liquidity position very high above its internal risk appetite.

The Bank also emphasizes the importance of operational risk, as it is aware that constant improvements in processes lead not only to smaller operational losses but also to better services for our clients. The Bank monitors the exposure to operational risk on an ongoing basis and constantly implements changes in areas where possibilities for improvements arise.

Interest rate risk is also constantly monitored and its exposure actively managed (by proper structuring of assets and liabilities as well as through hedging instruments) within internally prescribed limits, protecting the Bank's capital from excessive volatility in net interest income.

Due to the nature of the Bank's business model, its exposure to risk arising from deterioration bond or equity values in the global financial markets is minimal.

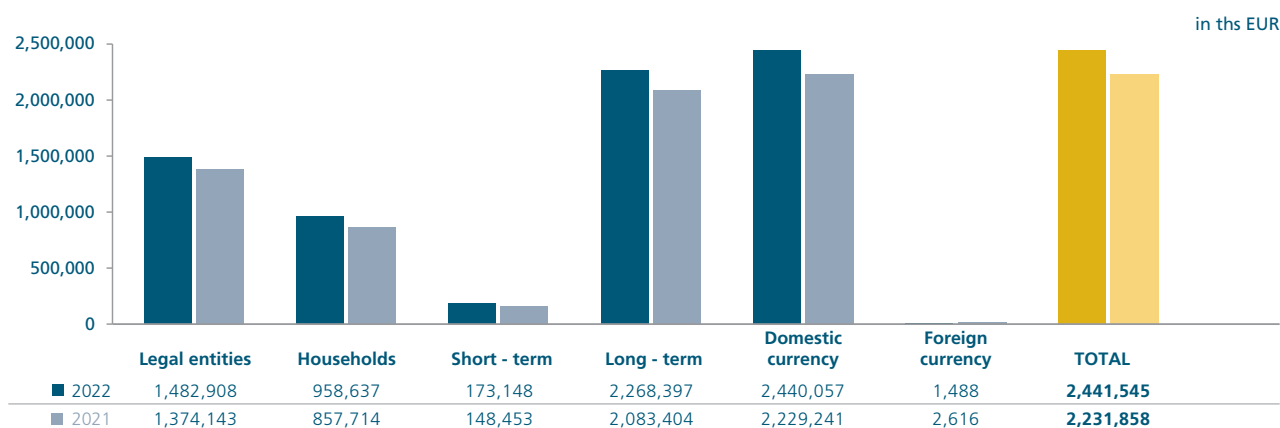
8. OVERVIEW OF THE BANK'S OPERATIONS

8.1 BUSINESS WITH LEGAL ENTITIES AND THE POPULATION

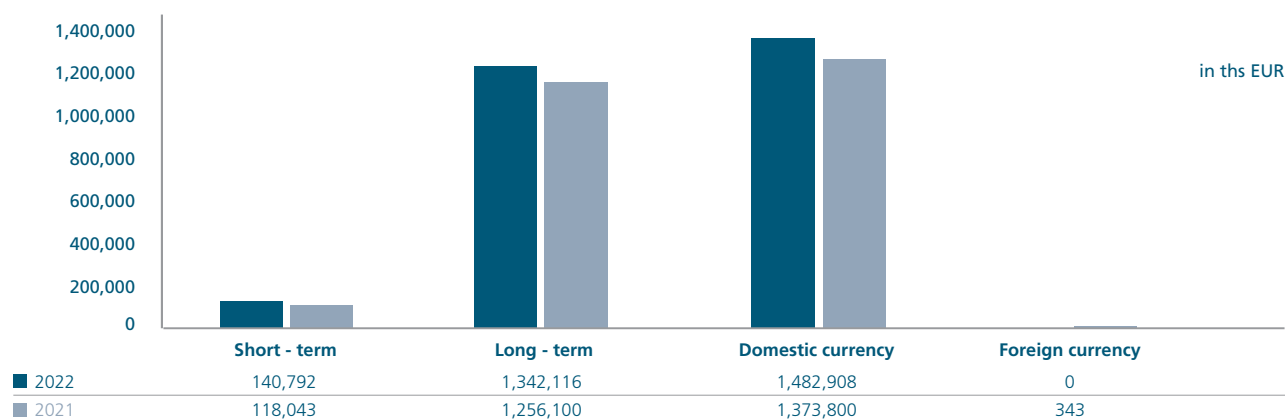
Intesa Sanpaolo Bank's gross loans to the non-banking sector increased by EUR 209.7 million in 2022, or by 9.4% compared to 2021. The Bank's market share in lending to the non-banking sector remained at 8.7% in 2022.

In terms of currency, most loans are in domestic currency (99.9%), while long-term loans prevail in terms of maturity (92.9%).

Overview of gross lending of the non-banking sector by sector, maturity and currency

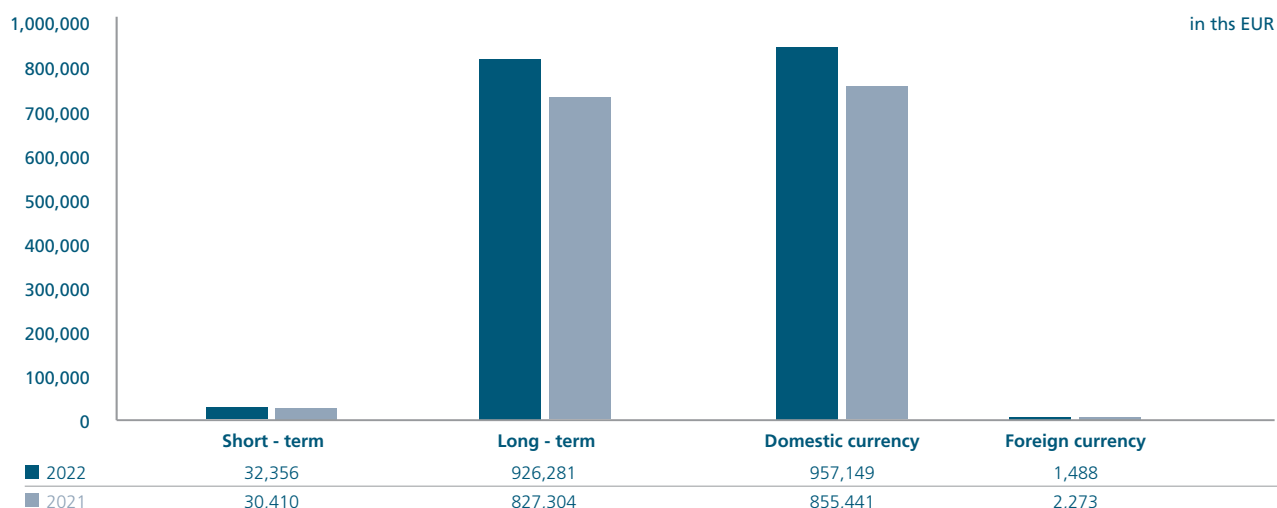


Overview of gross lending to legal entities by maturity and currency



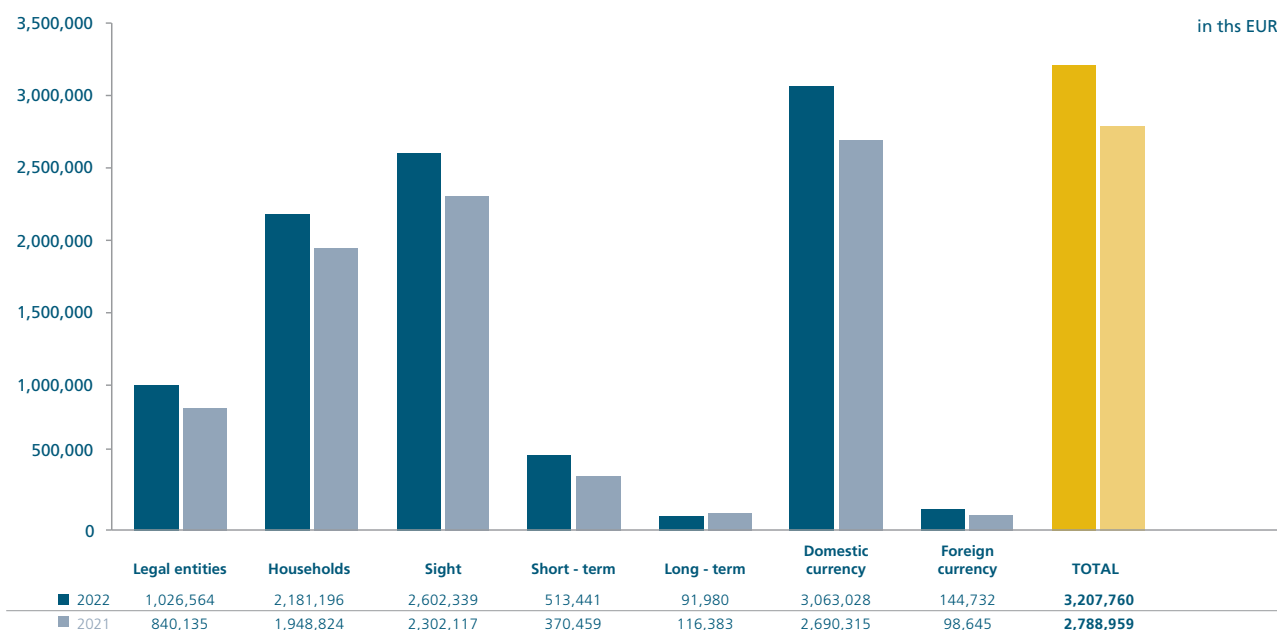
Loans to the corporate sector amounted to EUR 1,482.9 million or 60.7%, representing the largest portion of loans to the non-banking sector. Development of total legal entities market volume is relatively stable. In 2022, market share decreased by 29 basis points to 9.8%.

Overview of gross lending to households by maturity and currency



Lending to households (private individuals and sole proprietors) reached EUR 958.6 million or 39.3% of total lending to the non-banking sector. Lending to this customer segment increased by EUR 100.9 million or 11.8% on a yearly basis. As in 2022, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained on a low level. Most of long-term loans are mortgage loans. In 2022, the Bank increased its market share in the segment of private individuals and sole proprietors by 29 basis points to 7.4%

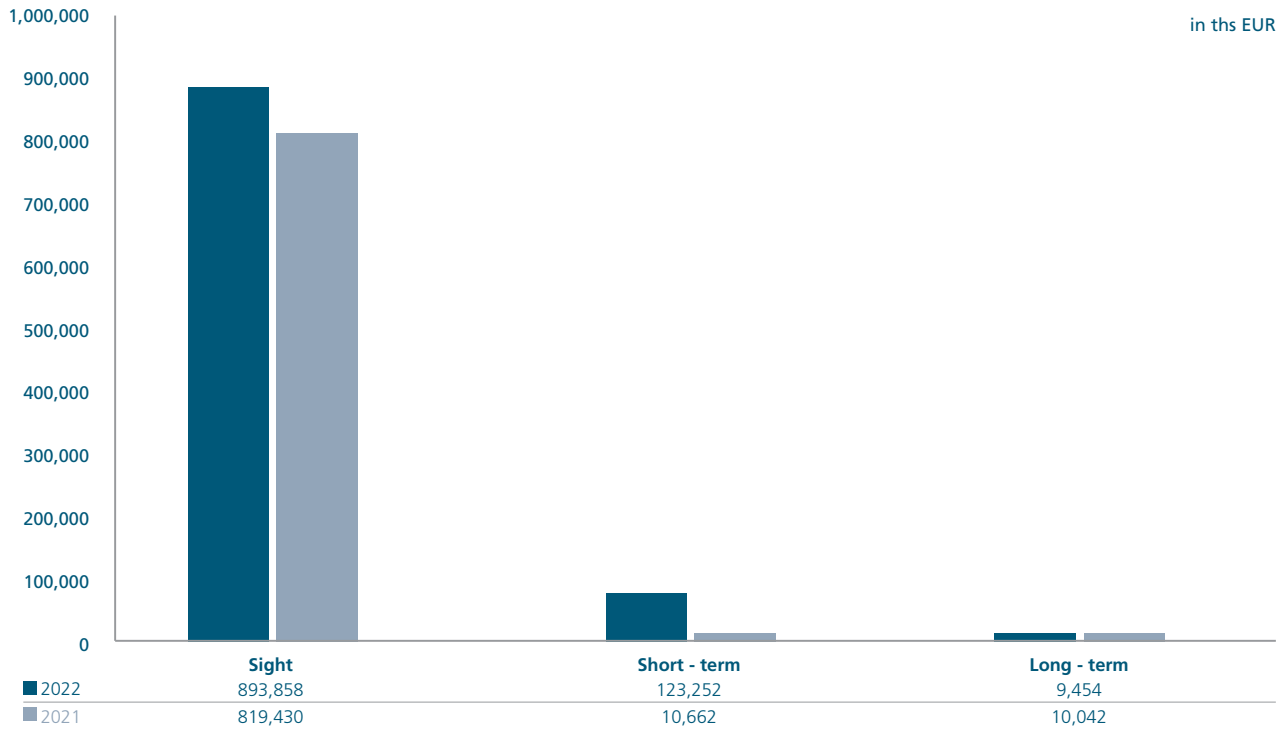
Overview of deposits and credits of the non-banking sector by sector, maturity and currency



In 2022, the Bank increased deposits and loans received from the non-banking sector by 15.0% or EUR 418.8 million. Market share increased by 57 basis points and stabilized at 8.1%, market share of household deposits increased by 34 basis points and amounted to 8.2% at the end of 2022 and market share of deposits by legal entities improved by 96 basis points and amounted to 7.8%.

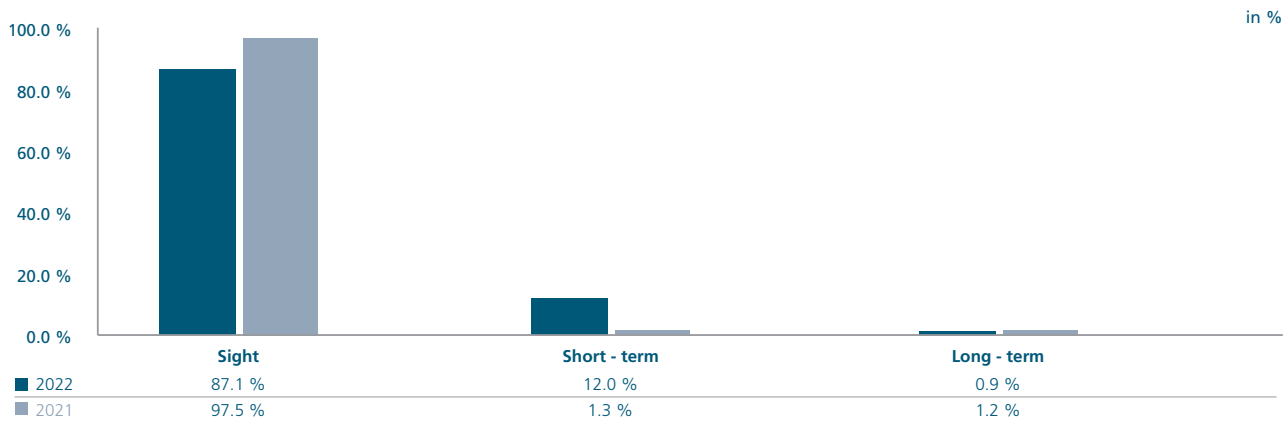
The sight deposits account for an 81.1% share of total deposits and loans received from the non-banking sector. They are followed by short-term deposits (16.0%) and long-term deposits (2.9%). In terms of currency, deposits in domestic currency prevail, with a 95.5% share. With respect to the previous year, demand deposits increased by 13.0% in 2022. Short-term deposits grew by 38.6%, while long-term deposits decreased by 21.0%.

Overview of deposits by legal entities by maturity



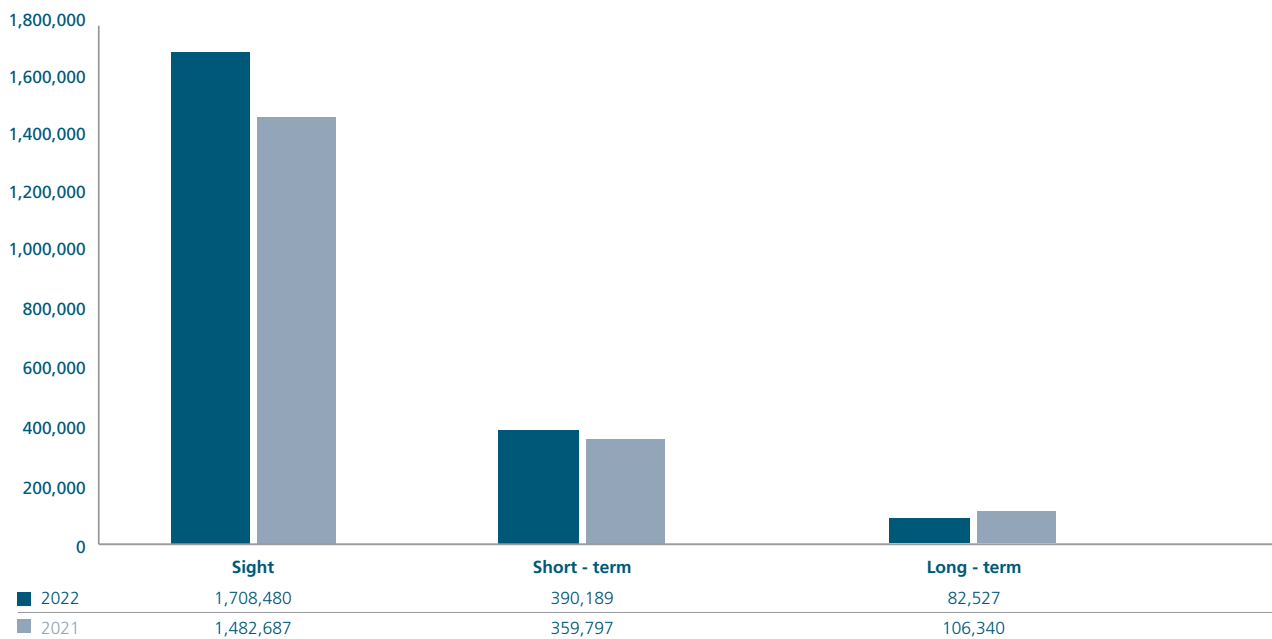
The volume of the sight deposits placed by legal entities increased by 9.1% (by EUR 74.4 million) compared with 2021. Also in 2022, the deposit structure in terms of currency was dominated by deposits denominated in euro.

Share of deposits by legal entities by maturity



Overview of household deposits by maturity

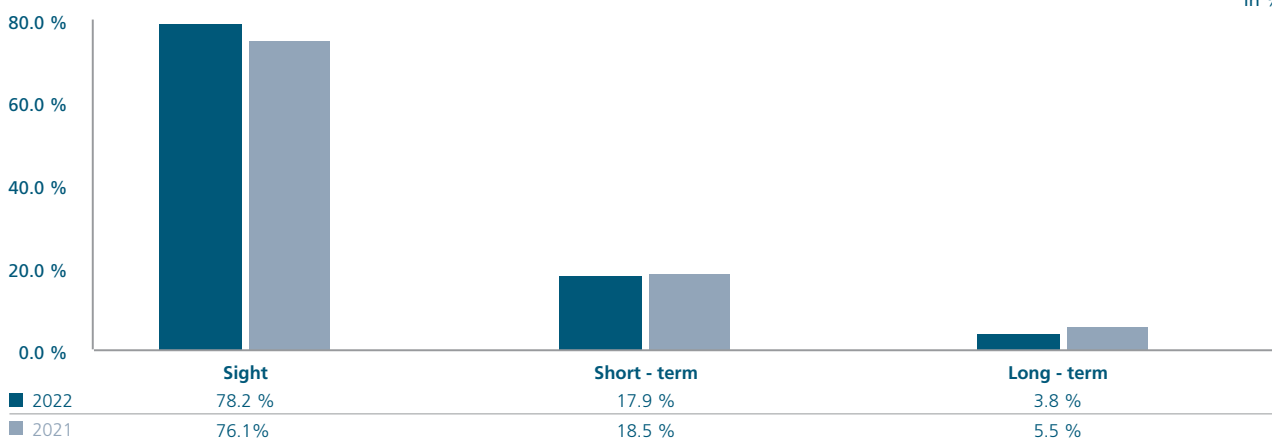
in ths EUR



Household deposits accounted for 68.0% of all non-bank deposits and at the end of 2022 totalled EUR 2,181.2 million, i.e. EUR 232.4 million more year-on-year. Household deposits were mainly denominated in local currency.

Share of household deposits by maturity

in %



8.2 OTHER SERVICES

8.2.1 Digital banking and card business

The Bank is successfully responding to the challenges and opportunities of an increasingly digitized business environment by introducing innovative solutions. In 2019, the Bank was the first banking institution in Slovenia that made it possible for the holders of Visa Inspire cards (and later Mastercard cards) to pay using the Apple Pay mobile wallet. At the end of 2022, it presented another innovative solution to its clients and again became the first bank in Slovenia to enable holders of Visa Inspire cards to pay with Google Pay mobile wallet.

A trend was noticed with the Bank's users, that more and more of them decide to buy banking products or services through digital channels, without visiting a branch. In 2022, 17% of all sales were made through digital channels.

The excellence of digital banking was also confirmed by an independently conducted survey. For the third year in a row, Intesa Sanpaolo Bank took second place among Slovenian banks and some global players present on the Slovenian market and was ranked among the so-called "advanced digital leaders", which includes providers with the best solutions.

8.2.2 Marketing and sale of mutual investment funds

The year 2022 was very demanding and full of challenges for the Bank in the field of mutual fund marketing. Markets have had one of their worst years, with all investment segments ending the year with negative results. Due to the rapid rise in market interest rates, even bond investments, which are traditionally less volatile, recorded above-average falls. High inflation, the war in Ukraine and the restrictive measures of central banks also had a strong impact on the markets.

Despite the challenging conditions on the markets, the Bank ended 2022 with more than EUR 20 million in inflows to the investment funds of the company Eurizon, and despite the increased outflows, the bank maintained positive net payments. In addition to one-off payments, the Super combination offer (a combination of a deposit with a higher interest rate and the payments into mutual funds without an entry fee) and savings plans (monthly payments into mutual funds) contributed to successful marketing. There were more than 3,600 newly concluded savings plans, and thus the Bank reached a new milestone in 2022: 10,000 active savings plans.

According to the expert selection of the magazine Moje Finance, Eurizon won first place among management companies in a ten-year period, and in 2022 Eurizon funds also won awards for the best mutual funds in Slovenia. Three funds received awards as the best funds in their category.

In 2022, the Bank adjusted its offer of funds by placing emphasis on the offer of ESG funds that comply with the EU SFDR (Sustainable Finance Disclosure Regulation) Regulation and came closer to the expectations of customers.

The Bank expanded its offer with the following funds:

- Eurizon F Equity Innovation – R (equity fund),
- Eurizon F Equity Planet – R (equity fund),
- Eurizon F Equity People – R (equity fund),
- Eurizon F Euro Bond – R (bond fund).

The Bank has stopped marketing the following 3 bond funds that do not comply with Article 8 of the EU SFDR Regulation:

- Eurizon F Bond EUR Short Term LTE - R (bond fund),
- Eurizon F Bond EUR Medium Term LTE - R (bond fund),
- Eurizon F Bond EUR Long Term LTE - R (bond fund).

The best-selling fund in 2022 was Eurizon Manager Selection Funds (EMSF) 40.

The Bank continued to offer investment advisory services. At the end of 2022, almost 5,700 investment advisory contracts were concluded.

8.2.3 Leasing

Leasing is an addition to the Bank's product portfolio for the corporate segment. With additional commercial activities, the Bank was able to increase new volume production by 39% compared to 2021. In line with the market trends, the volume of leasing contracts is increasing, mostly focused on commercial vehicles, followed by passenger cars and other equipment. The Bank focuses on all segments of legal entities and small businesses.

8.2.4 Umbrella pension fund My pillar

The Bank is actively involved in the voluntary pension insurance system within the scope of the Slovenian pension system, as it established and started managing the open-ended mutual pension fund (OVPS) back in 2001. The fund is intended for collective and individual voluntary supplementary pension insurance.

In 2018, the Bank upgraded its offer on voluntary supplementary pension insurance. It launched to the market a new type of saving for old age in the form of a life cycle investment policy. The Bank offers such form of a life cycle investment policy through the management of the Umbrella pension fund My pillar.

The Moj Steber fund consists of three sub-funds:

- Moj Steber Dynamic, intended for insured persons aged 40 or less,
- Moj Steber Balanced, intended for insured persons aged between 40 and 55, and
- Moj Steber Guaranteed, intended for insured persons aged 55 or more.

Such a form of investment policy of the fund of pension funds with various investment policies intended for different age categories is called the life-cycle investment policy and is an extended investment strategy method in developed economies. Its horizon of saving is long and is intended for acquiring additional funds for the disbursement of a supplementary pension after an insured person retires.

It provides the younger insured persons with a more dynamic investment portfolio, with higher growth potential, but also considering higher risk. With the ageing of insured persons and their approaching retirement, the level of risk reduces up to the last and lowest risk level, where insured persons are, as before, again part of a guaranteed pension sub-fund and its members until they choose the supplementary pension payer or, rather, until they retire.

The year 2022 was marked by high volatility of the capital markets, which was the result of extraordinary political and macroeconomic factors (war in Ukraine, high inflation, reaction of central banks with high interest rate hikes). Typically "safe investments" in bonds, as well as stock investments, were under great pressure. It affected the profitability of the sub-funds of the My Pillar Umbrella pension fund, which ended the year with a negative return.

The value of the unit of sub-fund My pillar Guaranteed amounted to EUR 9.14 as at 31 December 2022 and decreased by 7.0% within a year. The guaranteed return was 0.04%. Net asset value of this sub-fund amounted to EUR 46.2 million.

The value of the unit of sub-fund My pillar Balanced amounted to EUR 9.45 as at 31 December 2022 and decreased by 12.7% within a year. Net asset value of this sub-fund amounted to EUR 2.4 million.

The value of the unit of sub-fund My pillar Dynamic amounted to EUR 9.37 as at 31 December 2022 and decreased by 13.2% within a year. Net asset value of this sub-fund amounted to EUR 1.3 million.

8.2.5 Depository banking

Banka Intesa Sanpaolo d.d. was the first bank in Slovenia that provided depository services for investment funds back in 2004.

The provision of depository services can be divided into two groups:

- a. safekeeping and settlement of transactions in financial instruments and other assets of clients
- b. checking and confirming the correctness of the calculation of the net asset value and unit value at the end of the accounting period, reviewing payments and claims for unit payments (conversion), ensuring timely settlement of client obligations and ensuring that solely those obligations are settled that are consistent and permissible with the provisions of prospectuses and legislation.

To ensure that the services are always performed at the highest levels, the acquired knowledge and experience are upgraded also through their exchange between banks within the Intesa Sanpaolo Group. This gives the Bank a competitive edge in the market and represents added value for its customers.

In 2022, the Bank further consolidated its position among the top three custodian banks in Slovenia. The Bank performs depositary services for mutual funds (UCITS) and alternative investment funds (AIF), pension funds and internal funds with insurance companies. At the same time, the Bank is preparing to expand its offer in the area of custody of financial instruments in accordance with the provisions of the Market in Financial Instruments Act, with the planned start of marketing in the middle of 2023.

9. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

9.1 BUSINESS PLAN 2022-2025

With the current business plan and related strategic initiatives, the Bank wants to build on the efforts of the past years, when it managed to transform itself into a leaner and more responsive organization and maintain the reputation of a national innovator by introducing effective and simple solutions for customers and setting some new trends in banking. The current business strategy represents further development of digitization and optimization of processes, reduction and elimination of activities that do not bring added value, optimization of costs and maintenance of high added value for customers.

Until 2025, the bank will intensively focus on key business segments through high-quality services and solutions that are easily accessible and according to the highest security standards, which also represent a response to changing customer habits. The business strategic orientation continues to be aimed at "affluent" customers for whom the Bank is preparing new products and services, also in cooperation with new strategic external partners. In 2022, it concluded a long-term cooperation with the insurance company Generali, from which it expects additional income from the marketing of insurance services in the coming years.

The Bank will also focus on advisory services and an improved offer of financial investments. It will strengthen the range of ESG products and services, which will be increasingly important in the future. In this area, the Bank wants to play a leading role or to have a great influence in the market.

In the future, the Bank wants to effectively combine traditional business with branches in strategic locations and digital business, which can be achieved without time and space limitations. The Bank will also strengthen the range of services available through the call centre, which will be transformed into a virtual office and will be accessible even to those who are not skilled in modern digital channels.

The common goal of all development initiatives will be the availability of a wide range of effective, easy-to-use digital services with reduced response time to customer needs and expectations and excellent user experience for customers.

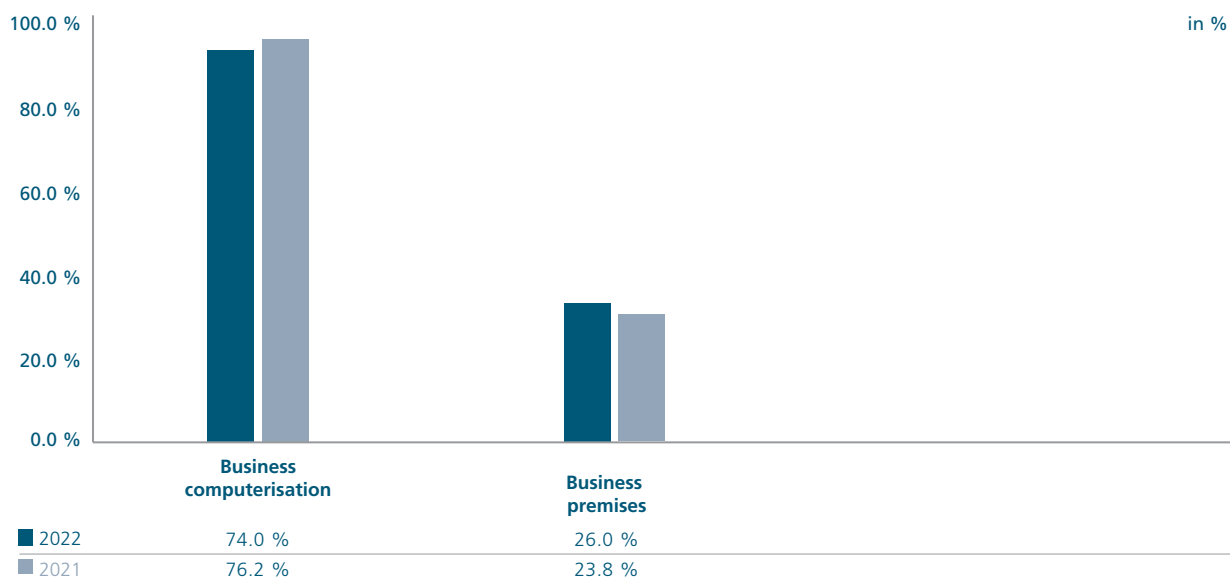
The Bank wants to continue the positive growth trends from recent years in key business segments and further strengthen its position on the Slovenian market, so it will additionally identify sales opportunities and strengthen cross-selling between business segments. Growth will also be based on synergies coming from the Group level - both in terms of commercial solutions and in terms of sharing competences and knowledge.

Work organization will also be a challenge. It will combine remote work from different locations with presence in offices. It gives employees more freedom to manage their time and private commitments, although this reduces physical contact with each other. Therefore, the Bank is already introducing some initiatives within the current and future work regime to maintain social contacts between employees and a high efficiency of mutual cooperation. There is a clear awareness that modern technologies cannot fully replace physical contacts and the resulting energy, which has a beneficial effect on the commitment and motivation of team members. For this reason, the Bank will carry out activities to effectively combine work methods and will allocate dedicated financial resources to various team activities.

9.2 CAPITAL INVESTMENTS

In 2022, the Bank has continued its long-term development programme and invested EUR 3.6 million in total in the computerization of business operations, commercial premises and other equipment. The Bank's capital investments in 2022 were higher by EUR 1.1 million compared to the previous year.

Structure of capital investments in 2022



The majority of investments (EUR 2.7 million or 74.0%) was allocated to business computerisation. Increasingly stricter rules regarding banking safety require continuous investments in ensuring the safety of services.

To ensure uninterrupted work and an appropriate working environment, the bank allocated EUR 0.9 million or 26.0% of all investments. In October 2022, the project of the "flagship" office in Ljubljana was completed with the opening. The opening of this branch is one of the 7 key initiatives of the Bank's transformation strategy (AGDM and differentiation of sales channels).

9.3 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

In 2022, the bank updated and upgraded its ICT development strategy. It is a process of regular coordination of the technology and information development strategy and ensuring the orientation of the development of information and communication technologies (ICT) to effectively support the bank's business needs, taking into account technological development and trends in the financial industry. This ensures that the Bank can direct its resources and optimize work processes according to the actual needs of its business strategy.

The Bank already considers ICT technology as the core of all banking services and provides its customers with an efficient, modern and end-user-oriented ICT infrastructure both directly through various digital banking channels and indirectly by providing support to employees in the efficient performance of their functions. With the gradual growth of the share of services based on the principles of the so-called open banking introduced by Directive (EU) 2015/2366 (PSD 2) and the introduction of new players (so-called fintech companies), ICT services are gaining an additional dimension and role.

In addition to the traditionally rapid development of ICT services and a relatively diverse regulatory environment, at least a partial introduction of additional technological solutions, such as solutions based on artificial intelligence technologies, is expected in the coming years.

In 2022, the bank successfully continued the consolidation of its technology platform and the effective utilization of the synergistic effects of the Intesa Sanpaolo Group, thereby continuing the trend of increasing the efficiency of its ICT service development. At the same time, in accordance with its strategy, it continued the development of

ICT infrastructure, mainly in the following areas:

- optimization and digitization of banking processes;
- ensuring compliance with the regulatory environment and bank data management;
- introduction of innovations in mobile and online banking;
- new (information-supported) offers of banking products;
- renovations and comprehensive updates of the ATM network;
- upgrading processes in the field of IT in accordance with modern lean development guidelines.

In the area of **business process optimization**, the Bank continued the renewal of business processes:

- for loans and business card operations with automation of back-end processes;
- for the areas of investment insurance, with comprehensive support for business processes and with the aim of automating procedures and improving the quality of data;
- with greater centralization of administrative activities with the aim of optimizing processes in the branches.

In the area of **e-commerce**, the Bank continued to upgrade solutions for digital channels and was the first bank in Slovenia to introduce the option of paying with the Google Pay payment solution. The bank plans to further invest in innovative solutions and improve the user experience.

In the **regulatory area**, the Bank additionally upgraded technological support and internal processes in the area of personal data protection and met the regulatory reporting requirements and compliance with the new Consumer Credit Act (ZPotK-2) as well as other relevant banking regulations. At the same time, it adjusted the processes related to Croatia's entry into the Eurozone and upgraded information support in some key areas, such as money laundering prevention and risk modelling.

In accordance with business strategic directions, the Bank continues with increasing investments and the offer of so-called ESG products. The bank also continues with further integration activities at the Group level. As part of the upgrade of the ATMs, the Bank enabled customers with the new functionality of cash deposits at ATMs (i.e. Cash IN) and started more intensive investments in the ATM network.

In the field of ICT, the Bank continued to upgrade processes for managing changes and continued to update business processes and other infrastructure solutions that enable a better and more comprehensive overview of the bank's entire expanded ICT infrastructure.

In the field of **information security**, the Bank is continuously updating solutions for uniform management of user rights. At the same time, it continues to invest in the detection and control of threats and in the upgrading of hardware and software for effective control over cyber threats. Among the more important projects was the implementation of the EDR system on the entire information environment of the bank.

In order to ensure compliance with the requirements of the SWIFT security program, the Bank ordered and performed an external review of compliance with the SWIFT control framework. The review confirmed the Bank's compliance with all requirements of the control framework.

In 2022, the Bank started a GAP analysis of compliance with the requirements of the NIST control framework. Only minor deviations were detected, for which action plans were drawn up and monitoring of the implementation of the required changes was introduced. As a supplement to the security framework, a GAP analysis was carried out in 2022, taking into account the requirements of the Intesa Sanpaolo Group, which follow the CIS guidelines. The performed analysis forms the basis for the introduction of improvements in all analysed areas in 2023.

In accordance with the security integration plan, the Bank established a system for controlling the access of privileged users. At the same time, it included the most critical users in additional operational and technical control mechanisms, which further reduce the level of risk. In the future, the Bank will expand the system to lower levels of criticality and thereby cover the majority of internal privileged users.

In the area of **physical security**, the investments were intended to upgrade existing security systems and improve video surveillance systems, as a continuation of upgrades from previous years. The Bank also continued with the digitalization process of physical access control, thereby further improving the control, transparency and accessibility of access checks through remote access to records.

10. ACTIVITIES IN THE FIELD OF SUSTAINABLE DEVELOPMENT

The Intesa Sanpaolo Bank Code of Ethics defines the principles of governance and core values that are the foundation of the Bank's compliant operation. As a corporate entity, the Bank is aware that its operations extend further than simply satisfying the financial needs of its customers and have a significant impact on the wider local community. The goals and values written in the code raise the level of the employees' operating compliance and make it easier to earn the trust of stakeholders, i.e. customers, shareholders, employees, suppliers and the local community.

After the formal establishment of a special organizational structure and ESG project, in 2022 the Bank prepared a set of short-term and long-term activities in the environmental, social and management fields. The most massive campaign was the planting of bee pasture plants, in which over 200 employees participated, and as many trees were planted as there are employees in the Bank - almost 700. Activities for a more beautiful and cleaner environment were also marked by some so-called team building events, which the Bank has carried out from 2022 onwards.

The Bank also made great progress in the so-called D&I (Diversity & Inclusiveness) field. With the aim of establishing a long-term motivational corporate culture with equal opportunities for all, the Bank renewed its corporate values with the participation of a large number of employees. The bank also started implementing a program that offers employees the opportunity to get to know the various functions and responsibilities in the organization in detail. The long-term internal strategy also includes the establishment of spaces for informal gatherings and for additional strengthening of the organizational structure and culture.

One of the commitments that the Intesa Sanpaolo Group has already publicly presented is the reduction of the carbon footprint through membership in the Net Zero Banking alliance by 2050. To achieve this goal, the Bank is already carrying out various activities. Some of them are related to the energy renovation of business premises using modern materials and solutions, which contributes to lower energy consumption and the resulting emissions into the environment. In 2022, the Bank renovated the branch office in the capital; in the following years, it will continue with the renovation in other parts of Slovenia as well. By using modern solutions for electronic signing and document management, the Bank ensured paperless operations in the area of retail operations. It continues its efforts in other business segments as well. For inevitable printouts of documents, the Bank uses exclusively organic paper and environmentally friendly technology.

10.1 RESPONSIBILITY TOWARDS EMPLOYEES

10.1.1 Basic information and HR guidelines

On 31 December 2022, Intesa Sanpaolo Bank employed:

- 681 employees
- 6.3% temporary employees
- 5% part-time work employees
- 3.1% disabled employees
- 75% women, 25% men

In 2022, the bank recorded an 11% turnover of employees.

The main organizational changes were implemented in the following areas:

- Management Board
A new member of the management board for CRO and a new member of the management board for Retail due to the expiration of the mandate of the previous members of the management board, as well as a new executive director for COO and the transfer of the HR and organization department under the CEO division.
- Retail Division
Organizational structure of the Multichannel & Digital Marketing department, in accordance with the Group's target model.

10.1.2 Employee relations

Systemization of job positions

In 2022, the Bank implemented a new systemization of job positions and a new salary system. The new systemization of job positions brought transparent remuneration, promotion and career development of employees based on clearly defined conditions and criteria, with reference to the systematization of jobs and job descriptions that define tasks, demands, requirements, working conditions and individual responsibilities.

A new process of development talks between employees and managers

In 2022, the Bank set up a new system of development talks between employees and managers, with the aim of an open dialogue about the employee's role in the organization and their career development in the future, which will take into account both their wishes and the actual needs of the organization.

Diversity and inclusion principles

The policy defines the framework in the field of diversity and representation of both sexes in the Supervisory Board and the Management Board and at the level of senior management. With the policy, the Bank has set a framework in the field of diversity in terms of education, professional knowledge, skills and experience, age, gender and international experience.

The Bank's goal is to create a working environment based on plurality, respect and harmony. The Bank is committed to creating an environment where people with different characteristics, beliefs and opinions can come together to create value, where everyone can express themselves freely and where everyone's talents and qualities are recognized and rewarded with equal opportunities for career growth and pay. In 2022, the Bank carried out two activities on this topic:

- Renewed corporate values and
- Implemented a program in which employees were offered the opportunity to learn about other jobs.

In 2023, the bank will continue its activities in accordance with the prepared action plan, which was approved by the Management board and is part of the Group's strategic approach.

Renewed values

The implementation of the bank's strategy is based on shared values that the Bank co-created with its employees. The bank strives to build a solid organization with positive values that determine our actions, decisions and good practices.

1. We grow together
2. Kindness connects us
3. I contribute solutions
4. I maintain focus

Remuneration and incentive policies

In 2022, the renewed Remuneration and incentive policies for Intesa Sanpaolo Bank was adopted, the basic principles of which represent the framework for rewarding employees. The policy defines fixed and variable remuneration and the system of setting goals and performance criteria (KPI) and determines the conditions for the allocation and payment of the variable part of the award.

Onboarding

In 2022, the Bank again held an Onboarding event for new employees. With the awareness that coming to a new organization and a new working environment can be stressful, the Bank wanted to bring employees closer to the organization as a whole with this event and welcome them to the Bank from the top management. In 2023, the Bank will strive to prepare the Onboarding process in even more detail and to make it easier for each new employee to transition to a new work environment.

Working from home

In 2022, the Bank officially implemented work from home for the majority of employees who do not work directly with customers. Working at home aims to ensure optimal work processes that are cost-effective and at the same time enable employees to balance their professional and private lives.

Strengthening the position of control functions

The Bank adapts to new conditions, needs, scope of activities and requirements and thereby adjusts the number of employees. The bank has successfully fulfilled the personnel requirements of the JST, especially in relation to supervisory functions.

Training and development of knowledge and competences of employees

Systematic education is the basis for the development of the Bank's employees. In 2022, 17,883 hours of training were completed, an average of 26.3 hours per employee. Most of the trainings (91.0%) were internal. As much as 56.5% of internal trainings were conducted by internal trainers, either live or via an online learning portal, with the majority of training aimed at knowledge of internal procedures and rules. Particular attention was paid to topics in the field of personal data protection, information and general security and the prevention of corruption. The Bank provides regular training for marketers of investment services and insurance agents.

In cooperation with the parent bank, training for commercialists - insurance agents was organised within the Bancassurance project, which is aimed at strengthening sales skills in the field of insurance.

In cooperation with the parent bank, a new platform for LEA's for internal e-trainings was implemented, especially in the areas of personal data protection, information and general security.

In 2022, the Bank paid great attention to the trainings for managers. An experienced external lecturer introduced good management practices to our managers and enabled them to acquire the appropriate skills and fundamental competencies of managers.

10.2 RESPONSIBILITY TOWARDS CUSTOMERS

In 2022, the Bank began operationally implementing a new business strategy until 2025, which largely represents the evolution of activities from the previous strategic period from 2018. It also upgrades successfully implemented improvements based on the experiences from the implementation process and from direct interaction with customers.

As part of the transformation, the Bank made a number of technological and organizational improvements to increase the efficiency of internal processes and reduce operational risks due to automation and input data control, thus increasing its responsiveness to customer expectations and providing appropriate technological solutions to changing customer habits. The Bank will continue its focus on process efficiency and has already started the next phase of projects to be implemented in the current strategic period.

In 2022, the bank devoted a lot of time and internal resources to ensuring regulatory compliance and solving various audit recommendations. In recent years, the bank has recorded an increasing number of different requests from stakeholders that must be prioritized and implemented. One such requirement is related to the so-called Lexitor ruling, which gives consumers the right to a proportionate refund of all upfront and recurring loan costs, including origination fees and costs of ancillary services, if they have repaid the credit obligation early. Some of the activities are related to ensuring the highest level of service security in challenging times of an increasing number of online scams. Other activities are mainly aimed at improvements of users' experience.

The Bank was also recognized as a "digital leader" in the industry. This title was obtained in the regular in-depth survey of digital financial services accessible to customers in Slovenia - online and mobile - carried out by independent experts. For the third year in a row, digital channels were ranked among the best in the country. The latter confirms the appropriateness of the business direction from 2018 of strengthening the position of a digital innovator and the excellence of the solutions offered by the bank on the market, which include high-quality online services, accessible at every step. These also include some advanced services related to fund marketing and the two globally established payment services: Google and Apple Pay.

With their needs, clients remain at the centre of the Bank's activities. Their needs and expectations are regularly examined through the constant exchange of information and are the basis for excellent mutual cooperation. The Bank listens to its clients in various ways and adapts its work to the expectations of individual target groups. Clients can express their praise and comments via the website, in specially marked places in branches or directly to their consultants.

10.3 CORPORATE SOCIAL RESPONSIBILITY

At the outbreak of the armed conflict in Ukraine, the Bank joined the substantial million-dollar donation of the Intesa Sanpaolo group. All funds, planned for donations for 2022, were allocated to the Red Cross of Slovenia for aid in the humanitarian crisis caused by Russia's military intervention on the territory of Ukraine.

In 2022, the Bank continued its internal charitable activities. The Bank's employees, in cooperation with the partner organization Slovenian food bank (Sibahe), again collected a larger amount of baby food for socially disadvantaged families in the run-up to the holidays in December.

Intesa Sanpaolo 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, this information being included in the Consolidated Non-Financial Statement presented by

10.4 RESPONSIBILITY TOWARDS CLIMATE AND ENVIRONMENT

The Bank is aware of the indirect as well as direct impacts of the financial sector on climate and the environment as well as the associated risks and market opportunities. The Bank itself and as part of the banking Group closely monitors regulations and best practices in its business environment. It seeks to meet and even exceed supervisory and regulatory requirements as well as the expectations of business partners and clients and is fully committed to national and European ambitions in this area.

In order to effectively manage its exposure to climate and environmental risks, the Bank conducts regular preliminary analyses to measure, monitor and manage the extent of these risks. It follows the methodology used by the Bank of Slovenia in 2020 in its report on the status of climate risks in the Slovenian financial sector. From the beginning of 2022, the Bank has participated in the procedures for calculating the Green Assets Ratio and other KPIs that credit institutions must disclose. The results of these calculations will be included in the consolidated statement of non-financial operations, published annually by the parent bank Intesa Sanpaolo S.p.A. The results of the consolidated calculations as per 31 December 2022 are summarised in the following table:

Data as of 31 December 2022	Total environmentally sustainable assets (in ths EUR)	KPI (GAR)	% coverage (over total assets)
Green Asset Ratio (GAR) - stock	636,527	20.85 %	17.24 %

In general, GAR is defined as the proportion of a credit institution's assets invested in EU Taxonomy-aligned economic activities as a share of total assets (except sovereign exposures) and is calculated based on the on-balance sheet exposures. The value presented above covers the Bank's stock, is determined according to the transitional principle of EU Taxonomy eligibility and is expected to rise in the forthcoming period as credit institutions increasingly redirect their resources towards more sustainable assets and the methodology for their recognition improves. The numerator of the GAR equation covers the loans and advances, debt securities, equities and repossessed collaterals financing Taxonomy-aligned or -eligible economic activities, while the denominator covers the total assets of a credit institution except sovereign exposures (loans and advances, total debt securities, total equities and total repossessed collaterals, derivatives, trading book).

In 2022, the Bank continued to conduct a detailed review of its corporate governance, long-term strategy, business model and risk management framework. Through review and appropriate action, it seeks to ensure that the climate, environmental and other relevant factors of the ESG are integrated as much as possible into their key approaches and processes. In this way, it strives to maximise the level of sustainability of its operations, offer its customers more sustainable alternatives to the existing offer of banking products and services and harmonise its credit and investment portfolio with the goal of net zero emissions by 2050.

11. INFORMATION FOR SHAREHOLDERS

The Bank's equity is divided into 531,359 no-par shares and amounts to EUR 22.2 million. Each share has an equal share and corresponding amount in the share capital. The share of each no-par value share in the share capital is determined based on the number of no-par value shares issued. The Bank's shares are owned by 129 shareholders.

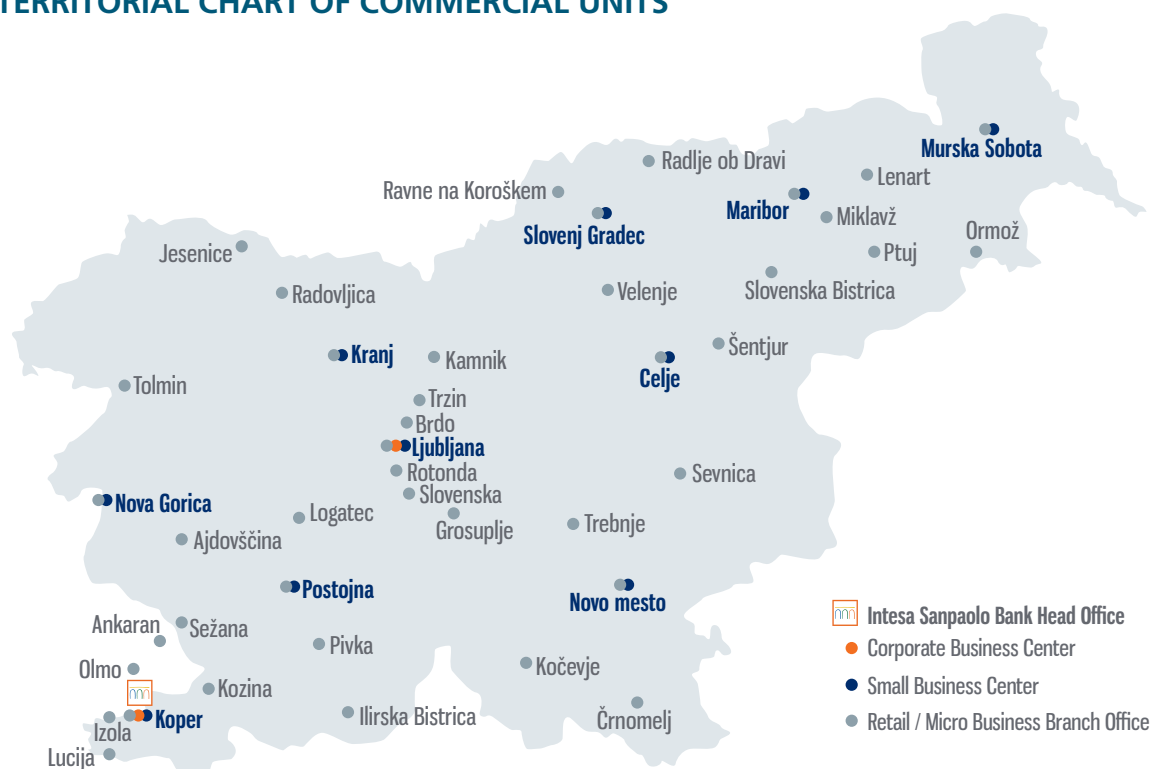
Equity components and their changes in 2022

	(in thousands of euros)	
	31. 12. 2022	31. 12. 2021
Basic equity	22,173	22,173
Share premium	7,499	7,499
Accumulated other comprehensive income	12,821	15,129
Reserves from profit	264,149	263,081
Treasury shares	(49)	(49)
Retained earnings (including profit or loss for the financial year)	18,000	18,819
Other equity instruments issued	-	-
Total Equity	324,593	326,652

Use of the net profit of the financial year and determination of the profit, available for distribution

Pursuant to the legal regulations and the Articles of Association of the Bank, 5% of realised net profit for the financial year 2022 in the amount of EUR 0.8 million is allocated to legal reserves. The remaining net profit for the year 2022 in the amount of EUR 15.5 million remains unallocated and is available for distribution.

12. TERRITORIAL CHART OF COMMERCIAL UNITS



List of branches – Small business and individuals:

Retail network – West region

Branches: Koper, Pristaniška ulica 14, Koper
 Olmo, Pahorjeva 63/a, Koper
 Ankaran, Jadranska cesta 42, Ankaran
 Izola, Drevored 1. maja 5, Izola
 Lucija, Obala 114/a, Lucija
 Sežana, Partizanska 50, Sežana
 Kozina, Istrska ulica 11, Kozina
 Nova Gorica, Bevkov trg 2, Nova Gorica
 Tolmin, Trg maršala Tita 7, Tolmin
 Ajdovščina, Tovarniška 1/a, Ajdovščina

Retail network – East region

Branches: Maribor, Vita Kraigherja 5, Maribor
 Ptuj, Slovenski trg 3, Ptuj
 Lenart, Partizanska cesta 1, Lenart
 Ormož, Kolodvorska cesta 1, Ormož
 Miklavž, Ptujška cesta 17, Miklavž na Dravskem polju
 Slovenska Bistrica, Ljubljanska ulica 16, Slovenska Bistrica
 Sevnica, Trg svobode 1, Sevnica
 Murska Sobota, Slovenska 27, Murska Sobota
 Celje, Stanetova 31, Celje
 Velenje, Prešernova cesta 10, Velenje
 Šentjur, Drofenikova 15, Šentjur pri Celju
 Slovenj Gradec, Podgorska cesta 2, Slovenj Gradec
 Radlje ob Dravi, Koroška cesta 61/a, Radlje ob Dravi
 Ravne na Koroškem, Prežihova ulica 3, Ravne na Koroškem

Retail network – Central region

Branches: Postojna, Tržaška cesta 1, Postojna
 Pivka, Kolodvorska 14, Pivka
 Ilirska Bistrica, Bazoviška 18, Ilirska Bistrica
 Rotonda, Dunajska 165, Ljubljana
 Slovenska, Slovenska 52, Ljubljana
 Trzin, Planjava 4, Trzin
 Kamnik, Ljubljanska cesta 4/a, Kamnik
 Logatec, Sončni log 1, Logatec
 Brdo, Tehnološki park 18, Ljubljana
 Grosuplje, Adamičeva 3/a, Grosuplje
 Kočevje, Trg zbora odposlancev 12, Kočevje
 Kranj, Likozarjeva 1, Kranj
 Radovljica, Kranjska cesta 18, Radovljica
 Jesenice, Delavska ulica 1, Jesenice
 Novo mesto, Novi trg 5, Novo mesto
 Trebnje, Stari trg 2/a, Trebnje
 Črnomelj, Ulica Otona Župančiča 2, Črnomelj

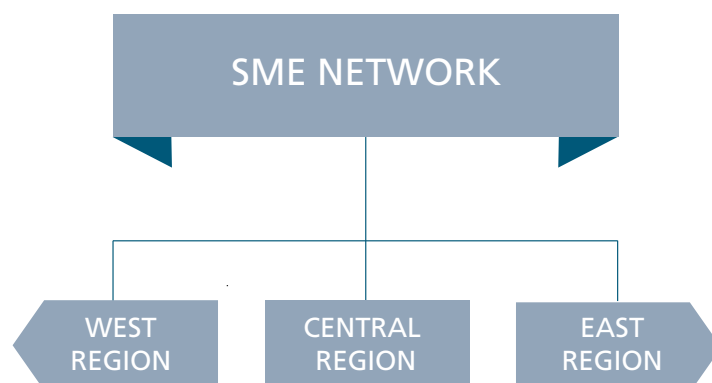
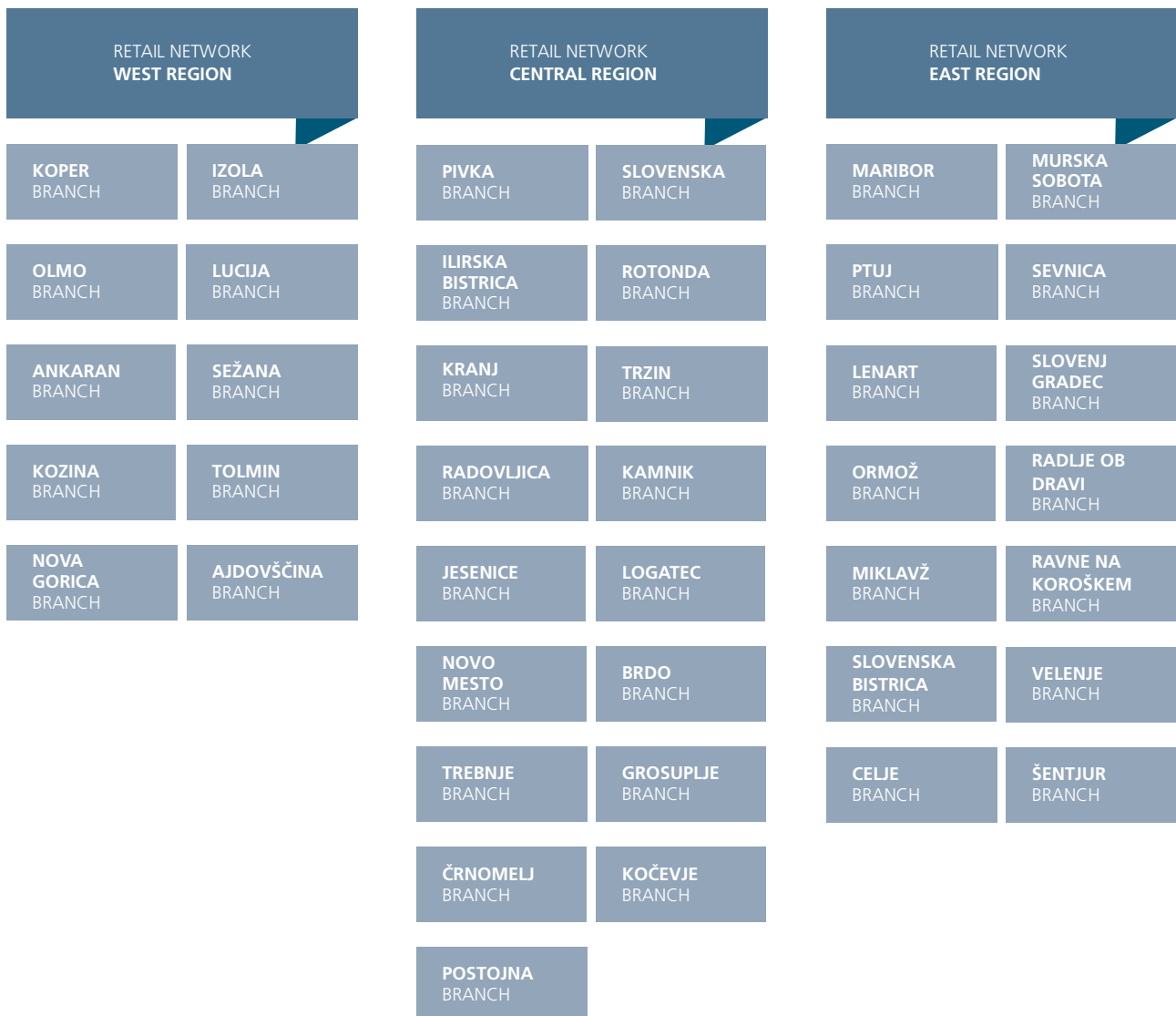
List of regions – SME network:

West Region, Pristaniška ulica 14, Koper | **Central Region,** Slovenska 54, Ljubljana | **East Region,** Heroja Bračiča 6, Maribor

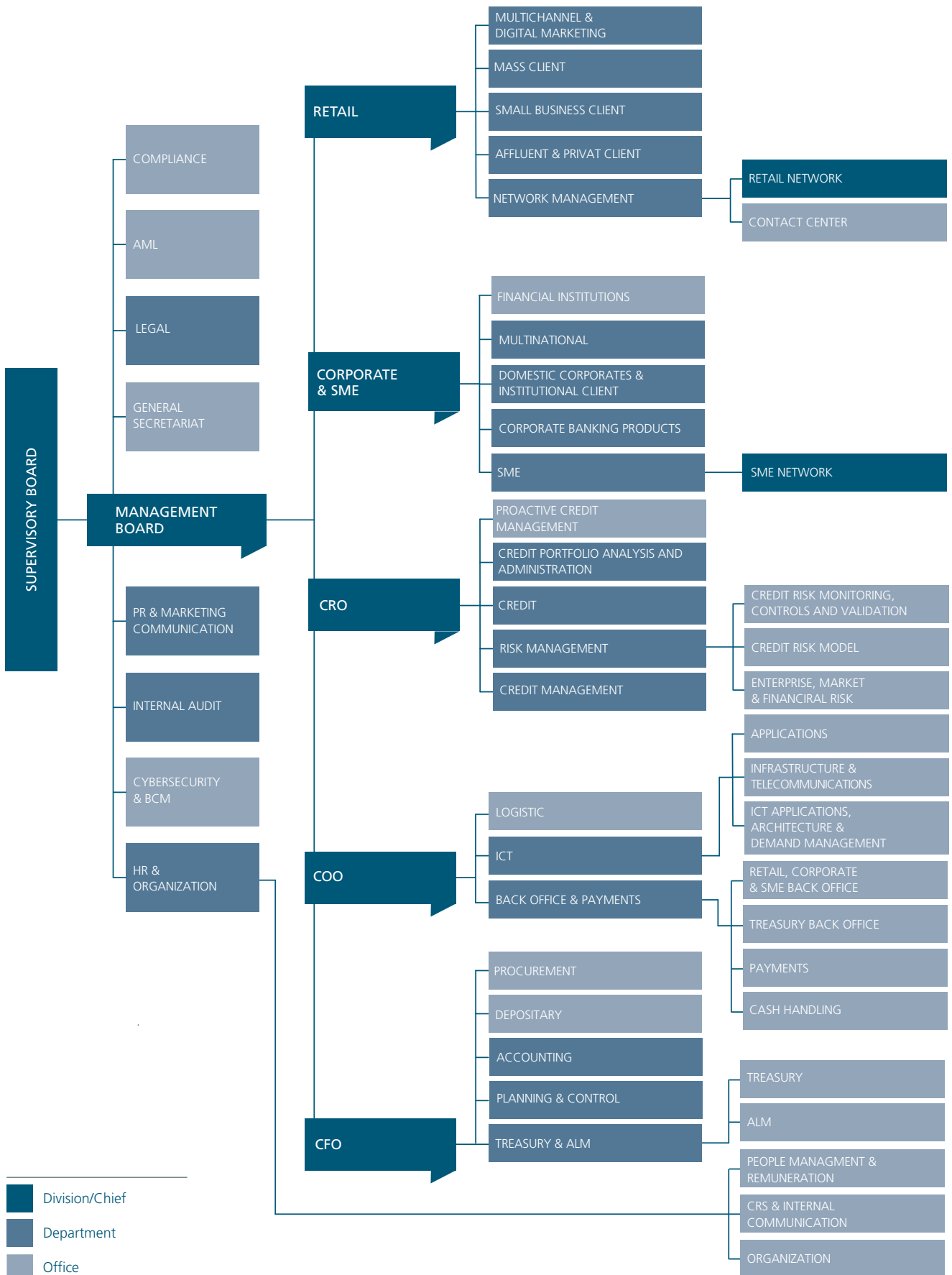
The Bank does not have business-organizational units in foreign markets.

13. COMMERCIAL TERRITORIAL UNIT SCHEME

RETAIL NETWORK (SMALL BUSINESS and INDIVIDUALS)



14. INTERNAL ORGANISATION CHART



- Division/Chief
- Department
- Office

15. THE CORPORATE GOVERNANCE STATEMENT

The corporate governance statement of Banka Intesa Sanpaolo d.d.

In accordance with the fifth paragraph of Article 70 the Companies Act – ZGD-1 (Official Gazette of the Republic of Slovenia, No. 55/2015), Banka Intesa Sanpaolo d.d., gives the following

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement is an integral part of the annual report for 2022 and it is available on the website of the company <http://www.intesasanpaolobank.si/>

1. The corporate governance code that Banka Intesa Sanpaolo d.d. decided to use

Banka Intesa Sanpaolo d.d. hereby declares that for governance it observes the effective legislation, regulations, other legislative and secondary legislative acts and internal rules and instructions.

The company has a two-tier system of governance under which the company is run by the management board; its operations are supervised by the supervisory board. The bodies of the company are the general meeting of shareholders, the supervisory board and the management board.

2. Deviations from corporate governance codes

Banka Intesa Sanpaolo d. d. for governance does not deviate from the regulations stated in the first point of this corporate governance statement. Banka Intesa Sanpaolo d.d. does not use any special corporate governance codes, since in that segment it is bound by the codes of the parent bank. Of very high importance for its operations, also with regard to governance of the company, are the following internal acts:

- Code of Ethics of Banka Intesa Sanpaolo d.d. (<http://www.intesasanpaolobank.si/>)
- Code of Conduct in Banka Intesa Sanpaolo d.d.

3. The description of the principal characteristics of internal control and corporate governance systems in the company in connection with the financial reporting procedure.

With the aim of ensuring appropriate financial reporting procedures, Banka Intesa Sanpaolo d.d. pursues the Rules of procedure on accounting and accounting policies of the group. Accounting control in the broader sense is provided through the system of internal controls. It shall encompass adequate and effective internal controls as well as their implementation and monitoring. Internal control system covers all significant risks to which the bank is exposed and includes checking of administrative and accounting procedures, verification of bank's compliance with applicable legislation, standards, codes and internal rules and verification of information security. The descriptions of business processes, including control activities for major areas of the bank's business, namely landing, accepting deposits, current accounts and trading business, are laid down. The processes related to financial reporting or composition of financial statements (daily and monthly closing of the general ledger) are also set out.

The principal identified risks in this area are managed with an appropriate system of authorisations, delimitation of duties, compliance with the accounting rules, documenting of all business events, the custody system, posting on the day of a business event, inbuilt control mechanisms in source applications and archiving pursuant to the laws and internal regulations.

With an efficient controlling mechanism in the area of accounting reporting, the bank ensures:

- a reliable decision-making and operational support system,
- accurate, complete and timely accounting data and the resulting accounting and other reports of the Bank, and
- compliance with legal and other requirements.

In compliance with the Banking Act, the independent Internal Audit Department is established. The Internal Audit Department performs the tasks of internal auditing and reports on its proceedings to the corporate bodies of the bank.

Risk management is implemented in accordance with the banking legislation, guidelines of the parent bank and internal policies and procedures in which are laid down the principles and guidance of risk management.

The master business strategy and accepted principles of the bank's propensity to assume risk, which include the monitoring of risk profile and of specific risks and internal policies of risk management, approved by the bank's Management Board and Supervisory Board, lay down the objectives and the guidelines concerning the taking of risk and the methods and criteria of risk management.

4. The data on principal shareholders

The data on major direct and indirect ownership of the securities issued by Banka Intesa Sanpaolo d.d. within the meaning of achieving qualifying holding as specified in the Takeover Act.

The ownership structure of Banka Intesa Sanpaolo d.d.

5. The data on the holders of securities that give special controlling rights

Shareholders	Equity holding in per cent	
	31.12.2022	31.12.2021
Privredna banka Zagreb d.d.	51.0%	51.0%
Intesa Sanpaolo S.P.A.	48.1%	48.1%
Minority shareholders	0.9%	0.9%

As at 31. 12. 2022, no security issued by Banka Intesa Sanpaolo d.d. gives any special controlling rights.

6. The data on restrictions on voting rights

In relation to the shares issued by Banka Intesa Sanpaolo d.d., as at 31.12.2022, there are no restrictions on voting rights.

7. Information on the appointment or replacement of members of the management or supervisory bodies and amendments to articles of association

In accordance with the provisions laid down in the articles of association of Banka Intesa Sanpaolo d.d., in the text in force as of 31. 12. 2022, the members of the supervisory board are elected by simple majority and discharged by the general meeting of shareholders with a two-thirds vote of the represented share capital. The management board is appointed and dismissed by the supervisory board with simple majority of votes. The general meeting of shareholders decides on amendments to the articles of association with a two-thirds vote of the represented share capital.

8. Information on authorisations to the members of management

The members of management do not have any special authorisations.

9. Information on the general meeting of shareholders of Banka Intesa Sanpaolo d.d.

In accordance with the provisions of the Companies Act (ZGD-1), the general meeting of shareholders is the ultimate body of the company. The shareholders exercise their management rights in matters of the company at the general meeting of shareholders of the company, where they pass fundamental and statutory resolutions. Convening the general meeting of shareholders is regulated by the articles of association of the company in accordance with effective legislation. The general meeting of shareholders is convened by the management board on its own initiative, at the request of the supervisory board or at the request of the shareholders of the company that represent at least 5% of the share capital of the company. The management board convenes the general meeting of shareholders of the company no less than one month before the meeting. The right to attend the general meeting of shareholders of the company is granted to all the shareholders registered in the shareholder's register as shareholders of the company at the end of the seventh day prior to the general meeting of shareholders, as well as to their proxies and authorized persons, and who apply to the company to attend the meeting no later than at the end of the fourth day prior to the general meeting of shareholders.

At the general meeting of shareholders of Banka Intesa Sanpaolo d.d. held on 16 June 2022, the shareholders were notified of the annual report of the company for the financial year 2021, the opinion of the independent auditor to the annual report, the report of the supervisory board to the annual report and remuneration of the members of the supervisory board in 2021. With regard to the remuneration of the management board, the shareholders authorized the supervisory board to decide on paying out the 2021 Performance Bonuses to those employees whose professional activities have a significant impact on the risk profile of the bank as identified by Banka Intesa Sanpaolo d.d., including the members of the management board taking into consideration all applicable regulations and internal acts. The shareholders gave discharge to the management board and to the supervisory board and passed the resolution on the distribution of the accumulated profit (the profit available for distribution from the profit of the financial year 2021 was allocated to pay dividends, the remaining portion was allocated to the formation of Statutory Reserves).

10. The data on the composition and functioning of the management or supervisory bodies and their committees

The supervisory board

The Supervisory Board of Banka Intesa Sanpaolo d.d. is composed of seven members: Mr Giancarlo Miranda (independent member) as the chairman, four representatives of Privredna banka Zagreb d.d. and the remaining two representatives of the Intesa Sanpaolo banking group.

In 2022, the 3-year term of office of the Supervisory Board expired. On 16 June 2022, at the Annual General Shareholders Meeting, the shareholders of Banka Intesa Sanpaolo d.d. re-appointed all members for the following 3-year term of office.

The members of the Supervisory board as of 31. 12. 2022 are:

Giancarlo Miranda	<i>chairman</i>
Alessio Cioni	<i>deputy chairman</i>
Antonio Bergalio	<i>member</i>
Amina Carnabuci	<i>member</i>
Miroslav Halužan	<i>member</i>
Andrea Pavlović	<i>member</i>
Andrea Tondo	<i>member</i>

There were four committees of the Supervisory Board at the bank at the end of 2022: The Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee.

Audit Committee

The members of the Audit Committee as of 31.12.2022 are:

Amina Carnabuci	<i>chairman</i>
Antonio Bergalio	<i>member</i>
Andrea Tondo	<i>member</i>

Risk Committee

The members of the Risk Committee as of 31.12.2022 are:

Andrea Pavlović	<i>chairman</i>
Amina Carnabuci	<i>member</i>
Giancarlo Miranda	<i>member</i>

Nomination Committee

The members of the Nomination Committee as of 31.12.2022 are:

Giancarlo Miranda	<i>chairman</i>
Alessio Cioni	<i>member</i>
Miroslav Halužan	<i>member</i>

Remuneration Committee

The members of the Remuneration Committee as of 31.12.2022 are:

Miroslav Halužan	<i>chairman</i>
Antonio Bergalio	<i>member</i>
Alessio Cioni	<i>member</i>

Description of the diversity policy implemented concerning participation in the management and supervisory bodies

The Nomination Committee is responsible for selecting and recommending candidates for members of the Management Bodies to the Supervisory Board, or to the Bank's General Meeting of Shareholders respectively.

When selecting and recommending the candidates, the Nomination Committee shall assure the aim of achieving diversity within the Management Body, including the appropriate representation of both genders, is being followed as much as possible.

To contribute to appropriate representation of both genders, the Nomination Committee shall take into consideration the following quotas of underrepresented genders:

- Supervisory Board: 1/5 of the total composition, but at least 1 representative of the underrepresented gender;
- Management Board: at least 1 representative of the underrepresented gender.

The Management Board

The Management Board of Banka Intesa Sanpaolo d.d. has four Members.

In 2022, the composition of the Management Board changed. The Supervisory Board appointed two new Members of the Management Board. Mr Matija Birov was appointed on 1 February 2022, and he replaced the previous Member of the Management Board, Ms Irena Džaković. His term of office started on 2 May 2022. Mr Ivan Ivičić resigned from his position as Member of the Management Board effective as of 31 March 2022. He was replaced by Ms Mojca Kovač. She was appointed by the Supervisory Board on 21 April 2022; her term of office started on 20 July 2022.

Members of the Bank's Management Board as of 31.12.2022:

Jozef Kausich	<i>President</i>
Matija Birov	<i>Member</i>
Drago Kavšek	<i>Member</i>
Mojca Kovač	<i>Member</i>

Koper, 23 February 2023

Supervisory board
of Banka Intesa Sanpaolo d. d.

Management board
of Banka Intesa Sanpaolo d. d.

16. REPORT ON THE RELATIONS WITH CONTROLLING COMPANY

Pursuant to Article 545 of the Companies Act-1, the company's management submitted a report on relations with the controlling company in which it found that Banca Intesa Sanpaolo d.d., on the basis of circumstances known to the management at the time of legal transactions with the parent company and its affiliates, was not disadvantaged, and in 2022 no legal transaction was performed or no act was committed or abandoned that would cause damage to the company or this would be due to the influence of the parent company.

17. NEW CIRCUMSTANCES AFTER BALANCE SHEET DATE

After the balance sheet date, until the acceptance of the Annual Report by the management, no business events were identified that would affect the financial statements.



Financial
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REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2022

In accordance with the third paragraph of Article 272 and Article 546.a of the Companies Act (ZGD-1), the Management Board of Banka Intesa Sanpaolo d.d. has prepared and forwarded to the members of the Supervisory Board the following documents for review and approval:

- The Audited Annual Report for the Financial Year 2022,
- The Auditor's Report drawn up by the independent auditor ERNST & YOUNG, Limited Liability Company, Ljubljana, Slovenia,
- The proposal for the appropriation of profit, and
- The report on the relations of the Bank with the controlling company and its affiliates, including the Auditor's Report drawn up by the independent auditor ERNST & YOUNG, Limited Liability Company, Ljubljana, Slovenia.

Pursuant to the provisions laid down in Article 282 and Article 546 of the Companies Act, the Supervisory Board has examined the received documents and hereby presents its findings to the Annual General Meeting of Shareholders of Banka Intesa Sanpaolo d.d. (hereinafter referred to as: AGM) as follows

R E P O R T

1. The manner and scope of verification of the management of the Bank during the financial year 2022

The Supervisory Board performed its duties in accordance with its principal function, i.e. supervision of the Bank's business run by the Management Board and the Bank's performance. In the course of the financial year 2022, the Supervisory Board of the Bank met ten times at ordinary meetings and eight times at extraordinary meetings in which it examined:

- strategic and operating matters in relation to the Bank's development,
- implementation of the business policy and current results posted by the Bank,
- annual and other reports of the Management Board, as well as other important issues relevant to the Bank's business;

and voted:

- on proposed business deals where, due to being in excess of the limit on exposure determined for a particular customer, the Supervisory Board of the Bank has to grant its prior approval,
- on giving consent to the disclosures for the Bank for 2022 and to the quarterly disclosures, ICAAP and ILAAP Package, Risk Management Strategy 2022, and

- on other matters of interest.

The Supervisory Board:

- gave prior approval to the budget for the financial year 2022, acknowledged elements of prudence introduced in key assumptions behind the revised budget which were driven by the ISP Group and started the budget process and the relevant business-strategy assessment for the period 2022 - 2025;
- monitored and assessed on a regular basis the fulfilment of the goals set out within the policy framework and the bank's adherence to the Risk Appetite Framework established by competent governance bodies of the bank and of the Group;
- confirmed financial data reported for the preparation of consolidated annual accounts and other consolidated reports of ISP Group for the year 2021;
- monitored NPL trends;
- gave its consent to the target values for the NPL ratios 2022 – 2024 and to the revised plan;
- adopted the annual Recovery Plan of the Parent Company for Banka Intesa Sanpaolo d.d. in the part containing the measures which shall be used by the Bank to restore its own financial position in the event of a significant deterioration;
- examined and approved the annual report of the Internal Audit Department for 2021 and discussed the annual plan of the Internal Audit assignments for the year 2022 and gave consent to the 2022 Audit Plan and Multi-Year Audit Plan;
- examined the annual report on the carrying out of internal controls and measures that arise from the regulations on the prevention of money laundering and terrorist financing, the implementation of restrictive measures in 2021 and the semi-annual report for the first half of 2022;
- examined the annual report of the Compliance Office for 2021 with the action plan for 2022 and the semi-annual report for the first half of 2022;
- verified the activities and reviewed the findings of the Internal Audit Department during the current year;
- approved the organizational changes;
- took note of the resignation of a MB Member, appointed two new members and extended the mandate to the MB member responsible for the Corporate Division for the period of three years;
- took note of the appointment of the Chief Operational Officer;
- at the June Annual General Meeting it proposed an extension of the three-year mandate to the current members of the Supervisory Board and re-elected the current Chairman and Deputy Chairman of the Supervisory Board;
- took note of the resignation notice of two members of the Supervisory Board later on and proposed to the Bank's shareholders to elect two new members of the Supervisory Board at the extraordinary General Meeting in January 2023;
- confirmed the annual assessment of the collective suitability of the Management Board and Supervisory Board and the individual assessments of MB and SB candidates;

- approved the Guidelines on Remuneration, Incentive and Identification of Staff that have a material impact on the Risk Profile of Intesa Sanpaolo Group; the Risk Takers List as of 31 December 2021 and as of 3 January 2022; the 2021 Performance Scorecards, Performance Bonus proposals and 2022 Goal Settings for the Members of the Management Board and the Heads of Control Functions;
- approved the 2022-2025 Performance Share Plan (Long-Term Incentive Plan);
- took note of the minutes of the committees of the Supervisory Board;
- took note of the findings of the Bank of Slovenia regarding the compliance of the Bank's operations with the provisions of the Consumer Credit Act (ZPotK-2), Payment Services, Services for Issuing Electronic Money and Payment Systems Act (ZPlaSSIED) and Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication i.e. applying the strong customer authentication procedures in case of card payments in e-commerce and ensuring access to payment accounts as well as monitored the Bank's action plan to eliminate the breaches;
- monitored the Bank's capital adequacy;
- monitored the RAF key-risk indicators;
- took note of the SREP process and reviewed its main outcomes;
- took note and reviewed the reports with respect to compliance with MREL requirements
- analysed Tableau the Bords;
- monitored the execution of the planned activities for the prevention of the breach of large exposure limits which were completed during the year;
- monitored the high-level plan on the activities of the Risk Management function;
- monitored the implementation of the Bank of Slovenia's recommendations;
- confirmed updated policies in the AML, financial portfolio and compliance area as well as Diversity & Inclusion Principles;
- addressed other issues in accordance with powers conferred upon it under law and the Articles of Association.

In 2022, the 3-year term of office of the Supervisory Board expired. On 16 June 2022, at the Annual General Shareholders Meeting, the Shareholders Assembly of Banka Intesa Sanpaolo d.d. re-elected the same members of the Supervisory Board for a three-year mandate.

The committees of the Supervisory Board, and more specifically: the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee provided the Supervisory Board with substantive support in 2022. The Supervisory Board's committees met regularly and discussed the topics within their respective competences and responsibilities.

The materials for the meetings were provided to the members of the Supervisory Board in compliance with the Rules of Procedure governing the discharging of the functions of the Supervisory Board and those functions were discharged in line with the aforementioned document / internal act. The Supervisory Board assesses that it had at its disposal timely and adequate data, reports and information, as well as additional clarifications and explanations when required at meetings it held, so as to be able to monitor with due attention throughout the financial year the Bank's operations and its risk profile, alongside with the internal audit function, and to supervise the running of the Bank. In February 2023, the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2022, arising from the audited accounting statements.

The Supervisory Board hereby states that all its members have examined carefully the Annual Report, the Report of the Certified Auditor, the Financial Statements, the Notes to the Financial Statements, and the other notes presented therein. Furthermore, the Supervisory Board assesses that the Annual Report of the Management Board gives a true and fair view of the business events and provides comprehensive information as to the operations performed during the past financial year, thus complementing and expanding the information already presented to the Supervisory Board in the course of the year. Accordingly, in its day-to-day business, the Bank has maintained a high level of operational safety and has effectively managed the risks it was exposed to. Therefore, the Supervisory Board has assessed that considering the circumstances under which the Bank conducted its business, the Bank's management and performance were successful during the period under review.

Furthermore, the Supervisory Board also assessed that the work of the Internal Audit Department was well planned and effective, and supported the activities of the Management Board, Audit Committee and assisted the Supervisory Board when forming opinions and making assessments.

2. The position with regard to the Independent Auditor's Report

The Supervisory Board hereby concludes that the external auditor has expressed in the Auditor's Report an opinion in relation to the financial statements prepared by Banka Intesa Sanpaolo d.d. On this basis, the Supervisory Board hereby adopts the following

position:

that the Supervisory Board has no objection to the Report of the auditor ERNST & YOUNG d.o.o., Slovenija, limited liability company.

3. Approval of the Annual Report for the financial year 2022

On the basis of the insight into operations carried out by the Bank in the course of the financial year and after due examination of the audited Annual Report and the unqualified opinion stated in the external auditor's report, the Supervisory Board hereby

approves and adopts

The Annual Report of Banca Intesa Sanpaolo d.d. for the Financial Year 2022.

4. Approval of the proposal on profit appropriation

The members of the Supervisory Board have analysed the proposal regarding the appropriation of the balance-sheet profit. After due examination of the proposal, the Supervisory Board hereby fully

agrees

with the proposal of the Management Board on the appropriation of the profit.

5. Confirmation of the Report on the relations of the Bank with the controlling company and its affiliates for 2022

5.a. Position with regard to the Auditor's Report

The Supervisory Board hereby establishes that the external auditor in its report has given the following opinion regarding the Report on the relations of the Bank with the controlling company and its affiliates:

» Based on the work performed and evidence obtained, nothing has come to our attention that causes us to believe:

- that the presentations made in the Report on Related Party Transactions for the year ended 31 December 2022, are not in all material respects accurate;
- that considering circumstances known at the time the legal transactions presented in the Report were performed, the value of the transactions to the company was, in a material respect disproportionately high;
- that there are circumstances relating to other actions represented in the Report, which point to a significantly different judgement from the one made by the management, all in consideration of the aforementioned criteria«

The Supervisory Board hereby adopts the following

position:

The Supervisory Board does not have any objection with regard to the Report of the audit firm ERNST & YOUNG d.o.o., Slovenia.

5.b. Statement of the Management Board of the Bank with regard to the Report on the relations of the Bank with the controlling company and its affiliates

The Management Board of Banka Intesa Sanpaolo d.d. with regard to the Report on the relations of the Bank with the controlling company and its affiliates has declared the following:

»In this report we declare that all legal transactions with the controlling company and its affiliates, which were concluded and/or realized in 2022, were concluded and/or realized under the conditions and in the manner applicable in the subsidiary that would have been applied by concluding and realizing legal transactions with independent third parties.

In accordance with the above, we declare that the subsidiary in legal transactions concluded and/or realized in the financial year 2022 with controlling company and its affiliates in circumstances known to us at the time when the legal transaction was concluded and/or realized, the bank received for each legal transaction appropriate reimbursement and thus was not deprived, so we did not request or receive any compensation from the controlling company and its affiliates. In addition, we declare that the subsidiary in the financial year 2022 did not abandon actions on the initiative or in the interest of the controlling company, on the basis of which it would be disadvantaged.

The overview of legal transactions as presented in the report is complete and includes all legal transactions recognized by the company in the accounting records for 2022.

The Report on the Relations of Banka Intesa Sanpaolo d.d. with Controlling Company and its Affiliates, dated 23 February 2023 complies with the principles of diligence and credibility«

Based on the disclosures and information regarding the Bank's operations during the year under review and in-depth examination of the Report on the relations of the Bank with the controlling company and its affiliates and the unqualified opinion of the independent auditor, the Supervisory Board hereby

confirms and approves

The Report on the relations of Banka Intesa Sanpaolo d.d. with the controlling company and its affiliates.

Ljubljana, 24 February 2023

Chairman of the Supervisory Board

Giancarlo Miranda

A handwritten signature in blue ink, appearing to be 'G. Miranda', written over the printed name 'Giancarlo Miranda'.

Independent auditory report



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INDEPENDENT AUDITOR'S REPORT

This is a translation of the original report in Slovene language

To the Shareholders of Banka Intesa Sanpaolo d.d.

Opinion

We have audited the financial statements of Banka Intesa Sanpaolo d.d. ("the Bank") which comprise the statement of financial position as at 31 December 2022, the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022 and its financial performance and 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 (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

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

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

Credit risk and impairment of loans and advances to customers including impact uncertain macroeconomic environment

The carrying amount of loans and advances to customers as of 31 December 2022 amounts to EUR 2,392 million or 65% of the total assets of the Bank. Impairment allowances on Loans and advances to customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date.

For defaulted loans that are considered to be individually significant the impairment assessment is based on the knowledge of each individual debtor, taking into consideration the fair value of the related collateral as well as expected recovery based on going concern principle. Related impairment allowances are determined on an individual basis by means of a discounted cash flows forecasts containing high level of complexity and subjectivity. Stage 3 gross balance

We understood and evaluated the impairment assessment processes for loans as well as the processes for identifying default events within the loan portfolios, including design and operating effectiveness of controls relevant to our audit.

In addition to analytical procedures, we tested a sample of performing loans with characteristics that might imply a default event had occurred to assess whether default event had been identified by management and therefore whether there was a requirement to calculate an impairment provision using Stage 3 methodology.

For a selected sample of non-performing loans where impairment allowance is assessed on individual basis, we assessed the models, assumptions and data



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of loans and advances to customers at 31 December 2022 is EUR 29.2 billion and total provisions are EUR 2.7 billion (45% of total provisions for loans and advances to customers).

Provisions for loans and advances to customers in Stage 1 and Stage 2 are determined based on complex models and parameters used in those models (i.e. life time probability of default ("PD") and loss given default ("LGD")), identification of significant changes in credit risk, inclusion of forward-looking elements and segmentation of exposures), which all involve significant management assumptions and estimates. Stage 1 and Stage 2 combined gross balance of loans and advances to customers at 31 December 2022 is EUR 2.4 billion and total provisions EUR 27.2 million.

Additional credit impairments in the total amount of EUR 2.9 million were established in 2022 on basis of management overlays due to macroeconomic uncertainty by reclassification of Private individuals exposures whose creditworthiness is expected to decrease the most due to rising inflation and interest rates into Stage 2.

This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires the application of significant judgement and use of subjective and complex assumptions by management.

underlying the impairment identification and quantification. We understood the latest developments at the borrower and considered whether key judgments were appropriate given the borrowers' circumstances.

We also re-performed management's impairment calculation for mathematical accuracy. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.

In respect of statistical models that are used for the estimation of credit risk related impairment losses of Stage 1 and Stage 2 exposures, we involved credit risk specialists in evaluation of the model documentation and other related evidence such as models' governance, segmentation policy, expected credit loss estimation process and assessment of their compliance with IFRS 9. We also reviewed changes in risk models implemented in the current period. We evaluated the application of the models through the recalculation for mathematical accuracy of credit risk related impairment losses, allowances and provisions defined by IFRS 9. We tested the days past due counter and consistent application of staging criteria in relation to the effect on the staging classification of the exposures.

Furthermore, we reviewed how the Bank incorporated the macroeconomic uncertainty in calculation of collective provisions. We engaged credit risk specialists to review forward looking information ("FLI") and input parameters used and to assess if macroeconomic uncertainty was adequately reflected on the PD and the FLI. We also reviewed Bank's management overlays and assessed their adequacy including assumptions and judgements used.

We also considered the adequacy of the disclosures, 2.4.7. Impairment of financial assets, 3.3. Credit risk, 16. Impairments, 25. Loans and advances to customers, in the notes to the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

Other information comprises the information included in the Annual Report of the Bank other than the financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, and those in charge of governance for the financial statements

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

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

Those in charge of governance are responsible for overseeing the Bank's financial reporting process and to approve the annual report.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA 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 financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;



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

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

From the matters communicated with those in charge of governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

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

Appointment and Approval of Auditor

We were appointed as auditors of the Bank at the general meeting of shareholders of Banka Intesa Sanpaolo d.d. on 8 June 2021, the president of the supervisory board has signed the audit agreement on 29 September 2021. The agreement was signed for the period of 9 years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for two years. Janez Uranič and Nena Cvetkovska are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

Consistence with Additional Report to Audit Committee

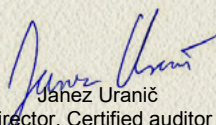
Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on the same date as the issue date of this report.

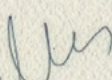
Non-audit Services

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 were provided by us to the Bank and we remain independent from the Bank in conducting the audit.

In addition to statutory audit services and services disclosed in the Annual Report and in the financial statements, no other services which were provided by us to the Bank.

Ljubljana, 23 February 2023


 Janez Uranič
 Director, Certified auditor
 Ernst & Young d.o.o.
 Dunajska 111, Ljubljana


 Nena Cvetkovska
 Certified auditor

ERNST & YOUNG
 Revizija, poslovno
 svetovanje d.o.o., Ljubljana 1

Statement of management's responsibilities

The Management Board approved the Bank's financial statements the applied accounting policies and notes to the financial statements for public disclosure.

The management is responsible for preparing financial statements for each financial year that present fairly the state of affairs of the Bank as at the end of the financial year and of the profit or loss for that period.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2022. The management also confirms that the financial statements have been prepared on the going concern basis and in accordance with the applicable laws and International Financial Reporting Standards, as adopted by the EU.

The management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and to prevent and detect fraud and other irregularities.

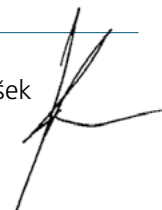
In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

Koper, 23 February 2023

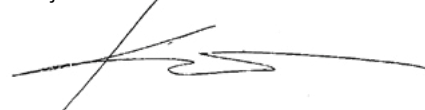
Member
Matija Birov



Member
Drago Kavšek



Member
Mojca Kovač



Financial statements

1. INCOME STATEMENT

(in thousands of euros)

	Notes	For the year ended 31 December	
		2022	2021
Interest income calculated using effective interest rate	4	52,718	39,847
Other interest income	4	66	144
Interest expenses	4	(4,239)	(4,054)
Net interest income		48,545	35,937
Dividend income	5	166	118
Fee and commission income	6	41,548	39,523
Fee and commission expenses	6	(10,610)	(10,506)
Net fee and commission income		30,938	29,017
Net gains or losses on financial assets and liabilities not measured at fair value through profit or loss	7	142	820
Net gains or losses on financial assets and liabilities held for trading	8	1,655	1,066
Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	29	378
Net gains or losses from hedge accounting	10	(80)	98
Net exchange differences		(595)	(383)
Net gains and losses on derecognition of non-financial assets	11	708	1,146
Other operating income	12a	1,265	1,393
Other operating expenses	12b	(432)	(525)
Administrative expenses	13	(43,889)	(40,825)
Cash contributions to resolution funds and deposit guarantee schemes		(2,927)	(2,585)
Depreciation and amortisation	14	(4,438)	(4,710)
Net modification gains or losses		1	(708)
Provisions	15,36	(7,336)	(352)
Impairments	16,25,26,30	(3,942)	659
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations	17	233	1,018
Total profit or loss before tax		20,043	21,562
Tax expense	18	(3,678)	(3,853)
Total profit or loss after tax		16,365	17,709
Basic earnings per share	19	30.85	33.39
Diluted earnings per share		30.85	33.39

The accompanying notes on pages 65 to 154 are an integral part of these financial statements.

2. STATEMENT OF OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	For the year ended 31 December	
	2022	2021
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	16,365	17,709
OTHER COMPREHENSIVE INCOME AFTER TAX	(2,308)	(935)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	218	(426)
Revaluation of properties	-	(617)
Actuarial gains on defined benefit pensions plans	1,004	(37)
Fair value changes of equity instruments measured at fair value through other comprehensive income	(851)	132
Income tax relating to items that will not be reclassified to profit or loss	65	96
ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	(2,526)	(509)
Debt instruments at fair value through other comprehensive income	(3,119)	(628)
- fair value gain on debt instrument at FVOCI	(7,679)	(2,520)
- realised gain on FVOCI financial assets transferred to profit or loss	4,560	1,892
Income tax relating to items that may be reclassified to profit or loss	593	119
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	14,057	16,774

3. STATEMENT OF FINANCIAL POSITION

(in thousands of euros)

	Notes	As at 31 December	
		2022	2021
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	20	811,482	881,289
Financial assets held for trading	21	1,586	347
Non-trading financial assets mandatorily at fair value through profit or loss	22	2,555	3,782
Financial assets at fair value through other comprehensive income	23	258,006	235,559
Derivatives - hedge accounting	21	45,298	547
Financial assets at amortised cost:		2,558,670	2,301,829
- loans and advances to banks	24	151,525	107,843
- loans and advances to customers	25	2,391,581	2,185,555
- other financial assets	26	15,564	8,431
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(26,292)	4,523
Tangible assets		29,684	31,847
- property, plant and equipment	27	28,384	30,267
- investment property	28	1,300	1,580
Intangible assets	29	7,396	6,860
Tax assets		-	-
Other assets	30	2,654	4,050
Non-current assets classified as held for sale	31	1,454	1,940
Total assets		3,692,493	3,472,573
LIABILITIES			
Financial liabilities held for trading (derivatives)	21	1,496	324
Financial liabilities measured at amortised cost:		3,347,724	3,117,568
- deposits from banks and central banks	32	44,634	490
- deposits from non-bank customers	33	3,207,760	2,788,959
- loans from banks and central banks	34	73,066	299,280
- other financial liabilities	35	22,264	28,839
Derivatives – hedge accounting	21	-	12,605
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	526
Provisions:		12,050	5,987
- provisions for liabilities and charges	36	10,048	2,981
- retirement benefit obligations	37	2,002	3,006
Tax liabilities:		2,515	3,731
- current tax liabilities		175	716
- deferred tax liabilities	38	2,340	3,015
Other liabilities	39	4,115	5,180
Total liabilities		3,367,900	3,145,921
Share capital	40	22,173	22,173
Share premium	40	7,499	7,499
Accumulated other comprehensive income	41	12,821	15,129
Reserves from profit	42	264,149	263,081
Treasury shares		(49)	(49)
Retained earnings (including net profit for the current year)	42	18,000	18,819
Total equity		324,593	326,652
Total liabilities and equity		3,692,493	3,472,573

The accompanying notes on pages 65 to 154 are an integral part of these financial statements.

4. STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

For the year ended 31 December 2022								
	Notes	Share capital	Share premium	Accumulated other comprehensive income	Reserves	Retained earnings or loss (including income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD	41,42,43	22,173	7,499	15,129	263,081	18,819	(49)	326,652
Comprehensive income for the financial year after tax	-	-	-	(2,308)	-	16,365	-	14,057
Appropriation of (accounting for) dividends	-	-	-	-	-	(16,819)	-	(16,819)
Transfer of net profit to reserves from profit	-	-	-	-	836	(836)	-	0
Other movement*	-	-	-	-	232	471	-	703
CLOSING BALANCE FOR THE REPORTING PERIOD	41,42,43	22,173	7,499	12,821	264,149	18,000	(49)	324,593
DISTRIBUTABLE PROFIT for the financial year		-	-	-	-	16,018	-	16,018

* In 2022, the Bank increased its capital from management's rewards based on shares of the parent bank in the amount of EUR 232 thousand (market value of the shares allocated). In 2022, the Bank sold the shares measured at fair value through comprehensive income and consequently reverse the revaluation reserve of these investments in retained earnings (without passing through the income statement) in the amount of EUR 471 thousand.

(in thousands of euros)

For the year ended 31 December 2021								
	Notes	Share capital	Share premium	Accumulated other comprehensive income	Reserves	Retained earnings or loss (including income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD	41,42,43	22,173	7,499	16,064	254,507	16,376	(49)	316,570
Comprehensive income for the financial year after tax	-	-	-	(935)	-	17,709	-	16,774
Appropriation of (accounting for) dividends	-	-	-	-	(6,704)	-	-	(6,704)
Transfer of net profit to reserves from profit	-	-	-	-	15,278	(15,278)	-	-
Other movement*	-	-	-	-	-	12	-	12
CLOSING BALANCE FOR THE REPORTING PERIOD	41,42,43	22,173	7,499	15,129	263,081	18,819	(49)	326,652
DISTRIBUTABLE PROFIT for the financial year		-	-	-	-	16,836	-	16,836

* In 2021, the Bank disposed of shares measured at fair value through other comprehensive income and real estate measured at fair value. In this regard, the revaluation of these investments shown in accumulated other comprehensive income was derecognised and recognised directly in retained earnings (no roll out to income statement).

The accompanying notes on pages 65 to 154 are an integral part of these financial statements.

5. STATEMENT OF CASH FLOWS

(in thousands of euros)

	Notes	For the year ended 31 December	
		2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Total profit or loss before tax		20,042	21,562
Depreciation	14	4,438	4,710
Impairments / (reversal of impairments) of financial assets at fair value through other comprehensive income	16	9	(1)
Impairments / (reversal of impairments) of financial assets measured at amortised cost	16	3,933	(634)
Net (gains) / losses from exchange differences		595	383
Net modification (gains) / losses		-	708
Net (gains) / losses from sale of tangible assets		(708)	(1,146)
Net (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		(278)	(1,219)
Provisions		8,617	3,993
Cash flow from operating activities before changes in operating assets and liabilities		36,648	28,356
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		(239,738)	(191,363)
Net (increase) / decrease in financial assets held for trading		(1,239)	(173)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		1,227	136
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income		(21,999)	39,067
Net (increase) / decrease in loans and receivable measured at amortised cost		(201,491)	(235,744)
Net (increase) / decrease in assets-derivatives - hedge accounting		(13,936)	5,192
Net (increase) / decrease in other assets		(2,300)	159
Increases / (decreases) in operating liabilities		209,668	511,176
Net increase / (decrease) in financial liabilities held for trading		1,172	154
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost		221,313	522,915
Net increase / (decrease) in liability – derivatives – hedge accounting		(13,131)	(14,737)
Net increase / (decrease) in other liabilities		314	2,844
Cash flow from operating activities		6,578	348,169
Income taxes (paid) / refunded		(4,268)	(2,169)
Net cash flow from operating activities		2,310	346,000
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		3,051	8,421
Receipts from the sale of tangible assets		1,579	2,473
Receipts from non-current assets or related liabilities held for sale		1,472	5,948
Cash payments on investing activities		3,221	2,705
Cash payments to acquire tangible assets		1,057	607
Cash payments to acquire intangible assets		2,164	2,098
Net cash flow from investing activities		(170)	5,716
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash payments on financing activities		17,964	7,838
Dividends paid		16,819	6,704
Other cash payments related to leases		1,145	1,134
Net cash flow from financing activities		(17,964)	(7,838)
Effects of change in exchange rates on cash and cash equivalents		3,362	2,198
Net increase in cash and cash equivalents		(15,824)	343,878
Opening balance of cash and cash equivalents	44	872,455	526,379
Closing balance of cash and cash equivalents	44	859,993	872,455

(in thousands of euros)

	For the year ended 31 December	
	2022	2021
Operational cash flows of interest and dividends		
Interest paid	6,326	2,243
Interest received	51,371	43,765
Dividends received	166	118

As at 31 December 2022, the Bank did not have undrawn credit lines with other banks (2021: nil).

The accompanying notes on pages 59 to 174 are an integral part of these financial statements.

Notes to financial statements

1. GENERAL INFORMATION

Banka Intesa Sanpaolo d.d. is a public limited company with its head office at 14 Pristaniška Street, Koper/Capodistria (hereinafter referred to as Banka Koper d.d. or the Bank). Since 2002, Banka Koper d.d. has been a member of the Intesa Sanpaolo Group (originally SanpaoloIMI), one of the leading banking groups in Italy. As of 1 January 2007, the Sanpaolo IMI Group merged with Banca Intesa. Since July 2017, the Bank is also part of the Privredna Banka Zagreb banking group, which holds a 51% stake.

Intesa Sanpaolo d.d. was declared as Other Systemically Important Bank by the Bank of Slovenia's decision issued on 16 January 2020.

The Bank prepares its financial statements as at the last day of the calendar year.

The date of the Management Board statement shall be considered as the date on which the financial statements were approved.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the financial statements are set out below:

2.1 BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis of measurement

Financial statements have been prepared on a cost basis, except for the following items, which are measured at fair value:

- Financial instruments held for trading
- Hedge derivatives
- Financial asset at FVTPL
- Financial assets at FVOCI
- Land and buildings for classified as fixed assets and investment property
- Recognised financial assets designated as hedged items in qualifying fair value hedging relationship (which otherwise would have been measured at amortised cost)

The financial statements are presented in EUR (€), and all values are rounded to the nearest thousand euro, except when otherwise indicated.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

A more detailed disclosure is shown under chapter 2.4.7 Impairment of financial assets, 2.26 Accounting estimates and judgments in applying accounting policies and 3.3 Credit risk.

2.2 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in euros, which is the Bank's functional and presentation currency.

Recording foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as at FV through OCI, are included in the fair value reserve in equity.

Income and expenses arising on foreign currencies are translated at the exchange rate at the date of the transaction. Gains and losses resulting from buying and selling foreign currencies for trading purposes are reported in profit or loss as net gains or losses from trading of foreign currencies.

2.3 RELATED PARTIES

For the purposes of the financial statements, related parties include all entities that directly or indirectly, through one or more intermediaries, control or are controlled by, or are under common control with, the reporting enterprise. Related parties include parents, subsidiaries, fellow subsidiaries, associates of the reporting entity, members of the key management personnel and directors of the Banks and enterprises over which the key management personnel and directors of the reporting entity are able to exercise significant influence (participation in making financial and operating policy decisions of an enterprise).

2.4 FINANCIAL ASSETS AND LIABILITIES

2.4.1 Treatment of financial assets and liabilities in financial statements

Recognition and initial measurement

The Bank initially recognises loans and advances and deposits 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 ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue.

2.4.2 Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL.

A financial asset is measured at amortised cost 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 solely payments of principal and interest on the principal amount outstanding.

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 solely payments of principal and interest on the principal amount outstanding.

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. This election is made on an investment-by-investment basis and is determined in the Bank's Business Model, which is defined by Intesa Sanpaolo Group.

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.

Business model assessment

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 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 how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI test)

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 solely payments of principal and interest, 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 asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

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.

2.4.3 De-recognition of financial instruments

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 the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Gain/loss recognised from equity investment securities classified through OCI at the derecognition are not part of the income statement but go directly into retained earnings.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

2.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, 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 and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost **are not substantially different**, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.4.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.4.6 Fair value measurement principles

'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.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Since the application of IFRS 13 – Fair value measurement, the inputs used to measure fair value should be presented when classifying financial instruments in the three levels of fair value hierarchy:

- **Level 1 inputs:** Fair value measured using (unadjusted) quoted prices in active markets for identical assets or liabilities.
- **Level 2 inputs:** Fair value measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices from similar assets) or indirectly (i.e. derived from prices of similar instruments).
- **Level 3 inputs:** Fair value measured using inputs for the asset or liability that are not based on observable market inputs.

More detailed disclosure is shown under chapter 3.9 Fair value of assets and liabilities that are not measured at fair value.

2.4.7 Impairment of financial assets

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade', meaning government or corporate bonds with relatively low risk of default.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are

- due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Restructured exposures can be identified in both the performing and non-performing part of the portfolio. If the restructured receivable is included in the non-performing, it may be reclassified to the performing part when:

- the exposure is no longer considered impaired or defaulted,
- certain amounts have been repaid,
- one year has passed since the last identifiable event (restructuring, reclassification to non-performing part, repayment of the last amount due and unpaid, termination of the moratorium) and
- there were no outstanding amounts due or doubts about the full repayment of the exposure during the restructuring period.

The indication that the receivable has been restructured shall be withdrawn when:

- at least a two-year trial period has elapsed since (taking into account the latter):
 - the last restructuring measure has been introduced, or
 - the restructured exposure was considered performing;
- regular payments of principal or interest in a substantial total amount have been made for at least half of the trial period;
- no exposure during the trial period is more than 30 days in arrears

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset 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 contractual cash flows has been reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more in the amount of EUR 100 is considered impaired.

The Bank's definition of default has remained the same in the year 2021 despite of the global pandemic crisis. Nevertheless, special attention was given to the assessment of unlikeliness to pay for the obligors in the industries which have been affected by the crisis the most, for example Leisure and Tourism.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.

- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

2.5 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments fall into the following categories: forward-based, swap-based and option-based, are measured initially at fair value. Subsequent to initial recognition all derivatives are measured considering changes in fair value. To determine their fair value, derivative financial assets and financial liabilities are measured using quoted prices, discounted cash flow models or pricing models, as appropriate. All derivatives are carried at their fair value as assets when favourable to the Bank and as liabilities when unfavourable to the Bank.

Certain derivative financial instruments that provide effective economic hedges and are not qualified for hedge accounting under the specific accounting rules are therefore accounted for as derivative financial instruments held for trading purposes.

The best evidence of the fair value of a derivative financial instrument at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions of the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits/losses on Day 1; if not, profits/losses are not recognised on Day 1, but if and when such evidence becomes available or when the derivative is derecognised.

De-recognition of the derivatives occurs only when through a legal transaction that transfers ownership of a financial instrument to the buyer, the seller has also transferred substantially all the risks and future rewards of ownership of the financial instrument.

2.5.1 Hedge accounting

The Bank has not adopted the hedge accounting requirements of IFRS 9 but continued to apply hedge accounting requirements of IAS 39 Financial instruments: Recognition and Measurement.

The Bank uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges could refer to:

- Fair value hedge – a hedge of exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedge – a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;
- Hedge of a net investment in a foreign currency.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Bank will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are tested regularly throughout their life to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Fair value hedge

The Bank uses fair value hedge to cover exposure to changes in the fair value (in the view of changes of interest rates in the future) attributable to the different risk categories of assets and liabilities in the statement of financial position, or a portion of these or to cover portfolios of financial assets and liabilities.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a CCP by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

2.6 LOANS AND ADVANCES

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

2.7 SECURITIES

Securities in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

2.8 INTEREST

Effective Interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability, when they represent additional return of the financial instrument.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the amount at maturity of financial asset, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

2.9 FEE AND COMMISSION INCOME

Fees and commissions are generally recognised as the services are provided. Fees and commissions consist mainly of fees charged on payment services, credit cards, services and fund management on behalf of legal entities and citizens, together with commissions from guarantees. For loan commitments, the Bank charged the client for small administrative expenses for loan origination that cover just the process costs.

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.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

* A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, the Bank first applies IFRS 9 to separate and measure that part and on the residual apply IFRS 15.

2.10 NET GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

'Net trading income' comprises gains less losses related to trading assets and liabilities and includes all fair value changes, interest and foreign exchange differences.

2.11 INTANGIBLE ASSETS

Intangible assets encompass licences for computer software, patents, copyrights and other industrial property rights acquired, and development expenditures are carried in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on research and development and maintaining computer software is recognised in profit or loss as the expense is incurred. In circumstances when expenditure is directly associated with the development of computer software that will probably generate expected future economic benefits exceeding costs, expenditures are recognised as intangible assets. Directly attributable costs are capitalised as software development.

The amortisation method used to allocate the depreciable amount of an asset on a systematic basis over its useful life is the straight-line method. Amortisation begins when the asset is available for use.

The Bank reviews the amortisation period and the amortisation method for an intangible asset with a finite useful life at each financial year-end.

Intangible assets	Estimated useful lives in 2022	Estimated useful lives in 2021
Licence fees	2–4	2–4
Development expenditure	7	5
Computer software	4–7	4

In 2022, the Bank harmonized the depreciation rates with the rates used by the parent bank PBZ d.d., by lowering the rates for certain software and completely reducing the rates of internal development. The effect of the amortisation cost reduction related to this matter on annual basis amounted to EUR 597 thousand.

The main IT systems Bančno okence and DIGICAL are internally developed and included within intangible assets. For this type of intangible fixed assets, the estimated useful life is 7 years.

Gains and losses arising on de-recognition should be calculated as the difference between the asset's net disposal proceeds and its carrying amount and should be recognised in the income statement. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The assessment for impairment is carried out at least on yearly bases.

2.12 PROPERTY, PLANT AND EQUIPMENT

Tangible fixed assets are land, buildings, manufacturing plant, equipment and rights to use in case of leased fixed assets. Tangible fixed assets are measured at cost less depreciation, except for property, which is valued at fair value.

The cost of an item of property, plant and equipment comprises its purchase price after deducting trade discounts, including import duties and non-refundable purchase taxes, directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating (cost of transport, installation) and the cost of its dismantle, removal and restoration. The cost of interest related to the acquisition of an item of property, plant and

equipment is included in the cost of acquiring that item and capitalised.

The Bank measures a property, plant and equipment item acquired in exchange for a non-monetary asset or a combination of monetary and non-monetary assets at fair value.

The Bank assesses annually whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount exceeds the carrying amount, it is an indication that the asset is not impaired.

The Bank recognises subsequent costs in the carrying amount of an item of property, plant and equipment when it is probable that future economic benefits associated with the item will flow to the Bank. The costs of day-to-day servicing (repairs and maintenance) are recognised in profit or loss as incurred.

Depreciation charges are calculated by using the straight-line method. The depreciation rates are determined to allocate the value of items of property, plant and equipment over their estimated useful lives to expenses.

Assets in the course of transfer or construction are not depreciated until they are brought into use.

The residual value and the useful life of an asset is reviewed on a regular basis and, if expectations differ from previous estimates, the change(s) is accounted for as a change in an accounting estimate.

Property, plant and equipment	Estimated useful lives in 2022	Estimated useful lives in 2021
Buildings	16.6-33	16.6-33
Other investment in intangibles	20	20
Equipment	5	5
Motor vehicles	5	5
Computers and software	4	4
Rights to use	2 - 5	2 - 5

Any gain or loss on disposal of an item of property, plant and equipment determined as the difference between the proceeds and the carrying amount are recognised in profit or loss, determining operating profit.

2.13 INVESTMENT PROPERTY

Real estate owned for investment purposes (to obtain rental income or gains on the capital invested) is classified as "Investment property" based on IAS 40.

Investment property is initially measured at cost, which comprises, in addition to their purchase price, any costs directly attributable to the purchase and required for them to be operational. Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.

Subsequent to initial measurement, the investment properties are measured with the fair value method. All valuation effects are recognised in income statement within other income.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its initial cost value.

2.14 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The Bank classifies a non-current asset as held for sale (or disposal groups comprising assets and liabilities) assets that are expected to be recovered primarily through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and the sale should be expected to be completed within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Bank's accounting policies. Thereafter, the assets (or disposal group of assets and liabilities)

are measured at the lower of their carrying amount and fair value less cost to sell.

A non-current asset classified as held for sale is no longer depreciated. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in income statement. Gains are not recognised in excess of any cumulative impairment loss.

At reclassification back, on change of intent or if the conditions required by IFRS 5 cease to be applicable, the Bank does not restate comparative information in the balance sheet. Upon reclassification the valuation is adjusted in accordance with relevant standards, as if the reclassification had not occurred.

Although the sale of real estate lasts more than one year, the management of the Intesa Sanpaolo d.d. does not have intention to reclassified the remaining premises to the original portfolio. The sales activities are continuing intensively and are planned to be concluded in 2023.

2.15 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

2.16 DEPOSITS AND RECEIVED LOANS

Deposits and received loans are initially measured at fair value minus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

2.17 ACCOUNTING FOR LEASES

Determining whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

• The Bank as lessee

At inception of a contract, the Bank assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises, the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the borrowing interest rate for loans with similar maturity.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- 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 under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (EUR 5,000) and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Bank as lessor

When assets are leased under an operating lease, the Bank recognises rental income in the income statement on a straight-line basis over the period of the lease.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance leasing transactions is apportioned systematically over the primary lease period, reflecting a constant periodic return on the lessor's net investment outstanding.

2.18 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and balances held with central banks except for obligatory reserves, securities held for trading, loans to banks and debt securities not held for trading with original maturity up to 90 days.

2.19 PROVISIONS

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources embodying past economic benefits will be required to settle the obligation, and they can be reliably estimated.

2.20 FINANCIAL GUARANTEES

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 payments when due in accordance with the terms of a debt instrument. Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee liabilities are initially recognised in the financial statements at their fair value on the date the guarantee is given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the period, and the best estimate of the expenditure required to settle any financial obligation arising as the result of the guarantees at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the management's judgment.

2.21 INCOME TAX

Current income tax has been calculated in accordance with the local tax law and using the tax rate of 19%. Deferred income tax is calculated for all taxable temporary differences using the tax rate of 19%. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. The tax rates (and tax laws) that have been enacted by the end of the reporting date are used to determine deferred income tax. The principal temporary differences arise from the valuation of financial instruments including derivatives, the valuation of real estates and provisions for retirement benefit obligations.

A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

2.22 EMPLOYEE BENEFITS

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long-service benefits. According to Slovenian legislation, employees retire after 40 years of services, when, if fulfilling certain conditions, they are entitled to a termination benefit paid out as a lump sum. Valuations of these obligations are carried out by independent qualified actuaries, by using the book reserve method.

The Bank's obligation for the current service cost of providing pension benefits and the increment in the present value of the defined benefit obligation due to the approaching beginning of the defined benefit liability (interest cost) was assessed. The increase in the benefit scheme liabilities in excess of the above two assessments shall be recognised as the actuarial gain or loss.

The defined benefit scheme liabilities are measured on an actuarial basis using the projected unit credit method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person. The wage/salary increase comprises promotion and inflation-related rise.

Under IAS19, the calculated current scheme liabilities are discounted using the rates equivalent to the market yields at the balance-sheet date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid by the employer.

2.23 SHARE CAPITAL

Dividends on ordinary shares

Dividends payable to the holders of ordinary shares lower the equity in the period in which the declaration of the dividend is approved by Bank's owners.

Treasury shares

If the Bank repurchases its own equity instruments (treasury shares), the cost of the shares it has reacquired is deducted from equity. In case that the Bank subsequently sells its treasury shares, the consideration received is recognised directly in equity.

2.24 FIDUCIARY ACTIVITIES

The Bank acts as an intermediary on behalf and for account of customers who want to underwrite units of investment funds. A fee is charged for this service. These assets are not shown in the statement of financial position.

2.25 COMPARATIVE INFORMATION

The comparative information is prepared by using the same accounting policies as for the reporting period unless otherwise specified.

2.26 ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio and, as part of this, the estimation of the fair value of real estate collateral represent the major sources of estimation uncertainty. This and other key sources of estimation uncertainty that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Impairment losses on loans and advances

Information about judgements made relating to classification of financial assets, assessment of business model

within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest on the principal amount outstanding are discussed in Note 2.4.

Assumptions and estimation uncertainties related to impairment of financial instruments, especially related to the assessment of the impact of COVID 19 on the Bank's calculation of impairments, credit risk of financial assets, significant increase in credit risk and incorporation of forward looking information in measurement of ECL, are described in Note 3.3.

Measurement of employee benefits

For the calculation of actuarial gains and losses, the following assumptions have been used:

- The discount rate of 4.59% (2021: 0.94%), and
- Future salary increases 1.8% p.a. from 2023 onwards (2022: 1.8%).

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Slovenia. Tax returns are subject to the approval of the tax authorities, which are entitled to carry out subsequent inspections of taxpayers' records.

Litigation and claims

The Bank performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank's management. Total claims amount related to legal cases as at 31 December 2021 amounts to EUR 4.630 thousand (2021: EUR 466 thousand). As stated in Note 36, the Bank provided EUR 3.350 thousand (2021: EUR 400 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case, it is not practicable for management to evaluate the financial impact of changes to the assumptions based on which provisions are quantified as at the reporting date.

Fair value of property

The Bank uses the revaluation model for property. The criterion of revaluation model requires that the asset has to be amortised on the basis of new revalued value. Real estate appraisal was performed by an independent real estate appraiser, based on cash-generating units (by individual locations). In the valuation, the market comparison method and the method based on the capitalisation of returns were used. The valuations are using the income method for the purposes of calculation of market value, which is later confirmed by market approach.

Fair value of financial instruments

If a market for a financial instrument is not active or if for any reason fair value cannot be reasonably measured by market price, the Bank establishes fair value using a valuation technique (except for certain unquoted equity securities). Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent to the financial instrument. Given that the majority of financial instruments are valued by using quoted market prices and there are small amount financial instruments whose fair values are established using valuation techniques, the Bank does not disclose further information on assumptions and sensitivities of those instruments.

2.27 CHANGES IN EXISTING STANDARDS AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Bank as of 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify that the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- **Annual Improvements 2018-2020** make minor amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture** and the Illustrative Examples accompanying **IFRS 16 Leases**

The amendments had no impact on the financial statements of the Bank.

- **IFRS 16 Leases-C and 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The amendments had no impact on the financial statements of the Bank.

2.28 STANDARDS ISSUED BUT NOT YET EFFECTIVE

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretionary participation contracts. The Bank does not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the Bank financial performance, financial position or cash flows.

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

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management has assessed that the amendment is not relevant for the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Management has assessed that the amendment is not relevant for the Bank.

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

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. Management has assessed that the amendment will not influence Bank's financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. Management has assessed that the amendment will not influence Bank's financial statements.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognizing, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU. Management has assessed that the change is not relevant for the Bank.

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

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

3. RISK MANAGEMENT ORGANISATION

The risk management policies and their implementation in the Bank's operational processes are of high importance for sound business activity. The Bank has harmonised its risk management process with the risk management framework of the Intesa Sanpaolo Group and PBZ Group parent companies. Therefore, risk management is governed in accordance with both Group's and subsequently the industry's best practices. The Bank manages all risks on an enterprise-wide basis and therefore emphasises a strong institution-wide risk management culture. Consequently, risks are managed at all levels of the Bank and involve all managerial positions as well as an independent risk management function.

The Bank prudently manages all risks that could affect safe, profitable and continuous operation and treats it as an ongoing concern. The most important risks for the Bank are:

- credit risk,
- interest rate risk,
- liquidity risk, and
- operational risk.

Credit risk is the most important risk for the Bank, since it arises from the uncertainty of repayment of granted credits.

Interest rate risk is the risk of the change in values of loans, bonds and deposits due to changes in interest rates in the broader economy. The Bank manages interest rate risk arising from fixed rate loans by macro hedging loan packages and micro hedging longer term corporate loans and bonds with interest rate swaps.

Liquidity risk is the risk of the Bank not being able to meet its short-term obligations towards third parties.

Operational risk is the risk of losses endured as a result of failure of internal processes, human error or the risk of losses caused by external events. The Bank maintains a vigorous system that ensures the highest quality of process execution and maintains and updates plans of action that ensure business continuity in different adverse scenarios.

The risk management process is divided into four stages:

- risk identification,
- risk analysis,
- risk measurement, and
- risk mitigation and monitoring.

Risk identification is the first critical step in the risk management process. The objective of this step is an early and continuous identification of risk factors that can have a negative impact on the Bank's performance.

Risk analysis is the process of assessing the likelihood of an identified risk occurring. The Bank uses multiple regulatory prescribed and internally developed tools and methods to successfully conduct this step of the risk management process.

Risk measurement is the determination of the real or potential impact that an adverse event can have on the Bank. The Bank measures risk ex-ante and ex-post.

Risk mitigation and monitoring is the final step of the risk management process and includes the implementation of concrete changes in the Bank's internal processes and portfolio risk exposure. The Bank constantly monitors the timeliness and quality of implementation of the mitigation actions.

In 2022, the Bank continued to implement steps to even further improve the interconnectedness of the Bank's business strategy with the principles of sound and prudential institution wide risk management. The Bank's Risk Management Strategy became a fundamental strategic document that determines the Bank's risk appetite, basic strategic guidelines for capital planning, risk management objectives and basic risk mitigation principles, including the risks arising from macroeconomic and regulatory environment in which the Bank operates, while taking into consideration the status of the business cycle. On a yearly basis, the Risk Management Strategy outlines and raises awareness about all risks arising from new business initiatives as well as analyses the impact of those initiatives on the Bank's overall risk profile.

3.1 CORPORATE RISK MANAGEMENT AND ORGANISATIONAL STRUCTURE

3.1.1 Corporate risk management

The following structures take part in the risk governance process:

The Supervisory Board approves the strategic directions and risk management policies and reviews the efficiency and adequacy of the overall risk management process within the Bank.

The Risk Committee is an advisory body to the Supervisory Board that provides advice regarding the Bank's current and future propensity to assume risk and provides assistance in the supervision of senior management with respect to the implementation of the risk management strategy.

The Audit Committee is an advisory body to the Supervisory Board with responsibility to give recommendations and advice to the Board in particular on matters relating to evaluation of the adequacy and efficiency of the Bank's entire system of internal controls over financial reporting, including oversight of exposure to risk.

The Management Board is responsible for the approval and implementation of risk management policies and internal controls; it establishes organisational and other conditions for the execution of risk policies and controls.

The Asset and Liability Committee (ALCO) evaluates the exposure to financial risks and gives guidance about measures necessary to manage financial exposures.

Credit Risk Governance Committee defines and updates credit risk strategic guidelines and credit management policies based on the constant credit portfolio monitoring.

Credit Committee is the highest permanent decision-making committee of the Bank regarding performing counterparties; its main responsibility consists in adopting credit decisions in line with the issued strategic guidelines and credit policies.

Problem Assets Committee is the highest permanent decision-making committee of the Bank regarding risky and non-performing counterparties; its main responsibility consists in taking the necessary measures in order to prevent and mitigate credit losses connected with risky and deteriorated assets.

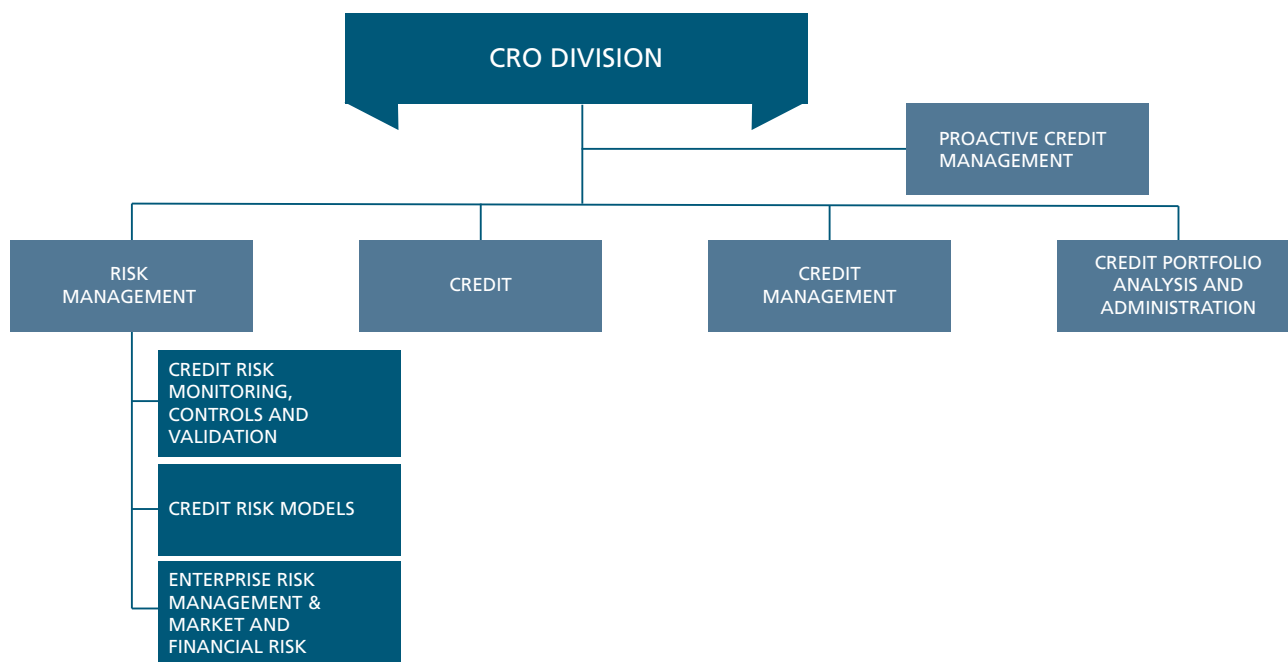
The Internal Audit Department evaluates and reviews processes, procedures, guidelines, policies and all operating activities performed by the Bank with the aim of evaluation of the efficiency and effectiveness of the internal controls system and risk management system.

The Compliance and AML Department assesses and manages compliance risk in relation to domestic or international rules and internal acts and mitigates activities that could damage the reputation of the Bank.

3.1.2. Organisational structure of the risk management area

The area responsible for all processes related to risk management in the Bank is the risk management area. The person responsible for the risk management area is a member of the Management Board.

The organisation chart of the Risk Division:



The roles of organisational units within the Risk Division

The **Risk Management Department** is organised in three offices, which have specific responsibilities related to second level risk control activities:

- **Enterprise, Market & Financial Risk Office** is responsible for risk policies, risk methodologies and reporting on risk exposures other than credit risk. In addition, the Office monitors internal risk limits and external regulatory constraints, including the minimum capital adequacy ratios.
- **Credit Risk Monitoring, Controls and Validation Office** is performing second level controls and monitoring activities over the credit portfolio, in terms of quality, composition and considerable changes. The office is also in charge of evaluating the compliance of the internal systems of risk measurement and management with the regulatory requirements and their alignment with ISP Group guidelines. The Office is responsible for the evaluation of the internal systems of all risk profiles (to be used for both regulatory and internal management purposes) in all phases of the internal systems lifecycle and also supports the Supervisory Authorities in their review activities. Especially concerning credit risk, the role of the Office is to evaluate appropriateness and adequacy of IRB systems, both in the development (analyses of the chosen methodology from the perspectives of regulatory requirements and principles of best internal and external practices) and model efficiency dimensions (backtesting analyses and periodical monitoring of the model). Validation analysis also includes development of the model (this is done internally by the Office) and alternative methodologies that are used for benchmark purposes.
- **Credit Risk Models Office** develops data driven models that help the Bank predict the chances of a default of a borrower and the amount of loss in the case of the default.

Proactive Credit Management Office contributes to the implementation of an early warning system, designed to activate the necessary measures against the identified clients by defining and agreeing with business functions on the most appropriate action plans.

The **Credit Department** analyses and approves loans and credit facilities to individual borrowers.

The **Credit Management Department** analyses and approves credit proposals for non-performing clients and participates in loan restructuring and in designing other measures in relation to borrowers with positive recovery perspective (going concern business) and in relation to obligors in legal enforcement status (gone concern business), seeking for loss reduction and efficient recovery.

Credit Portfolio Analysis and Administration Office performs administrative controls in credit processes in order to verify the completeness of loan documentation before disbursement and performs credit portfolio analysis aimed at identifying negative trends and/or potential issues in the process requiring further investigations by competent structures.

3.2 CAPITAL ADEQUACY AND OWN FUNDS (CAPITAL) MANAGEMENT

The Bank's capital includes common equity (mainly paid-up capital and retained earnings). The function of the capital is to ensure long-term stability of the Bank and safeguard the Bank's stakeholders.

The Bank's capital planning is the medium-term forward-looking internal process aimed at defining the appropriate level and composition of the capital resources needed, under both ordinary and stress conditions. Capital planning is closely associated with budgeting and strategic planning processes which provide an overview of the Bank's current strategy, risks associated with selected strategy and an assessment of how those risks contribute to capital needs measured by internal and regulatory standards. The capital plan is developed on an annual basis or more frequently if needed.

The internal capital planning strategy, which ensures expected sustainable growth of the balance sheet compared to the available capital (shareholders' equity), takes into account:

- expected growth of placements,
- future funding sources and their use,
- dividend policy,
- changes in the minimum amount of regulatory capital and
- restrictions related to regulatory capital

Within the capital planning process, the Bank identifies key risk drivers impacting projected capital plan figures. Capital planning is an integral part of the Risk Management Strategy. In the planning of capital, the overall appetite for risk, as defined by Risk Management Strategy, is taken into account, with special emphasis put on internal capital available in the circumstances of stress scenarios. Furthermore, in risk management strategy, business and strategic plans and analysis of the macroeconomic environment and associated risks are considered.

The Bank meets the minimum capital requirement, as requested by the EU regulation on prudential requirements for credit institutions (Capital Requirements Regulation or CRR). The CRR prescribes the minimum capital requirement, which is calculated according to the binding rules for the determination of risk-weighted assets. In addition, the CRR defines the general guidelines on the self-directed internal assessment of risk and capital requirement (Internal Capital Adequacy Assessment Process or ICAAP).

3.2.1 Compliance with the regulatory capital requirement

The regulatory capital requirement is calculated in line with the CRR and is determined as a ratio between the Bank's capital and risk-weighted assets. Regulatory capital requirements mandate the Bank to set aside funds for covering unexpected losses for credit, market and operational risk. Banks have to meet the CET1 minimum capital requirement of 4.5% or higher and the minimum own funds requirement of 8%. The Bank's capital is composed of the Common Equity Tier 1 capital and, to a lesser extent, of Tier 2 capital. As of 31 December 2022, the Bank's regulatory capital amounts to 305.8 million euros, whereas the Capital Adequacy ratio was 15.9%. The capital ratio was adequate and above the minimum capital requirement as defined by the regulation as well as with regard to the Pillar II framework, i.e. the internal assessment of capital requirement of the Bank (ICAAP) and the supervisory review process (SREP) evaluation of Pillar II.

The Bank maintains the minimum capital adequacy well above the minimum amount of capital required by the regulation and regulator. The capital adequacy of the Bank is vigorously monitored and reported to the highest governance bodies on a regular basis. The Bank additionally prepares annual and strategic capital planning with the purpose of linking the Bank's business strategy and capital position to ensure maximum protection of the Bank's stakeholders.

(in thousands of euros)

Capital adequacy as at 31 December	Risk weighted amount		Capital requirement (8% of RWA)	
	2022	2021	2022	2021
Exposures to banking book				
Exposures to state and central bank STD	8,150	10,951	652	876
Exposures to local municipalities STD	30,044	32,767	2,404	2,621
Exposures to public sector STD	1,929	2,502	154	200
Exposures to institutions STD	131,518	127,534	10,521	10,203
Exposures to corporates STD	117,715	88,059	9,417	7,045
Exposures to equity STD	51	-	4	-
Exposures to retail banking STD	469,215	474,591	37,537	37,967
Past due exposures STD	6,073	5,911	486	473
Exposures to highly risk exposures STD	69	93	6	7
Exposures to investments funds STD	1,224	1,379	98	110
Secured by mortgages on immovable property - STD	158,678	119,680	12,694	9,574
Exposure to corporates - other IRB	708,210	513,956	56,657	41,116
Exposure to corporates - SME IRB	96,637	123,017	7,731	9,841
Exposures to equity IRB	5,588	14,132	447	1,131
Exposures to other assets IRB	42,781	41,840	3,422	3,347
Total	1,777,882	1,556,412	142,230	124,511
Credit risk weighted assets	1,777,882	1,556,412	142,230	124,511
Market risk weighted assets	573	541	46	43
Operational risk weighted assets	115,232	123,890	9,219	9,911
Total risk weighted assets	1,893,687	1,680,843	151,495	134,465
Regulatory capital				
Ordinary share	22,173	22,173		
Share premium	7,499	7,499		
Treasury shares	(49)	(49)		
Revaluation reserves	12,821	15,129		
Legal reserves	18,722	17,837		
Treasury shares fund reserves	49	49		
Statutory reserves	244,328	244,310		
Other reserves from profit	232	-		
Retained earning	2,453	1,995		
Less intangible assets	(5,649)	(3,970)		
Other transitional adjustments				
- requirements from prudent valuation of debt securities	(803)	(137)		
- recognised impairments for credit risk during the year	(1,116)	(102)		
- insufficient coverage for non-performing exposures	(11)	-		
Total qualifying Tier 1 capital	300,649	304,734		
IRB Excess of provisions over expected losses	5,120	3,710		
Total qualifying Tier 2 capital	5,120	3,710		
Total regulatory capital	305,769	308,444		
CAD ratio	16.15	18.35		

3.2.2 Risk Appetite Framework Limits

The Risk Appetite Framework (hereinafter RAF) limits are a set of risk metrics that represent the amount of risk the Bank is willing to take whilst conducting business operations. The RAF includes:

- top of the house limits,
- local specific limits, and
- early warning indicators.

The top of the house limits includes limits of risks that are of utmost importance to the Bank. Those limits include the capital adequacy limit, liquidity limits, operational risk limits, credit concentration limits and interest rate risk limits. They also define the target amount of available financial resources (internally assessed available capital sources) through the target AFR/ECAP ratio (Available Financial Resources/ICAAP Capital Charges).

The RAF framework also establishes controls and procedures in the case of a limit breach.

The local specific limits also include the concentration limits that are set with the aim of preventing excessive exposure towards the government and public sector, real estate sector and large corporate clients. By ensuring the concentration towards these clients and groups of clients is below the limits, the Bank is within its RAF limits and is successfully managing the risks and avoiding potential losses in case of unfavourable/idiosyncratic events.

3.3 CREDIT RISK

Credit risk is the risk of financial loss arising from a debtor's failure to repay its financial obligations. Credit risk is, by scope and strategic business orientation, the most important risk for the Bank.

The credit risk is associated with financial assets measured at amortised cost (loans and other claims). Loans & Receivables whose payments are not composed solely of principal and interest have to be measured at fair value through profit and loss (FVTPL). The credit risk is evaluated with accurate credit analysis and corresponding credit classification of the borrower. Credit risk of derivative contracts is measured at replacement cost. The replacement cost is made up of the positive value of the deal, which represents a positive difference between the settlement price and the contractual price of the instrument, increased for the add-on, accommodating for a potential increase of positive value.

The Bank's credit risk related portfolio at the end of December 2022 amounted to EUR 4.334 million, of which 99% is classified as performing, which includes all asset (including loans to customers, financial assets at fair value through other comprehensive income, other assets, advances) and off-balance sheet items (including guarantees and credit commitments) that are subject to credit risk.

Intesa Sanpaolo Bank's credit risk related portfolio as at 31 December 2022

(in thousands of euros)

Counterparties	Total gross credit risk portfolio	Share	Performing	Share	Non-performing	Share	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non-performing portfolio	Total credit risk portfolio	Share
Central bank and government bodies	968,592	22%	968,592	23%	-	0%	34	0%	-	0%	968,558	23%
Corporate entities	2,106,602	49%	2,092,552	49%	14,050	46%	15,501	1%	11,742	84%	2,079,359	49%
Banks	233,372	5%	233,372	5%	-	0%	304	0%	-	0%	233,068	5%
Private individuals	1,025,627	24%	1,008,821	23%	16,806	54%	15,363	2%	12,464	74%	997,800	23%
Total	4,334,193	100%	4,303,337	100%	30,856	100%	31,202	1%	24,206	78%	4,278,785	100%

Intesa Sanpaolo Bank's credit risk related portfolio as at 31 December 2021

(in thousands of euros)

Counterparties	Total gross credit risk portfolio	Share	Performing	Share	Non-performing	Share	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non-performing portfolio	Total credit risk portfolio	Share
Central bank and government bodies	1,066,082	27%	1,066,081	27%	1	0%	47	0%	-	0%	1,066,035	27%
Corporate entities	1,858,560	46%	1,839,996	46%	18,564	54%	11,914	1%	13,443	72%	1,833,203	46%
Banks	170,762	4%	170,762	4%	-	0%	40	0%	-	0%	170,722	4%
Private individuals	934,048	23%	918,261	23%	15,787	46%	12,524	1%	11,531	73%	909,993	23%
Total	4,029,452	100%	3,995,100	100%	34,352	100%	24,525	1%	24,974	73%	3,979,953	100%

Analyses by type of collateral

(in thousands of euros)

	2022		2021	
	Net loans	Fair value of collateral	Net loans	Fair value of collateral
Performing	1,361,395	2,446,822	1,315,932	2,311,423
Totally secured	1,134,482	2,107,230	1,226,182	2,220,957
Real estate	724,964	1,664,501	707,253	1,628,954
Debt securities	32	44	1,701	2,091
Deposits	218	401	563	1,181
Other collateral	7,406	21,029	75,420	138,686
Bank guaranties	87,258	87,463	63,071	64,159
Government guaranties	112,659	122,659	168,567	170,603
Insurance company guaranties	125,273	130,330	132,798	133,211
Third party guarantors	76,672	80,803	76,809	82,072
Partially secured	226,913	339,592	89,750	90,466
Real estate	129,336	230,867	34,757	35,209
Debt securities	2,078	4,847	-	-
Deposits	43	44	3,062	3,062
Other collateral	8,796	12,926	4,256	4,300
Bank guaranties	48,828	49,438	40,933	41,054
Government guaranties	12,401	13,569	6,740	6,836
Impaired	4,193	38,717	7,727	48,712
Totally secured	4,061	35,407	7,707	46,706
Real estate	3,315	32,500	6,545	41,543
Deposits	-	7	-	4
Other collateral	2	15	218	2,407
Insurance company guaranties	533	2,230	940	2,725
Third party guarantors	211	655	4	27
Partially secured	132	3,310	20	2,006
Real estate	82	2,613	6	1,800
Other collateral	-	500	-	-
Government guaranties	3	14	14	206
Third party guarantors	47	183	-	-
TOTAL secured net loans	1,365,588	2,485,539	1,323,659	2,360,135
Unsecured*	1,025,993		861,896	
TOTAL net loans	2,391,581		2,185,555	

* As unsecured, the Bank considers loans to the best customers secured by bills of exchange, receivables on payment cards, automatic limits on current accounts and quick mini loans.

The amounts of fair value of collaterals represents the total estimated fair value of collaterals, and they have been presented only up to the amount which would mitigate credit risk, i.e. up to the amount of exposure.

In general, loans can be secured with one or more types of collateral. The Bank's decision when collateral is acceptable depends on the obligor's credit worthiness and the type, amount and maturity of lending facilities. When accepting real estate as collateral, the value assessed by independent evaluators is considered. During the exposure's life-time, the value of collateral is monitored yearly and is periodically revalued at its fair value changes. For loans exceeding 3 million EUR or 55% of the capital of the Bank, a new evaluation is obtained every 3 years. Securities and collective investment units quoted on the market are revalued weekly, whereas movable property collateral is revalued yearly.

Individual valuations and revaluations of real estate collateral are undertaken by an independent appraiser for non-performing exposures whose gross value exceeds EUR 300 thousand on a yearly basis.

Credit exposure measurement

The Bank's credit exposure includes financial assets that are debt instruments, commitment to lend, guarantee contracts issued and lease receivables. The credit exposures arising from derivative contracts are reported at replacement cost.

Maximum exposure to credit risk

(in thousands of euros)

	Maximum exposure	
	2022	2021
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans to banks	151,525	107,843
Loans to customers*	2,407,100	2,179,391
Loans to individuals:	873,569	779,149
- overdrafts	17,581	17,610
- credit cards	8,702	8,521
- term loans	159,713	149,742
- mortgages	685,926	600,338
- finance leases	1,647	2,938
Loans to sole proprietors	55,595	51,871
Loans to corporate entities	1,477,936	1,348,371
Advances	15,564	8,431
Non-trading financial assets mandatorily at fair value through profit or loss:	1,491	2,800
- debt securities	1,491	2,800
Financial assets at fair value through other comprehensive income:	247,625	221,601
- debt securities	247,625	221,601
Other assets**	793,678	862,733
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees and documentary letters of credit	215,652	169,110
Credit commitments and other credit related liabilities	434,487	403,902
Derivatives replacement value	11,663	24,142
At 31 December	4,278,785	3,979,953

* Maximum exposure of loans to customers does not include valuation of loans subject to micro hedge

** Including balances with central bank, demand deposits and taxes and contributions

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Bank at 31 December 2022 and 2021, without taking into account any collateral held or other attached credit enhancements. For contingent liabilities (guarantees and loan commitments), the exposures set out above are based on net amounts after impairments as reported in Note 45 Contingent liabilities and commitments.

Credit Classification

The Bank's credit portfolio classified as performing assets have to be subject to credit analysis and get assigned an internal credit rating. For provisioning purposes, a PD rate equivalent to PD rate of internal rating grade S1 is assigned to unrated borrowers. In addition, and according to IFRS9 reporting standards, the counterparties are classified in three stages. In Stage 1 are classified performing assets with unchanged or not deteriorated creditworthiness measured from the origination, while in stage 2 are classified credit assets for which the Bank recognised a significant increase of credit risk from its origination. In stage 3 are classified non-performing assets. The criteria for recognition of significant credit risk and therefore classification in stage 2 are forbearance measures, identification and confirmation of early warning signals, rating downgrade and material due payments in arrears over 30 days.

The credit rating system arranges credit risk counterparts in 15 rating grades according to the probability of default severity. The Bank developed and implemented an internal rating system for Corporate and SME clients and has been developing one for other core business segments: micro segment and private individuals. The statistical models are designed such to calculate a credit score based on debtor's financial data, behavioural data and qualitative information, which jointly make up a final score. The rating attribution process is supported with the system, which ensures required controls and is driving the process in accordance with the responsibilities and roles of functions involved in credit deliberation activity.

The obligor's classification is compliant with the European Banking Authority requirements, which has established rules for the classification of exposures to performing or non-performing categories. The non-performing obligors are further broken-down into the following categories: past due, unlikely to pay and doubtful. The work-out strategy for non-performing obligors depends on whether the Bank evaluates the borrower as going concern or gone concern, with the latter expecting that the financial difficulties cannot be resolved.

Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the quantitative or qualitative criteria have been met. Criteria for determining a significant increase in credit risk are defined for the proper allocation of exposure in "Stage 1" or "Stage 2".

Elements that will be the main determinants which need to be considered for the purpose of assessing the "steps" between the various "stages" are the following:

- Default probability change or certain number of rating notch (three notch downgrade for lower to medium risk rating classes, two for medium risk rating class and one notch downgrade for medium to higher risk rating class) deterioration in relation to the moment of initial entry of the financial instrument in the financial statements. It is therefore an assessment implemented by adopting the "relative" criterion, which is configured as the main criteria;
- Eventual presence of due amount which remains overdue over 30 days. In the event of such case, the credit risk of such exposure is considered "significantly increased" and is classified to Stage 2;
- Existence of "forbearance" measures to prevent future delays in repayments;
- Qualitative information on credit quality deterioration due to which the client is included in the monitoring list;
- Other indicators of the internal credit risk monitoring system and early warning system.

Determining whether the specific factor is relevant, as well as its significance in relation to other factors, depends on the type of products and characteristics of the financial instrument. Consequently, it is not possible to define a unique set of factors that determine whether there has been a significant increase in credit risk.

Definition of default and staging criteria

Staging criteria are selected in line with IFRS9 and based on risk parameters available in the Bank. The main indicators that are used are transaction classification, Days past due, Forbearance, PCEM (watch list) Indicator and/or the Early Warning System (EWS) model for Small Business, SME and Large Corporate portfolios. Considering that Stage 3 is equal to Non-performing status of the loan, the key element in Stage assignment is recognition of increasing credit risk of a financial instrument. Significant increase of credit risk could be highlighted by quantitative and qualitative indicators as:

- Past Due days
- Forborne status
- Early warning signals and/or Proactive Credit Management watch list status of the customer.

In addition, forbearance measures could represent a significant increase in credit risk, since they consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

Stage assignment for Loans:

Loan exposures towards Legal entities:

Condition - business condition (event) for assignment of stage	Stage
Risk class is Past Due, Unlikely to pay or Doubtful	3
DPD >30 under DoD rules*	2
Early warning system shows significant deterioration in credit risk (PCEM flag)	2
Contract is Forborne	2
Exposures with credit deterioration: Lifetime PD Comparison (used for Sovereign, PSE, Banks – not for others segments)	2
Exposures with credit deterioration: Rating deterioration in the extent of 3 rating notches or more for low risk obligors to 1 notch or more for high risk obligors (used for Corporate and Small business segments – not for others segments)	2

Loan exposures towards Retail:

Condition - business condition (event) for assignment of stage	Stage
Risk class is Past Due, Unlikely to pay or Doubtful	3
DPD >30 under DoD rules*	2
Early warning signals for retail exposures show significant deterioration in credit risk:	2
Contract is Forborne	2

* The criteria for the definition of default is the delay in payments at the client level, where the materiality limit consists of an absolute and a relative part (1% of total exposure in delay as a relative limit and min. EUR 100 for retail exposures and EUR 500 for large corporates as an absolute limit).

Inclusion of forward-looking element

Projection of Lifetime credit risk parameters under IFRS 9 requires inclusion of forward-looking macroeconomic elements in order to estimate future point-in-time risk drivers.

The risk parameters (PD and LGD) are modified taking into account the forward-looking view by applying estimates of macroeconomic potential trends. These are estimated with the so-called macroeconomic conditioning of ECL variables by multiplying them with an add-on, providing estimates of best, most-likely and worst scenario. The add-ons are obtained with internal macroeconomic models, while for exposure classes where a model is not available, the EBA coefficients published for the EU-wide stress test exercise have been used instead. For exposures classes classified in stage 2, the ECL variables are conditioned for three years with respect to reporting date, whereas stage 1 exposure is conditioned over the 1 year horizon or the whole expected loss measuring period.

In the year 2022, the Bank updated the macroeconomic outlook and the forward-looking elements of the calculation. The aforementioned updates are anchored in the updated ECB macroeconomic scenarios. These ECB scenarios translate onto the macro variables that subsequently determine the FLI component of the ECL. Regarding the numbers of scenarios and their weighting, the Bank has not changed its methodology in 2022. The Bank defined three macroeconomic scenarios (favourable, base, adverse) and the FLI effects of the ECL stems from these scenarios.

Macroeconomic scenarios included in the FLI component

Macroeconomic indicator	Favourable scenario			Baseline scenario			Adverse scenario		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Real GDP y/y	2,93	3,72	3,37	2,20	3,01	2,65	1,00	2,35	1,58
Unemployment rate (avg)	5,66	6,27	6,36	5,80	6,40	6,50	6,03	6,53	6,70
CPI y/y (average)	4,84	2,40	2,16	4,68	2,23	2,00	4,44	2,07	1,77
Bank Loans y/y	3,67	3,19	3,12	3,24	2,73	2,62	2,54	2,30	1,88
Bank Deposits y/y	4,50	4,24	4,09	3,97	3,62	3,44	3,12	3,05	2,47

Note: The Forward-looking information is calculated using Baseline scenario increased for the add-on, which takes into account possible variation from expected scenario taking into account the range of changes, including the favourable and adverse scenarios.

Managerial overlay has been adopted to address the following circumstances:

- The Bank has identified the clients in the risk segment Private individuals whose creditworthiness is expected to decrease the most due to rising inflation and interest rates. These clients were reclassified into Stage 2.

In total, the provisions that were set aside as managerial overlay in the year 2022 amounted to EUR 2.9 million (2021: EUR 3.9 million).

Credit quality analysis

(in thousand euros)

	2022				Total
	12 month ECL	Lifetime ECL – not credit impaired	Lifetime ECL - credit impaired	POCI	
Loans to banks at amortised cost					
Performing	150,043	1,694	-	-	151,737
Loss allowance	(61)	(151)	-	-	(212)
Carrying amount	149,982	1,543	-	-	151,525
Loans to customers at amortised cost					
Performing	2,305,591	-	-	-	2,305,591
Watch list	-	106,727	-	-	106,727
Past due impaired	-	-	2,167	-	2,167
Unlikely to pay	-	-	15,581	116	15,697
Doubtful	-	-	11,363	-	11,363
Loss allowance	(13,176)	(14,052)	(22,670)	(66)	(49,964)
Carrying amount	2,292,415	92,675	6,441	50	2,391,581
Debt investment securities at FVOCI					
Performing, low risk	240,990	6,690	-	-	247,680
Loss allowance	(34)	(21)	-	-	(55)
Carrying amount - fair value	240,956	6,669	-	-	247,625
Off balance sheet					
Loan commitments					
Performing	419,852	-	-	-	419,852
Watch list	-	16,923	-	-	16,923
Past due impaired	-	-	688	-	688
Unlikely to pay	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss allowance	(1,679)	(721)	(577)	-	(2,977)
Carrying amount (provision)	418,173	16,202	111	-	434,486
Financial guarantee contracts					
Performing	212,336	-	-	-	212,336
Watch list	-	4,472	-	-	4,472
Past due impaired	-	-	110	-	110
Unlikely to pay	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss allowance	(987)	(168)	(110)	-	(1,265)
Carrying amount (provision)	211,349	4,304	-	-	215,653

Credit quality analysis

(in thousand euros)

	2021				Total
	12 month ECL	Lifetime ECL – not credit impaired	Lifetime ECL - credit impaired	POCI	
Loans to banks at amortised cost					
Performing	107,875	-	-	-	107,875
Loss allowance	(32)	-	-	-	(32)
Carrying amount	107,843	-	-	-	107,843
Loans to customers at amortised cost					
Performing	2,111,430	-	-	-	2,111,430
Watch list	-	87,484	-	-	87,484
Past due impaired	-	-	1,762	-	1,762
Unlikely to pay	-	-	19,520	63	19,583
Doubtful	-	-	11,596	3	11,599
Loss allowance	(12,916)	(9,632)	(23,696)	(59)	(46,303)
Carrying amount	2,098,514	77,852	9,182	7	2,185,555
Debt investment securities at FVOCI					
Performing, low risk	221,647	-	-	-	221,647
Loss allowance	(46)	-	-	-	(46)
Carrying amount - fair value	221,601	-	-	-	221,601
Off balance sheet					
Loan commitments					
Performing	395,242	-	-	-	395,242
Watch list	-	9,462	-	-	9,462
Past due impaired	-	-	43	-	43
Unlikely to pay	-	-	373	-	373
Doubtful	-	-	107	-	107
Loss allowance	(844)	(87)	(394)	-	(1,325)
Carrying amount (provision)	394,398	9,375	129	-	403,902
Financial guarantee contracts					
Performing	16,559	-	-	-	160,559
Watch list	-	9,369	-	-	9,369
Past due impaired	-	-	-	-	-
Unlikely to pay	-	-	7	-	7
Doubtful	-	-	41	-	41
Loss allowance	(548)	(270)	(48)	-	(866)
Carrying amount (provision)	160,011	9,099	-	-	169,110

Credit quality loan analysis - summary

(in thousands of euros)

	2022				Total
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	POCI	
Balance exposures					
Gross carrying amount	2,696,624	115,111	29,111	116	2,840,962
Loss allowance	(13,271)	(14,224)	(22,670)	(66)	(50,231)
Net carrying amount	2,683,353	100,887	6,441	50	2,790,731
Off-balance exposure					
Gross carrying amount	632,188	21,395	798	-	654,381
Loss allowance	(2,666)	(889)	(687)	-	(4,242)
Net carrying amount	629,522	20,506	111	-	650,139

(in thousands of euros)

	2021				Total
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	POCI	
Balance exposures					
Gross carrying amount	2,440,952	87,484	32,878	66	2,561,380
Loss allowance	(12,994)	(9,632)	(23,696)	(59)	(46,381)
Net carrying amount	2,427,958	77,852	9,182	7	2,514,999
Off-balance exposure					
Gross carrying amount	555,801	18,831	571	-	575,203
Loss allowance	(1,392)	(357)	(442)	-	(2,191)
Net carrying amount	554,409	18,474	129	-	573,012

Risk segmentation

In order to determine the rating for each client, the clients are first split into segments depending on their characteristic as determined by the CRR Regulation. The Bank uses commercial segmentation for business purposes and risk segmentation for credit risk purposes. The Bank has developed and implemented internal rating model for risk segments Corporate and Small Business and is in the process of developing a rating model for risk segments Micro and Individuals.

The rating model

Models for risk segments Corporate and Small Business are designed as such to calculate a credit score based on debtor's financial data, behavioural data and qualitative information that is associated with the respective rating grade. A corresponding PD is assigned to each rating grade in accordance to the rating master scale. The final rating can be modified with an override request based on subjective evaluation.

The Bank uses 15 performing rating classes (N1 – N7, S1 – S4 and P1 – P4), indicating low, medium and high risk, respectively. They are recalculated every time new information about the client is received, but at least once per year.

Rating assignment process

The rating assignment process consists of:

- Activation of the rating calculation and gathering all necessary information (balance sheet, behavioural, qualitative information)
- Rating confirmation or rejection in case no override was proposed which is done by the Credit Underwriting Department.
- In the case of an override proposal, a Member of the MB responsible for Risk Division (CRO) has the authority to confirm or reject the override proposal.

Internal rating

Loans to customers at amortised cost

(in thousands of euros)

STAGE 1 (12 - month ECL)	2022			2021		
	Gross amount	Loss allowance	Carrying (net) amount	Gross amount	Loss allowance	Carrying (net) amount
N1	12,710	(31)	12,679	11,188	(22)	11,166
N2	84,190	(240)	83,950	74,491	(163)	74,328
N3	135,880	(576)	135,304	126,181	(435)	125,746
N4	121,656	(541)	121,115	123,532	(420)	123,112
N5	94,668	(666)	94,002	135,554	(829)	134,725
N6	355,805	(2,576)	353,229	357,172	(1,300)	355,872
N7	192,157	(998)	191,159	55,750	(503)	55,247
S1	33,161	(431)	32,730	35,010	(445)	34,565
S2	12,038	(228)	11,810	15,581	(291)	15,290
S3	6,376	(151)	6,225	6,361	(150)	6,211
S4	2,157	(72)	2,085	2,237	(87)	2,150
P1	37,650	(210)	37,440	623	(22)	601
P2	342	(24)	318	112	(8)	104
P3	-	-	-	31	(3)	28
P4	26	(1)	25	-	-	-
No rating of which	1,216,775	(6,431)	1,210,344	1,167,607	(8,238)	1,159,369
Government	4,397	(1)	4,396	8,402	(1)	8,401
Other public entities	173,947	(76)	173,871	216,729	(77)	216,652
Financial entities	121,414	(68)	121,346	95,329	(45)	95,284
Non-financial entities	48,884	(543)	48,341	55,496	(735)	54,761
Sole proprietors	25,504	(724)	24,780	26,749	(1,178)	25,571
Individuals	841,666	(4,984)	836,682	762,923	(6,153)	756,770
Non-profit institutions serving households	963	(35)	928	1,979	(49)	1,930
TOTAL STAGE 1	2,305,591	(13,176)	2,292,415	2,111,430	(12,916)	2,098,514

(in thousands of euros)

STAGE 2 (Lifetime ECL not credit - impaired)	2022			2021		
	Gross amount	Loss allowance	Carrying (net) amount	Gross amount	Loss allowance	Carrying (net) amount
N1	8	-	8	-	-	-
N2	24	-	24	1	-	1
N3	80	(17)	63	256	(2)	254
N4	6,647	(105)	6,542	2,077	(126)	1,951
N5	8,028	(127)	7,901	2,013	(22)	1,991
N6	3,881	(102)	3,779	8,067	(201)	7,866
N7	4,049	(114)	3,935	15,351	(352)	14,999
S1	6,572	(214)	6,358	7,819	(207)	7,612
S2	9,428	(396)	9,032	11,648	(573)	11,075
S3	2,646	(157)	2,489	2,649	(167)	2,482
S4	3,352	(188)	3,164	3,972	(301)	3,671
P1	2,042	(144)	1,898	2,787	(159)	2,628
P2	11,240	(1,440)	9,800	488	(77)	411
P3	966	(156)	810	374	(47)	327
P4	114	(23)	91	289	(68)	221
No rating of which	47,650	(10,869)	36,781	29,693	(7,330)	22,363
Financial entities	-	-	-	35	(5)	30
Non-financial entities	3,894	(881)	3,013	3,793	(918)	2,875
Sole proprietors	1,606	(463)	1,143	1,683	(464)	1,219
Individuals	42,150	(9,525)	32,625	24,166	(5,941)	18,225
Non-profit institutions serving households	-	-	-	16	(2)	14
TOTAL STAGE 2	106,727	(14,052)	92,675	87,484	(9,632)	77,852
TOTAL STAGE 1 and STAGE 2	2,412,318	(27,228)	2,385,090	2,198,914	(22,548)	2,176,366

Off-balance sheet

Loan commitments

(in thousands of euros)

STAGE 1 (12 - month ECL)	2022			2021		
	Gross amount	Loss allowance	Carrying (net) amount	Gross amount	Loss allowance	Carrying (net) amount
N1	55,984	(81)	55,903	12,050	(7)	12,043
N2	15,033	(14)	15,019	15,920	(13)	15,907
N3	69,152	(138)	69,014	58,818	(90)	58,728
N4	20,290	(40)	20,250	25,147	(28)	25,119
N5	25,064	(83)	24,981	43,129	(67)	43,062
N6	48,661	(151)	48,510	38,935	(77)	38,858
N7	19,319	(98)	19,221	18,756	(41)	18,715
S1	7,890	(45)	7,845	8,751	(26)	8,725
S2	2,460	(28)	2,432	2,955	(15)	2,940
S3	1,214	(16)	1,198	949	(6)	943
S4	373	(9)	364	309	(3)	306
P1	10,453	(30)	10,423	36	-	36
P2	182	(5)	177	5	-	5
P3	-	-	-	2	-	2
No rating	143,777	(941)	142,836	169,480	(471)	169,009
of which						
Government	5	-	5	5	-	5
Other public entities	1,815	-	1,815	5,291	(1)	5,290
Banks	13	-	13	1,682	-	1,682
Financial entities	3,269	(9)	3,260	3,344	(7)	3,337
Non-financial entities	10,679	(101)	10,578	25,192	(69)	25,123
Sole proprietors	5,187	(125)	5,062	4,847	(66)	4,781
Individuals	122,197	(698)	121,499	128,473	(323)	128,150
Non-profit institutions serving households	612	(8)	604	646	(5)	641
TOTAL STAGE 1	419,852	(1,679)	418,173	395,242	(844)	394,398

(in thousands of euros)

STAGE 2 (Lifetime ECL not credit - impaired)	2022			2021		
	Gross amount	Loss allowance	Carrying (net) amount	Gross amount	Loss allowance	Carrying (net) amount
N1	203	-	203	20	-	20
N2	7	-	7	9	-	9
N3	-	-	-	67	-	67
N4	5,773	(6)	5,767	273	-	273
N5	836	(3)	833	1,273	(2)	1,271
N6	218	(1)	217	727	(1)	726
N7	909	(4)	905	3,079	(7)	3,072
S1	976	(9)	967	1,312	(4)	1,308
S2	595	(6)	589	1,307	(7)	1,300
S3	185	(3)	182	430	(4)	426
S4	60	(1)	59	80	(2)	78
P1	79	(3)	76	120	(1)	119
P2	4,806	(510)	4,296	1	-	1
P3	15	(2)	13	-	-	-
P4	30	(4)	26	16	(1)	15
No rating	2,231	(169)	2,062	748	(58)	690
of which						
Banks	1,326	(59)	1,267	-	-	-
Non-financial entities	108	(24)	84	224	(23)	201
Sole proprietors	66	(13)	53	75	(7)	68
Individuals	731	(73)	658	445	(28)	417
Non-profit institutions serving households	-	-	-	4	-	4
TOTAL STAGE 2	16,923	(721)	16,202	9,462	(87)	9,375
TOTAL STAGE 1 and STAGE 2	436,775	(2,400)	434,375	404,704	(931)	403,773

Financial guarantee contracts

(in thousands of euros)

STAGE 1 (12 - month ECL)	2022			2021		
	Gross amount	Loss allowance	Carrying (net) amount	Gross amount	Loss allowance	Carrying (net) amount
N1	40,011	(57)	39,954	11,180	(14)	11,166
N2	5,657	(6)	5,651	12,732	(15)	12,717
N3	24,045	(73)	23,972	38,592	(117)	38,475
N4	14,310	(28)	14,282	35,455	(88)	35,367
N5	40,157	(293)	39,864	4,767	(19)	4,748
N6	57,196	(391)	56,805	35,827	(185)	35,642
N7	7,147	(61)	7,086	5,758	(45)	5,713
S1	2,708	(25)	2,683	3,553	(36)	3,517
S2	974	(10)	964	980	(9)	971
S3	584	(6)	578	234	(2)	232
S4	236	(3)	233	291	(3)	288
P1	90	(1)	89	90	(1)	89
P4	14	-	14	-	-	-
No rating	19,207	(33)	19,174	11,100	(14)	11,086
of which						
Other public entities	506	-	506	569	-	569
Banks	9,776	(2)	9,774	7,541	-	7,541
Financial entities	6,317	(23)	6,294	102	-	102
Non-financial entities	234	(3)	231	408	(7)	401
Sole proprietors	115	(1)	114	222	(6)	216
Individuals	1,908	(3)	1,905	1,907	-	1,907
Non-profit institutions serving households	351	(1)	350	351	(1)	350
TOTAL STAGE 1	212,336	(987)	211,349	160,559	(548)	160,011

(in thousands of euros)

STAGE 2 (life time loss)	2022			2021		
	Gross amount	Loss allowance	Carrying (net) amount	Gross amount	Loss allowance	Carrying (net) amount
N1	43	-	43	-	-	-
N3	-	-	-	5,000	(19)	4,981
N4	185	(17)	168	24	-	24
N5	49	-	49	225	(1)	224
N6	131	(10)	121	469	(17)	452
N7	1,040	(9)	1,031	1,698	(112)	1,586
S1	939	(36)	903	184	(2)	182
S2	401	(20)	381	675	(33)	642
S3	1,255	(53)	1,202	215	(5)	210
S4	197	(6)	191	236	(5)	231
P1	111	(1)	110	617	(76)	541
P2	40	(8)	32	12	-	12
P4	-	-	-	14	-	14
No rating	81	(8)	73	-	-	-
of which						
Banks	32	-	32	-	-	-
Non-financial entities	30	(6)	24	-	-	-
Sole proprietors	19	(2)	17	-	-	-
STAGE 2 Total	4,472	(168)	4,304	9,369	(270)	9,099
TOTAL STAGE 1 and STAGE 2	216,808	(1,155)	215,653	169,928	(818)	169,110

Changes in credit-impaired loans to customers

(in thousands of euros)

	2022	2021
Credit-impaired loans (Stage 3) at 1 January	9,189	19,557
Change in allowance for impairment	(610)	1,868
Classified as credit-impaired during the year	6,644	7,449
Transferred to not credit-impaired during the year	(460)	(451)
Recoveries of amounts previously written off	(8,209)	(16,989)
Disposals	(4)	(134)
Write-offs	(58)	(936)
Other movements	2	(471)
Modification gain/loss	(2)	(704)
Credit-impaired loans (Stage 3) at 31 December	6,492	9,189

Impairment provisions for credit risk

The amount of impairment provisions (credit risk allowances) for credit risk are based on the estimated amount of expected credit losses (ECL), which is calculated based on borrower's credit rating grade and collateral received in pledge. Provisions are calculated using the collective or analytical approach. Credit risk losses are measured analytically for non-performing obligors, whose total exposure at the moment of default exceeded 250,000 euros and were classified as unlikely to pay or doubtful. The analytical assessment of provisions is carried out by estimation of expected cash-flows for each obligor individually from regular operations, selling of obligor's assets or by taking property of the collateral. The expected cash-flows are discounted using effective interest rate.

For performing assets and non-performing assets under 250,000 euros as well as those classified as Past due, credit risk allowances are calculated using the collective provisioning methodology. Collective provisions are calculated by estimating the expected loss as a result of multiplication of the probability of default (PD rate), loss given the default (LGD rate) and expected exposure at the time of default (EAD). Loss estimation parameters are updated annually.

The PD rates are estimated by measuring transition rates from performing to non-performing status by pooling obligors with internal ratings according to rating grades, while for other obligors, the respective assets are pooled according to the stage assigned.

Loss Given Default rates are estimated by groups of exposures sharing same characteristics, like same type of collateral. The recovery rate is estimated using the ratio between the net present values of recoveries less costs and credit exposures at default (the work-out method).

Expected credit losses for financial assets in stage 1 are calculated over a one-year horizon, while expected credit losses for financial assets in stage 2 are covered with provisions calculated over the lifetime of financial asset, taking into account the possibility of default and respective losses every year till the maturity of the asset, considering the residual outstanding amount of credit receivables over time. The risk parameters (PD and LGD) are modified taking into account expected macroeconomic changes. These changes are the input in the calculation of ECL through the adjustments of parameters by multiplication with related factors derived from best, most-likely and adverse scenarios. Most-likely and adverse scenarios are identical to EBA coefficients published for the purpose of EU-wide stress test exercise, whereas best scenario is created using an internal methodology making use of the former EBA coefficients. Macroeconomic conditioning of ECL parameters is applicable to Stage 2 exposure in the first three years of residual maturity, while in the period beyond the three years, macroeconomic adjustment is not applied. Macroeconomic conditioning of Stage 1 exposure is provided for the corresponding period of loan loss assessment.

Loans that are considered genuinely unrecoverable are written off after all available legal actions have been taken. In cases where the amount of impairment is excessive due to improvement in the economic position of the obligor, the previously recognised impairment is reversed by debiting the loan losses adjustment account and crediting the income statement.

The same rules of ECL calculation apply also for financial instruments that are secured with collaterals whose value exceeds the value of the instrument and for other financial instruments which do not have a repayment schedule.

Covid 19 intervention measures

Since the beginning of the COVID-19 pandemic, the Bank has focused on lean processing of requests for moratoriums while respecting Intervention Law and regulatory framework with proclaimed flexibility. The clients which have submitted a request for moratorium have been assessed with a focus on justification of impact due to Covid-19 crisis on repayment ability, while potential classification to NPL and to Performing forbore exposures was also considered in cases where there was indication that the repayment deterioration is not of transitional nature, i.e. for clients for which creditworthiness is unlikely to be restored.

As of 31 December 2022, there are no active COVID-19 moratoria in the Bank's portfolio. Nevertheless, the Bank continues to monitor the clients which had COVID-19 moratoria in the past, giving special attention to clients with payment difficulties after the end of moratoria. In doing so, the Bank is taking into account all the relevant information available, including possible future developments which may affect the business of these clients.

(in thousands of euros)

2022	Granted gross carrying amount					
	Total	Of which: expired	Residual maturity			
			<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
EBA-compliant moratoria loans and advances	60,950	60,950	-	-	-	-
of which: Households	23,733	23,733	-	-	-	-
of which: Non-financial corporations	37,196	37,196	-	-	-	-
Other loans and advances with COVID-19-related forbearance measures	5,999	5,999	-	-	-	-
of which: Households	1,834	1,834	-	-	-	-
of which: Non-financial corporations	4,165	4,165	-	-	-	-

(in thousands of euros)

2022	Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk				
	Total	Performing		Non-performing		Total	Performing		Non-performing	
		Total	Of which: exposures with for- bearance measures	Total	Of which: exposures with for- bearance measures		Total	Of which: exposures with for- bearance measures	Total	Of which: exposures with for- bearance measures
Loans subject to EBA-compliant moratoria	-	-	-	-	-	-	-	-	-	-
of which: Households	-	-	-	-	-	-	-	-	-	-
of which: Non-financial corporations	-	-	-	-	-	-	-	-	-	-
Other loans subject to COVID-19-related forbearance measures	-	-	-	-	-	-	-	-	-	-
of which: Households	-	-	-	-	-	-	-	-	-	-
of which: Non-financial corporations	-	-	-	-	-	-	-	-	-	-

(in thousands of euros)

2021	Granted gross carrying amount					
	Total	Of which: expired	Residual maturity			
			<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
EBA-compliant moratoria loans and advances	80,215	80,215	-	-	-	-
of which: Households	30,389	30,389	-	-	-	-
of which: Non-financial corporations	49,775	49,775	-	-	-	-
Other loans and advances with COVID-19-related forbearance measures	9,276	7,750	930	114	467	15
of which: Households	2,369	1,310	463	114	467	15
of which: Non-financial corporations	6,882	6,415	467	-	-	-

(in thousands of euros)

2021	Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk				
	Performing			Non-performing		Performing			Non-performing	
	Total	Total	Of which: exposures with forbearance measures	Total	Of which: exposures with forbearance measures	Total	Total	Of which: exposures with forbearance measures	Total	Of which: exposures with forbearance measures
Loans subject to EBA-compliant moratoria	-	-	-	-	-	-	-	-	-	-
of which: Households	-	-	-	-	-	-	-	-	-	-
of which: Non-financial corporations	-	-	-	-	-	-	-	-	-	-
Other loans subject to COVID-19-related forbearance measures	1,526	1,374	448	152	152	(326)	(232)	(115)	(94)	(94)
of which: Households	1,059	945	448	114	114	(193)	(135)	(115)	(58)	(58)
of which: Non-financial corporations	467	429	-	38	38	(134)	(98)	-	(36)	(36)

Impact of Russian-Ukraine invasion on the quality of the Bank's portfolio

From the beginning of the Russian-Ukraine invasion, the Bank has been closely following the geopolitical situation and at the same time monitoring and analysing its credit portfolio. Although the Bank has limited exposures to Russian clients, the Bank is closely monitoring these clients and is reporting the clients' information to the relevant Corporate bodies of the Bank and Group. It is expected that the decreased credit quality of these clients would not have any significant effect on the Bank's regular business and stability of capital adequacy ratios and liquidity.

(in thousands of euros)

	2022			2021		
	Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
Balance exposures						
Russia	1	-	1	8,161	(82)	8,079
Belarus	1,694	(151)	1,543	1,339	-	1,339
Ukraine	1	-	1	1	-	1
Total	1,696	(151)	1,545	9,501	(82)	9,419
Off - balance exposures						
Russia	2	-	2	7	-	7
Belarus	1,327	(59)	1,268	1,667	-	1,667
Ukraine	4	-	4	5	-	5
Total	1,333	(59)	1,274	1,679	-	1,679

Impact of rising energy costs on the credit quality of corporate portfolio

The Russian-Ukraine invasion has had a significant impact on the rising of energy prices, which is why the Bank has analysed the potential impact on the corporate portfolio and clients. With the aim of prompt identification and mitigation of related risks, the Bank has carried out analysis in which higher energy prices have been taken into account and the impact on bank's clients has been assessed. According to the simulation, the Bank does not expect that the energy crisis should have a significant effect on the credit quality of the corporate portfolio, business operations or capital and liquidity adequacy ratios.

Large exposures

In order to limit the risk of large exposure, the Bank monitors the single-name credit concentration risk. The largest allowed exposure to a single borrower and connected entities is limited by CRR Regulation and should not exceed 25 per cent of the Bank's TIER1 capital. In case of exposure to banks or banking groups, the maximum allowed exposure is EUR 150 million or 25 per cent of the Bank's TIER1 capital, depending on which limit is higher. If the banking group also includes entities other than banks, the sum of exposures to these entities may not exceed 25 per cent of the TIER1 capital.

Financial instruments' breakdown by country risk

Country risk

(in thousands of euros)

As at 31 December 2022	Slovenia	EU	Of which Italy	Other Europe	Rest of world	Total
Cash, cash balances at central banks and other demand deposits at banks	792,364	16,426	13,040	-	2,692	811,482
Financial assets held for trading						
- financial assets held for trading – derivatives	1,174	412	412	-	-	1,586
Non-trading financial assets mandatorily at fair value through profit or loss	699	365	365	-	1,491	2,555
Financial assets at fair value through other comprehensive income	130,257	127,749	20,087	-	-	258,006
Financial assets at amortised cost	2,146,853	329,281	152,990	79,669	2,867	2,558,670
- loans to banks	1,451	148,530	148,530	1,544	-	151,525
- loans to customers	2,133,539	179,714	4,437	78,125	203	2,391,581
- advances	11,863	1,037	23	-	2,664	15,564
Derivatives - hedge accounting	-	45,298	45,298	-	-	45,298
Contingent liabilities and commitments	616,721	29,891	1,055	2,323	1,204	650,139
TOTAL EXPOSURES	3,688,068	549,422	233,247	81,992	8,254	4,327,736

(in thousands of euros)

As at 31 December 2021	Slovenia	EU	Of which Italy	Other Europe	Rest of world	Total
Cash, cash balances at central banks and other demand deposits at banks	864,677	14,060	10,339	-	2,552	881,289
Financial assets held for trading						
- financial assets held for trading – derivatives	65	282	282	-	-	347
Non-trading financial assets mandatorily at fair value through profit or loss	699	283	-	-	2,800	3,782
Financial assets at fair value through other comprehensive income	181,337	51,105	40,385	-	3,117	235,559
Financial assets at amortised cost	1,989,715	234,869	94,747	75,488	1,757	2,301,829
- loans to banks	1,240	90,269	90,269	16,334	-	107,843
- loans to customers	1,983,079	143,289	4,447	59,153	34	2,185,555
- advances	5,396	1,311	31	1	1,723	8,431
Derivatives - hedge accounting	-	547	547	-	-	547
Contingent liabilities and commitments	529,166	37,833	1,310	5,322	691	573,012
TOTAL EXPOSURES	3,565,659	338,979	147,610	80,810	10,917	3,996,365

3.4 ANALYSIS OF PAST DUE FINANCIAL INSTRUMENTS

Past due financial instruments relate only to the loans portfolio, meanwhile other financial instrument portfolios do not record delays.

Loans are summarised as follows:

Loans by maturity (past due)

(in thousands of euros)

	2022		2021	
	Loans and advances to customers (loans FVTPL included)	Loans and advances to banks	Loans and advances to customers (loans FVTPL included)	Loans and advances to banks
Neither past due nor impaired (stage 1 and stage 2)	2,402,138	151,737	2,198,035	107,875
Past due but not impaired (stage 1 and 2)	10180	-	879	-
Impaired	29,227	-	32,944	-
Gross	2,441,545	151,737	2,231,858	107,875
Impairment losses on loans	(49,964)	(212)	(46,303)	(32)
Net	2,391,581	151,525	2,185,555	107,843

Neither past due nor impaired loans are considered to be of a sound credit quality. The Bank is closely monitoring the clients with occasional delay in repayment.

Loans to customers by maturity and portfolio quality

(in thousands of euros)

31 December 2022	Individuals							Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases	Sole proprietors	Corporate	
Total neither past due nor impair	17,592	8,804	161,669	693,456	1,651	56,735	1,462,231	2,402,138
Not past due but impaired (stage 3)	378	183	3,868	6,704	-	600	4,728	16,461
Past due but not impaired (stage 1 and 2)	161	4	259	218	3	219	9,316	10,180
Past due and impaired (stage 3)	401	317	2,651	1,857	76	831	6,633	12,766
Gross	18,532	9,308	168,447	702,235	1,730	58,385	1,482,908	2,441,545
Impairment losses on loans and advances	(951)	(607)	(8,734)	(16,308)	(83)	(2,790)	(20,491)	(49,964)
Net	17,581	8,701	159,713	685,927	1,647	55,595	1,462,417	2,391,581

Loans to customers by maturity and portfolio quality

(in thousands of euros)

31 December 2021	Individuals							Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases	Sole proprietors	Corporate	
Total neither past due nor impair	17,653	8,649	151,578	605,624	2,993	53,676	1,357,862	2,198,035
Not past due but impaired (stage 3)	395	208	3,094	6,903	-	716	9,649	20,965
Past due but not impaired (stage 1 and 2)	161	10	243	172	5	41	247	879
Past due and impaired (stage 3)	515	362	1,810	1,779	238	889	6,386	11,979
Gross	18,724	9,229	156,725	614,478	3,236	55,322	1,374,144	2,231,858
Impairment losses on loans and advances	(1,114)	(708)	(6,983)	(14,140)	(298)	(3,451)	(19,609)	(46,303)
Net	17,610	8,521	149,742	600,338	2,938	51,871	1,354,535	2,185,555

Loans under "not past due but impaired" relate mainly to restructured loans.

Ageing of past due loans to customers by type of customer, product and portfolio quality

(in thousands of euros)

31 December 2022	Individuals										Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		Finance leases		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	101	7	3	-	236	97	209	57	3	2	715
Past due 30 - 60 days	25	13	1	-	16	69	6	25	-	9	164
Past due 60 - 90 days	30	40	-	1	7	411	3	273	-	17	782
Past due over 90 days	5	341	-	316	-	2,074	-	1,502	-	48	4,286
Total	161	401	4	317	259	2,651	218	1,857	3	76	5,947

(in thousands of euros)

31 December 2022	Sole proprietors		Corporate entities		Total		
	Not impaired	Impaired	Not impaired	Impaired			
Past due up to 30 days		147		12	9,185	157	9,501
Past due 30 - 60 days		7		47	23	192	269
Past due 60 - 90 days		65		111	107	615	898
Past due over 90 days		0		661	1	5,669	6,331
Total		219		831	9,316	6,633	16,999

Ageing of past due loans to customers by type of customer, product and portfolio quality

(in thousands of euros)

31 December 2021	Individuals										Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		Finance leases		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	95	12	7	-	225	94	162	118	3	4	720
Past due 30 - 60 days	45	16	2	-	14	96	7	71	1	4	256
Past due 60 - 90 days	20	27	1	-	4	195	3	63	-	11	324
Past due over 90 days	1	460	-	362	-	1,425	-	1,527	1	219	3,995
Total	161	515	10	362	243	1,810	172	1,779	5	238	5,295

(in thousands of euros)

31 December 2021	Sole proprietors		Corporate entities		Total		
	Not impaired	Impaired	Not impaired	Impaired			
Past due up to 30 days		32		172	150	677	1,031
Past due 30 - 60 days		7		34	57	127	225
Past due 60 - 90 days		2		35	40	205	282
Past due over 90 days		-		648	-	5,377	6,025
Total		41		889	247	6,386	7,563

The breakdown of the gross amount of impaired loans by class, along with the fair value of related collateral held by the Bank as security, is as follows:

(in thousands of euros)

2022	Individuals	Sole proprietors	Corporate entities	Total
Impaired loans	16,435	1,432	11,361	29,228
Fair value of collateral	21,002	2,349	9,757	33,108

(in thousands of euros)

2021	Individuals	Sole proprietors	Corporate entities	Total
Impaired loans	15,304	1,606	16,034	32,944
Fair value of collateral	22,487	2,933	13,320	38,740

In 2022, the Bank received EUR 3,184 thousand from the sale of pledged collateral (2021: EUR 6,499 thousand).

3.5 LIQUIDITY RISK

Liquidity risk is defined as the risk of not being able to meet payment obligations as they fall due, with the reason being difficulty to finance liquidity needs or to convert marketable assets into cash, including potential losses incurred due to forced trades. In order to manage liquidity risk, the Bank monitors liquidity ratio levels and mandatory reserves on a daily basis in order to maintain adequate liquidity position.

The liquidity position of the Bank is monitored with two additional ratios, the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The ratios have been introduced globally as principal liquidity measures necessary to ensure a minimum short-term liquidity as well as long-term balanced funding of banks. Other than the abovementioned indicators, the Bank also calculates the so-called "Survival period", which is meant for monitoring the Bank's liquidity position in uncertain (stress) situations. The Survival Period Indicator measures the first day in which the Net Liquidity Position (calculated as difference between the available Liquidity Reserves and the net outflows expected until that date) of the Bank turns negative during stress, namely when the additional liquidity to cover the simulated net liquidity outflows is no longer available.

LCR is calculated in accordance with the Delegated Act Regulation (2015/61) and Delegated Act Regulation (2018/1620). LCR, NSFR and Survival Period indicators are regularly reported to ALCO, Risk Committee, Audit Committee, Supervisory Board and to the Bank of Slovenia through regulatory reporting requirements.

Liquidity ratios

	31.12.2022	31.12.2021	31.12.2020
LCR	250%	264%	225%
NSFR	164%	158%	151%
Survival Period	Over 5 years	Over 5 years	Over 5 years

The LCR and NSFR ratios through the past period were stable, showing no significant movement and compliant with the regulatory limit. Internal RAF limits were set at 107.5% for LCR and 102.5% for NSFR until February 2022 and after that at 110% for LCR and NSFR remained unchanged. The liquidity buffer is comprised mostly from withdrawable central bank reserves and to lesser extent from government bonds.

The Treasury and ALM Department manages liquidity at the operating level through daily cash-flow planning and maintains an adequate amount of eligible assets as collateral necessary for refinancing with the ECB.

The measures aimed at managing a liquidity crisis are defined with the Contingent Liquidity Plan, establishing early warning indicators and roles and actions to be considered in adverse financial circumstances.

Maturities of assets and liabilities - Non-derivative cash flows by contractual maturities

(in thousands of euros)

As at 31 December 2022	Contractual maturity - undiscounted						
	Carrying amount	Gross nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5
ASSETS							
Cash, cash balances at Central Banks and other demand deposits at banks	811,482	811,491	781,682	-	-	-	29,809
Non-trading financial assets mandatorily at fair value through profit or loss	2,555	2,555	-	-	-	2,555	-
Financial assets at fair value through other comprehensive income	258,006	262,927	20,350	10,715	67,037	154,444	10,381
Loans and receivables: [*]	2,558,670	2,586,066	152,843	87,372	399,164	1,039,090	907,597
- loans to banks	151,525	151,737	79,807	5	10,251	60,000	1,674
- loans to customers	2,391,581	2,418,765	64,716	80,123	388,913	979,090	905,923
- other financial assets	15,564	15,564	8,320	7,244	-	-	-
Total assets	3,630,713	3,663,039	954,875	98,087	466,201	1,196,089	947,787
LIABILITIES							
Financial liabilities measured at amortised cost:	3,347,724	3,347,722	3,120,703	37,475	111,600	57,898	20,046
- deposits from banks and central banks	44,634	44,634	1,490	-	43,144	-	-
- deposits from non-bank customers	3,207,760	3,207,760	3,098,237	36,699	65,886	6,892	46
- loans from banks and central banks	73,066	73,065	105	573	1,727	50,660	20,000
- financial leasing	1,527	1,526	134	203	843	346	-
- other financial liabilities	20,737	20,737	20,737	-	-	-	-
Total liabilities	3,347,724	3,347,722	3,120,703	37,475	111,600	57,898	20,046
Net liquidity gap	282,989	315,317	(2,165,828)	60,612	354,601	1,138,191	927,741

(in thousands of euros)

As at 31 December 2021	Contractual maturity - undiscounted						
	Carrying amount	Gross nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5
Total assets	3,422,459	3,437,539	960,720	121,923	403,618	1,083,293	867,985
Total liabilities	3,117,568	3,117,568	2,668,900	46,861	89,449	312,001	357
Net liquidity gap	304,891	319,971	(1,708,180)	75,062	314,169	771,292	867,628

^{*} items presented in the above table include performing items which are presented in gross amount and non-performing exposures which are presented in net amount.

The negative net liquidity gap in the 1-month time bucket should be viewed with additional consideration of specific liquidity profile of some balance sheet items, particularly with sight deposits, of which balances during 2022 kept increasing. Although sight deposits can be withdrawn at any time, they are considered (for liquidity management purposes) to be largely stable. This is demonstrated by the LCR treatment of sight deposits, whereby the run-off factor is 5%, representing the percentage of sight deposits deemed volatile in 1-month horizon. Moreover, on the assets side, the financial assets available for sale include ECB eligible bonds, which are treated as liquidity reserves entering in the 1-month maturity bucket. The stable part of sight deposits and ECB eligible bonds counterbalance the 1-month net liquidity gap.

Maturities of derivatives held for trading - cash flows by contractual maturity

(in thousands of euros)

As at 31 December 2022	Contractual maturity						
	Carrying amount	Nominal In-flow/(outflow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
DERIVATIVE ASSETS							
Derivatives held for trading:							
Interest rate swap (IRS)	333	332	4	16	101	209	2
- Inflow	-	352	5	17	105	222	3
- Outflow	-	(20)	(1)	(1)	(4)	(13)	(1)
FX Forward (FWD)	1,174	948	180	-	768	-	-
- Inflow	-	24,434	4,915	-	19,519	-	-
- Outflow	-	(23,486)	(4,735)	-	(18,751)	-	-
Interest rate cap (CAP)	79	79	-	-	-	4	75
- Inflow	-	79	-	-	-	4	75
- Outflow	-	-	-	-	-	-	-
Total	1,586	1,359	184	16	869	213	77
DERIVATIVE LIABILITIES							
Derivatives held for trading:							
Interest rate swap (IRS)	333	(332)	(4)	(16)	(101)	(209)	(2)
- Inflow	-	20	1	1	4	13	1
- Outflow	-	(352)	(5)	(17)	(105)	(222)	(3)
FX Forward (FWD)	1,163	(937)	(153)	-	(784)	-	-
- Inflow	-	23,486	4,735	-	18,751	-	-
- Outflow	-	(24,423)	(4,888)	-	(19,535)	-	-
Total	1,496	(1,269)	(157)	(16)	(885)	(209)	(2)
Net liquidity gap		90	27	-	(16)	4	75

(in thousands of euros)

As at 31 December 2021	Contractual maturity						
	Carrying amount	Nominal In-flow/(outflow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	347	340	110	90	102	19	19
Total liabilities	324	(318)	(110)	(87)	(103)	(18)	-
Total gap		22	-	3	(1)	1	19
Net liquidity gap		22	-	3	(1)	1	19

Maturities of derivatives held for hedging - cash flows by contractual maturity

(in thousands of euros)

As at 31 December 2022	Contractual maturity						
	Carrying amount	Nominal In-flow/(outflow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
DERIVATIVE ASSETS							
Interest rate swap (IRS)	45,298	45,194	270	979	5,883	21,874	16,188
- Inflow	-	65,283	963	1,551	7,852	30,273	24,644
- Outflow	-	(20,089)	(693)	(572)	(1,969)	(8,399)	(8,456)
Total assets	45,298	45,194	270	979	5,883	21,874	16,188
DERIVATIVE LIABILITIES							
Interest rate swap (IRS)	-	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-	-
- Outflow	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-
Net liquidity gap		45,194	270	979	5,883	21,874	16,188

(in thousands of euros)

As at 31 December 2021	Contractual maturity						
	Carrying amount	Nominal In-flow/(outflow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	547	437	(32)	(71)	(276)	(252)	1,068
Total liabilities	12,605	(12,476)	(805)	(625)	(3,150)	(6,427)	(1,469)
Total gap		(12,039)	(837)	(696)	(3,426)	(6,679)	(401)

Contractual maturities of off-balance sheet items*

(in thousands of euros)

As at 31 December 2022	Up to 1	1-3 months	3-12 months	1-5 years	Over 5	Total
Documentary and commercial letters of credit	-	-	-	160	-	160
Guarantees	5,702	53,131	105,682	45,294	6,840	216,649
Credit commitments	160,284	37,209	183,701	52,267	3,425	436,886
Total	165,986	90,340	289,383	97,721	10,265	653,695

(in thousands of euros)

As at 31 December 2021	Up to 1	1-3 months	3-12 months	1-5 years	Over 5	Total
Documentary and commercial letters of credit	160	-	-	-	-	160
Guarantees	2,528	26,225	96,082	41,958	2,975	169,768
Credit commitments	157,020	17,833	120,457	38,900	70,625	404,835
Total	159,708	44,058	216,539	80,858	73,600	574,763

* items presented in the above table include performing items which are presented in gross amount and non-performing exposures which are presented in net amount.

Financial assets available to support future funding

(in thousands of euros)

As at 31 December 2022	Encumbered		Non-encumbered	
	Pledged as collateral	Other	Available as collateral	Other
Loans on demand	-	29,809	-	763,131
Equity instruments	-	-	-	11,445
Debt securities	19,843	-	227,782	1,491
Loans and advances other than loans on demand	-	102	248,216	2,310,351
Other assets	-	-	-	80,323
Total	19,843	29,911	475,998	3,166,741

(in thousands of euros)

As at 31 December 2021	Encumbered		Non-encumbered	
	Pledged as collateral	Other	Available as collateral	Other
Loans on demand	-	26,598	-	834,625
Equity instruments	-	-	-	14,939
Debt securities	99,705	-	121,896	2,800
Loans other than loans on demand	253,092	12,431	34,184	2,002,122
Other assets	-	-	-	70,181
Total	352,797	39,029	156,080	2,924,667

Bank's liquidity reserves

(in thousands of euros)

	31. 12. 2022		31. 12. 2021	
	Gross Carrying amount	Fair value amount	Gross Carrying amount	Fair value amount
Balances with central bank	443	443	797,262	797,262
Margin deposit with central bank	691,000	691,000	-	-
Balances with clearing agent for BIPS payments	48,987	48,987	17,503	17,503
Balances with banks up to 90 days	99,448	99,448	52,633	52,633
Unencumbered debt securities issued by sovereigns	177,222	168,217	121,896	112,507
Unencumbered debt securities eligible for use as collateral with central bank	55,826	54,357	5,841	5,234
Loans to customers eligible for use as collateral with central bank	257,416	200,287	34,205	29,079
Total	1,330,342	1,262,741	1,029,340	1,014,218

3.6 BANKING BOOK EQUITY RISK

Equity risk can be defined as the financial risk involved in holding positions in available-for-sale equity investments (i.e., shares or equity participations), mainly in the form of unexpected losses arising from a drop in the market price of these investments. In principle, equity risk can also be understood as a form of market risk (see below).

The Bank acquired these equity investments mainly by taking possession of financial collaterals that it received during its normal lending activity. These investments are managed with the aim of disposal in order to recover the Bank's credit exposures. In fact, most of these positions were already disposed of in the previous years; just a few very limited equity positions are still left in the Bank's balance sheet as of the end of 2022 (Note 23).

3.7 MARKET RISK

Market risk can be defined as the risk of losses in on- and off-balance sheet positions arising from adverse movements in market prices. It is caused by the Bank's trading activities that it performs with the aim of responding to customer demand. These activities mostly consist of buying and selling currency and various derivative contracts.

The operational risk arising from the Bank's trading activities is managed by a clear division between the front and back-office operations. This assures adequate controls and a separation of key functions.

The Bank has established internal market risk limits on:

- Fixed Income VaR indicator,
- FX VaR indicator, open foreign currency positions and
- on Credit Sensitivity (CR01) of Italian government bonds.

3.7.1 Derivative instruments

The Bank performs derivative transactions only for the purpose of serving customers requests and for hedging its own exposure towards interest rate risk. Since the Bank is not willing to assume any financial risk embedded in derivative contracts (i.e., position risk or change in the fair value of a derivative due to change in the value of the underlying asset), every single transaction is fully hedged back-to-back by immediately executing an offsetting transaction. The Bank assumes only the counterparty risk in these transactions, i.e. risk of substituting the original contract with the other counterparty. The counterparty credit risk for the purpose of internal credit risk monitoring is determined as an amount equal to the replacement cost, which is calculated as the highest value between a positive fair value of the instrument and a percentage of the nominal amount equivalent to the counterparty credit risk. The credit counterparty risk percentage is determined by an internal model and applied according to the type and maturity of each derivative contract.

3.7.2 Currency Risk

When it holds an open position in a foreign currency, the Bank is exposed to currency risk, i.e. the risk of losses arising from changes in the relative valuation of particular currencies. An open currency position in a particular foreign currency can be defined as the difference between assets and liabilities denominated in that currency.

For the purpose of measuring currency risk, the Bank takes into account the notional position (i.e. net difference between assets and liabilities in that currency) in a particular currency, FX spot transactions and currency derivatives. The Bank measures and monitors currency risk on a daily basis in two dimensions:

- as a notional open position in a particular currency, and
- as a Value-at-Risk (VAR) indicator for its global currency position.

The Value-at-Risk is a statistical estimation of a maximum loss at the 99-percent confidence level over a 1-day period. The VaR measure is proportional to the particular currency's open position as well as to the exchange rate volatility.

The average utilisation of the FX VaR limit in 2022 stood at 8.46% (2021: 6.02%), while the average utilisation of the Fixed Income VaR limit stood at 42.73% (2021: 17.79%).

Bank VAR by risk type

(in thousands of euros)

	12 months to 31 December 2022			12 months to 31 December 2021		
	Average	High	Low	Average	High	Low
Foreign exchange risk (trading and non-trading portfolio)	2,5	9,9	0,7	1,8	6,2	0,4
Debt securities risk (banking book)	213,7	306,0	58,0	97,8	200,0	59,0
Total VAR	216,2	315,9	58,7	99,6	206,2	59,4

Currency risk

A foreign currency is considered "significant" if the aggregate liabilities denominated in that currency amount to 5% or more of the Bank's total liabilities. Currently, no currency position is exceeding this threshold.

(in thousands of euros)

As at 31 December 2022	EUR	USD	Other	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	790,851	10,839	9,792	811,482
Financial assets held for trading				
- financial assets held for trading	412	1,174	-	1,586
Non-trading financial assets mandatorily at fair value through profit or loss	1,064	1,491	-	2,555
Financial assets at fair value through other comprehensive income	217,258	40,748	-	258,006
Financial assets at amortised cost	2,478,816	56,306	23,548	2,558,670
- Loans to banks	73,205	56,268	22,052	151,525
- Loans to customers	2,390,134	-	1,447	2,391,581
- Other financial assets	15,477	38	49	15,564
Derivatives - hedge accounting	44,065	1,233	-	45,298
Total	3,532,466	111,791	33,340	3,677,597
LIABILITIES				
Financial liabilities held for trading				
Financial liabilities held for trading	333	1,163	-	1,496
Financial liabilities measured at amortised cost	3,202,427	110,489	34,808	3,347,724
- Deposits from banks and central banks	44,634	-	-	44,634
- Deposits from non-bank customers	3,063,027	109,989	34,744	3,207,760
- Loans from banks and central banks	73,066	-	-	73,066
- Other financial liabilities	21,700	500	64	22,264
Total	3,202,760	111,652	34,808	3,349,220
CURRENCY GAP	329,706	139	(1,468)	328,377
Part of off-balance-sheet commitments sensitive to exchange rate changes in the year	444,293	-	-	444,293

(in thousands of euros)

As at 31 December 2021	EUR	USD	Other	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	862,150	7,354	11,785	881,289
Financial assets held for trading	75	272	-	347
Non-trading financial assets mandatorily at fair value through profit or loss	699	2,800	283	3,782
Financial assets at fair value through other comprehensive income	177,688	57,871	-	235,559
Financial assets at amortised cost	2,281,502	1,224	19,103	2,301,829
- Loans to banks	90,080	882	16,881	107,843
- Loans to customers	2,182,992	341	2,222	2,185,555
- Other financial assets	8,430	1	-	8,431
Derivatives - hedge accounting	547	-	-	547
Total	3,322,661	69,521	31,171	3,423,353
LIABILITIES				
Financial liabilities held for trading	55	269	-	324
Financial liabilities measured at amortised cost	3,018,709	67,929	30,930	3,117,568
- Deposits from banks and central banks	490	-	-	490
- Deposits from non-bank customers	2,690,314	67,727	30,918	2,788,959
- Loans from banks and central banks	299,280	-	-	299,280
- Other financial liabilities	28,625	202	12	28,839
Derivatives - hedge accounting	11,872	733	-	12,605
Total	3,030,636	68,931	30,930	3,130,497
CURRENCY GAP	292,025	590	241	292,856
Part of off-balance-sheet commitments sensitive to exchange rate changes in the year	411,432	10	-	411,442

3.7.3 Interest rate risk

The table below summarises the Bank's exposure to interest rate risk. The assets and liabilities are recorded at carrying value, while the residual maturity is presented by contractual maturity for fixed-rate positions and by next contractual re-pricing date for floating rate positions.

Since for the fixed interest rate positions it is assumed that after contractual expiration they will be reinvested or refinanced according to then prevailing market conditions, they were also included in the table below presenting the sensitivity to interest rate risk.

Interest rate risk

(in thousands of euros)

As at 31 December 2022	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
ASSETS							
Cash and balances with central banks and other demand deposits at banks	811,482	811,482	-	-	-	-	-
Financial assets held for trading - derivatives	1,586	-	79	-	233	100	1,174
Non-trading financial assets mandatorily at fair value through profit or loss	2,555	-	-	-	1,491	-	1,064
Financial assets at fair value through other comprehensive income	258,006	30,375	10,002	55,526	151,722	-	10,381
Financial assets at amortised cost:	2,558,670	977,803	120,013	381,155	596,438	467,697	15,564
- loans to banks	151,525	79,862	1,452	10,235	59,976	-	-
- loans to customers	2,391,581	897,941	118,561	370,920	536,462	467,697	-
- other financial assets	15,564	-	-	-	-	-	15,564
Derivatives – Hedge accounting	45,298	42,053	2,104	1,141	-	-	-
Total assets	3,677,597	1,861,713	132,198	437,822	749,884	467,797	28,183
LIABILITIES							
Financial liabilities - derivatives	1,496	233	-	100	-	-	1,163
Financial liabilities measured at amortised cost:	3,347,724	3,143,645	48,468	66,432	46,915	20,000	22,264
- deposits from banks and central banks	44,634	44,634	-	-	-	-	-
- deposits from non-bank customers	3,207,760	3,098,236	36,746	65,886	6,892	-	-
- loans from banks and central banks	73,066	775	11,722	546	40,023	20,000	-
- other financial liabilities	22,264	-	-	-	-	-	22,264
Derivatives – Hedge accounting	-	-	-	-	-	-	-
Total liabilities	3,349,220	3,143,878	48,468	66,532	46,915	20,000	23,427
Total interest repricing gap	328,377	(1,282,165)	83,730	371,290	702,969	447,797	4,756

(in thousands of euros)

As at 31 December 2021	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
Total assets	3,423,353	1,113,509	1,014,431	309,640	577,076	385,006	23,691
Total liabilities	3,130,497	2,655,252	342,911	87,915	15,247	64	29,108
Total interest repricing gap	292,856	(1,541,743)	671,520	221,725	561,829	384,942	(5,417)

The Bank measures the following sources of interest rate risk:

- repricing risk, stemming from a different interest rate adjustment of assets and liabilities to market interest rate changes. For fixed rate contracts, the interest rate can be adjusted to market rate only at maturity, while floating rate contracts are adjusted according to contract revision of the interest rate and adjustment to market reference rate;
- basis risk arises from imperfect correlation between different types of interest rates, which are relevant market rate reference for floating rate contracts;
- yield curve risk, refers to changes in the slope and shape of the yield curve;
- optionality risk, refers to optionality embedded in the Group's assets, liabilities and off-balance sheet instruments.

Interest rate risk is measured from two perspectives: it is analysed through the impact of market rate change on net present value of future cash flows and, on the other hand, it is viewed through the impact of market rate changes on net interest income and therefore on the Bank's annual financial results.

Accordingly, the following data are regularly reported to the Asset and Liability Committee:

- Sensitivity of net interest income to a yield curve parallel shift of +/-50 bps over a 1-year time horizon;
- Sensitivity of economic value or net present value of future cash flows to a yield curve parallel shift of +/- 100 bps and +/- 200 bps;
- Quarterly, the Bank calculates Shift Sensitivity according to the Basel Committee of Banking Supervision (BCBS) prescribed shock scenarios.

The measurement of Interest rate risk is further improved by using the following models:

- **Sight model:** Assets and liabilities without contractual maturities are classified into specific time buckets based on their estimated sensitivity on changes in interest rates. The sight model was updated with data until April 2022 as part of periodic review done by ISP HQ. The updated model was then confirmed by GFRC at the end of July 2022, confirmed by the Bank's ALCO in August and at the end implemented by the Bank in September. Overall, the main effect of changes came from increase of volumes, as sight deposits increased by 15% with respect to the amount in April 2021. Increase of volumes had a total effect on the Sight model in Shift Sensitivity calculation, by adding EUR 3.4 mln (from EUR 24.3 mln to EUR 27.6 mln). This resulted in an increase in the contribution of the net present value sensitivity of sight deposits to the total sensitivity by around 8.1% (EUR 2.1 mln).
- **Prepayment model:** It is based on the probability that some of the outstanding loans will be paid off earlier than originally scheduled. Consequently, the planned cash flows of the outstanding loans are modified for the level of prepayment rate.
- **Expected loss model:** Cash flows of outstanding loans are modified for the probability of default and LGD rate originating from credit risk.
- **Fund Transfer Pricing model:** The entire spread on loans above the reference rate is divided into cost of funding and commercial spread. For interest-sensitive cash flows, only the spread representing cost of funding is taken.

Sensitivity of net interest income of the Bank as of 31 December 2022

(mln EUR)

	+50 b.p.			+100 b.p.			-50 b.p.			-100 b.p.		
	Sight	Term	Total	Sight	Term	Total	Sight	Term	Total	Sight	Term	Total
Total	1.2	5.2	6.4	2.4	12.5	14.9	(1.2)	(5.2)	(6.4)	(2.4)	(12.5)	(14.9)
Asset	4.0	4.7	8.7	7.9	9.5	17.4	(4.0)	(4.7)	(8.7)	(7.9)	(9.5)	(17.4)
Sight Loans*	4.0	-	4.0	7.9	-	7.9	(4.0)	-	(4.0)	(7.9)	-	(7.9)
Securities												
FX	-	0.2	0.2	-	0.4	0.4	-	(0.2)	(0.2)	-	(0.4)	(0.4)
FL	-	-	-	-	0.1	0.1	-	-	-	-	(0.1)	(0.1)
Loans												
FX	-	1.1	1.1	-	2.3	2.3	-	(1.1)	(1.1)	-	(2.3)	(2.3)
FL	-	3.4	3.4	-	6.7	6.7	-	(3.4)	(3.4)	-	(6.7)	(6.7)
Other Financial Assets												
FX	-	-	-	-	-	-	-	-	-	-	-	-
FL	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities	(2.8)	(1.1)	(3.9)	(5.5)	(0.2)	(5.7)	2.8	1.1	3.9	5.5	0.2	5.7
Sight Deposits	(2.8)	-	(2.8)	(5.5)	-	(5.5)	2.8	-	2.8	5.5	-	5.5
Securities Issued												
FX	-	-	-	-	-	-	-	-	-	-	-	-
FL	-	-	-	-	-	-	-	-	-	-	-	-
Debts												
FX	-	(1.1)	(1.1)	-	(0.1)	(0.1)	-	1.1	1.1	-	0.1	0.1
FL	-	-	-	-	(0.1)	(0.1)	-	-	-	-	0.1	0.1
Other Financial Liabilities												
FX	-	-	-	-	-	-	-	-	-	-	-	-
FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives	-	1.6	1.6	-	3.2	3.2	-	(1.6)	(1.6)	-	(3.2)	(3.2)

Cash flows slotted into time buckets according to their maturity or repricing date as of 31 December 2022

(mln EUR)

		Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
Total		385.55	321.59	(92.18)	30.44	67.63	16.05	42.04
Asset		3,723.38	2,648.99	276.82	317.4	281.96	121.11	77.1
Sight Loans*		812.88	812.88	-	-	-	-	-
Securities	FX	245.57	196.28	26.74	22.55	-	-	-
	FL	10.02	10.02	-	-	-	-	-
Loans	FX	1,498.26	472.15	252.4	295.37	281.96	120.03	76.35
	FL	1,139.26	1,140.27	(2.32)	(0.52)	-	1.08	0.75
Other Financial Assets	FX	17.39	17.39	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Liabilities		(3,315.78)	(2,637.54)	(306.89)	(232.15)	(103.11)	(36.07)	-
Sight Deposits		(2,929.71)	(2,321.61)	(294.09)	(198.39)	(79.54)	(36.07)	-
Securities Issued	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Debts	FX	(346.60)	(276.54)	(12.73)	(33.75)	(23.57)	-	-
	FL	(12.78)	(12.70)	(0.07)	(0.01)	-	-	-
Other Financial Liabilities	FX	(26.69)	(26.69)	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Derivatives		(22.05)	310.14	(62.11)	(54.81)	(111.22)	(68.99)	(35.06)

Sensitivity of net interest income of the Bank as of 31 December 2021

(mln EUR)

		+50 b.p.			+100 b.p.			-50 b.p.			-100 b.p.		
		Sight	Term	Total	Sight	Term	Total	Sight	Term	Total	Sight	Term	Total
Total		1.6	6.0	7.6	2.8	12.2	15.0	(1.8)	(3.8)	(5.6)	(1.6)	(2.7)	(4.3)
Asset		4.4	4.9	9.3	8.5	10.0	18.5	(4.3)	(4.3)	(8.6)	(4.5)	(4.5)	(9.0)
Sight Loans*		4.4	-	4.4	8.5	-	8.5	(4.3)	-	(4.3)	(4.5)	-	(4.5)
Securities	FX	-	0.4	0.4	-	0.8	0.8	-	(0.4)	(0.4)	-	(0.4)	(0.4)
	FL	-	0.1	0.1	-	0.2	0.2	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Loans	FX	-	0.8	0.8	-	1.6	1.6	-	(0.7)	(0.7)	-	(0.8)	(0.8)
	FL	-	3.6	3.6	-	7.4	7.4	-	(3.1)	(3.1)	-	(3.2)	(3.2)
Other Financial Assets	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities		(2.8)	(0.7)	(3.5)	(5.7)	(1.3)	(7.0)	2.5	2.1	4.6	2.9	3.6	6.5
Sight Deposits		(2.8)	-	(2.8)	(5.7)	-	(5.7)	2.5	-	2.5	2.9	-	2.9
Securities Issued	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Debts	FX	-	(0.6)	(0.6)	-	(1.2)	(1.2)	-	0.6	0.6	-	0.7	0.7
	FL	-	(0.1)	(0.1)	-	(0.1)	(0.1)	-	1.5	1.5	-	2.9	2.9
Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives		-	1.8	1.8	-	3.5	3.5	-	(1.6)	(1.6)	-	(1.8)	(1.8)

Cash flows slotted into time buckets according to their maturity or repricing date as of 31 December 2021

(mln EUR)

		Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
Total		347.91	382.36	(112.67)	8.92	54.39	(18.66)	33.57
Asset		3,440.80	2,542.05	248.93	277.12	224.89	97.84	49.97
Sight Loans*		876.33	876.33	-	-	-	-	-
Securities	FX	186.30	117.75	50.87	17.68	-	-	-
	FL	30.27	30.22	0.05	-	-	-	-
Loans	FX	1,105.65	293.94	194.35	255.50	218.30	94.67	48.89
	FL	1,242.25	1,223.81	3.66	3.94	6.59	3.17	1.08
Other Financial Assets	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Liabilities		(3,074.56)	(2,533.73)	(251.73)	(188.26)	(69.48)	(31.36)	-
Sight Deposits		(2,592.86)	(2,041.94)	(262.35)	(187.84)	(69.37)	(31.36)	-
Securities Issued	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Debts	FX	(195.59)	(190.85)	(4.27)	(0.36)	(0.11)	-	-
	FL	(286.11)	(300.94)	14.89	(0.06)	-	-	-
Other Financial Liabilities	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Derivatives		(18.33)	374.04	(109.87)	(79.94)	(101.02)	(85.14)	(16.40)

* Sight loans and deposits are those available on demand

General note: Cash flows in the table above also include future interests.

The Bank follows specific rules that allow adequate cash flow representation based on actual contractual interest rates and relevant yield curve shifts. The Bank is applying floors on contractual interest rates for customer's sight deposits when according to the shift scenario the rates drop below zero, in order to replicate actual circumstances on the market. In addition, for representation of sight deposits, a model which estimates the partial and delayed changes in customer rates compared to changes in market interest rates is used. In order to control quantitatively the Bank's interest margin risk, a limit of EUR -11 million has been set up for a +/- 50 bp interest rates change. The impact on the Bank's interest margin due to an increase of market interest rates for 50 bp according to data as of end 2022 would be positive, in the amount EUR 6.4 million, while in case of an instantaneous 50 bp drop in interest rates, the impact would be negative EUR 6.5 million. The largest part of the margin sensitivity arises from the floating rate loans to customer exposure class.

The impact of 100 bps interest rate parallel shift on net present value of the Bank's interest-bearing assets and liabilities, as at 31 December 2022

(mln EUR)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	(5.17)	(1.71)	2.46	0.52	(2.33)	(0.44)	(3.67)
USD	(0.12)	(0.12)	0.0	0.0	0.0	0.0	0.0
CHF	(0.00)	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shift	(5.29)	(1.83)	2.46	0.52	(2.33)	(0.44)	(3.67)
Limit	+10/-11						
Utilisation %	48.2%						

The impact of 100 bps interest rate parallel shift on net present value of the Bank's interest-bearing assets and liabilities, as at 31 December 2021

(mln EUR)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	(1.33)	(1.19)	3.32	0.44	(1.89)	2.95	(4.96)
USD	(0.24)	(0.06)	(0.18)	0.00	0.00	0.00	0.00
CHF	(0.02)	(0.01)	0.00	0.00	0.00	(0.01)	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Shift	(1.59)	(1.26)	3.14	0.44	(1.89)	2.94	(4.96)
Limit	+10/-11						
Utilisation %	14.5 %						

In the table is presented the interest rate risk exposure of the Bank in terms of shift sensitivity (EVE - economic value of equity), which measures the change of net present value of future cash-flows as a result of parallel shift of market yield curve by 100 b.p. Each time-bucket shows the impact of interest rate change on net present value of cash-flows, distributed by time tenors according to residual time to the next repricing. The most significant exposure is in EUR currency, while the risk for other currencies is less material. The total exposure limit for +100 bps shift sensitivity amounts to EUR +10.0/-11.0 million, while the actual exposure at reference date is EUR -5.30 million. For the EVE measure, a floor assumption on market rates for negative shocks is in place. In 2019, EBA, through its Guidelines (EBA/GL/2018/02), introduced a non-constant floor that starts from a value of -100 b.p. and increases by 5 b.p. per year, until eventually reaching 0% for maturities of 20 years and more. The main generators of interest rate risk are medium – long term assets with fixed interest rates (e.g. housing loans, debt financial instruments), which are hedged by interest rate swaps. On the liabilities side, the highest portion of shift sensitivity derives from the sight deposits, where sight deposits are slotted to time buckets up to 15 years according to the sight deposit model.

In addition to the total exposure limit, limits for specific time buckets for a +100 b.p. change in interest rates are set:

Time bucket	Limit	Exposure
0-18 months	+4/-8 mln EUR	(1.71) mln EUR
from 19 m – 5 years	+10/-11 mln EUR	2.98 mln EUR
> 5 years	+4/-8 mln EUR	(6.44) mln EUR

The impact of +200 bps interest parallel rate shift on net present value of the Bank's interest-bearing assets and liabilities, as at 31 December 2022

(mln EUR)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	(14.58)	(3.71)	4.33	0.11	(6.27)	(1.85)	(7.19)
USD	(0.25)	(0.25)	0.0	0.0	0.0	0.0	0.0
CHF	(0.01)	(0.01)	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shift	(14.85)	(3.97)	4.33	0.11	(6.27)	(1.85)	(7.19)
Reg. Capital – Tier 1(Dec. 22)	300.65						
% of Reg.Capital (<15%)	4.94%						

The impact of +200 bps interest parallel rate shift on net present value of the Bank's interest-bearing assets and liabilities, as at 31 December 2021

(mln EUR)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	(1.96)	(2.36)	6.69	0.87	(3.71)	5.54	(8.99)
USD	(0.47)	(0.12)	(0.35)	0.00	0.00	0.00	0.00
CHF	(0.03)	(0.02)	0.00	0.00	(0.01)	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Shift	(2.46)	(2.50)	6.34	0.87	(3.72)	5.54	(8.99)
Reg. Capital – Tier 1(Dec. 21)	306.66						
% of Reg.Capital (<15%)	0.80%						

The 200 bp shift is a standard measure defined by the Banking supervisor (supplemented with additional non-parallel scenarios) that treats an impact thereof on Economic value that exceeds 20% of total capital as outlying excessive risk exposure. As of 31 December 2022, the sensitivity reached 4.94% of total capital. In its Guidelines, EBA defines another threshold, that the sensitivity of the Bank's economic value to the 6 pre-defined regulatory scenarios shall not be higher than 15% of their Tier 1 capital. The maximum sensitivity is reached with the parallel up scenario, with 4.94% of Tier 1 capital.

Breakdown of financial assets and liabilities subject to trading and non-trading book

(in thousands of euros)

As at 31 December 2022	Carrying amount	Market risk measure	
		Trading portfolios	Non-trading portfolios
Assets subject to market risk			
Cash, cash balances at central banks and other demand deposits at banks	811,482	-	811,482
Financial assets held for trading	1,586	1,586	-
Non-trading financial assets mandatorily at fair value through profit or loss	2,555	-	2,555
Financial assets at fair value through other comprehensive income	258,006	-	258,006
Derivatives - hedge accounting	45,298	-	45,298
Financial assets at amortized cost:	2,558,670	-	2,558,670
- loans to banks	151,525	-	151,525
- loans to non-bank customers	2,391,581	-	2,391,581
- advances	15,564	-	15,564
Liabilities subject to market risk			
Financial liabilities held for trading	1,496	1,496	-
Derivatives - hedge accounting	-	-	-
Financial liabilities measured at amortized cost:	3,347,724	-	3,347,724
- deposits from banks and central banks	44,634	-	44,634
- deposits from non-bank customers	3,207,760	-	3,207,760
- loans from banks and central banks	73,066	-	73,066
- debt securities issued	22,264	-	22,264
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-

Breakdown of financial assets and liabilities subject to trading and non-trading book

(in thousands of euros)

As at 31 December 2021	Carrying amount	Market risk measure	
		Trading portfolios	Non-trading portfolios
Assets subject to market risk			
Cash, cash balances at central banks and other demand deposits at banks	881,289	-	881,289
Financial assets held for trading	347	347	-
Non-trading financial assets mandatorily at fair value through profit or loss	3,782	-	3,782
Financial assets at fair value through other comprehensive income	235,559	-	235,559
Derivatives - hedge accounting	547	-	547
Financial assets at amortised cost:	2,301,829	-	2,301,829
- loans to banks	107,843	-	107,843
- loans to customers	2,185,555	-	2,185,555
- other financial assets	8,431	-	8,431
Liabilities subject to market risk			
Financial liabilities held for trading	324	324	-
Derivatives - hedge accounting	12,605	-	12,605
Financial liabilities measured at amortised cost:	3,117,568	-	3,117,568
- deposits from banks and central banks	490	-	490
- deposits from non-bank customers	2,788,959	-	2,788,959
- loans from banks and central banks	299,280	-	299,280
- other financial liabilities	28,839	-	28,839
Fair value changes of the hedged items in portfolio hedge of interest rate risk	526	-	526

3.8 OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, systems, human behaviour or mistakes or from external events. The definition also includes legal risk, representing the risk of ineffective legal execution or defective legal documentation, as well as compliance risk, which is the risk of failure to comply with laws, rules, regulations, agreements and practices. However, the definition excludes strategic and reputational risk.

The objectives of operational risk management are to:

- Protect assets, preserve and safeguard material and the Bank's intellectual assets.
- Control and proactively monitor processes to ensure that significant risks are swiftly identified.
- Comply with requirements and processes established with internal rules and external regulations.

The process of operational risk management comprises the identification, measurement or evaluation, control and monitoring of operational risk. The process of operational risk measurement and management is assisted by the risk mitigation tool developed by the parent company designed to support the carrying out of the following activities:

- Loss data collection,
- Business environment evaluation,
- Scenario analysis,
- Mitigation actions management, and
- Monitoring and reporting.

The systematic loss data collection makes it possible to perform immediate analysis of loss event causes and to adopt corrective actions. This procedure supports the compliance with general operational risk management standards.

First level operational risk management is carried out by the person directly responsible for operations in each organisational unit. The Risk Management Department, which is responsible for the operational loss data collection and the annual self-assessments activity, is in charge of second level operational risk management processes. The self-assessment activity is necessary to explore the level of the Bank's exposure to operational risk and to evaluate the risk appetite measure.

The Risk Management Department, in cooperation with the Operational Risk Group (composed of the persons responsible from the most important first-level organisational units), reports on a quarterly basis to the Management Board and proposes remedial actions.

3.9 FAIR VALUE OF ASSETS AND LIABILITIES THAT ARE NOT MEASURED AT FAIR VALUE

3.9.1 Fair value of financial instruments not measured at fair value

(in thousands of euros)

2022	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and current accounts with banks	811,482	-	-	811,482	811,482
Loans to banks	-	79,767	71,758	151,525	151,525
Loans to customers	-	129,010	2,259,667	2,388,677	2,391,581
Financial liabilities					
Deposits from banks and central bank	-	44,634	-	44,634	44,634
Deposits from non-bank customers	-	3,115,780	91,990	3,207,770	3,207,760
Loans from banks and central banks	-	-	73,106	73,106	73,066

(in thousands of euros)

2021	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and current accounts with banks	881,289	-	-	881,289	881,289
Loans to banks	-	33,997	73,846	107,843	107,843
Loans to customers	-	105,873	2,084,307	2,190,180	2,185,555
Financial liabilities					
Deposits from banks and central bank	-	490	-	490	490
Deposits from non-bank customers	-	2,672,576	116,364	2,788,940	2,788,959
Loans from banks and central banks	-	-	299,272	299,272	299,280

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- There are no significant differences between carrying value and fair value of cash; cash balances at central banks and other demand deposits at banks, given the short maturity of such assets, are therefore classified as Level 1.
- Loans to customers are presented net of impairment allowance. The estimated fair value of these loans represents the discounted amount of the estimated future cash flows expected to be received. Expected future cash flows are discounted at current market rates. Valuation of non-performing loans includes estimation of loan receivable and collateral cash-flows.
 - Level 2 includes short-term performing loans with an original maturity of less than one year, excluding allowed overdraft loans.
 - Level 3 includes all non-performing loans and all performing long-term loans and allowed overdraft loans.
- The estimated fair value of fixed-interest term deposits is based on the expected cash flows discounted using current market rates. For demand deposits and deposits with no defined maturity, the fair value is determined to be the amount payable on demand. Deposits and loans received are mainly classified as Level 2 in the fair value hierarchy, since the parameters used in valuation are market observable.
- Majority of loans and deposits from banks carry floating interest rates, which are linked to market and repriced regularly. As such, the management believes that their carrying values approximate their fair values. Due to their short-term nature, received deposits and received loans are harmonised with market interest rates and are thus classified in Level 2, while long-term received loans and received deposits are classified in Level 3 since their deferred adjustments to market interest rates.

3.9.2 Fair value of financial instruments measured at fair value

Derivatives

Accounting for derivatives at fair value is performed on the basis of observable market inputs. Derivative financial instruments subject to valuation are: interest rate swaps, interest rate caps, foreign exchange swaps, forward foreign exchange contracts. The fair value of derivatives is determined with the support of Murex, a system developed by the parent company. The system takes input data from the money market official quotations and from Reuters system. The fair value of interest rate swaps is the net present value of future cash flows, based upon spot and forward money market interest rates. The fair value of more complex derivatives such as caps is calculated by using the Black - Scholes Model with SABR volatility. Since in the valuation the inputs used came from market data, all derivative financial instruments are classified in Level 2.

Hedge accounting

The Bank's interest rate policy course is to hedge, in accordance with hedge accounting rules, the interest rate risk assumed on each single large financial investment and loan cluster with similar characteristics and fixed rate remuneration (housing loans). For a single large financial investment, a micro fair value hedge is applied, while for housing loans the Bank engages in a macro fair value hedge. The loans eligible for hedging are chosen at the time of disbursement as having medium/long term contractual maturity and fixed rate remuneration. The identified loans are hedged with interest rate swap derivative contracts, conceding the transformation of fixed contractual rate to floating rate according to market benchmark, i.e. EURIBOR. The interest rate risk is hedged using the fair value method and the effectiveness of the hedging relationship is regularly measured by calculating the prospective and retrospective effectiveness tests. For the prospective test, the Bank measures the relation between interest rate sensitivity of the derivative instrument and sensitivity of the hedged item. In the retrospective test, the so-called "Dollar Offset Method" is used, where the fair value changes of derivative instrument are compared to the fair value change of the hedged item. The ratio between the changes of value for two items has to be within the 80% and 125% range.

For the macro fair value hedges, two effectiveness tests are additionally carried out. The sensitivity test (first level test) is aimed at the verification that the sensitivity of the portfolio, subject to hedging and distributed by time buckets, is greater (in absolute terms) than the sensitivity of the hedging derivative instrument. The fair value capacity test (second level) is on the other hand necessary to assess the hedge effectiveness from a view of dynamic management of the portfolio. The test verifies that the portfolio subject to hedging contains assets with a sensitivity profile and expected fair value variations on hedged risk that match the hedging derivative.

According to the efficiency tests as of 31 December 2022, all interest rate hedges were effective.

As of 31 December 2022, the Bank had 56 interest rate swap (IRS) contracts, 4 of which were underwritten in 2022. Of these, 16 IRS contracts are designated to hedge interest rates arising from fixed rate debt financial instruments, 27 for fixed rate housing loans and 13 for large individual loans. Four IRS contracts are placed in the Bank's trading books, as they are not intended to hedge its own positions. Two of these IRS contracts were concluded with clients and the other two are for the function of hedging interest rates arising from these contracts).

Hedged item	Number of IRS contracts	
	2022	2021
Fixed income bond-micro hedge	16	22
Housing loans packages-macro hedge	27	23
Individual loans-micro hedge	13	15
Total	56	60

The cumulative fair value of all of the Bank's IRS contracts as of 31 December 2022 amounted to EUR 45.4 mln (2021: EUR -12.1 mln).

Notional of hedging derivatives

(in thousands of euros)

Benchmark interest rate	2022 Maturity				Total
	Up to 1 year	From 1 year to 2 years	Over 2 years and up to 5 years	Over 5 years	
LIBOR USD					
Micro Fair Value Hedge	4,502	26,168	-	-	30,670
Debt securities - FVOCI	4,502	26,168	-	-	30,670
Total LIBOR USD	4,502	26,168	-	-	30,670
EURIBOR (Other benchmarks not affected by the reform)					
Micro Fair Value Hedge	10,000	16,400	18,200	120,825	165,425
Loans and advances	-	-	700	120,825	121,525
Debt securities - FVOCI	10,000	16,400	17,500	-	43,900
Macro Fair Value Hedge	-	-	-	193,276	193,276
Loans and advances	-	-	-	193,276	193,276
Total EURIBOR	10,000	16,400	18,200	314,101	358,701
Total	14,502	42,568	18,200	314,101	389,371

(in thousands of euros)

Benchmark interest rate	2021 Maturity				Total
	Up to 1 year	From 1 year to 2 years	Over 2 years and up to 5 years	Over 5 years	
LIBOR USD					
Micro Fair Value Hedge	12,467	4,237	24,626	-	41,330
Debt securities - FVOCI	12,467	4,237	24,626	-	41,330
Total LIBOR USD	12,467	4,237	24,626	-	41,330
EURIBOR (Other benchmarks not affected by the reform)					
Micro Fair Value Hedge	10,000	10,000	83,900	133,852	237,752
Loans to customers	-	-	50,000	133,852	183,852
Debt securities - FVOCI	10,000	10,000	33,900	-	53,900
Macro Fair Value Hedge	-	-	-	168,085	168,085
Loans to customers	-	-	-	168,085	168,085
Total EURIBOR	10,000	10,000	83,900	301,937	405,837
Total	22,467	14,237	108,526	301,937	447,167

The amounts relating to items designated as hedging instruments:

(in thousands of euros)

Interest rate risk	Nominal amount		Carrying amount			
	2022	2021	2022		2021	
			Assets	Assets	Liabilities	Liabilities
Interest rate swaps - hedge of bonds	74,570	95,230	3,765	-	-	1,229
Interest rate swaps - hedge of loans - MICRO HEDGE	121,525	183,852	15,079	7	-	6,875
Interest rate swaps - hedge of loans - MACRO HEDGE	193,276	168,085	26,454	540	-	4,501
Total	389,371	447,167	45,298	547	-	12,605

The amount relating to items designated as hedged item:

(in thousands of euros)

	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		
	2022	2021	2022		2021
			Assets	Assets	
Bonds	74,470	101,988	(3,719)		841
Loans - micro hedge	106,891	190,541	(15,519)		6,164
Loans - macro hedge	221,496	185,650	(26,292)		3,997
Total	402,857	478,179	(45,530)		11,002

IBOR reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank has exposure to IBORs on the following financial instruments, which are in the scope of the reform:

- Interest Rate Swaps linked to 6-month USD Libor, for hedging bonds denominated in USD (outstanding nominal amount of hedged bonds as of 31.12.2022 is USD 32,713 million).

A major part of the reform affecting the Bank occurred in years 2021 and 2022. In early March 2021, the competent authority for Libor, FCA (Financial Conduct Authority), publicly announced to the market participants the cessation of all CHF Libor interest rates in 2022. With regard to USD Libor interest rates, they announced a further 18-month extension period of publication and representativeness for some tenors, i.e. until 30.06.2023, including also the 6-month USD Libor where the Bank has some exposures in interest rate swaps. As of 31.12.2022, the total nominal amount of interest rate swaps in USD (for hedging investments in USD bonds), with maturity beyond 30.06.2023, is USD 27,911 million. The most likely alternative reference interest rate for replacement of USD Libor is the compound SOFR (Secured Overnight Financing Rate), but the Bank will monitor the market developments and follow the parent bank's recommendations before implementing it in potential new business. For derivative deals that are linked to USD Libor, the expected replacement reference interest rate is the ISDA fall-back rate for USD Libor.

- Based on the Implementing act of the European Commission, the COMMISSION IMPLEMENTING REGULATION (EU) 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR, the statutory solution for CHF Libor replacement rates was adopted for four tenors, including also the 6-month CHF Libor, where the Bank had exposures in mortgage loans in CHF. This Regulation is binding in its entirety and directly applicable in all Member States. Thus, starting from 1.1.2022 onwards, the Bank applies the new statutory replacement rate instead of 6-month CHF Libor in all related outstanding contracts: defined as the 3-month SARON Compound Rate, as observed over the 3-month period preceding the interest period, increased by a fixed spread adjustment of 0.0741%. The volume of these loans decreased in 2022: outstanding gross amount as of 31.12.2022 is EUR 1,466 million and net amount is EUR 1,445 million.

Already in 2021, the Bank revised the contractual clauses stating the replacement rate or the calculation methodology used to determine the replacement rate in the event of temporary unavailability, termination or declaration of non-compliance by the competent authority.

Derivative products are generally governed worldwide by the rules established by the International Swaps and

Derivatives Association (ISDA). ISDA launched a special IBOR Fallback Protocol for existing derivatives contracts and the IBOR Fall-back Supplement for new contracts to provide derivatives contracts with a hardwired fall-back language, which will be triggered at the time of an IBOR discontinuation or, in case of LIBOR, if the Financial Conduct Authority declared that the rate is no longer representative of the underlying market. In 2021, the Bank adhered to the Protocol and included adequate contractual clauses on fall-back interest rates in the framework agreement for derivatives with clients.

The Bank established an internal working group and opened a BMR Project to manage its transition to alternative rates, where activities are supported also by the ISP Milan Head Office working group and Compliance department. The main objectives of the internal working group include monitoring regulatory and market evolution on this matter and evaluating the extent to which the Bank's deals/products reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The working group regularly reports about major changes to the PMO and collaborates with other business functions as needed. It provides reports to ALCO to support the management of interest rate risk and works closely with the ISP Milan Group Operational Risk Committee to identify operational risks arising from IBOR reform. The Bank is also actively participating in a working group, organised by the Slovenian Banking Association together with other Slovenian Banks.

The main risks to which the Bank is exposed as a result of IBOR reform are operational. For example, related to the updating of contractual terms (inclusion of fall-back clause), updating of internal applications and systems that use IBOR values and curves and revision of operational controls related to the reform.

The Bank has the majority of its exposures linked to EURIBOR reference interest rates, on loans, derivatives and, to a very small extent, on investments in variable-rate debt securities. As euro is the domestic currency, most of the Bank's financial instruments and products for customers are linked to Euribor.

The reform of Euribor, the rate prevalent in the Eurozone, was completed in 2019 and consisted of a change to the underlying calculation methodology, based on the so-called "hybrid approach", which made EURIBOR compliant with the BMR. In July 2019, the European Financial Services and Markets Authority granted authorisation with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants and the Bank to continue to use Euribor for both existing and new contracts and it is expected that Euribor will continue to exist as a benchmark rate for the foreseeable future.

The Bank has already introduced adequate fall-back clauses for Euribor in the new loan agreements with clients in 2020. In years 2021 and 2022, they have been revised and confirmed as adequate. In 2023, they might be further updated, following the final recommendations of the ECB's Euro Risk Free working group and the recommendations of the ultimate Parent Bank. It is expected that current more general fall-back clauses on replacement reference interest rate for Euribor will be substituted with clauses, including concretely determined replacement reference interest rates for Euribor. In this regard, in the last quarter of 2022, two potential replacement reference interest rates for Euribor (for maturities of 1 week, 1-, 3-, 6- and 12-months), defined as €STR forward looking term-structure, started to be calculated and published on the market by two providers:

- EMMI: EFTERM (Euro forward-looking term rate), starting from 14.11.2022 onwards;
- Refinitiv: Refinitiv Term €STR, starting from the end of October 2022 onwards.

EONIA, another important reference rate for the Eurozone, which represented the level at which bank exchanges overnight loans on the interbank market, has been involved as well in this widespread process of revision. Before 1 October 2019, EONIA was calculated as a weighted average of overnight unsecured lending transactions in the EU. From that date onwards, EONIA was calculated as a sum of the new benchmark – €STR – plus an 8.5 bps spread. EONIA ceased to be published on 3 January 2022 and solely €STR continues to be published from that date onwards. The Bank had revised its internal treasury and risk management systems and used to calculate EONIA according to its new methodology until the end of its use.

EONIA was applied in the Bank for the calculation of interest on the Margin Call, where the Bank is exchanging cash deposits with ISP Milan as collateral for variation margin purposes according to the EMIR regulation. From 3 January 2022 onwards, it has been replaced with the statutory replacement rate as €STR +8.5 bps (as defined in the COMMISSION IMPLEMENTING REGULATION (EU) 2021/1848 of 21 October 2021 on the designation of a replacement for the benchmark Euro overnight index average), which did not represent any changes for the Bank and had no financial implications.

The Bank monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts

of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fall-back clause.

The Bank anticipates that the IBOR reform will not influence the effectiveness of the fair value hedges of financial assets denominated in USD. This arises from the fact that the transition from Libor to the new ISDA fall-back rate of adequate tenor will be net present value neutral. Therefore, no discontinuation of hedging relationships is expected.

Financial instruments held at fair value through other comprehensive income

Currently, the Bank's portfolio containing fair value through other comprehensive income financial assets (FVOCI) is composed of bonds and shares. Both instruments are measured at fair value.

The fair value of Level 1 bonds is derived from their quoted market prices. In case the bonds are not liquid, the fair value is determined by discounting future cash flows. The discounting rate is the yield to maturity of a liquid comparable bond. Such bonds are marked as fair value Level 2.

The fair value of shares listed on the active stock market is their market value, whereas for the non-listed shares or illiquid shares, the fair value is determined using the internal valuation model. The internal valuation is carried out by applying the price multiples method.

The bases for the calculation under the above method are the available market valuations of comparable enterprises, in connection with financial ratios and multiples of their traded shares in the valuation of non-traded or illiquid shares. A condition for the application of the method is the availability of at least two comparable enterprises with listed shares. The latter shall be comparable by industry, market capitalisation, size and geographical location.

Information on financial ratios (price multiples) for comparable enterprises shall be obtained from independent sources, such as the Ljubljana Stock Exchange, Reuters, etc.

The share value is based on the following price multiples of comparable enterprises:

- EV/S (enterprise value / sales);
- EV/EBITDA (enterprise value / EBIT + depreciation);
- P/E (price-to-earnings);
- P/BV (price / book value);

The bases for the estimation are the financial statements of the comparable enterprises:

- balance sheet (for the preceding 3 financial years);
- income statement (for the preceding 3 financial years).

The final value is computed as the average of the multiples, whereby multiples considered as inadequate are omitted.

Non-trading financial assets mandatorily at fair value through profit or loss

In this portfolio, the Bank contains shares and subordinated bonds valued on the basis of the internal valuation method, which is based on comparable stock exchange prices. The bases for the calculation under the above method are the available market valuations of comparable enterprises, in connection with financial ratios and multiples of their traded shares in the valuation of non-traded or illiquid shares. A condition for the application of the method is the availability of at least two comparable enterprises with listed shares. The latter shall be comparable by industry, market capitalisation, size and geographical location. Due to the use of input data obtained from the market, they are classified in Level 2.

Breakdown of financial instruments measured at fair value by fair value hierarchy levels

(in thousands of euros)

	2022			Total
	Level 1	Level 2	Level 3	
Asset				
Derivatives held for trading	-	1,586	-	1,586
Financial assets at FVOCI:	199,028	58,784	194	258,006
- debt	199,028	48,597	-	247,625
- equities*	-	10,187	194	10,381
FVTPL mandatorily:	365	2,190	-	2,555
- equities	365	699	-	1,064
- debt	-	1,491	-	1,491
- loans	-	-	-	-
Derivatives – hedge accounting	-	45,298	-	45,298
Liabilities				
Derivatives held for trading	-	1,496	-	1,496
Derivatives – hedge accounting	-	-	-	-

* For financial instruments mandatorily FVTPL, there have not been any transfers between levels in the year 2022.

Breakdown of financial instruments measured at fair value by fair value hierarchy levels

(in thousands of euros)

	2021			Total
	Level 1	Level 2	Level 3	
Asset				
Derivatives held for trading	-	347	-	347
Financial assets at FVOCI:	137,578	97,787	194	235,559
- debt	134,461	87,140	-	221,601
- equities*	3,117	10,647	194	13,958
FVTPL mandatorily:	-	3,782	-	3,782
- equities	-	982	-	982
- debt	-	2,800	-	2,800
- loans	-	-	-	-
Derivatives – hedge accounting	-	547	-	547
Liabilities				
Derivatives held for trading	-	324	-	324
Derivatives – hedge accounting	-	12,605	-	12,605

* fair value of investments in National Bank Resolution Fund included within Level 2 is determined by Bank of Slovenia regarding volume of assets of each bank. These investments are not quoted.

For financial instruments mandatorily FVTPL there have not been any transfers between levels in the year 2021.

Movement of financial instrument included in Level 3

(in thousands of euros)

Financial assets	Mandatorily FVTPL		FVOCI	
	Equities	Loans	Equities	Securities
As at 01 January 2021	-	635	194	-
Sale/Disposals	-	635	-	-
As at 31 December 2021	-	-	194	-
As at 01 January 2022	-	-	194	-
Sale/Disposals	-	-	-	-
As at 31 December 2022	-	-	194	-

The sensitivity analysis related to changes in unobserved inputs for Level 3 is not specifically disclosed since is not material.

As of 31 December 2022, the Bank held in the investment portfolio 22 bonds and treasury bills measured at fair value through other comprehensive income (FVOCI), out of which 4 are due to illiquidity measured with marked to model approach, while 18 were measured at market prices (Level 1).

The Bank classifies securities as fair value Level 2 in the case that the quoted market prices are not readily and regularly available. The reason that the prices are not available for the abovementioned bonds is that a presence of an active market could not be verified.

As for equity portfolio and exposure to convertible bonds, all positions were valued with a marked to model approach, the reason being their illiquidity or because the investments are not quoted on the stock exchange.

The Bank does not expect any effects on the effectiveness of interest rate hedging due to the IBOR reform. The key premise of the reform is neutrality in calculating the net present value of LIBOR-linked cash flows. As a result, the Bank expects the coordinated movement of the value of hedged item and the derivative.

3.9.3 Fair value of non-financial assets measured at fair value

The Bank values real estate for own use and investment property at fair value. At least one of the valuation methods is used in the valuation of these properties. Most of the appraised market values of real estate are made on the basis of valuation methods, where the present value of the income of expected returns is estimated. In the valuation of investment property, the values of average rents in similar locations and capitalisation consisting of risk-free return, premium for capital preservation option and premiums are used.

The Bank had, under the umbrella of Intesa Sanpaolo Group, performed the valuation of all its premises in use and investment properties. The Valuation was performed by an external valuator (CBRE) as at 31/10/2020. For the year 2021 and 2022, the yearly analysis of the market trends in the relevant markets was examined in order to determine possible movements in values with respect to the latest valuation performed in 2020. In the event that such expected movements would determine that a significant change in the value is expected, a formal valuation of the property is performed. As was already stated, the analysis of the most recent market trends for each property comprises the analysis of macro-economic data:

- Real BDP growth
- Unemployment rate
- CPI inflation
- Retail sales index.

As market data, yield and rents movement for main submarkets and by macro-location were considered. Based on the market survey mentioned above and analysed key-drivers, the obtained results have shown that none of the properties has registered a possible movement in capital values above 10%. Therefore, the Bank did not perform any change in fair value of its properties in use. Regarding the investment properties, the valuations performed in October 2022 confirmed the already determined fair value from the year 2021.

Breakdown of non - financial instruments measured at fair value by fair value hierarchy levels

(in thousands of euros)

	2022			
	Level 1	Level 2	Level 3	Total
Property in use	-	-	23.031	23.031
Investment property	-	-	1.300	1.300
Non – current assets held for sale	-	-	1.503	1.503
Property in stock	-	-	1.026	1.026

(in thousands of euros)

	2021			
	Level 1	Level 2	Level 3	Total
Property in use	-	-	24,610	24,610
Investment property	-	-	1,580	1,580
Non – current assets held for sale	-	-	2,083	2,083
Property in stock	-	-	2,040	2,040

4. NET INTEREST INCOME

(in thousands of euros)

	2022	2021
Interest income calculated using the effective interest rate	52,718	39,847
Derivatives – hedge accounting*	(2,615)	(5,033)
Financial assets at fair value through other comprehensive income	1,855	1,354
Financial assets at amortised cost:	49,014	41,984
- to banks	1,730	229
- to other customers (without financial lease)	45,648	40,324
- financial lease	1,636	1,431
Other assets	3,081	11
- sight deposits within central banks	2,987	-
- sight deposits within banks	94	11
Interest from financial liabilities with negative interest rate	1,383	1,531
- Interest from loans received	1,383	1,531
Other interest income	66	144
Held for trading (derivatives)	48	55
Non-trading financial assets mandatorily at fair value through profit or loss	18	89
Total income	52,784	39,991
Interest expense		
Derivatives – held for trading	38	45
Financial liabilities measured at amortised cost:	1,822	476
- bank deposits and borrowings	156	-
- other customers	947	378
- other borrowed funds	716	96
- leasing	3	2
Other	2	4
Financial assets (negative interest rate)	2,377	3,529
- loans to banks	1,950	2,925
- FVOCI securities	427	604
Total expense	4,239	4,054
Total	48,545	35,937

* Interest expenses on derivatives designated for hedge are in the income statement shown under interest income from derivatives designated for hedge, since they adjust the economic effect of interest of hedged items (loans and bonds with fixed interest rate).

Interest income includes EUR 538 thousand of interest income on impaired loans (2021: EUR 1,063 thousand).

5. DIVIDEND INCOME

(in thousands of euros)

	2022	2021
Financial assets FVTPL	26	15
Financial assets FVOCI	140	103
Total	166	118

6. NET FEE AND COMMISSION INCOME

(in thousands of euros)

	2022	2021
Fee and commission income		
Current account management	6,617	5,341
Payment services	11,318	11,341
Credit card business	6,066	5,345
Interbanking operations	3,873	4,363
Loans granted (not included in EIR)	6,575	6,444
Management fee on current accounts and deposits	1,371	1,937
Guarantees given	1,435	1,101
Safe renting	150	138
Pension fund management	572	570
Depository services	671	636
Payment systems management	1,324	1,053
Sale and management of investments funds	1,134	834
Sale of insurance contracts	407	406
Other	35	14
Total fee and commission income from contracts with customers	41,548	39,523
Fee and commission expense		
Security trading	50	49
Loan brokerage on behalf of others	16	46
Custody services	157	186
Credit card processing	8,474	8,387
Payment transactions	914	826
Guaranties received	999	810
Prepayment of loans	-	202
Total fee and commission expense	10,610	10,506
Total	30,938	29,017

7. NET GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of euros)

	2022	2021
Net gains or losses of financial assets measured at amortised cost	142	820
Gains	142	820
- Sale of loans	142	820
Total	142	820

8. NET GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

(in thousands of euros)

	2022	2021
Trading of derivatives	69	24
• Realised	(377)	(203)
• Unrealised	446	227
Currency trading	1,586	1,042
Total	1,655	1,066

9. NET GAINS OR LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of euros)

	2022	2021
Gains	703	658
• Realised	244	336
• Unrealised	459	322
Losses	(674)	(280)
• Realised	(1)	-
• Unrealised	(673)	(280)
Total	29	378

10. NET GAINS OR LOSSES FROM HEDGE ACCOUNTING

Derivatives used as hedge instruments and the nature of hedged items are additionally explained in Note 21 and in Note 3.9. Fair value of assets and liabilities that are not measured at fair value (in the paragraph hedge accounting).

(in thousands of euros)

	2022	2021
Net effect on derivatives used as hedging instruments	56,418	15,674
Net effect on hedged items	(56,498)	(15,576)
Total	(80)	98

11. NET GAINS AND LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

(in thousands of euros)

	2022	2021
Profit from sale of property and equipment	5	27
Net income from sale of investment property	53	230
Profit from sale repossessed assets on stock	650	889
Total	708	1,146

12. OTHER OPERATING INCOME/EXPENSES

12.a Other operating income

(in thousands of euros)

	2022	2021
Rents	1,073	953
Proceeds from the sale of repossessed leased assets	20	38
Credit card processing	3	131
Other	169	271
Total operating income	1,265	1,393

12.b Other operating expenses

(in thousands of euros)

	2022	2021
Maintenance expenses arising from leased assets	(6)	(13)
Expenses from investment property under the operating lease	(3)	(13)
Expenses related to services from credit card business	(96)	(68)
Fraud from credit card business	(10)	(65)
Licences	(24)	(22)
Other	(293)	(344)
Total other operating expenses	(432)	(525)
Net operating income/expenses	833	868

13. ADMINISTRATIVE EXPENSES

(in thousands of euros)

	2022	2021
Staff cost	30,408	28,161
Salaries	20,339	19,087
Social security	1,547	1,457
Contributions to the pension scheme	1,880	1,773
Other*	6,576	5,679
Provisions for retirement severance pay and long service bonuses	66	165
Other administrative expenses	13,481	12,664
Material costs	872	958
IT costs	5,124	4,699
Rents	3	0
Rental of low value assets (not included in IFRS16)	827	841
Short term premises rental (not included in IFRS 16)	2	0
Professional services	998	914
Advertising and marketing	915	676
Consulting, auditing, legal and notarial fees**	319	509
Maintenance, governance and security of tangible fixed assets	2,076	1,479
Postal services and rent of communication lines	1,263	1,302
Travel costs	50	23
Education, scholarships and tuition fees	104	110
Bank's supervision	608	797
Other expenses	320	356
Total	43,889	40,825

* Other staff costs mainly relate to holiday incentives and accruals for bonuses and contributions for meal and travel costs.

** The Bank paid EUR 73 thousand for the statutory audit of financial statements and EUR 65 thousand for other assurance services. Assurance services relate mostly to quarterly audit of reporting package inputs for the preparation of the consolidated financial statements of the Intesa Sanpaolo Group and for providing assurances for reports to the Regulatory Authorities

14. DEPRECIATION AND AMORTISATION

(in thousands of euros)

	2022	2021
Depreciation	2,849	2,951
Amortisation	1,589	1,759
Total	4,438	4,710

* Within depreciation is included depreciation of rights to use in the amount of EUR 1,194 thousand (2021: EUR 1,166 thousand).

15. PROVISIONS

(in thousands of euros)

	2022	2021
Additional / Release of provisions for off-balance sheet exposures (Note 45)*	(2,051)	(78)
Additional / Release of provisions for legal proceedings	(2,950)	(139)
Provisions redundancies	(4)	-
Additional /Release of provisions for cash returns to clients	(140)	(150)
Release / Additional provisions for maintain minimum yield of Pension Fund**	(2,191)	15
Total	(7,336)	(352)

* The increase in provisions for contingent liabilities and commitments is the result of methodological changes in the calculation of impairments. In the course of year 2022, the Bank is introduced its own credit conversion factor (CCF), which contributed to the increase of the necessary impairments by approximately EUR 1.2 million.

** The Bank, as the manager of the Moj steber Pension Fund, guarantees to all investors the payment of premiums and a minimum guaranteed yield. The increase in provisions to ensure the minimum guaranteed yield is the result of the increase in interest rates in the second half of the year 2022, which resulted in the drop in the fair value of the fund's investments and consequently drop in calculated value of unit.

The movement of provisions and post-employment benefit obligations is shown in Note 36 and Note 37.

16. IMPAIRMENTS

(in thousands of euros)

	2022	2021
Impairments of financial assets, not measured at fair value through profit and loss	(9)	-
- impairments of financial assets at fair value through other comprehensive income (Note 23)	(9)	-
Impairments on assets measurement at amortised cost:	(4,750)	634
- loans to banks	(180)	(8)
- loans to customers** (Note 25)	(4,535)	1,038
- impairments on advances	(24)	(143)
- impairments on other assets	(11)	(253)
Net write offs*	817	25
Total	(3,942)	659

* In 2022, the Bank realized EUR 958 thousand revenues from write offs made in previous periods.

** The cost of provisions in 2022 was mainly impacted by Russia-Ukraine crisis (1.5 mln EUR impact) and high volume growth across all segments (1.5 mln EUR).

17. PROFIT OR LOSS FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE, NOT QUALIFYING AS DISCONTINUED OPERATIONS

	(in thousands of euros)	
	2022	2021
Rents	-	9
Maintenance expenses	(45)	(209)
Impairments	-	(64)
Gains from sale	278	1,282
Total	233	1,018

In 2022, the Bank performed the package sale of its real estate in the amount of EUR 1,193 thousand, realising EUR 278 thousand of profit from sales.

18. TAX EXPENSE

	(in thousands of euros)	
	2022	2021
Current tax expense	3,693	3,872
Deferred tax (Note 38)	(15)	(19)
Total	3,678	3,853

Further disclosures of deferred taxes are presented in Note 38. The tax actually calculated differs from the theoretical one in the following matters:

	(in thousands of euros)	
	2022	2021
Total profit before tax	20,043	21,562
Prima facie tax calculated at a tax rate of 19%	3,808	4,097
Income from already taxed dividends	(35)	(29)
Staff costs not assessable for tax	175	167
Other expenses not deductible for tax purposes	38	17
From actuarial gain	95	(3)
Tax reliefs	(403)	(396)
Total income tax	3,678	3,853
<i>Effective tax rate</i>	<i>18.35%</i>	<i>17.87%</i>

For 2022, the income tax rate was 19% (2021: 19%).

In accordance with local regulations, the Financial Administration may at any time inspect the Bank's books and records within the 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Changes in income tax from items that are recognised in FVOCI

(in thousands of euros)

	31. 12. 2022		
	Before tax	Tax (expense) benefit	After tax
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	153	65	218
Fair value changes of equity instruments measured at fair value through other comprehensive income	(851)	160	(691)
Actuarial gains or losses on defined benefit pensions plans	1,004	(95)	909
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	(3,119)	593	(2,526)
Valuation gains or losses taken to OCI	(7,679)	1,459	(6,220)
Transferred to profit or loss	4,560	(866)	3,694
TOTAL	(2,966)	658	(2,308)

Changes in income tax from items that are recognised in FVOCI

(in thousands of euros)

	31. 12. 2021		
	Before tax	Tax (expense) benefit	After tax
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	(522)	96	(426)
Fair value changes of equity instruments measured at fair value through other comprehensive income	132	(24)	108
Tangible assets	(617)	117	(500)
Actuarial gains or losses on defined benefit pensions plans	(37)	3	(34)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	(628)	119	(509)
Valuation gains or losses taken to OCI	(2,520)	478	(2,042)
Transferred to profit or loss	1,892	(359)	1,533
TOTAL	(1,150)	215	(935)

19. EARNINGS PER SHARE

(in thousands of euros)

	2022	2021
Net profit for the year	16,365	17,709
Weighted average number of ordinary shares in issue	530,398	530,398
Basic and diluted profit per share (in EUR per share)	30.85	33.39

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares issued during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares (961 lots). There are no dilutive potential ordinary shares; there are no share options schemes.

20. CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS AT BANKS

	(in thousands of euros)	
	2022	2021
Cash in hand	18,542	20,067
Balances with central banks	770,355	841,361
Other sight deposits	22,594	19,868
Gross cash, cash balances at central banks and other demand deposits at banks	811,491	881,296
Impairment	(9)	(7)
Net cash, cash balances at central banks and other demand deposits at banks	811,482	881,289
Including: mandatory reserve liability to central banks	29,809	26,598

The Bank is required to maintain a mandatory reserve with the central bank (Bank of Slovenia), relative to the volume and structure of its customer deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as mandatory reserve is 1% of sight and time deposits and issued debt securities with maturities up to two years.

The Bank maintains sufficient liquid assets to fully comply with the central bank requirements.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The majority of derivative contracts is entered into for the purpose of interest-rate risk management. A derivative instrument is entered into as an economic hedge where its terms and conditions are a mirror image of the terms and conditions of the hedged financial instruments. In addition, the Bank also uses fair value hedge accounting techniques, where interest rate swaps hedge long-term financial assets (bonds and loans) with a fixed interest rate.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of these instruments and therefore do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the reference rate or index relative to their terms. The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The notional amount and fair values of derivative instruments held for trading and designated as hedges are set out in the following tables:

As at 31 December 2022	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate			
Forwards (sale)	23,486	1,174	-
Forwards (purchase)	23,486	-	1,163
Interest rate options			
Interest rate cap (CALL)	2,842	79	-
Interest rate cap (PUT)	-	-	-
Interest rate swaps			
IRS - purchase	4,944	-	333
IRS - sale	4,944	333	-
Total held for trading derivatives	59,702	1,586	1,496
Hedging derivatives			
Interest rate swaps (IRS) – micro hedge	196,096	18,844	-
Interest rate swaps (IRS) – macro hedge	193,276	26,454	-
Total derivative for hedge accounting	389,372	45,298	-

(in thousands of euros)

As at 31 December 2021	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate			
Forwards (sale)	9,705	10	260
Forwards (purchase)	9,705	262	9
Interest rate options			
Interest rate cap (CALL)	3,151	20	-
Interest rate cap (PUT)	-	-	-
Interest rate swaps			
IRS - purchase	6,000	55	-
IRS - sale	6,000	-	55
Total held for trading derivatives	34,561	347	324
Hedging derivatives			
Interest rate swaps (IRS) – micro hedge	279,082	7	8,104
Interest rate swaps (IRS) – macro hedge	168,085	540	4,501
Total derivative for hedge accounting	447,167	547	12,605

In previous financial environment of low interest rates, the Bank promoted its commercial activities by launching long term loans with fixed interest rates. To mitigate the interest rate risk, interest rate swaps were made.

22. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of euros)

	2022	2021
Equities:	1,064	982
- listed	1,064	699
- unlisted	-	283
Debt securities:	1,491	2,800
- listed	-	-
- unlisted*	1,491	2,800
Loans	-	-
Total financial assets mandatorily at fair value through profit or loss	2,555	3,782

* The amount relates to Visa preferred bond.

(in thousands of euros)

Company	2022		2021	
	Fair value	Dividend income	Fair value	Dividend income
Privredna banka Zagreb d.d.	-	-	283	15
Sava turizem d.d.	699	13	-	-
Intesa Sanapaolo bank s.p.a.	365	-	-	-
Total	1,064	13	283	15

Movement

(in thousands of euros)

	2022	2021
At beginning of the year	3,782	3,918
Sale/ Disposals of loans	-	(635)
Valuation of shares	110	7
Exchange rate differences	175	209
Sale of shares	(1,843)	-
New recognition / purchase of shares	331	283
At end of year	2,555	3,782

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2022	2021
Equities:		
• unlisted (Slovenian Bank Resolution Fund)	10,381	13,958
Debt securities:		
Government securities:		
• listed	191,997	214,152
Other debt securities:		
• listed	55,683	7,495
Total financial assets FVOCI (Gross)	258,061	235,605
Impairment	(55)	(46)
Total financial assets FVOCI	258,006	235,559

In order to comply with the requirements of the Slovenian Bank Resolution Fund, Slovenian government bonds in the amount of EUR 9.9 million are encumbered (2021: EUR 10.9 million)

(in thousands of euros)

Company	2022		2021	
	Fair value	Dividend income	Fair value	Dividend income
Visa INC US	-	20	3,117	23
Intesa Sanpaolo S.p.A.	-	13	-	-
Bankart	194	120	194	80
Sklad za reševanje bank	10,136	-	10,607	-
Swift	51	-	40	-
Total	10,381	153	13,958	103

Movement

(in thousands of euros)

	2022	2021
At beginning of the year	235,559	270,882
Acquisitions	307,667	120,210
Impairment (Note 16)	(9)	-
Interest accrual	4,357	3,806
Paid interests	(3,971)	(6,113)
Disposals (sale and redemption)	(281,599)	(154,721)
Valuation	(7,950)	(2,396)
Exchange differences	3,952	3,891
At end of year	258,006	235,559

Movement of impairments of assets measured at fair value through other comprehensive income

(in thousands of euros)

	STAGE 1	STAGE 2	STAGE 3	TOTAL
At the beginning of the year (1 January 2021)	46	-	-	55
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Release of impairments	-	-	-	-
At the end of year (31 December 2021)	46	-	-	55
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Release of impairments	9	-	-	9
At the end of year (31 December 2022)	55	-	-	55

Note:

STAGE 1: 12-month ECL

STAGE 2: Lifetime ECL not credit-impaired

STAGE 3: Lifetime ECL credit-impaired

24. LOANS TO BANKS

(in thousands of euros)

	2022	2021
Placements with other banks	151,737	107,875
Gross loans to banks	151,737	107,875
Impairment	(212)	(32)
Net loans to banks	151,525	107,843

As at 31 December 2022, the Bank does not have pledged assets to cover liabilities from interest rate swaps due to their positive fair values (2021: EUR 12,431 thousand).

25. LOANS TO CUSTOMERS

(in thousands of euros)

	2022	2021
Loans to individuals:	900,252	802,392
Overdrafts	18,532	18,724
Credit cards	9,308	9,229
Term loans	168,447	156,725
Mortgages	702,235	614,478
Financial leases	1,730	3,236
Loans to sole proprietors	58,385	55,322
Financial leases	7,703	8,044
Other loans	50,682	47,278
Loans to corporate entities	1,482,908	1,374,144
Financial leases	55,940	44,366
Other loans	1,426,968	1,329,778
Gross loans	2,441,545	2,231,858
Less provision for impairment	(49,964)	(46,303)
Net loans	2,391,581	2,185,555

Movement in provisions for impairments

(in thousands of euros)

2022	Corrected Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications of the methodology*	Decrease in allowance account due to write-offs	Other adjustments	Closing balance
Allowances for financial assets (Stage 1)	12,916	4,655	(2,005)	441	(2,832)	-	1	13,176
Individuals	6,153	1,518	(792)	1,541	(3,437)	-	1	4,984
Sole proprietors	1,450	447	(291)	(386)	(219)	-	(5)	996
Corporate entities	5,313	2,690	(922)	(714)	824	-	5	7,196
Allowances for debt instruments (Stage 2)	9,632	3,083	(1,113)	(653)	3,102	-	1	14,052
Individuals	5,940	1,226	(704)	443	2,620	-	1	9,526
Sole proprietors	692	149	(37)	(298)	167	-	(1)	672
Corporate entities	3,000	1,708	(372)	(798)	315	-	1	3,854
Allowances for credit-impaired debt instruments (Stage 3)	23,696	486	(1,746)	1,775	16	(1,508)	(49)	22,670
Individuals	11,150	215	(575)	1,760	46	(424)	1	12,173
Sole proprietors	1,309	48	(96)	(116)	3	(9)	(17)	1,122
Corporate entities	11,237	223	(1,075)	131	(33)	(1,075)	(33)	9,375
POCI	59	-	(4)	7	-	-	4	66
Individuals	-	-	-	-	-	-	-	-
Sole proprietors	-	-	-	-	-	-	-	-
Corporate entities	59	-	(4)	7	-	-	4	66
Total	46,303	8,224	(4,868)	1,570	286	(1,508)	(43)	49,964

Note:

STAGE 1: 12-month ECL

STAGE 2: Lifetime ECL not credit-impaired

STAGE 3: Lifetime ECL credit-impaired

* Impact on LLP reported under the category "Changes due to modifications of the methodology" derives from the update of transition matrices and update of the forward looking information as part of PD and LGD calculation. Additionally, the result was affected by the modification of early warning detection criteria.

(in thousands of euros)

2021	Corrected Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications of the methodology*	Decrease in allowance account due to write-offs	Other adjustments	Closing balance
Allowances for financial assets (Stage 1)	13,102	4,521	(1,997)	(1,973)	(743)	-	6	12,916
Individuals	7,236	1,819	(898)	(384)	(1,626)	-	6	6,153
Sole proprietors	1,221	597	(206)	(54)	(106)	-	(2)	1,450
Corporate entities	4,645	2,105	(893)	(1,535)	989	-	2	5,313
Allowances for debt instruments (Stage 2)	6,521	1,398	(661)	1,472	902	-	-	9,632
Individuals	4,117	847	(368)	189	1,155	-	-	5,940
Sole proprietors	490	76	(64)	531	(341)	-	-	692
Corporate entities	1,914	475	(229)	752	88	-	-	3,000
Allowances for credit-impaired debt instruments (Stage 3)	34,756	600	(7,005)	1,245	1,552	(7,470)	18	23,696
Individuals	10,117	273	(797)	2,129	303	(893)	18	11,150
Sole proprietors	1,442	3	(96)	32	26	(98)	-	1,309
Corporate entities	23,197	324	(6,112)	(916)	1,223	(6,479)	-	11,237
POCI	165	-	(1,406)	58	-	-	1,242	59
Individuals	-	-	-	-	-	-	-	-
Sole proprietors	-	-	-	-	-	-	-	-
Corporate entities	165	-	(164)	58	-	-	-	59
Total	54,544	6,519	(11,069)	802	1,711	(7,470)	1,242	46,303

Note:

STAGE 1: 12-month ECL

STAGE 2: Lifetime ECL not credit-impaired

STAGE 3: Lifetime ECL credit-impaired

* Impact on LLP reported under the category "Changes due to modifications of the methodology" derives from update of the forward-looking information as part of PD and LGD calculation and inclusion of reconstructed historical data based on the new default definition for legal entities, which resulted in updated transition matrices. Additionally, the result was affected by the modification of early warning detection criteria.

Customer loan portfolio by economic sector

(in thousands of euros)

	2022	2021
Non-financial entities	1,182,152	1,051,649
- transport and storage	247,001	248,763
- manufacturing	323,041	255,146
- wholesale and retail trade	208,287	195,268
- information and communication	65,021	72,255
- hospitality and other related services	19,110	24,003
- construction	14,721	13,742
- other non-financial entities	304,971	242,472
Government	4,397	8,402
Other public entities	173,947	216,729
Financial entities	121,430	95,364
Individuals	900,251	802,392
Sole proprietors	58,385	55,322
Non-profit institutions serving households	983	2,000
Gross loans to customers	2,441,545	2,231,858
Less provision for impairment	(49,964)	(46,303)
Net loans to customers	2,391,581	2,185,555

At the end of 2022, the share of loans to customers on the domestic market amounted to 89.2%; the remaining share of 7.5% related to the EU market and 3.3% to other markets.

Analysis of financial leases by residual maturity:

(in thousands of euros)

	2022	2021
Future minimum lease payment (finance lease)		
Not later than 1 year	20,771	17,103
Later than 1 year and not later than 5 years	43,281	35,144
Later than 5 years	1,321	3,399
Total	65,373	55,646
Impairment	(3,330)	(4,285)
Present value of future minimum lease payments:		
Not later than 1 year	19,133	15,528
Later than 1 year and not later than 5 years	41,739	33,111
Later than 5 years	1,171	2,722
Total	62,043	51,361

Forborne exposures as at 31.12.2022

(in thousands of euros)

	Corporates	Individuals	Total
Performing exposures	8,737	6,467	15,204
Non performing - instruments with modifications in their terms and conditions	4,134	2,527	6,661
Non performing - Refinancing	552	972	1,524
Total gross carrying amount	13,423	9,966	23,389
Performing exposures	(796)	(1,150)	(1,946)
Non performing - instruments with modifications in their terms and conditions	(3,412)	(1,960)	(5,372)
Non performing - Refinancing	(455)	(922)	(1,377)
Accumulated impairment, and provisions	(4,663)	(4,032)	(8,695)
Performing exposures	7,941	5,317	13,258
Non performing - instruments with modifications in their terms and conditions	722	567	1,289
Non performing - Refinancing	97	50	147
Net carrying amount	8,760	5,934	14,694

Forborne exposures as at 31.12.2021

(in thousands of euros)

	Corporates	Individuals	Total
Performing exposures	11,210	6,745	17,955
Non performing - instruments with modifications in their terms and conditions	4,554	3,069	7,623
Non performing - Refinancing	1,388	931	2,319
Total gross carrying amount	17,152	10,745	27,897
Performing exposures	(980)	(1,621)	(2,601)
Non performing - instruments with modifications in their terms and conditions	(3,785)	(2,213)	(5,998)
Non performing - Refinancing	(1,298)	(901)	(2,199)
Accumulated impairment, and provisions	(6,063)	(4,735)	(10,798)
Performing exposures	10,230	5,124	15,354
Non performing - instruments with modifications in their terms and conditions	769	856	1,625
Non performing - Refinancing	90	30	120
Net carrying amount	11,089	6,010	17,099

Forbearance measures are concessions made to a borrower facing or about to face financial difficulties by agreeing to change agreed contractual terms and conditions, so as to make them for the borrower more favourable than those that would be granted under normal conditions. Forbearance measures are conceded in order to maximise collection and minimise the risk of default. A forbore exposure can be performing or non-performing and related to retail or corporate customers.

According to the Bank regulations, individual loan contracts are flagged as exposures with forbearance measures for the purpose of evidencing the portfolio of forbore exposures, i.e. exposures which meet the above described definition. The forbore flag is therefore an additional element for classification of credit exposures for the purpose of credit portfolio monitoring and reporting. Taking into account the internal rules for the performing and non-performing exposures classification, rules governing the forbore exposures did not have a significant impact on the Bank's income statement.

Loans are further analysed as a part of the statement of financial position in the accompanying notes: Analysis of past due financial instruments in Note 3.4, Currency Risk Note 3.7.2, Interest Rate Risk Note 3.7.3, Liquidity Risk Note 3.5, Fair value Note 3.9 and Related Party Transactions Note 46.

26. OTHER FINANCIAL ASSETS

	(in thousands of euros)	
	2022	2021
Commissions receivables	350	454
Cheques	-	3
Receivables	461	470
Claims to Europay	3,494	2,939
Claims to citizens	767	811
Claims relating to interbank settlement for Visa card*	6,500	1,638
Claims due to recovery procedures	590	580
Other*	4,327	2,457
Gross other financial assets	16,489	9,352
Impairments	(925)	(921)
Net other financial assets	15,564	8,431

* The increase in receivables related to Visa cards and other receivables in 2022 compared to 2021 is the result of the remedy of Covid situation, which is mainly reflected in the restart of tourism in the area where the Bank primarily operates (increased card's payments at the Bank's points of sale and increase in withdrawals at the Bank's ATMs during the Christmas-New year holidays).

Movement of impairment:

	(in thousands of euros)	
As at 31 December 2020		841
Additional provision for impairment		175
Amounts recovered during the year		(32)
Included in income statement		143
Write off of impairment		(63)
As at 31 December 2021		921
Additional provision for impairment		63
Amounts recovered during the year		(39)
Included in income statement		24
Write off of impairment		(20)
As at 31 December 2022		925

27. PROPERTY, PLANT AND EQUIPMENT

Based on the accounting policy where property is valued in accordance with the revaluation model, the Bank checks the adequacy of the value of fixed assets every year.

Real estate appraisal was performed by an independent real estate appraiser, based on cash-generating units (by individual locations). In the valuation, the market comparison method and the method based on the capitalisation of returns were used. The appraiser also assessed value in use, but this method was not applied because it was lower than fair value less costs of selling. The valuation was performed according to the condition of the real estate on 31.12.2020. In 2022 (as at 31 December 2022), an expert analysis of changes in market values compared to the estimated values as at 31 December 2020 was performed. As the market values of none of the properties changed in 2022 by 10% or more, in accordance with the Group's policy, it was not necessary to perform a new revaluation as at 31 December 2022.

Location	Type of asset	Valuation technique	Assumptions and parameters used (inputs for the Level 3)
Coastline areas of Slovenia (Koper, Izola, Piran, Nova Gorica, Sežana)	Commercial – retail & offices	The Income Approach through a capitalisation approach	EUR 9 - 25 per sq. m per month for the office area Non-recoverable costs: 3.0% of gross rental income CAPEX: 0 - 100 EUR per sq. m of gross area for office space Cap Rate: 7.50%-9%
	Central region area- excluding Ljubljana (Postojna, Pivka, Logatec, Ilirska Bistrica)	Commercial – retail & offices	The Income Approach through a capitalisation approach
	Parking	A Direct Sales Comparison approach	EUR 8,000 per parking space
Ljubljana	Commercial – retail & offices	The Income Approach through a capitalisation approach	Rent of EUR 11 per sq. m per month for office space Non-recoverable costs: 3.0% of gross rental income CAPEX: 0 Cap Rate: 8.25%- 8.75%
Maribor; Celje, Jesenice	Commercial – retail & offices	The Income Approach through a capitalisation approach	Rent of EUR 8 - 11 per sq. m per month for office space and EUR 60 per parking space per month Non-recoverable costs: 3.0% of gross rental income CAPEX: 0 Cap Rate: 8.75%

The recoverable amount for cash-generating units is based on fair value less costs of selling, which has been estimated using the return capitalisation method. Because land is valued at fair value, the fair value of land was determined using market comparisons. The value of buildings was estimated as the difference between the value of the cash-generating unit less the fair value of the land.

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Right of use	Total
Movement in year 2022					
Opening net book amount	26,089	1,119	964	2,095	30,267
Additions	364	285	460	576	1,685
Disposals	-	(8)	(4)	-	(12)
Depreciation charge	(1,051)	(338)	(267)	(1,193)	(2,849)
Transfer to non-current assets held for sale	(707)	-	-	-	(707)
Closing net book amount before valuation	24,695	1,058	1,153	1,478	28,384
Revaluation of properties recognised in OCI	-	-	-	-	-
Closing net book amount	24,695	1,058	1,153	1,478	28,384
As at 31 December 2022					
Cost	30,410	5,359	10,094	5,283	51,146
Accumulated depreciation	(5,715)	(4,301)	(8,941)	(3,805)	(22,762)
Net book amount as at 31 December 2022	24,695	1,058	1,153	1,478	28,384

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Right of use	Total
Movement in year 2021					
Opening net book amount	28,031	975	1,191	3,136	33,333
Additions	5	513	101	140	759
Disposals	(236)	(17)	(10)	(15)	(278)
Depreciation charge	(1,115)	(352)	(318)	(1,166)	(2,951)
Closing net book amount before valuation	26,685	1,119	964	2,095	30,863
Revaluation of properties recognised in OCI	(596)	-	-	-	(596)
Impairment of properties	-	-	-	-	-
Closing net book amount	26,089	1,119	964	2,095	30,267
As at 31 December 2021					
Cost	29,446	5,318	9,917	5,466	50,147
Accumulated depreciation	(3,357)	(4,199)	(8,953)	(3,371)	(19,880)
Net book amount as at 31 December 2021	26,089	1,119	964	2,095	30,267

The right of use refers to the lease of business premises and vehicles. Leases of small value assets and short-term leases are included in administrative expenses (Note 13).

In 2022, the Bank has in use EUR 3,577 thousand of already amortised hardware equipment and EUR 8,195 thousand of other equipment.

In 2022 there was no property, plant and equipment pledged (2021: nil).

Based on the accounting policy about the revaluation model, the Bank assesses the fair value of premises every year.

28. INVESTMENT PROPERTY

(in thousands of euros)

	2022	2021
As of 1 January	1,580	1,720
Derecognition (sale)	(280)	(140)
As at 31 December	1,300	1,580

The valuation of investment property was performed by an independent real estate appraiser. In estimating value, the method of market comparisons and the yield-based capitalisation method were used. The appraiser also assessed value in use, but this method was not applied because it was lower than fair value less costs of sell. The valuation was performed according to the condition of the real estate on 31.12.2022.

The recoverable amount for cash-generating units is based on fair value less costs of selling, which has been estimated using the return capitalisation method. Because land is valued at fair value, the fair value of land was determined using market comparisons. The value of buildings was estimated as the difference between the value of the cash-generating unit less the fair value of the land.

In 2022, the Bank generated EUR 98 thousand in rental income from investment property (2021: EUR 187 thousand). The cost of maintaining investment property amounted to EUR 3 thousand (2021: EUR 13 thousand).

29. INTANGIBLE ASSETS

(in thousands of euros)

	Development-internally generated software	Licenses	Software and other	Total
Movement in year 2022				
Opening net book amount	6,497	169	194	6,860
Additions	2,050	37	76	2,163
Disposals	(35)	-	(3)	(38)
Amortisation	(1,397)	(110)	(82)	(1,589)
Closing net book amount	7,115	96	185	7,396
As at 31 December 2022				
Cost	24,738	2,977	3,754	31,469
Accumulated amortisation	(17,623)	(2,881)	(3,569)	(24,073)
Net book amount as at 31 December 2022	7,115	96	185	7,396

(in thousands of euros)

	Development-internally generated software	Licenses	Software and other	Total
Movement in year 2021				
Opening net book amount	5,985	285	250	6,520
Additions	2,001	28	70	2,099
Amortisation	(1,489)	(144)	(126)	(1,759)
Closing net book amount	6,497	169	194	6,860
As at 31 December 2021				
Cost	22,723	2,940	3,682	29,345
Accumulated amortisation	(16,226)	(2,771)	(3,488)	(22,485)
Net book amount as at 31 December 2021	6,497	169	194	6,860

The Bank has in use EUR 18,896 thousand of already amortised intangible fixed assets.

The Bank has not pledged any intangible fixed assets.

The Bank does not have any intangible fixed assets in management.

In 2022, the Bank has not recognised any expenditure related to development in the income statement. All internal development expenditure relates to staff expenses, which were capitalised within intangible fixed assets in the amount of EUR 718 thousand (2021 EUR 735 thousand).

30. OTHER ASSETS

	(in thousands of euros)	
	2022	2021
Accruals	912	927
Inventory	5	5
Taxes and contributions	341	873
Advances for intangible assets	79	-
Repossessed assets*	1,530	4,791
Prepayments	312	633
Other	3	3
Impairment on repossessed assets	(528)	(3,182)
Total	2,654	4,050

* *Repossessed assets related mainly to assets subject to leasing contracts. These are mainly real estate. In 2022, the Bank sold one property in the amount of EUR 596 thousand. From this transaction, the Bank realised the profit in the amount of EUR 650 thousand. Other seized premises that are still in stock will be subject to sale in coming periods.*

Movement in impairment

	(in thousands of euros)	
	2022	2021
At beginning of year	3,182	2,929
Additions included in Income statement under impairments	11	253
Decrease due to sale	(2,665)	-
At end of the year	528	3,182

31. NON-CURRENT ASSETS HELD FOR SALE

	(in thousands of euros)	
	2022	2021
At the beginning of the year	1,940	6,558
Sale	(1,193)	(4,554)
Transfer to inventories repossessed assets	707	-
Impairments	-	(64)
At the end of the year	1,454	1,940

The premises held for sale were valued in accordance with offered prices from the identified buyer. Although the sale of real estate lasts more than one year, the management of Intesa Sanpaolo d.d. does not have an intention to reclassify the remaining premises to the original portfolio. The sales activities are continuing intensively and are planned to be concluded in 2023.

32. DEPOSITS FROM BANKS AND CENTRAL BANKS

	(in thousands of euros)	
	2022	2021
On demand deposits	1,490	490
Short term deposits	43,144	-
Total	44,634	490

33. DEPOSITS FROM NON-BANK CUSTOMERS

	(in thousands of euros)	
	2022	2021
Individuals		
- demand deposits	1,575,923	1,359,713
- term deposits	471,239	465,267
Sole proprietors		
- demand deposits	132,558	122,975
- term deposits	1,476	870
Corporate customers		
- demand deposits	893,858	819,429
- term deposits	132,706	20,705
Total	3,207,760	2,788,959

As at 31 December 2021, deposits in the amount of EUR 452 thousand have been pledged for covering potential credit risk on assets (2021: EUR 4,243 thousand). These are deposits that bear interest at the interest rate agreed in the contract and are blocked until the loan obligations are repaid. If the client does not repay, the loan obligation is offset with the deposit.

34. LOANS FROM BANKS AND CENTRAL BANKS

The Bank repaid its obligations regularly. At the date of the financial statements, there are no obligations which are overdue.

	(in thousands of euros)			
	2022		2021	
	Short term	Long term	Short term	Long term
In local currency	-	73,066	-	299,280
In foreign currency	-	-	-	-
Total	-	73,066	-	299,280

In June 2021, the Bank obtained a TLTRO III facility from the ECB in the amount of EUR 285 million with a final maturity date June 2024 and the possibility of an early repayment in June 2022. The Bank repaid the TLTRO III facility in December 2022 due to changed interest rate facility conditions implied BY ECB in November 2022.

In 2022, the Bank withdrew long-term facility loan suitable for covering MREL requirements in the amount of EUR 60 million from the parent bank.

The residual maturity of the financial liability is shown in Note 3.5. - Liquidity risk.

35. OTHER FINANCIAL LIABILITIES

	(in thousands of euros)	
	2022	2021
Unpaid commissions	462	243
Liabilities form credit card business	4,827	4,763
Not yet processed payment*	6,590	14,176
Creditors	1,149	1,676
Accrued expenses	7,484	5,523
Lease liabilities	1,527	2,130
Other	225	328
Total	22,264	28,839

*Not yet processed payment refers to still pending inflows to be allocated to clients' current accounts.

36. PROVISIONS FOR LIABILITIES AND CHARGES

The Bank also makes credit risk provisions for off-balance sheet items. The above credit risk provisions recorded by Banca Intesa Sanpaolo d.d, refer to contractual commitments for issued guarantees and letters of credits and irrevocable contractual commitments for granted but not drawn loans and advances. For off balance sheet exposures, there are applied the Bank's own regulatory credit conversion factors (CCF) which adjust the off-balance sheet exposures to on-balance sheet exposure level. For the rest, the same principles as for impairments on loans are applied.

(in thousands of euros)

	2022	2021
Provisions for restructuring	-	217
Provisions for legal proceedings	3,350	400
Provisions for off-balance sheet liabilities *	4,242	2,191
Provisions for cash returns to customers	303	165
Reservation for maintain min yield on Pension Fund*	2,153	8
Total	10,048	2,981

* The increase of provisions in 2022 is explained in Note 15. Provisions.

As at 31 December 2022, the Bank was involved in several legal proceedings against it. Contingent liabilities in this respect are estimated in the amount of EUR 4.630 thousand. To this end, on the basis of its best estimation on the outcome of the legal proceedings, the Bank established provisions in the amount of EUR 3.350 thousand.

Movement in provisions 2022:

(in thousands of euros)

	Off balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Other	Reservation to maintain min yield on Pension Fund	Total
At beginning of year (1 January)	2,191	400	217	165	8	2,981
Additional provision	6,933	3,030	4	140	3,413	13,520
Releases	(4,882)	(80)	-	-	(1,222)	(6,184)
Included in income statement	2,051	2,950	4	140	2,191	7,336
Utilised	-	-	(221)	(2)	(46)	(269)
As at 31 December 2022	4,242	3,350	-	303	2,153	10,048

Movement in provisions 2021:

(in thousands of euros)

	Off balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Other	Reservation to maintain min yield on Pension Fund	Total
At beginning of year (1 January)	2,113	321	785	15	25	3,259
Additional provision	3,148	154	-	150	22	3,474
Releases	(3,070)	(15)	-	-	(37)	(3,122)
Included in income statement	78	139	-	150	(15)	352
Utilised	-	(60)	(568)	-	(2)	(630)
As at 31 December 2021	2,191	400	217	165	8	2,981

37. RETIREMENT BENEFIT OBLIGATIONS

(in thousands of euros)

	2022	2021
Retirement severance pay and long service bonuses	2,002	3,006
Total	2,002	3,006

The actuarial calculation of long-term benefits is based on the Book Reserve Method. The calculation estimates the liability to employees incurred in the accounting period (current service cost) and the increase in the present value of the liability in the period due to the approaching of time for fulfilment of obligations (interest cost). The increase of liabilities in the period exceeding the abovementioned two estimates less payments in the period represents the actuarial loss/gain of the period.

In the actuarial calculation, the following assumptions were used:

- 1.8% salary growth in the Bank, 2.5% average salary growth in the country;
- the fluctuation of employees in 2021 by age classes;
- discount rate in line with 10-year high-rated corporate bonds in the Euro area (4.59% per annum);
- mortality tables of the Slovenian population from 2007;
- minimum conditions for acquiring the right to a state pension;
- benefits related to severance pay upon retirement and jubilee bonus as arising from the employment contract of individual employee.

Movements

(in thousands of euros)

	2022	2021
At beginning of year	3,006	2,871
Additional provisions (included staff costs)	138	165
Amounts recovered during the year	(72)	-
Charged to income statement	66	165
Change in actuarial gain*	(1,004)	37
Utilised provisions	(66)	(67)
At end of year*	2,002	3,006

* The lower level of provisions at the end of 2022 is primarily the result of an increase in the interest rates for 10-year corporate bonds with a high credit rating in the EURO area, which was used to discount future long term benefit obligations, namely from 0.94% used for 2021 to 4.59% used for the year 2022. The change in these financial assumptions is reflected in the increase in the actuarial gain.

38. DEFERRED INCOME TAXES

Deferred tax liabilities

(in thousands of euros)

	2022	2021
Valuation of tangible fixed assets	3,172	3,172
Valuation and impairments of FVOCI assets	165	327
Actuarial gain	164	69
Total	3,501	3,568

Deferred tax assets

(in thousands of euros)

	2022	2021
Retirement and other employee benefits	354	354
Provisions for reorganisation	-	1
Valuation and impairments of FVOCI assets	708	113
Impairments from leasing loans	10	11
Other (depreciation above the tax prescribed rate)	89	74
Total	1,161	553
Net deferred tax liabilities	2,340	3,015

Movement in deferred taxes (offsetting of assets and liabilities)

(in thousands of euros)

	2022	2021
At beginning of year	3,015	3,250
Deferred taxes charged in income statement	(15)	(19)
Realisation of valuation of FVOCI shares	-	1
Valuation and impairment of FVOCI assets (Note 18)	(755)	(97)
Valuation of tangible fixed assets (Note 18)	-	(113)
Realisation of valuation of premises valued at fair value due to sale (Note 18)	-	(4)
Actuarial gain (Note 18)	95	(3)
At end of year	2,340	3,015

Deferred taxes charged in income statement

(in thousands of euros)

	2022	2021
Retirement and other employee benefits	-	(9)
Provisions for reorganisation	1	5
Impairment on FVOCI financial assets	(2)	-
Loan impairments from leasing contracts	1	1
Other (depreciation above tax prescribed rate)	(15)	(16)
Total (Note 18)	(15)	(19)

39. OTHER LIABILITIES

(in thousands of euros)

	2022	2021
Deferred income	446	530
Prepayments received	583	654
Taxes and contributions	1,049	1,775
Salaries	2,037	2,221
Total	4,115	5,180

40. SHARE CAPITAL

(in thousands of euros)

	Number of shares	Ordinary shares	Share premium	Treasury shares
As at 31 December 2020	531,359	22,173	7,499	(49)
As at 31 December 2021	531,359	22,173	7,499	(49)
As at 31 December 2022	531,359	22,173	7,499	(49)

The share capital of the Bank is divided into 531,359 ordinary shares. Each share has an equal proportion in the share capital of the Bank and its participating value in the share capital as well. The proportion of each share in the share capital of the Bank is determined on the basis of the number of the issued shares.

41. ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2022	2021
Revaluation reserves:		
- Debt securities	(1,910)	616
- Equity securities	(356)	335
- Tangible fixed assets	13,523	13,523
- Actuarial gain	1,564	655
Total	12,821	15,129

(in thousands of euros)

Movement	Revaluation reserves
As at 31 December 2020	16,064
Equity securities	108
Fair value adjustment,	102
Derecognition of valuation due to sale	6
Debt securities	(509)
Fair value adjustment, net of tax	(2,041)
Valuation of hedge items transferred to profit or loss	1,532
Other comprehensive income	(534)
Actuarial gain	(34)
Valuation of premises	(484)
Premises valuation derecognition due to sale	(16)
As at 31 December 2021	15,129
Equity securities	(691)
Fair value adjustment	(220)
Derecognition of valuation due to sale	(471)
Debt securities	(2,526)
Fair value adjustment	(6,220)
Valuation of hedge items transferred to profit or loss	3,694
Other comprehensive income	909
Actuarial gain	909
As at 31 December 2022	12,821

42. RESERVES FROM PROFIT AND RETAINED EARNINGS

(in thousands of euros)

	2022	2021
Legal reserves	19,540	18,722
Statutory reserves	244,328	244,310
Other reserves from retained earnings	232	-
Treasury share's reserves	49	49
Retained earnings	18,000	18,819
Total	282,149	281,900

(in thousands of euros)

Movement in reserves	Legal reserves	Statutory reserves	Other reserves from earnings	Treasury shares	Retained earnings	Total reserves
As at 1 January 2021	17,837	214,055	22,566	49	16,376	270,883
Net profit for the financial year	-	-	-	-	17,709	17,709
Allocation of profit 2020 (June AGM)	-	-	14,393	-	(14,393)	-
Dividends	-	-	(6,704)	-	-	(6,704)
Transfer to statutory reserves (Dec add. GM)	-	30,255	(30,255)	-	-	-
Transfer to legal reserves	885	-	-	-	(885)	-
Net profit from reclassification of FVOCI equity instrument	-	-	-	-	12	12
As at 31 December 2021	18,722	244,310	-	49	18,819	281,900

(in thousands of euros)

Movement in reserves	Legal reserves	Statutory reserves	Other reserves from earnings	Treasury shares	Retained earnings	Total reserves
As at 1 January 2022	18,722	244,310	-	49	18,819	281,900
Net profit for the financial year	-	-	-	-	16,365	16,365
Allocation of profit 2021	-	-	-	-	0	-
Dividends	-	-	-	-	(16,819)	(16,819)
Transfer to statutory reserves (Dec add. GM)	-	18	-	-	(18)	-
Transfer to legal reserves	818	-	-	-	(818)	-
Net profit from reclassification of FVOCI equity instrument	-	-	-	-	471	471
Recapitalization from management incentives in shares of the parent bank	-	-	232	-	-	232
As at 31 December 2022	19,540	244,328	232	49	18,000	282,149

Legal reserves

In accordance with the Articles of Association of Banca Intesa Sanpaolo d.d., the Bank forms legal reserves in the amount adequate to ensure that the sum of its legal reserves and those capital reserves that shall be added to the legal reserves pursuant to the law governing the required amount of legal reserves equals twice the amount of the Bank's share capital.

Statutory reserves

The Bank, according to its Statute, creates statutory reserves until they achieve an amount which is fifteen times that of the Bank's registered capital stock. In each financial year, a part of the net profit that remained after any losses carried forward, legal reserves and reserves for own shares have been covered can be allocated to statutory reserves.

43. DIVIDENDS PER SHARE

Dividends payable are not accounted for until they have been ratified by the Annual General Meeting. By the date the financial statements were authorised by the Management Board, no dividends were proposed or declared. For the year 2021, the Bank paid out the dividend in the amount of EUR 31.71 per share.

(in thousands of euros)

Distribution of the profit of the year	2022	2021
Net profit for the period	16,365	17,709
Net profit from reclassification of FVOCI instrument recognised in retained earnings	471	12
Allocation of the profit to the legal reserves (5%)	(818)	(885)
Net profit of the period available for distribution	16,018	16,836
Total net profit available for distribution at the AGM	16,018	16,836

44. CASH AND CASH EQUIVALENTS

	(in thousands of euros)	
	2022	2021
Cash and balances with central bank*	781,673	854,691
Loans to banks up to 90 days	78,320	17,764
Total	859,993	872,455

*The figure Cash and balances with central bank differs from those in Statement of financial position due to mandatory reserve liability to the central bank (Note 20).

45. CONTINGENT LIABILITIES AND COMMITMENTS

Capital commitments. . At 31 December 2022, the Bank had no capital commitments (2021: nil).

Credit related commitments. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, are exposed to credit risk, as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw funds from the Bank up to a stipulated amount under specific terms and conditions, are secured by the underlying shipments of goods to which they relate and therefore have significantly less risk, also because the Bank does not generally expect the third party to draw funds under such agreements.

With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to losses in an amount equal to the total unused commitments. However, the credit risk is lower than the total unused commitments, since most commitments to extend credit are contingent upon customers' fulfilment of specific credit standards which need to be met before the carrying out of the drawing. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table indicates the contractual amounts of the Bank's off-balance sheet position by type of instrument.

	(in thousands of euros)	
	2022	2021
Documentary and commercial letters of credit	160	160
Guarantees	216,758	169,816
- revocable guarantee's frameworks	10,007	-
- unrevocable	206,751	169,816
Credit commitments:	437,463	405,227
- original maturity up to 1 year	232,216	243,760
- original maturity over 1 year	205,247	161,467
Total	654,381	575,203
Provisions for off-balance sheet liabilities:		
Guarantees	(1,265)	(866)
Credit commitments	(2,977)	(1,325)
Total	650,139	573,012

Movements of provisions for off-balance sheet exposures (guarantees and credit commitments)

(in thousands of euros)

	STAGE 1	STAGE 2	STAGE 3	TOTAL
As at 1 January 2021	1,130	191	792	2,113
Additional impairments	1,965	429	754	3,148
Release of impairments	(1,811)	(181)	(1,078)	(3,070)
Included in income statement	154	248	(324)	78
Transfer from/to stage 1	-	(69)	(39)	(108)
Transfer from/to stage 2	69	-	13	82
Transfer from/to stage 3	39	(13)	-	26
As at 31 December 2021	1,392	357	442	2,191
Additional impairments	4,433	1,402	1,098	6,933
Release of impairments	(3,280)	(753)	(849)	(4,882)
Included in income statement	1,153	649	249	2,051
Transfer from/to stage 1	-	(95)	(26)	(121)
Transfer from/to stage 2	95	-	22	117
Transfer from/to stage 3	26	(22)	-	4
As at 31 December 2022	2,666	889	687	4,242

Note:

STAGE 1: 12-month ECL

STAGE 2: Lifetime ECL not credit-impaired

STAGE 3: Lifetime ECL credit-impaired

46. RELATED PARTY TRANSACTIONS

(in thousands of euros)

	Employees with managerial contract		Management board		Supervisory board	
	2022	2021	2022	2021	2022	2021
Loans						
At beginning of the year	15	18	60	95	-	-
Loans issued during the year	240	-	290	24	-	-
Loan repayments during the year	(128)	(3)	(60)	(59)	-	-
At end of year	127	15	290	60	-	-
Impairment as at 31 December	1	-	-	1	-	-
Collateral received as at 31 December	409	15	362	88	-	-
Interest expense on deposits	-	-	-	-	-	-
Interest income earned	2	-	-	3	-	-
Other revenue – fee income	-	2	1	1	-	-
Salary	251	471	1,311	1,277	-	-
Bonuses paid in cash	49	120	190	470	-	-
Bonuses paid in shares of Intesa Sanpaolo	-	-	232	-	-	-
Benefits in kind	26	24	84	102	-	-
Severance	-	191	-	-	-	-
Other	-	-	28	-	-	-
Supplementary pension insurance	2	8	10	11	-	-
Meeting fee	-	-	-	-	17	1
Bonuses	-	-	-	-	-	100
Remuneration	328	814	1,855	1,860	17	101

(in thousands of euros)

	Intesa SanPaolo Group without PBZ Group		PBZ Group		Intesa SanPaolo Group	
	2022	2021	2022	2021	2022	2021
Loans						
At beginning of the year	136,324	65,373	61,033	77,765	197,357	143,138
Loans issued during the year	1,500,110	1,225,889	75,448	53,525	1,575,558	1,279,414
Loan repayments during the year	(1,415,843)	(1,154,938)	(90,449)	(70,257)	(1,506,292)	(1,225,195)
At end of year	220,591	136,324	46,032	61,033	266,623	197,357
Impairments	19	46	90	14	109	60
Collateral received	135,913	108,991	50,130	53,131	186,043	162,122
Deposits						
At beginning of the year	7,257	70,003	-	-	7,257	70,003
Deposits received during the year	408,265	146,859	-	-	408,265	146,859
Deposits repaid during the year	(303,846)	(209,605)	-	-	(303,846)	(209,605)
At the end of the year	111,676	7,257	-	-	111,676	7,257
Guarantees						
Guarantees issued by the Bank	7,128	6,241	1,836	470	8,964	6,711
Interest expense on deposits	898	369	-	-	898	369
Interest income earned	2,338	422	438	510	2,776	932
Other revenue – fee income	65	116	20	22	85	138

* In 2017, the majority shareholder became Privredna Banka Zagreb d.d., however the ultimate parent company is Intesa SanPaolo Bank.

There were no transactions made with companies in which the Management board, Supervisory board members and their closer family members or employees with managerial contract had significant influence.

47. POST BALANCE SHEET EVENTS

After the balance sheet date, until the acceptance of the Annual Report by the management, no business events were identified that would affect the financial statements.

IMPORTANT DATA AND BUSINESS PERFORMANCE INDICATORS

The methodology and business performance indicators rely on Bank of Slovenia instructions in this regard (Official Gazette, no. 184/21).

(in thousands of euros)

	31.12.2022	31.12.2021	31.12.2020	Index 2022 / 2021	Index 2021 / 2020
I. BALANCE SHEET					
1. Balance sheet total	3,692,493	3,472,573	2,945,354	106	118
2. Deposits from non-bank clients	3,207,760	2,788,959	2,483,283	115	112
2.1 from legal and other persons	1,160,597	963,979	813,050	120	119
2.2 from citizens	2,047,163	1,824,980	1,670,233	112	109
3. Loans to customers	2,391,581	2,185,555	2,014,185	109	109
3.1 to legal and other persons	1,518,012	1,406,405	1,302,789	108	108
3.2 to citizens	873,569	779,150	711,396	112	110
4. Overall equity capital	324,593	326,652	316,570	99	103
5. Provisions and impairments	55,407	49,499	58,030	112	85
6. The volume of off-balance sheet business	1,103,456	1,056,931	998,071	104	106
II. PROFIT AND LOSS ACCOUNT					
7. Net interest	48,545	35,937	36,248	135	99
8. Net non-interest income	34,030	33,438	28,809	102	116
9. Costs of labour, materials and services	46,816	43,410	43,009	108	101
10. Amortisation	4,438	4,710	4,249	94	111
11. Impairments and provisions (credit risk)	11,278	(307)	1,629	-	-
12. Profit or loss before taxation	20,043	21,562	15,547	93	139
13. Tax on profit	3,678	3,853	2,710	95	142
14. Other comprehensive income before tax	(2,966)	(1,150)	2,666	258	-
15. Income tax relating to components of other comprehensive income	658	215	(507)	306	-
16. Number of outlets	41	44	46	93	96
17. Number of employees	681	678	669	100	101
18. Number of shareholders	129	154	155	84	99
19. Number of shares	531,359	531,359	531,359	100	100
20. Nominal share value or payed capital per share (in EUR)	41.73	41.73	41.73	100	100
21. Book value per share (in EUR)	611.98	615.86	596.85	99	103
III. INDICATORS					
22. CET1 capital ratio	15.88	18.13	18.58	88	98
23. T1 capital ratio	15.88	18.13	18.58	88	98
24. Total capital ratio	16.15	18.35	18.82	88	98
25. Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	0.72	0.86	1.70	83	50
25. Non performing (balance sheet) exposure / all balance sheet exposure (without cash balances at central banks and other demand deposits)	1.15	1.44	2.65	80	54
27. Non performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	0.88	1.05	2.13	84	49
28. All impairment and provisions / non performing impairment and provisions (without cash balances at central banks and other demand deposits)	78.25	72.63	64.05	108	113
29. All impairment and provisions / non performing impairment and provisions (with cash balances at central banks and other demand deposits)	78.25	72.63	64.05	108	113
30. Received collateral / non performing exposure (without cash balances at central banks and other demand deposits)	13.95	22.87	31.13	61	73
31. Interest margin	1.32	1.11	1.28	119	86
32. Financial margin	2.25	2.14	2.30	105	93

	31.12.2022	31.12.2021	31.12.2020	Index 2022 / 2021	Index 2021 / 2020
33. Return on assets after taxation	0.45	0.55	0.45	82	120
34. Return on equity before taxation	6.19	6.64	5.09	93	131
35. Return on equity after taxation	5.05	5.46	4.20	93	130
36. Operating costs / assets	1.40	1.48	1.67	94	89
37. Liquidity coverage ratio	267.60	261.57	217.36	102	120
38. Net stable funding Ratio	164.25	158.35	153.49	104	103
39. Leverage Ratio	7.46	8.12	9.42	92	86

OPERATIONS ON BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES

(in thousands of euros)

	2022	2021
ASSETS	378	615
1. Claims due to customers (settlement and current account)	58	13
Due to other or settlement account for sold financial instruments (buyers)	58	13
2. Cash assets (customers)	320	602
On current account	320	602
LIABILITIES	378	615
3. Liabilities due to customers (settlement and current account)	378	615
Due to customer (cash and financial instruments)	161	243
Due to other or settlement account for bought financial instruments (sellers)	210	370
Due to bank or settlement account for commission, fees, etc.	7	2
OFF BALANCE SHEET	847,991	1,060,607
4. Customer financial instruments, diverse by services	847,991	1,060,607
Assets management services	105,931	116,444
Custody services	742,060	944,163

FEE AND COMMISSION INCOME AND EXPENSES RELATING TO FIDUCIARY ACTIVITIES

(in thousands of euros)

	2022	2021
1. Fee and commission income related to fiduciary activities	1,810	1,475
Receipt, processing and execution of orders	1,134	834
Custody and similar services	676	641
2. Fee and commission expenses related to fiduciary activities	154	186
Fee and commission related to stock exchange and similar organisations	154	186

GALLERIE D'ITALIA. FOUR MUSEUMS, ONE NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: the art collections of the Bank, ranging from archaeological artefacts to contemporary works of art, are housed in historic buildings located in four cities, in a unique network of museums.

Gallerie d'Italia - Milano hosts, in a building of great architectural importance, a significant selection of two hundred 19th century Lombard masterpieces from art collections owned by Fondazione Cariplo and Intesa Sanpaolo, with a dedicated exhibit on 20th century Italian art.

Gallerie d'Italia - Vicenza showcases examples of 18th century art from the Veneto region, including a collection of paintings by Pietro Longhi and the extraordinary sculpture depicting *The Fall of the Rebel Angels*, with more than seventy figures carved from a single block of Carrara marble. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Napoli: the new location opened in spring 2022 through a project by Michele De Lucchi – AMDL Circle transforms the spaces of the historic monumental building of the former Banco di Napoli and expands the well-known collection of Neapolitan and southern Italian art to include masterpieces from the 17th to the 20th century, an exhibit of Attic and Magna Graecia pottery and a rich offering of modern and contemporary art.

Gallerie d'Italia - Torino: the recent architectural project designed by Michele De Lucchi - AMDL Circle transforms the spaces of Palazzo Turinetti into a place where photography and video art document and preserve images, events and reflections to promote issues related to the evolution of sustainability. Gallerie d'Italia – Torino is also home to an invaluable collection of Piedmontese works, with paintings, sculptures, tapestries and furnishings from the 14th to the 18th centuries, including the nine large canvases produced in the second half of the 17th century for the old Oratory of the Saint Paul Company, which has since been destroyed; it also holds the Intesa Sanpaolo Publifoto Archive, which is a collection of more than seven million images from the news as well as political, cultural and social events from the 1930s to the 1980s.

Cover:



Gallerie d'Italia - Torino
Sala Turinetti
Piazza San Carlo 156, Turin
Inside the new museum complex
Project by AMDL CIRCLE and
Michele De Lucchi
Photo: DSL Studio

COLOPHON

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