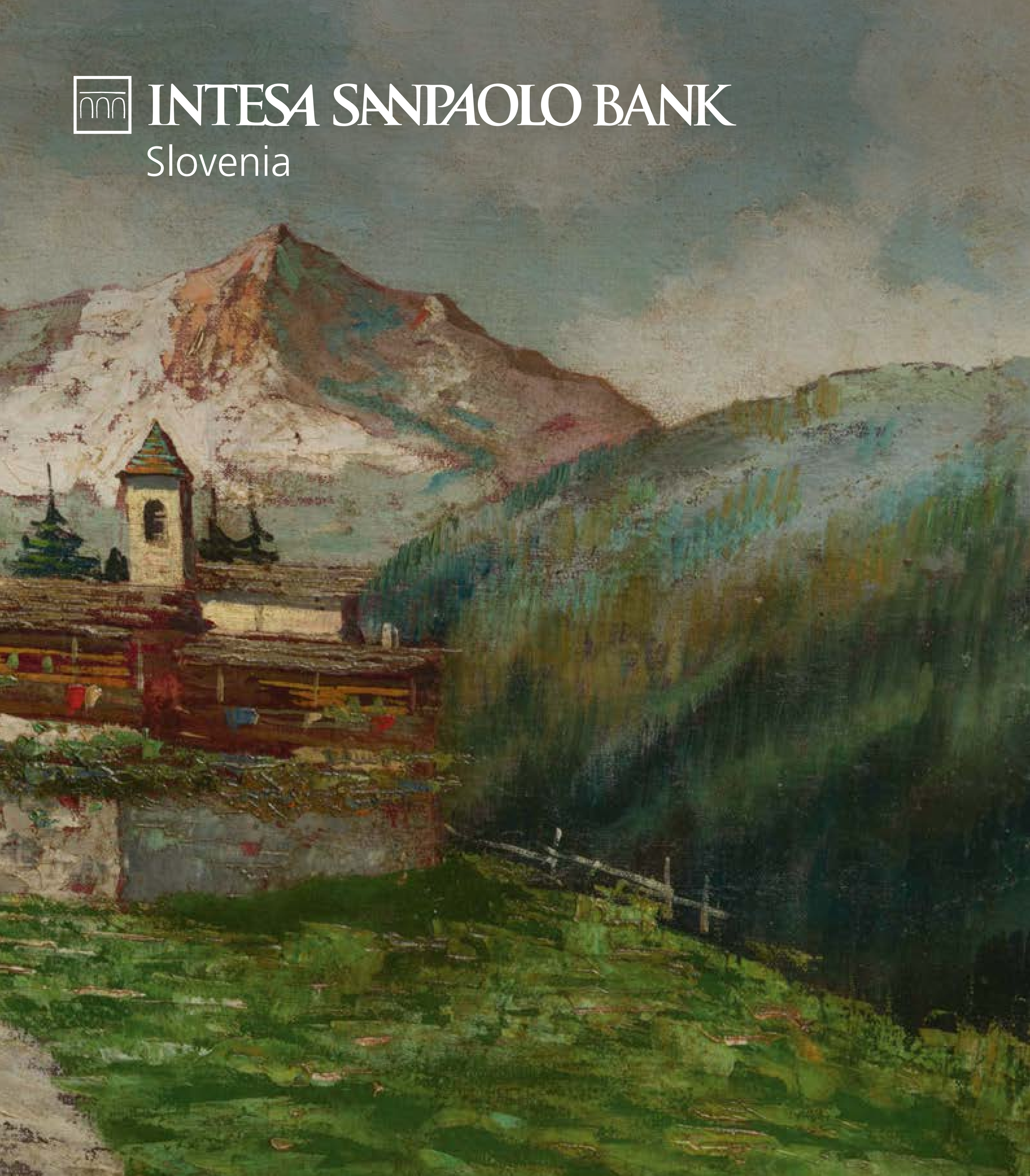
INTESA SANPAOLO BANK
Slovenia



2023 Annual Report

Bank of INTESA SANPAOLO

ANNUAL REPORT 2023

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Business Report 2023

Management overview

1. 1. MANAGEMENT BOARD'S FOREWORD

2023 will go down in history as the year of extremes – in a positive and in a negative sense.

For financial industry, it was very successful in terms of business results. The adoption of a tightening monetary policy by the ECB, supporting several interest rate hikes in a row, brought considerably better conditions to boost margins in the European banking sector and banks have closed the year with very high profits.

On the other hand for various nations, 2023 was a very tough year. Political upheavals, conflicts, natural disasters of all kinds occur in many places. The floods in Slovenia and in neighbouring countries qualify for worst natural disaster in history. The Bank immediately responded to the consequences of the natural disaster by paying solidarity aid to the affected employees and by adopting a package of measures for customers who suffered damage.

All extraordinary climate events are clear warning to all of us to position climate change in top priority of our agenda and to move from thinking to action!

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From an economic point of view, 2023 was the best on banking history. The Bank reached its peak in terms of profitability, with a robust and growing performance over the four quarters, triggered by a constant growth of customer loan volumes, customer deposits market shares, confirming itself as one of the top three leading credit institutions in the country.

Without any doubt, interest income growth stood out as the main contributor of the revenues growth. But, unquestionably, economic results on net interest income have been showing that we outperformed the performance of the local competitors thanks to our ability to capture the opportunities offered by the favourable monetary and credit environment.

Inflation rally in 2022 had some spillover effects on average cost of deposits during the year 2023. It was the strategic objective to rebalance the mix between sight and term deposits, in order to lock a share of liquidity assets of our customers while attracting -selectively- fresh money from prospect customers.

In the lending area, the Bank increased both the volume of loans to the non-banking sector and the total market share. We have been proud to reach -from June- the best peak ever (10%) in corporate loans market share. Lending to households slightly increased compared to the year before, ensuring a light increase of market share with a steady cost of risk.

Concurrently, Intesa Sanpaolo Bank proved a consistent capacity to maintain an effective control over administrative expenses and over its cost of risk.

Quality of loan portfolio remains strong and stable as result of prudent lending policies while non-performing loans are at significantly lower level than the average of banking system. Bank was further increasing its capital position to fuel future growth and provide long-term support to Slovene economy. Very good capital adequacy together with sound funding structure, and a good liquidity position, represent the Bank's main strengths.

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As we are already facing some signs of a slowdown in economic growth, mainly demonstrated through consumer reluctance to make major purchases and investing in real estate and on corporate side with evident postponement of infrastructural investments, and a parallel decline of order books in manufacturing, we need to ensure sustainability of our performance in the long run. That is also deeply connected to our ability to serve our customers and to enhance our customer satisfaction.

A satisfied customer base is the foundation on which a new ambitious strategic plan can be conceived. The Bank has been conducting a comparative survey on customer satisfaction among banks for many years and availability of fresh data and a good insight into the behaviour and opinions of our customers has been allowing us to respond to their needs in a timely manner, to offer them the best solution available on the shelf and to improve their experience with us, across all channels.

We can also not ignore that customer satisfaction and employee satisfaction are intimately connected and directly dependent. Together, employee and customer satisfaction are the two key strategic ingredients for a sound and growing bank.

Thus, in 2023, the Bank intervened to increase employees satisfaction, through an organic programme of interventions. We increased recurring salaries and bonuses of all employees of the Bank, with special focus on key people and on those who work in direct contact with customers, reducing the gender pay-gap. The Bank doubled the funds for education and training and implemented a hybrid working scheme for headquarters, in order to give flexibility to work at home or at the office, at the worker's convenience. Activities to provide a good place to work and to retain key employees will be one of HR priorities also in future.

Thinking about the future without taking into account both the positive and negative impact of our behaviour on the environment or society has become inseparable from the principles of sustainability. Our bank is very sensitive to the topic. We are promoting the Group's Circular Economy Fund, which enables companies to access financing for their circular or green projects. Thanks to this fund, the Bank successfully supported some Slovenian companies in 2023, which are aware of the importance of adapting their business models for successful operations in the future.

Furthermore, climate change has become the main topic of conversations in all business circles, as the development of the world economy will depend to a greater extent on how successful we are in realising the green transition. The Parent Group's commitment to reducing the carbon footprint through membership in the Net Zero Banking alliance by 2050 also urges us to take decisive actions. We follow the commitment also on local level with tangible actions – from replacement of internal combustion cars with electric or hybrid models, to gradual replacement of old lightning, heating and cooling devices with more energy efficient ones. We are also refurbishing our premises with aim to optimise energy consumption, not just providing modern environment to the staff and customers.

We understand the need to change and we will do everything in our power to switch to more sustainable operations on all levels and in all areas in the bank.

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We remain optimistic.

We expect a continuous gradual recovery of the Slovenian economy, an increase of private spending, which, together with a potential decrease of inflation, should also have a positive impact on the bank's lending activity, in particular on mortgage and consumer loans.

On the other hand, a gradual easing of the monetary policy may represent the major challenge which our Bank might face, in the future. The new emerging monetary circumstances may indicate a need to foster the rebalancing of the Bank's present revenue-mix (currently skewed towards interest income) in favour of fee and commission income, and a gradual change of business mix in corporate, in favour of an increasing growth on SME segment.

Moreover, converting customer deposits maturities to new propositions of asset under management and investing on new areas of business (bancassurance, confirming, factoring, guarantees) represent at the same time a way to generate value for the clients and for the Bank.

To pursue the above goals, Intesa Sanpaolo Bank will strive to improve quality, skills and motivation of employees, to address cost of labour pressures and to retain key people, that shall remain a top priority on the Management Board agenda.

The President and the Members of the Management Board are sincerely grateful to all employees and all Bank Bodies for the outstanding result of the Bank in the past year.

Let's continue to maintain the operational excellence we are known and appreciated for and let's act as a "Team, that moves the world" in the positive direction!

2. CHAIRMAN OF THE SUPERVISORY BOARD'S FOREWORD

In 2023, Banka Intesa Sanpaolo d.d. posted remarkable results, enabling it to be ranked among the best-performing and dependable credit institutions in Slovenia. Over the course of the year, both the bank's lending volumes and profitability grew consistently, enabling it to play a recognisable role and to exhibit an enhanced profile within the domestic credit system.

Also, notwithstanding the rapidly changing and volatile business environment, Banka Intesa Sanpaolo d.d. managed to attain a particularly favourable dynamic in its cost of risk. Eventually, it posted one of the lowest NPE (Non-Performing Exposures) ratios on its record, thereby confirming, also in this respect, its elevated standing among the Slovenian peer banks.

Through earning retention, Banka Intesa Sanpaolo d.d. strategically decided to translate these achievements into a strengthening of its overall capital endowment, thus laying the foundations for a reinforced capacity to accommodate its future lending activity and for enhanced resilience in case of possible adverse occurrences in the times ahead.

In relation to the business model of Banka Intesa Sanpaolo d.d., the regulatory and supervisory evaluation processes, as signified by the 2023 SREP overview, also indicated several elements of robustness. Specifically, it was confirmed that the Bank's main liquidity indicators and ratios, leveraging on a solid and dependable deposit-collection base, remained sound and consistent. Retail deposits were confirmed as the primary source of funding and, concurrently, corporate deposits evidenced an overall dispersed basis.

Analogously, in 2023 Banka Intesa Sanpaolo d.d. proved successful under several specific commercial angles. On a yearly basis, its volumes of loans to individuals, small business and SME customers grew by more than 3%. Peak performances were attained in particular in the consumer loans and SME segments.

Sustainable long-term financial growth was one of the key objectives pursued by the Bank in 2023. To this end, the Bank's Supervisory Board was particularly keen on promoting and disseminating a mindful awareness of ESG issues, prompting the management to provide analyses and reports on matters relevant to these topics and to adhere to the key principles and initiatives established at the Parent Group level.

Accordingly, during the course of 2023, a gender pay-gap analysis covering FYE 2021 and 2022 was carried out based on the ISP group methodology. The outcome of this analysis signalled that in some specific clusters of the employee population, a few gaps still persist. However, when considering the entire observation period, a more balanced picture eventually started to emerge; the Supervisory Board will strictly monitor the evolution of this indicator, recognising its improvement as one of the main enablers facilitating the long-term sustainability of the Bank's performance.

In conclusion, all the foregoing denoted and proved once again the unaltered capacity of Banka Intesa Sanpaolo d.d. to meet both the challenges posed by an increasingly complex banking environment and the expectations solicited by the Bank's reputation and distinguished past track-record. The 2023 Annual Report enshrines one of the best years for Banka Intesa Sanpaolo d.d. The Supervisory Board is sincerely grateful to the management and to all the staff of the Bank for this momentous result.

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 with 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 optimisation of business processes in previous years and the changed organisational 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

	Equity holding in per cent	
Shareholders	**31. 12. 2023**	**31. 12. 2022**
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).

1997
Name changed to Banka Koper.

1998
Development of online banking for natural persons.

2001
Preparations for strategic alliance with the Sanpaolo IMI, S.p.A. Banking Group and the establishment of an Open-ended Mutual Pension Fund.

2002
Sanpaolo IMI, S.p.A. becomes a majority shareholder.

2005
First smart payment card with the highest level of security.

2007
Integration into the international banking group Intesa Sanpaolo.

2008
State-of-the-art online banking.

2011
Digital signature in banking transactions.

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.

2016
First contactless mobile payment in Slovenia.

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.

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.

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.

2022
Opening of a flagship branch in Ljubljana.
Strengthening of the partnership with Generali in the field of bancassurance.
First Slovenian bank offering the Googe Pay service to Visa Inspire cardholders.

2023
Launch of three ESG loan products and start of fleet electrification.
Opening of branches in line with the new service model in Celje and Kranj.
Launch of the digital HR transformation in the framework of the Diversity and Inclusion initiatives.

3. BODIES OF CORPORATE GOVERNANCE

Supervisory Board

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

In 2023, the composition of the Supervisory Board changed. The shareholders of Banka Intesa Sanpaolo d.d., at its meetings, acknowledged the resignation of the Member of the Supervisory Board Mr Miroslav Halužan, Member/Deputy Chairman Mr Alessio Cioni and Member Mr Andrea Tondo. Their resignations take effect from the day the new candidates receive the authorisation of the European Central Bank (ECB) to pursue the position of Member of the Supervisory Board. Three candidates were elected during the year: Mr Massimo Malagoli, Mr Dario Massimo Grassani and Ms Elena Kohútiková. Mr Massimo Malagoli has already received the authorisation of the ECB to pursue the position of Member of the Supervisory Board. His term of office started on 30 April 2023, and he replaced Mr Miroslav Halužan. The term of office of the other two candidates will come into effect when they receive the ECB's authorisation. They will replace Mr Alessio Cioni and Mr Andrea Tondo.

Members of the Supervisory Board

as at 31 December 2023:	
Giancarlo Miranda	*Chairman*
Alessio Cioni	*Deputy Chairman*
Antonio Bergalio	*Member*
Amina Carnabuci	*Member*
Massimo Malagoli	*Member*
Andrea Pavlović	*Member*
Andrea Tondo	*Member*

Management Board

The Management Board of Banka Intesa Sanpaolo d.d., Slovenia, has four members.

In 2023, the composition of the Management Board changed. On 1 February 2023, the term of office of Mr Jozef Kausich expired when he became President of the Management Board of VÚB bank (within the Intesa Sanpaolo Group). The Supervisory Board appointed Mr Luigi Fuzio as the new President of the Management Board. His term of office started on 13 March 2023, when he received the authorisation of ECB to pursue the position of Member of the Management Board.

Members of the Bank's Management Board

as at 31 December 2023:	
Luigi Fuzio	*Chairman*
Matija Birov	*Member*
Drago Kavšek	*Member*
Mojca Kovač	*Member*

4. ECONOMIC AND BANKING ENVIRONMENT

International institutions, including the ECB, predict that the economic activity of the euro area will gradually strengthen in 2024 as a continuation of the recovery from the last quarter of 2023. GDP growth will increase in 2024 and 2025 mainly with the strengthening of private consumption (with higher confidence, low unemployment and wage growth and a further reduction in inflation). Tightened financing conditions will continue to dampen growth, but this impact will gradually diminish. The ECB estimates that the GDP of the euro area increased by 0.6% in 2023. For the years 2024 and 2025, it predicts slightly higher growth, namely 0.8% and 1.5%. The forecasts are accompanied by great uncertainty, which is mainly related to conflicts in the Middle East, with possible negative effects through higher energy prices and increased international instability.

Most of the available short-term economic indicators for Slovenia improved at the end of 2023. Nevertheless, they mostly remain below the level of 2022. The exceptions are construction and some segments of household consumption. Trade decreased again at the end of the year. In the first eleven months of 2023, real exports were down by 7.1% year-on-year and real imports by 7.5%. The values of the competitiveness indicators still indicate an unfavourable price competitive position of Slovenian exporters.

The year-on-year growth in the number of employed persons and the decline in the number of unemployed slowed down at the end of 2023. A larger number of foreign workers contributed to the year-on-year increase in October, while the number of working Slovenian citizens was lower year-on-year. Since September, the number of people employed in manufacturing has been decreasing. The average gross salary was 2.2% higher in real terms in October (in the private sector by 2.3%, in the public sector by 1.9%). In 2023, there were an average of 48,709 unemployed, which is 14% less than the year before. As a result, with high employment and low unemployment, there were also fewer beneficiaries of social assistance and unemployment benefits year-on-year.

Year-on-year inflation fell to 4.2% at the end of 2023, more than halving compared to December 2022. The price increases of all the main groups of consumer goods are slowing down. Compared to the beginning of the year, lower food price increases and lower energy prices contributed the most to the moderation of inflation.

The deficit of the consolidated balance of public finance was EUR 1,081.3 million in the eleven months of 2023, EUR 332.5 million higher than in the same period a year earlier. In this period, revenues were 6.1% higher year-on-year, while expenses were 7.4% higher. The highest growth was in revenue from excise duties, revenue from social contributions and income tax. The growth of wages and other benefits from work and some transfers (mitigation of the consequences of energy costs and reconstruction after floods) contributed the most to the growth of expenses.

A moderate strengthening of economic activity and a higher level of interest rates contributed to an additional improvement in the operating results of Slovenian banks in 2023. The higher key interest rates of the ECB led to an increase in the level of bank interest rates for loans to the non-banking sector, whereby the volume of loans after the decline in the first quarter stagnated in the remaining months. Net interest income increased markedly, which is reflected in the significantly increased income of banks. Banks' profit before taxation, with low net impairments and provisions, significantly exceeded the values from 2022.

Among bank investments, the volume of loans to the non-banking sector decreased in 2023 at higher levels of interest rates, mainly due to the smaller volume of loans to other financial institutions. Loans to the state and foreigners also decreased, while the volume of loans to non-financial companies stagnated, and the volume of loans to households increased.

Indicators of the quality of bank investments remained at the achieved favourable levels. The increased burden of debt servicing, especially in the corporate sector, and the damage caused by the August floods were not significantly reflected in the deteriorating quality of the banks' portfolio. The shares of NPLs remained at historically low levels. In the profitable part of the portfolio, the reallocation from the group with increased to the group with the lowest credit risk continued.

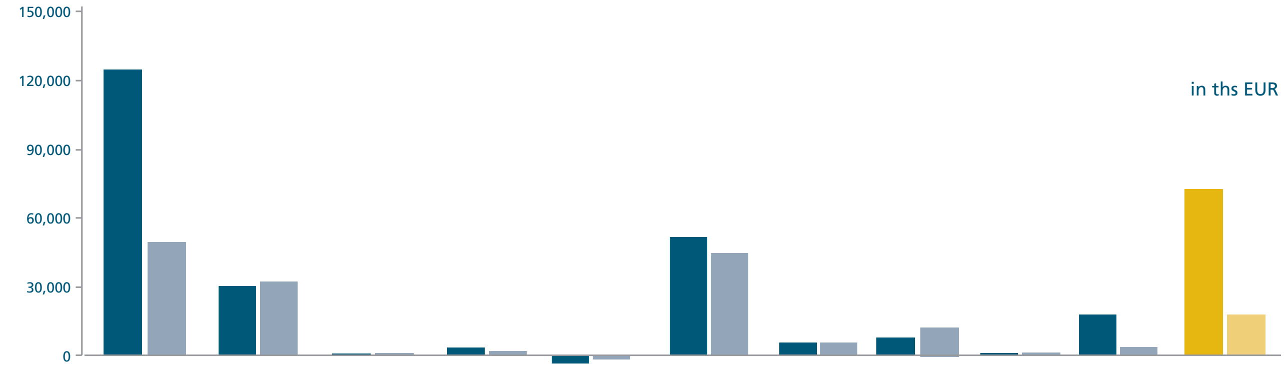
Deposits from the non-banking sector maintained their role as a stable source of funding for the banking system despite a smaller inflow in 2023. The structure of deposits by maturity slowly changed in the direction of an increase in fixed deposits. In 2023, household deposits increased less than the year before, as still high inflation and living costs reduce the opportunities for savings, and weather disasters had an additional negative impact on the savings of damaged households. Most Slovenian banks slightly increased the interest rates on time deposits, especially in the spring and summer months, which encouraged savers to tie up funds for a longer period. Differences in the amount of interest rates did not lead to major spillovers of deposits between banks.

The higher profit of banks compared to 2022 is primarily the result of the growth in net interest income, which was mainly contributed by significantly higher levels of interest rates or price effects on assets. Net non-interest income lagged behind the 2022 income, as did the net fee income. The growth of banks' operating costs remained moderate. The indicators of the capital position and liquidity of the Slovenian banking system improved in 2023.

5. FINANCIAL RESULTS

In 2023, the bank generated EUR 87.9 million in profit before taxation and EUR 71.5 million in net profit. The Bank's pre-tax profit in 2023 is EUR 67.8 million higher than in 2022.

Income Statement Categories



	Net interest income	Net fee and commission income	Dividend income	Net gains or losses on financial assets	Other net income/loss	Administrative expenses	Depreciation	Provisions and impairments	Profit or loss from noncurrent assets held for sale	Tax expense	Profit for the financial year
2023	123,610	29,343	77	2,064	-4,696	54,170	4,217	7,593	458	16,341	71,535
2022	48,545	30,938	166	1,151	-1,385	43,889	4,438	11,278	233	3,678	16,365

In 2023, the Bank realised EUR 153.0 million in net operating income.

EUR 123.6 million of **net interest** was achieved, which is 154.6% more than in 2022. Interest income of EUR 138.1 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 2023, the bank realised EUR 85.3 million more interest income than in 2022, which is a 161.6% increase, mainly due to the increase of EURIBOR and related interest rates and due to the larger volume of loans granted. Interest expenses are higher by EUR 10.2 million compared to 2022.

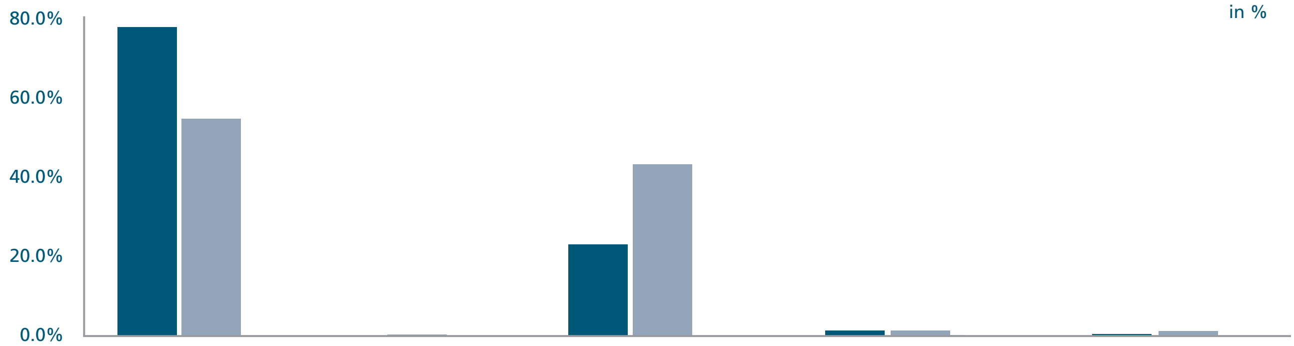
Net fees for banking services amounted to EUR 29.3 million in 2023. Compared to 2022, the net fees are lower by EUR 1.6 million or by 5.2%. The largest share of the fees received (29.8%) is income from fees for credit cards, followed by fees for local payment transactions at 17.5%.

In the structure of revenues, **revenues from financial transactions** represent EUR 2.1 million, which is a 79.3% increase compared to 2022.

Other revenues amounted to EUR 0.5 million in 2023 and were realised from the sale of long-term assets held for sale.

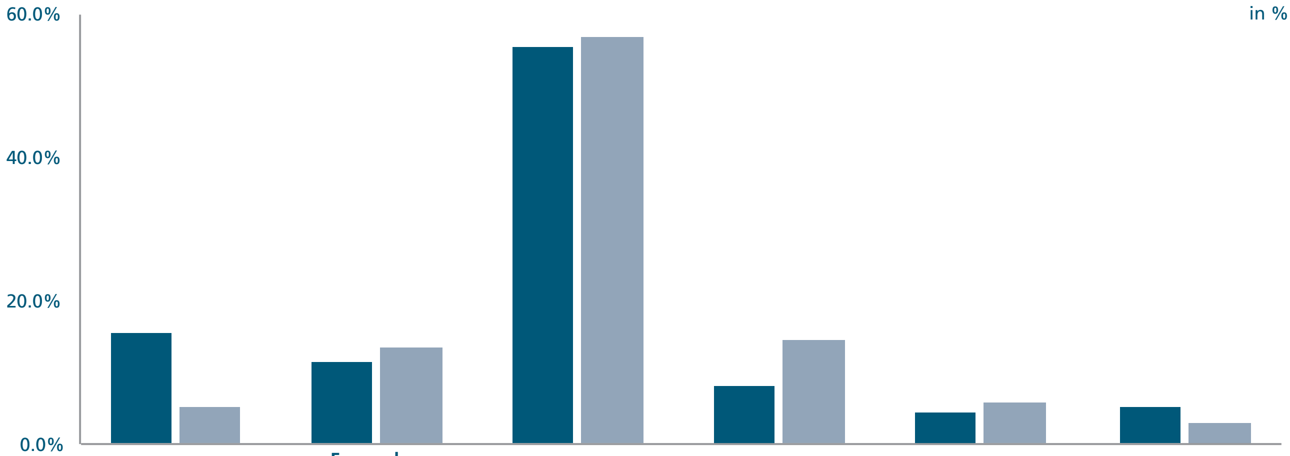
Income from dividends in 2023 amounted to EUR 0.1 million. It is income from the ownership stake in the companies Bankart and Visa.

Revenue Structure



	Interest income	Dividend income	Fee and commission income	Net gains or losses on financial assets	Other income
2023	76.4%	0.0%	22.2%	1.1%	0.3%
2023	54.3%	0.2%	42.7%	1.2%	1.6%

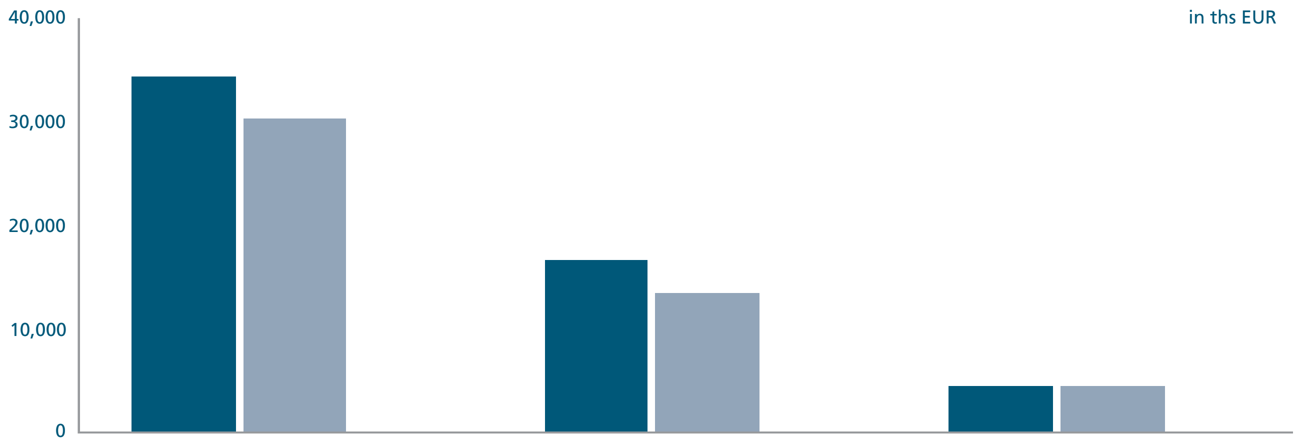
Expense Structure



	Interest expenses	Fee and commission expenses	Administrative expenses	Provisions and impairments	Depreciation	Other expenses
2023	15.6%	11.5%	55.1%	8.2%	4.5%	5.1%
2022	5.5%	13.8%	56.9%	14.6%	5.8%	3.5%

Operating costs, which include personnel costs, material and service costs, and depreciation, amounted to EUR 55.4 million in 2023 and are EUR 7.1 million higher than in 2022, or 14.6%.

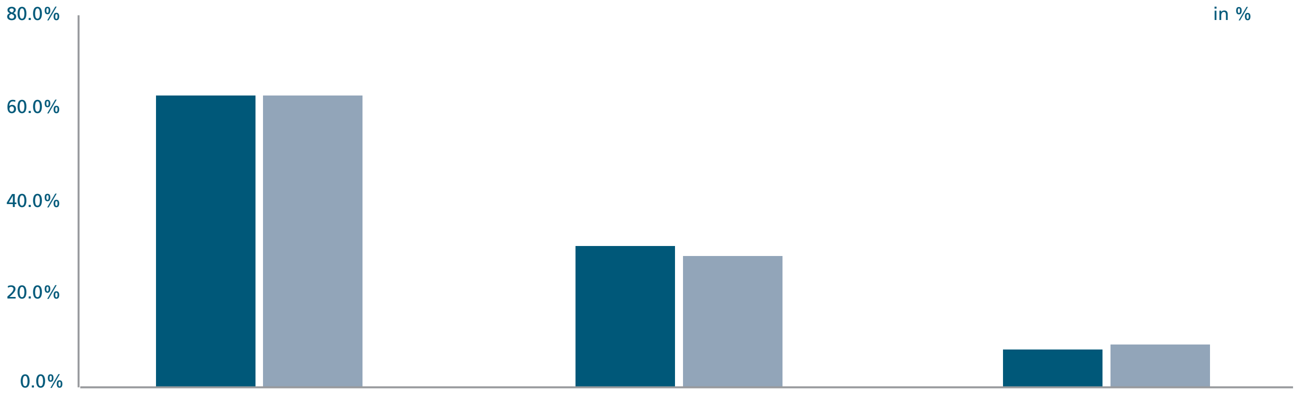
Operating Costs



	Personnel expenses	Other administrative expenses	Depreciation
2023	34,611	16,559	4,217
2022	30,408	13,481	4,438

Personnel expenses amounted to EUR 34.6 million or 62.5% of all operating expenses. Compared to 2022, personnel costs are EUR 4.2 million higher. The costs of materials and services amount to EUR 16.6 million and are higher by 22.8% than the costs realised in 2022. Depreciation costs for 2023 were calculated in the amount of EUR 4.2 million and are EUR 0.2 million or 5.0% lower than in 2022.

Operating Costs Structure



	Personnel expenses	Other administrative expenses	Depreciaton
2023	62.5%	29.9%	7.6%
2022	62.9%	27.9%	9.2%

Impairments and Provisions of Financial Assets

In 2023, the bank formed EUR 7.6 million of impairments and provisions of financial assets, which is EUR 3.7 million or 32.7% lower than in 2022. The largest share of the impairments and provisions formed in 2023 is loan impairments (EUR 7.2 million), followed by impairments of fixed assets (EUR 0.5 million). Provisions for off-balance obligations of EUR 0.1 million were released: the release of provisions for acceptances and guarantees given in the amount of EUR 1.7 million; additional provisions of EUR 1.6 million for pending lawsuits and other potential obligations.

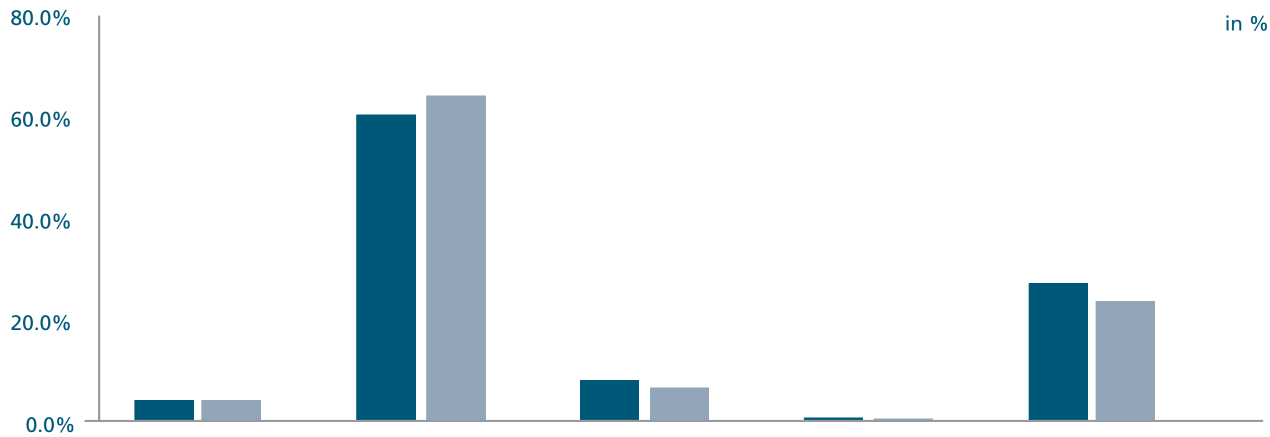
Components of Net Profit

	Net interest income	Net fee and commission income	Dividend income	Net gains or losses on financial assets	Other net income/loss	Administrative expenses	Depreciation	Provisions and impairments	Tax expenses	Profit for the financial year
2023	123,610	29,343	77	2,064	-4,238	-51,170	-4,217	-7,593	-16,341	71,535

6. FINANCIAL POSITION OF THE BANK

Banka Intesa Sanpaolo concluded the year 2023 with a balance sheet total of EUR 3,991.2 million, which represents an increase of EUR 298.7 million or 8.1% compared to 2022. Based on the total assets, the Bank's market share increased by 2 basis points to 7.5%.

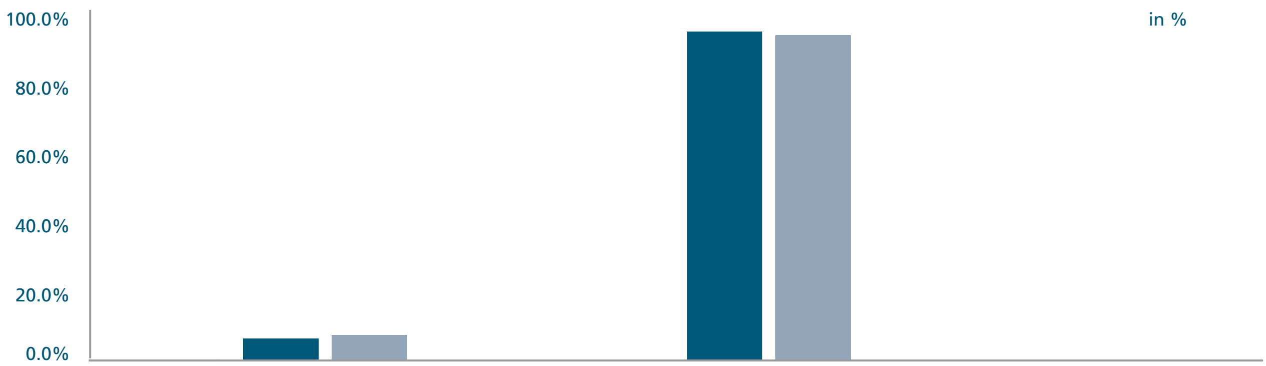
The Structure of Assets



	Loans to banks	Loans to non-banks customers	Securities	Tangible assets	Other assets
2023	3.8%	60.5%	7.9%	0.6%	27.2%
2022	4.1%	64.8%	7.1%	0.3%	23.7%

As of 31 December 2023, net loans represent 64.3% of the balance sheet total. Compared to 2022, loans to banks increased by 0.4% or EUR 0.6 million. Loans to the non-banking sector represent the most important balance sheet item with a 60.5% share of the Bank's total assets. On 31 December 2023, net loans to the non-banking sector amounted to EUR 2,415.1 million, which is EUR 23.5 million or 1.0% more than the end of 2022.

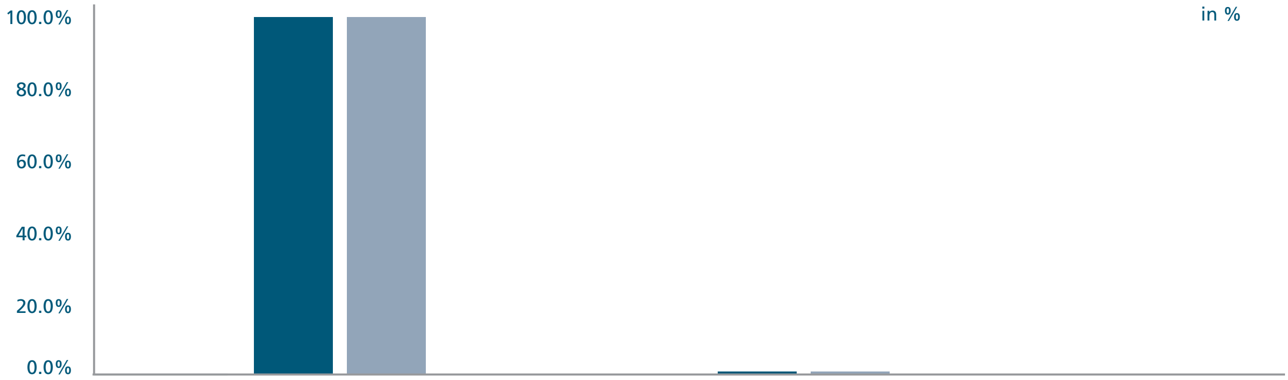
Gross Lending to the Non-Banking Sector by Maturity



	Short - term	Long - term
2023	6.2%	93.8%
2022	7.1%	92.9%

In terms of maturity, in 2023 the share of short-term loans to the non-banking sector decreased from 7.1% to 6.2% and the share of long-term credits increased from 92.9% to 93.8%.

Gross Lending to the Non-Banking Sector by Currency

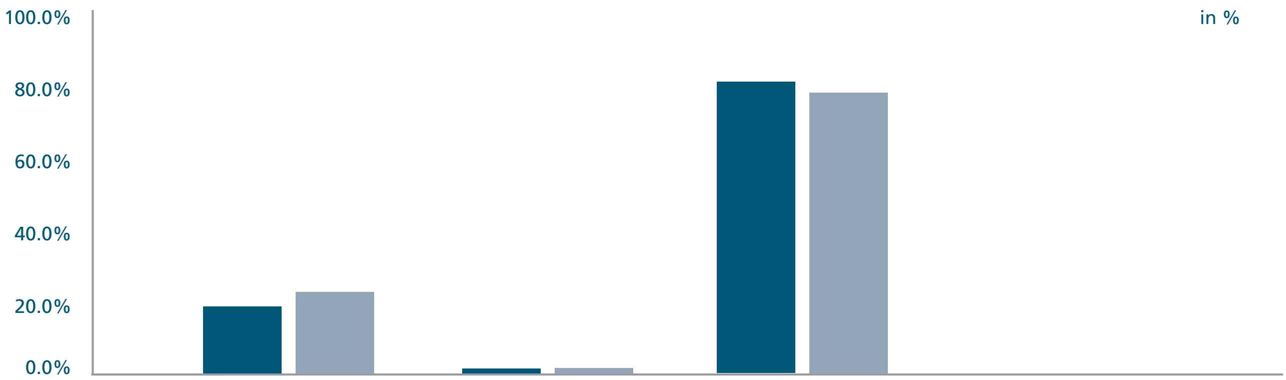


	Domestic currency	Foreign currency
2023	99.9%	0.1%
2022	99.9%	0.1%

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

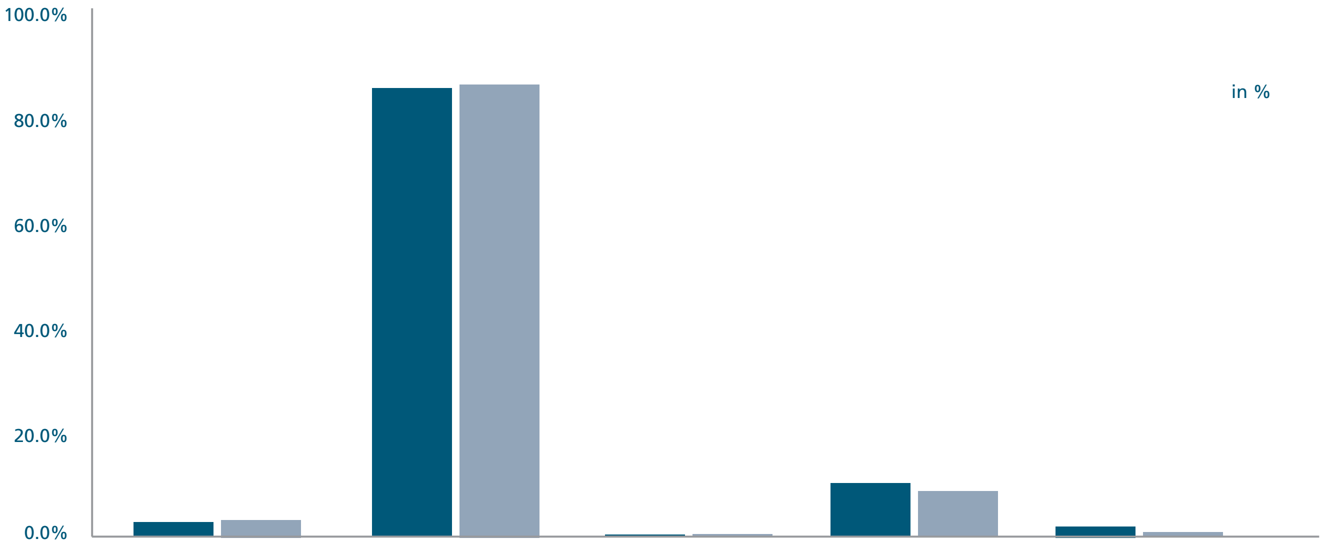
Investments in securities (Non-trading financial assets mandatorily at FV through profit or loss, Financial assets at FV through other comprehensive income, and Debt securities at amortized costs) amounted to EUR 314.5 million on 31 December 2023, or 7.9% of the balance sheet total. The value of securities at the end of 2023 is higher by EUR 53.9 million or 20.7% compared to the situation at the end of 2022. In 2023, the value of investments in government debt securities increased the most.



	Banks	Companies	State institution
2023	18.2%	0.9%	80.9%
2022	21.5%	0.9%	77.6%

In the structure of securities, debt securities represent 96.2% or EUR 302.5 million and equity securities 3.8% or EUR 12.0 million.

The Structure of Liabilities

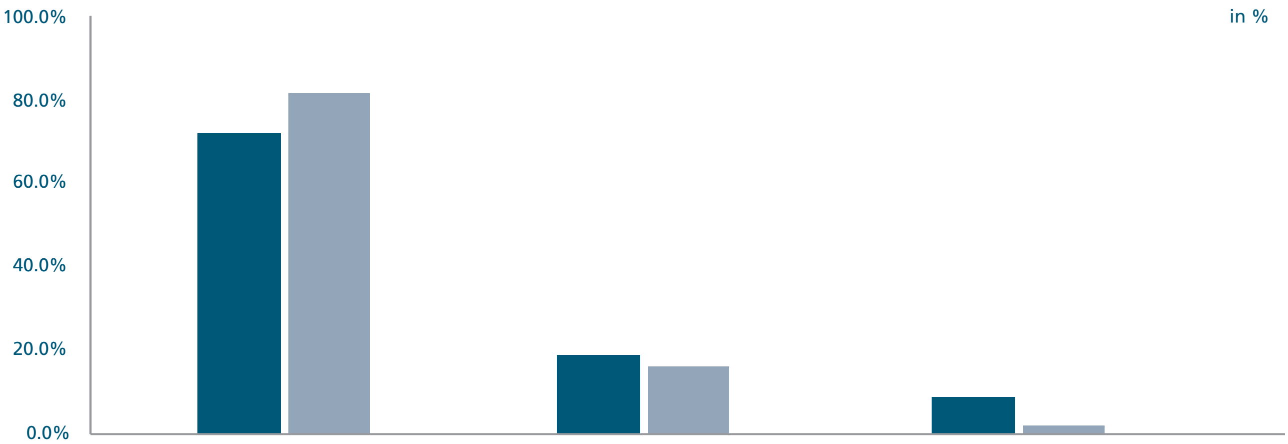


	Deposits from banks and central banks	Deposits from non-bank customers	Provisions	Equity	Other liabilities
2023	2.7%	85.7%	0.3%	9.9%	1.4%
2022	3.2%	86.9%	0.3%	8.8%	0.8%

Liabilities to banks amounted to EUR 106.5 million at the end of 2023, which is a 2.7% share of the total liabilities. Compared to 2022, the volume of liabilities to banks decreased by EUR 11.2 million or 9.5%.

In the structure of liabilities, the share of deposits from the non-banking sector decreased from 86.9% in 2022 to 85.7% in 2023. Deposits from the non-banking sector amounted to EUR 3,421.4 million at the end of 2023, which is EUR 213.6 million or 6.7% more than at the end of 2022.

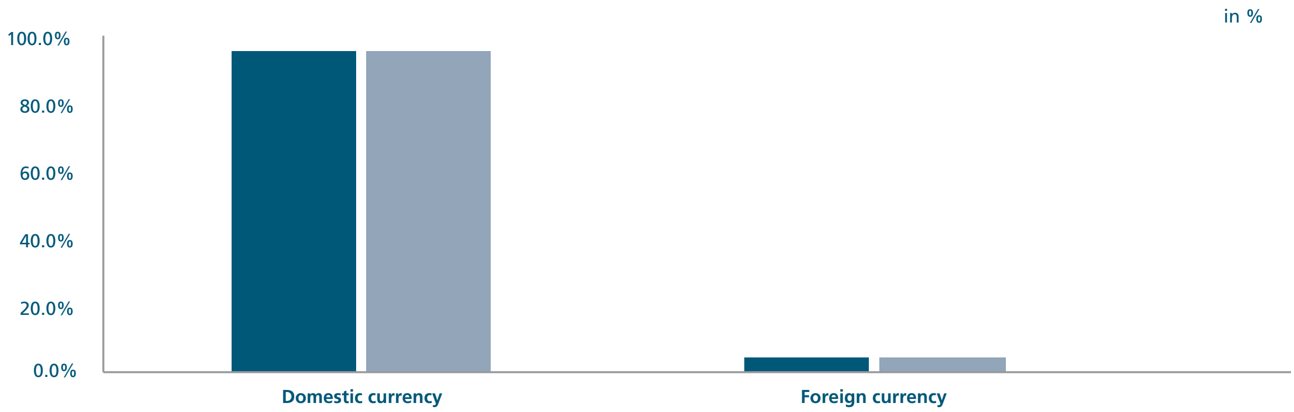
Deposits of the Non-Banking Sector by Maturity



	Sight	Short - term	Long - term
2023	71.2%	19.5%	9.4%
2022	81.1%	16.0%	2.9%

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

Deposits of the Non-Banking Sector by Currency



	Domestic currency	Foreign currency
2023	95.9%	4.1%
2022	95.5%	4.5%

The bank has the majority of its deposits in euros, namely 95.9%, and 4.1% of deposits in other currencies.

The Bank's provisions represent 0.3% of the balance sheet total or EUR 11.4 million. Compared to 2022, provisions are 5.5% lower. The largest share of the provisions is represented by provisions for pending lawsuits (41.4% or EUR 4.7 million), provisions for off-balance sheet liabilities (22.4% or EUR 2.6 million), provisions for pensions and other similar obligations to employees (21.9% or EUR 2.5 million), and other provisions (14.3% or EUR 1.6 million).

As of 31 December 2023, the Bank's capital amounted to EUR 396.4 million, which is EUR 71.8 million or 22.1% more than at the end of 2022.

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 exposures to 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 with an effective but prudent credit approval process that is focused on providing services to clients with strong creditworthiness. Additionally, the Bank monitors multiple portfolio metrics to determine possible risks arising from single-name concentration, sector concentration, deterioration of the value of collateral, etc.

Not only the long-term solvency, but also the 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 that is well above regulatory limits. The Bank consistently operates with a liquidity position that is very high above its internal risk appetite.

The Bank also emphasises the importance of operational risk as it is aware that constant improvements in processes not only lead 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 (through the 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 the deterioration of bond or equity values in the global financial markets is minimal.

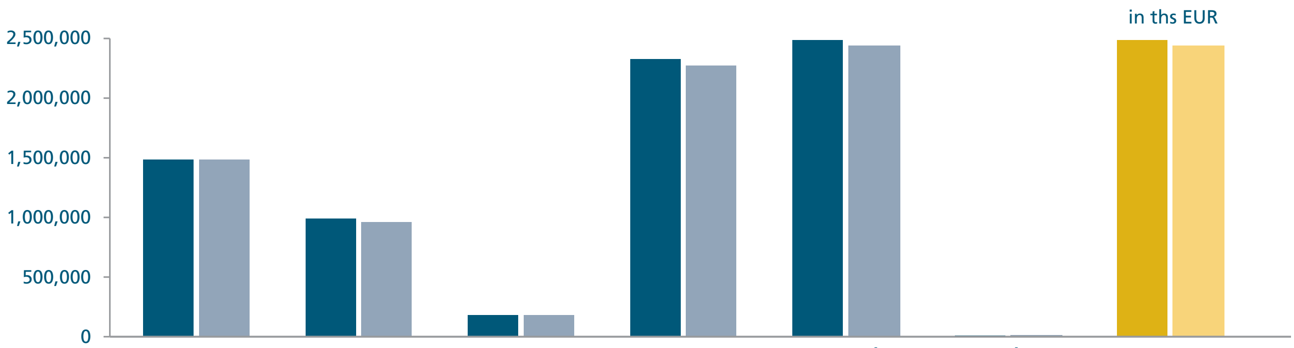
8. OVERVIEW OF THE BANK'S OPERATIONS

8.1 BUSINESS WITH LEGAL ENTITIES AND THE POPULATION

Intesa Sanpaolo Bank's gross loans to the non-banking sector increased by EUR 29.9 million in 2023, or by 1.2% compared to 2022. The Bank's market share in lending to the non-banking sector increased from 8.7% to 9.0% in 2023.

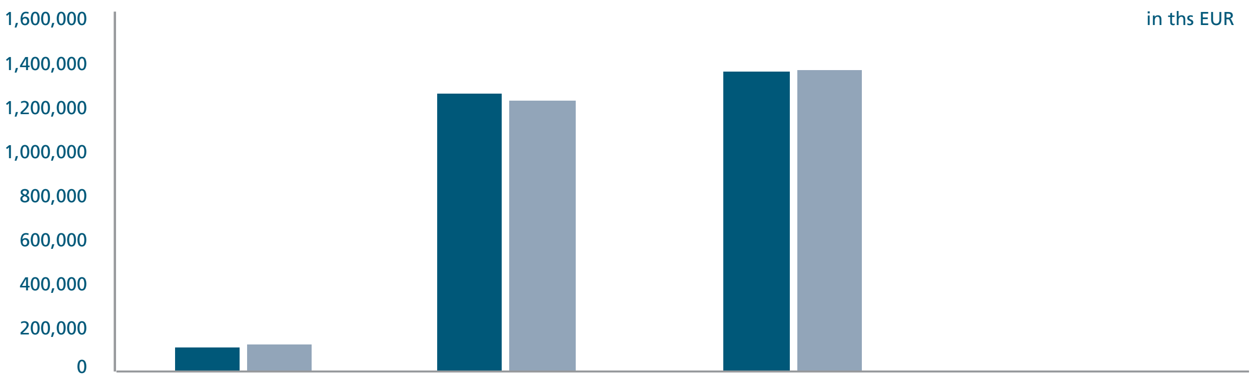
In terms of currency, most loans are in the domestic currency (99.9%), while long-term loans prevail in terms of maturity (93.8%).

Overview of the Gross Lending of the Non-Banking Sector by Sector, Maturity and Currency



	Legal entities	Households	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
2023	1,485,238	986,234	153,821	2,317,652	2,470,074	1,398	**2,471,472**
2022	1,482,908	958,637	173,148	2,268,397	2,440,057	1,488	**2,441,545**

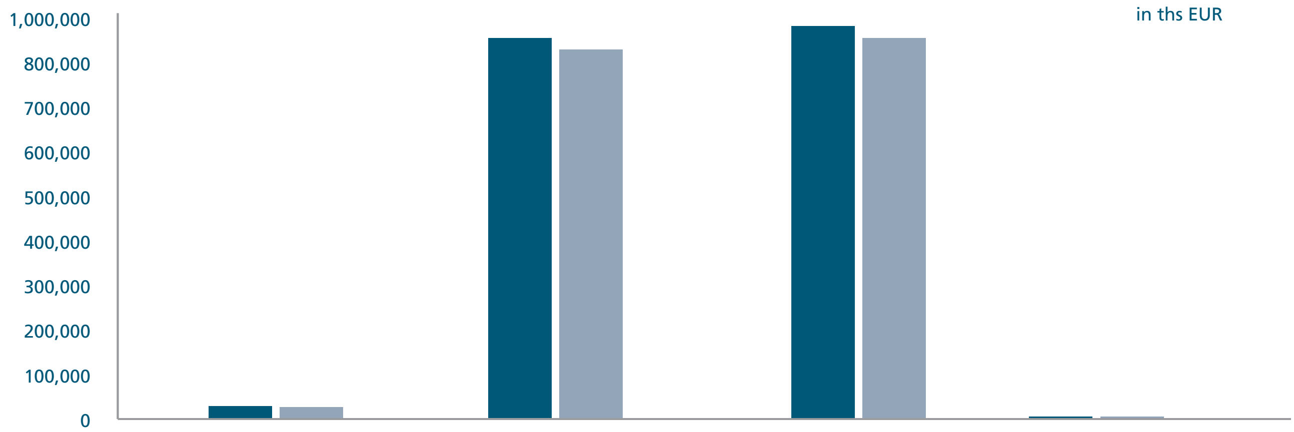
Overview of the Gross Lending to Legal Entities by Maturity and Currency



	Short - term	Long - term	Domestic currency	Foreign currency
2023	122,312	1,362,927	1,485,238	0
2022	140,792	1,342,116	1,482,908	0

Loans to the corporate sector amounted to EUR 1,485.2 million or 60.1%, representing the largest portion of loans to the non-banking sector. The development of the total legal entities market volume is relatively stable. In 2023, the market share increased by 70 basis points to 10.2%.

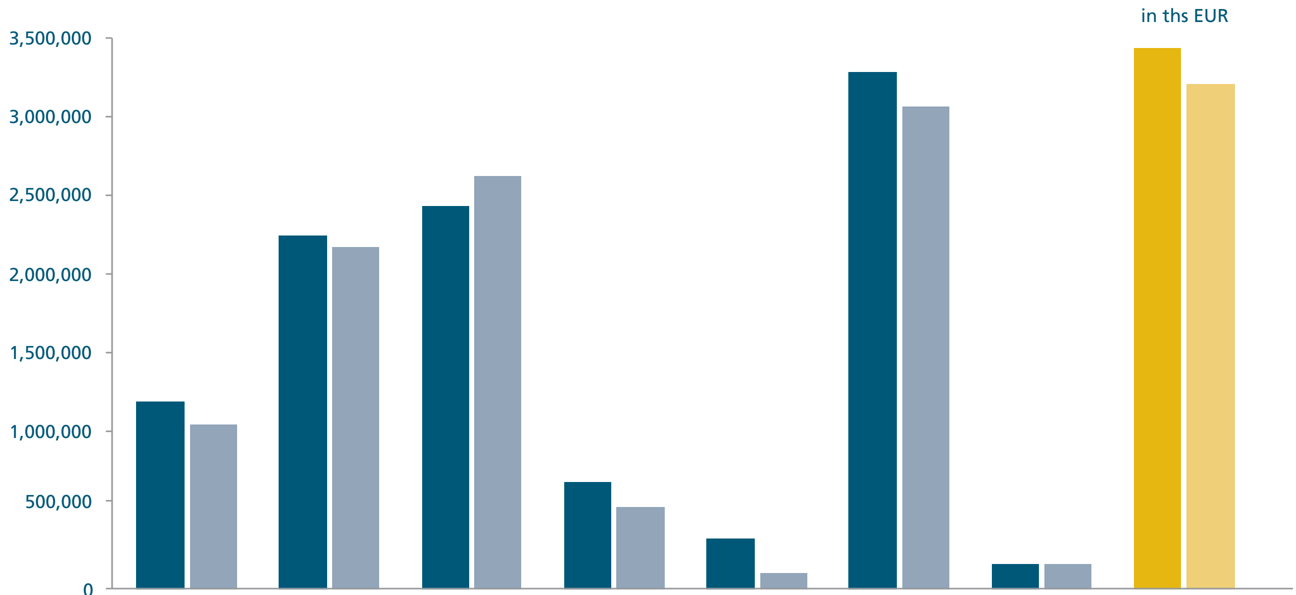
Overview of the Gross Lending to Households by Maturity and Currency



	Short - term	Long - term	Domestic currency	Foreign currency
2023	31,509	954,725	984,836	1,398
2022	32,356	926,281	957,149	1,488

Lending to households (private individuals and sole proprietors) reached EUR 986.2 million or 39.9% of the total lending to the non-banking sector. Lending to this customer segment increased by EUR 27.6 million or 2.9% on a yearly basis. As in 2023, households mostly borrowed on a long-term basis, while borrowing in foreign currencies remained at a low level. Most of the long-term loans are mortgage loans. In 2023, the Bank reached a market share of 7.6% in the segment of private individuals and sole proprietors.

Overview of Deposits and Credits of the Non-Banking Sector by Sector, Maturity and Currency

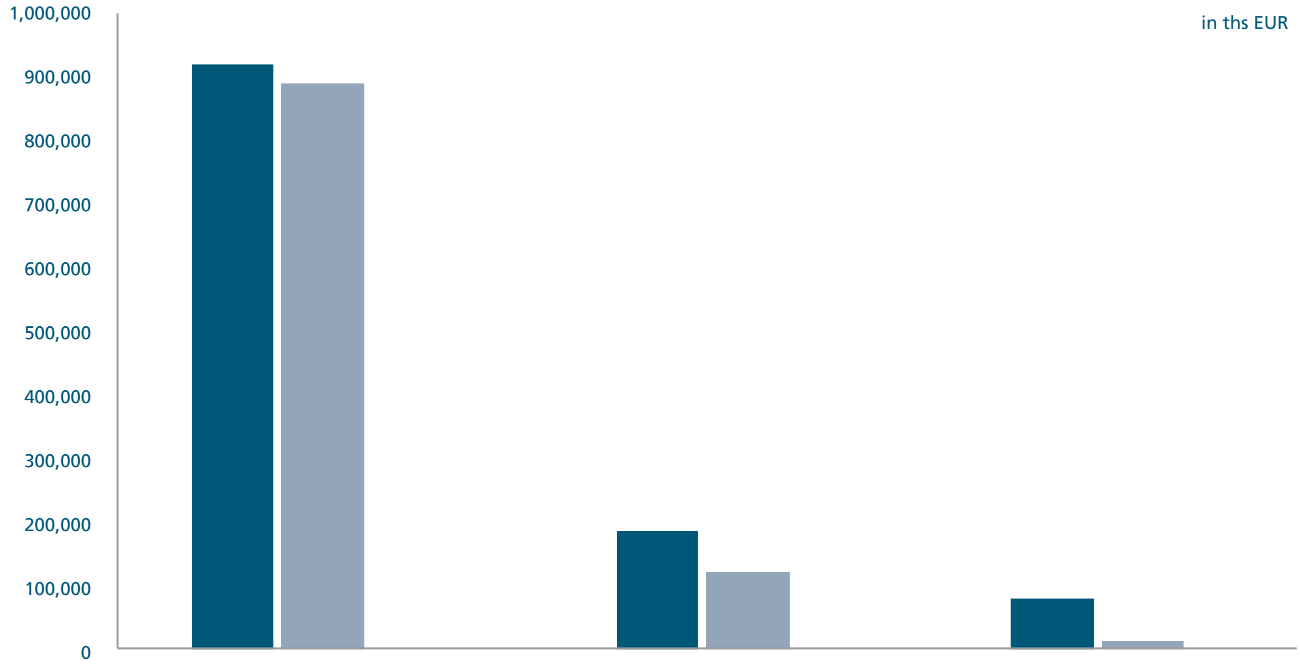


	Legal entities	Households	Sight	Short - term	Long - term	Domestic currenc	Foreign currency	TOTAL
2023	1,186,691	2,234,674	2,435,018	666,089	320,258	3,279,420	141,945	**3,421,364**
2022	1,026,564	2,181,196	2,602,339	513,441	91,980	3,063,028	144,732	**3,207,760**

In 2023, the Bank increased deposits and loans received from the non-banking sector by 6.7% or EUR 213.6 million. The market share increased by 26 basis points and stabilised at 8.3%, the market share of household deposits remained at the level of 8.2% at the end of 2023, and the market share of deposits by legal entities improved by 79 basis points and amounted to 8.5%.

The sight deposits account for a 71.2% share of the total deposits and loans received from the non-banking sector. They are followed by short-term deposits (19.5%) and long-term deposits (9.4%). In terms of currency, deposits in the domestic currency prevail with a 95.9% share. With respect to the previous year, demand deposits decreased by 6.4% in 2023. Short-term deposits grew by 29.7%, while long-term deposits increased by 248.2%.

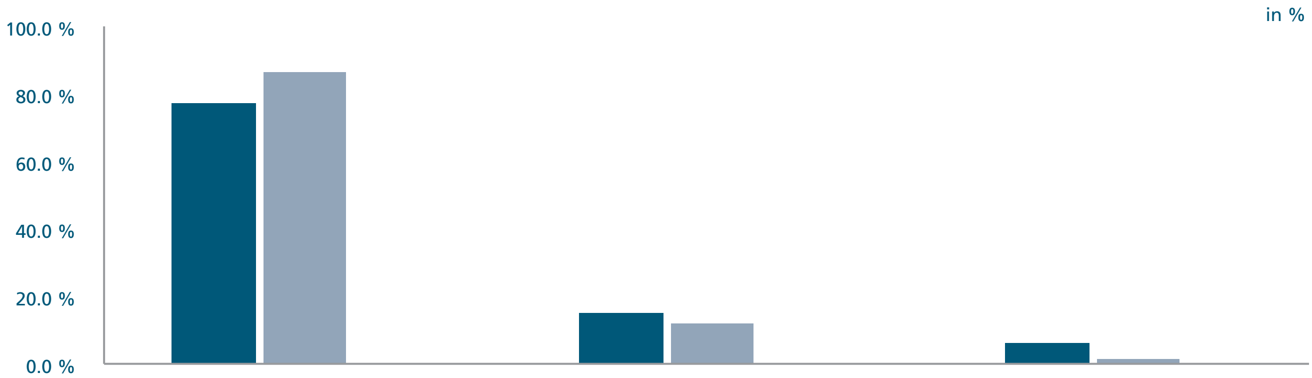
Overview of Deposits by Legal Entities by Maturity



	Sight	Short - term	Long - term
2023	929,091	181,200	76,400
2022	893,858	123,252	9,454

The volume of the sight deposits placed by legal entities increased by 3.9% (by EUR 35.2 million) compared with 2022. Also in 2023, the deposit structure in terms of currency was dominated by deposits denominated in euros.

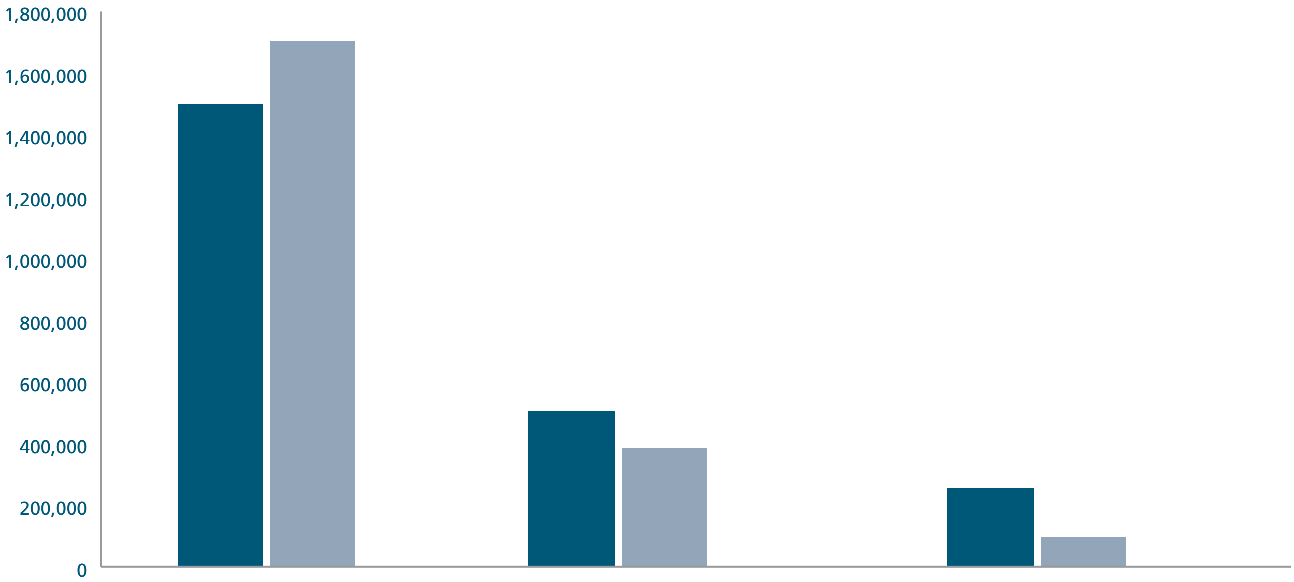
Share of Deposits by Legal Entities by Maturity



	Sight	Short - term	Long - term
2023	78.3 %	15.3 %	6.4 %
2022	87.1 %	12.0 %	0.9 %

Overview of Household Deposits by Maturity

in ths EUR

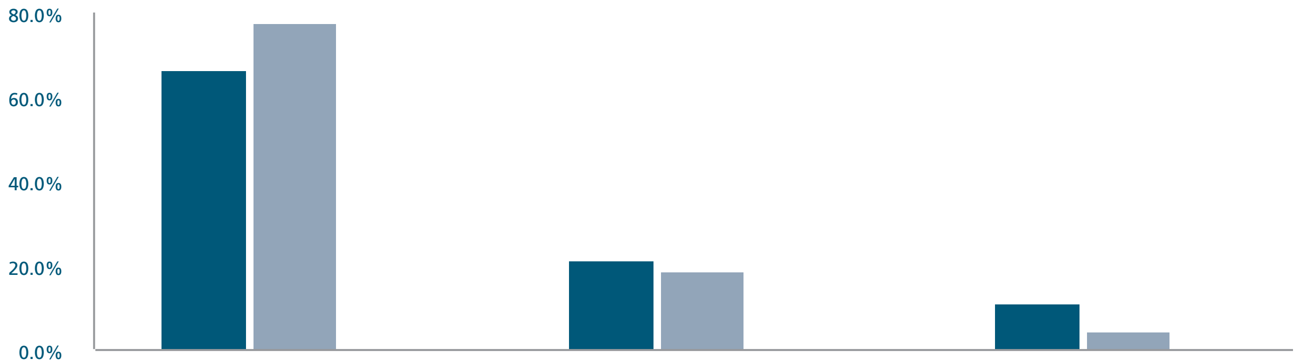


	Sight	Short - term	Long - term
2023	1,505,927	484,889	243,857
2022	1,708,480	390,189	82,527

Household deposits accounted for 65.3% of all non-bank deposits and at the end of 2023 they totalled EUR 2,234.7 million, i.e. EUR 53.5 million more year-on-year. Household deposits were mainly denominated in the local currency.

Share of Household Deposits by Maturity

in %



	Sight	Short - term	Long - term
2023	67.4%	21.7%	10.9%
2022	78.3%	17.9%	3.8%

8.2 OTHER SERVICES

8.2.1 Digital Banking and Card Business

Digital banking is one of the Bank's key services, which is constantly upgraded and adapted to the needs of clients. In 2023, there were 76.6% more accounts opened online compared to the previous year, and there was also an exceptional 86.0% growth of deposits made through digital channels compared to 2022.

The reliability of operations is crucial, which is why the Bank constantly invests in development and improvements for access to financial tools. The mobile application and online platform allow users to monitor and manage their finances according to their needs, promoting financial awareness and independence.

Customers also confirmed their satisfaction with high ratings for applications in the Apple and Android mobile stores. The average score of 4.5 represents a positive response and confirmation that users receive top-notch services, while at the same time encouraging the Bank to further develop.

One of the key innovations in 2023 is the provision of payments using the Flik service in online stores. By implementing the latest technologies, the Bank has strengthened security protocols and prevention mechanisms to protect against online threats. In parallel, several educational activities took place, enabling clients to better understand security measures when using digital banking services.

In the future, the Bank will continue to consolidate its leading role in the field of digital banking and provide a superior experience of using digital banking services to clients of all profiles.

The year 2023 was very successful in the field of card business. After years marked by crisis conditions (COVID-19) and high inflation, the consumption of the population has increased significantly, and with it, card transactions as well. The bank achieved a high growth in instalment card purchases, which were introduced in 2022.

In 2023, the Bank replaced more than half of the ATMs with new ones that, in addition to the cash withdrawal function, also enable cash deposits. In this way, customers can deposit cash at practically any time (24 hours / 7 days). The ATM operation will continue to be updated.

8.2.2 Marketing and Sale of Mutual Investment Funds

2023 was a year of recovery for the capital markets. Even though the main central banks continued to raise key interest rates in 2023, most stock markets ended the year positively, partly on the basis of expectations that interest rates will begin to decrease in 2024.

The year 2023 was full of challenges for the Bank in the field of marketing mutual funds, as investors were still under the negative impression of 2022. The Bank closed the year 2023 with more than EUR 26 million in payments to the investment funds of the company Eurizon. In addition to one-off payments, the Super combination offer (a combination of a deposit with a higher interest rate and payments into mutual funds without an entry fee) and savings plans (monthly payments into mutual funds) contributed to successful marketing. There were more than 4,000 newly concluded savings plans. Clients are increasingly choosing to use mobile banking to pay into mutual funds and to conclude savings plans.

According to the expert selection of the Moje Finance magazine, Eurizon once again won first place among the management companies in a ten-year period, and Eurizon funds also won awards for the best mutual funds in Slovenia in 2023. Three funds received four awards for the best funds in each category.

In 2023, the Bank kept its fund offer unchanged: investors can choose from 26 different sub-funds of the three umbrella funds Eurizon Fund, Epsilon Fund and Eurizon Manager Selection Fund. The bank offers 24 funds that comply with Article 8 of the EU Regulation SFDR (Sustainable Finance Disclosure Regulation).

The best-selling fund in 2023 was the stock fund Eurizon Fund World Smart Volatility R.

The Bank continued to offer investment advisory services. At the end of 2023, almost 7,000 investment advisory contracts were concluded.

8.2.3 Insurance Products

The Bank has been successfully offering insurance products for many years. In 2022, the Bank entered a multi-year partnership with the insurance company Generali with the aim of offering its clients a wider range of services and insurance products.

In 2023, the Bank added new products in addition to fixed and intangible asset insurance and CPI insurance, namely:

- My health – Specialists
- My health – Accident
- Car insurance
- Travel insurance.

In 2023, the Bank participated in the conclusion of a total of more than 6,187 insurance policies and thus reached a new milestone, 18,322 active insurance policies. The Bank closed the year with EUR 2.19 million in gross insurance premiums collected

8.2.4 Leasing

Leasing is an addition to the Bank's product portfolio for legal entities and a product for acquiring new clients. In 2023, the Bank increased the scope of leasing activities in all segments of business with legal entities with additional marketing activities through the entire commercial network (large, medium and small companies). Compared to 2022, the new production volume increased by 24% and net income by 29%. The growth in leasing mainly refers to commercial vehicles, followed by equipment and machines for business operations and passenger cars

8.2.5 My Pillar Umbrella Pension Fund

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 range of voluntary supplementary pension insurance. It launched on the market a new type of saving for old age in the form of a lifecycle investment policy. The Bank offers this form of lifecycle investment policy through the management of the Umbrella pension fund My Pillar.

The My Pillar fund consists of three sub-funds:
- My Pillar Dynamic, intended for insured persons aged 40 or less,
- My Pillar Balanced, intended for insured persons aged between 40 and 55, and
- My Pillar 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 lifecycle investment policy and is an extended investment strategy method in developed economies. Its horizon of saving is long and it is intended for acquiring additional funds for the disbursement of a supplementary pension after an insured person retires.

It provides younger insured persons with a more dynamic investment portfolio, with higher growth potential, but also considering the higher risk. With the ageing of insured persons and their approaching retirement, the level of risk reduces to the last and lowest risk level, where the 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.

In 2023, the central banks initially continued to raise key interest rates, which affected the debt part of the portfolio of My Pillar sub-funds, but in the last months of the year, they maintained the achieved level. The year was marked by a large growth of key stock indices, with a positive effect on the profitability of the My Pillar sub-funds, which closed the year with a positive return. In the last quarter of 2023, there was a significant cooling of economic activity in the developed markets. According to investors, it should force central banks to reduce interest rates quickly and significantly already in the first half of 2024. This greatly increased the value of bonds and equity investments.

The value of the unit of the sub-fund My Pillar Guaranteed amounted to EUR 9.48 as of December 29, 2023, and increased by 3.8% within a year. The guaranteed return was 0.5%. The net asset value of this sub-fund amounted to EUR 49.9 million.

The value of the unit of the sub-fund My Pillar Balanced amounted to EUR 10.25 as of December 29, 2023, and increased by 8.5% within a year. The net asset value of this sub-fund amounted to EUR 3.5 million.

The value of the unit of the sub-fund My Pillar Dynamic amounted to EUR 10.41 as of December 29, 2023, and increased by 11.1% within a year. The net asset value of this sub-fund amounted to EUR 2.2 million.

8.2.6 Depositary Banking

Banka Intesa Sanpaolo d.d. was the first bank in Slovenia to provide depositary services for investment funds back in 2004.

The provision of depositary 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 the timely settlement of client obligations and ensuring that only those obligations are settled that are consistent and permissible with the provisions of the prospectuses and legislation.

To ensure that the services are always performed at the highest levels, the acquired knowledge and experience are also upgraded 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 2023, 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. In 2023, the Bank obtained a licence from the Bank of Slovenia to provide ancillary financial services (for the custody of financial instruments) in accordance with the provisions of the Market in Financial Instruments Act. The Bank will start selling these services in the middle of 2024.

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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 organisation 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 the further development of digitisation and the optimisation of processes, reduction and elimination of activities that do not bring added value, optimisation of costs and maintenance of high added value for customers.

Until 2025, the bank will intensively focus on key business segments with high-quality services and solutions, 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, including 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 range 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 the development initiatives will be the availability of a wide range of effective, easy-to-use digital services with reduced response times to customer needs and expectations and excellent user experience for customers.

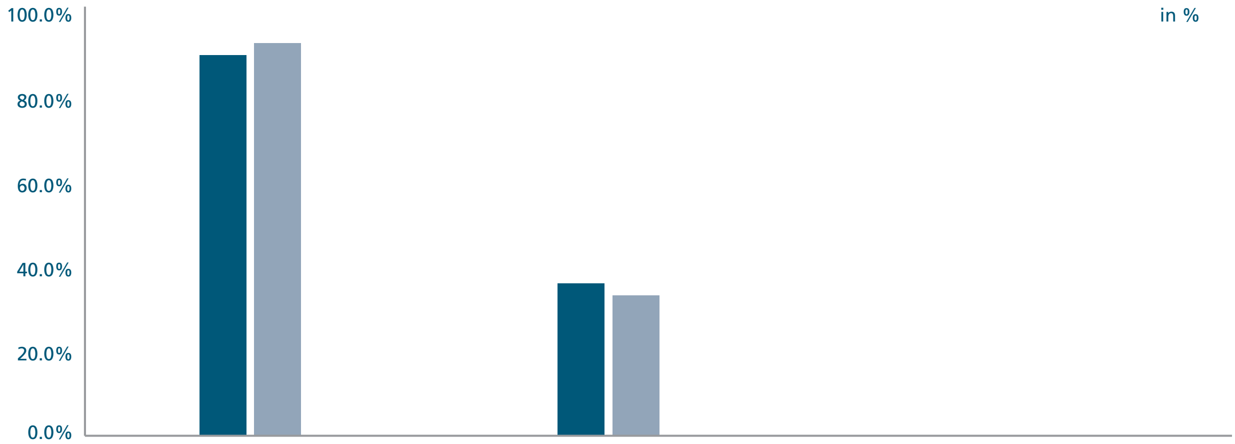
The Bank wants to continue the positive growth trends from recent years in key business segments and further strengthen its position on the Slovenian market, so it will additionally identify sales opportunities and strengthen cross-selling between business segments. Growth will also be based on synergies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

Work organisation will also be a challenge. It will combine remote work from different locations with a 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 contact 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 2023, the Bank has continued its long-term development programme and invested EUR 3.2 million in total in the computerisation of business operations, commercial premises and other equipment. The Bank's capital investments in 2023 were lower by 0.5% compared to the previous year.

Structure of Capital Investments in 2023



	Business computerisation	Business premises
2023	71.3%	28.7%
2022	74.0%	26.0%

Most investments (EUR 2.3 million or 71.3%) were 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 28.7% of all investments. In February 2023, the project of moving the Kranj branch offices to new and modernly equipped premises was completed. In May 2023, the Bank completed the renovation of the branch offices in Celje. By renovating its branches, the Bank continues to implement a new business model for customers in Slovenia, which is one of the key pillars of its business strategy.

9.3 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

In 2023, the Bank continued to implement its IT strategy, which has been further updated and upgraded in line with changes in the business environment and the development of market trends. Such an approach ensures that the Bank can effectively direct its resources and optimise work processes according to actual needs and is fully aligned with best practices and the regulatory environment.

IT technologies represent the core of all banking services, which provide clients with an efficient, modern, and user-friendly IT infrastructure. Support for banking operations is provided directly through various digital banking channels and indirectly by supporting employees in the efficient provision of services. With the continued growth of the share of services based on the principles of the so-called open banking and increasingly established new players (so-called fintech companies), ICT services are gaining an additional dimension and role.

The landscape of cyber threats and associated risks for banks is also changing significantly. For this reason, it is crucial that the Bank develops and implements its IT strategy in line with the security strategy, which in 2023 focused especially on the effective management of cyber threats. One of the most important activities was raising awareness among all the Bank employees about the importance of cyber security through internal training and training in cooperation with the Group. The key stakeholders also conducted a simulation of dealing with crisis situations.

The year 2023 was marked by development in the field of artificial intelligence and its introduction into various business segments. With the rapid development and implementation of large language models, significant changes can be expected in the way of work in the coming years. The Bank has already started market research and checking the possibility of implementing certain technologies, taking into account the principles of caution and the expected regulatory restrictions within the EU.

In 2023, the Bank continued with the technological integration and the integration of cyber security within the Intesa Sanpaolo Group and the synergistic effects associated with them. At the same time, it continued with the intensive development of its own solutions where this makes sense. In accordance with the strategy, IT development focused mainly on the following areas:

- further optimisation and digitisation of banking processes;
- ensuring compliance with the regulatory environment and Bank data management;
- development of digital solutions to support employee growth;
- upgrading processes and information infrastructure to prevent money laundering and terrorist financing;
- introducing innovations in mobile and online banking;
- new (information-supported) offers of banking products;
- renovations and comprehensive updates of the ATM network;
- even more effective control over data flows and data optimisation;
- upgrading processes in the field of IT in accordance with modern lean development guidelines;
- preparations for alignment with major regulatory changes in the 2024/2025 period, such as the Digital Operational Resilience Act and Basel IV regulatory reforms.

In the area of **business process optimisation**, the Bank continued the renewal of business processes:
- for credit and card business by automating back-end processes and improving the user experience;
- upgrading back-end solutions for the implementation of payment transactions and integration with EU payment systems;
- further automation and improvement of reporting processes;
- centralisation of administrative activities with the aim of optimising processes in the Bank's branches.

In the area of **e-commerce**: An important improvement was the introduction of a solution for investment advisory services and portfolio management through all the Bank's digital channels (mobile and online banking), as well as the upgrade of information support for the provision of advisory services in branches. Further upgrade of Google Pay and Apple Pay solutions with direct integration into its mobile banking will improve the user experience with payment confirmation processes.

In the **regulatory area**, the Bank continued to upgrade technological support and internal processes in personal data protection and ensuring compliance with the requirements of the payment regulatory environment.

In the field of **ICT**, the Bank continued to upgrade processes for change management. In 2023, the bank began a detailed analysis of the new European regulation DORA (Digital Operational Resilience Act). Harmonisation of the Bank's internal processes with DORA should be in place by the start of its implementation in 2025.

In the **information security area**, the Bank is continuously updating solutions for the uniform management of user rights. At the same time, it continues to invest in the detection and control of threats and in upgrading hardware and software for effective control over cyber threats. Among the more important projects was the introduction of advanced security solutions (such as multi-factor login) in all areas and channels of access to sensitive systems.

In the area of **physical security**, investments were aimed at upgrading existing security systems and improving video surveillance systems. The bank also continued the digitalisation project of physical access control, thereby further improving control.

10. ACTIVITIES IN THE FIELD OF SUSTAINABLE DEVELOPMENT

The Bank's Code of Ethics defines the management principles and main values that form the basis of the Bank's harmonious operation. As a business, the bank is aware that its operations go beyond simply meeting the financial needs of clients and have a significant impact on the wider social community as well. Written goals and values increase the level of compliance of the Bank's employees. They are also the basis for strengthening trust among all stakeholders, i.e. customers, shareholders, employees, suppliers and the environment in which the bank operates. At the end of 2023, the bank prepared an updated version of the Code. It additionally defines environmental, social and management approaches (ESG) and will be approved by the Management Board in early 2024.

As part of the ESG working group, the Bank continues to define and implement short-term and long-term activities in the environmental, social and management fields. In 2023, it renewed the working group by including additional relevant experts. These changes will enhance activities, consistent with the publicly presented commitments of the Intesa Sanpaolo Group, which won a series of sustainability awards in 2023.

The greatest progress in 2023 was achieved in using fully recycled paper, which completely replaced certified organic paper. The Bank has also made significant progress in the energy renovation of buildings – each renovation has a positive effect on reducing energy consumption, both using economical and efficient heating systems and additional thermal insulation.

The year 2023 was again dedicated to volunteering. For the second year in a row, the most massive campaign was the planting of bee pasture plants in cooperation with the Beekeeping Association of Slovenia. More than 230 employees participated in this campaign, and almost twice as many trees were planted as there are employees in the bank. The internal "team building" gatherings were also marked by charity.

In the environmental field, the Bank made a commitment to completely end the use of plastic bottles in the Bank's premises and distributed personalised reusable water bottles to employees.

Bank successfully implemented the first set of priorities from the D&I (Diversity & Inclusiveness) area and adopted new commitments for the period until the end of 2024. At the end of 2023, it presented and introduced mandatory periodic meetings of employees in organisational units with physical presence. This initiative aims at preserving team spirit and cooperation between employees, which are also very positively highlighted in the latest employee satisfaction survey. Another initiative (Free Fridays) introduces the possibility for employees to work with focus and without meetings one day a week. The third commitment, which will be realised in 2024, is related to the establishment of an effective mentoring system at all levels of the organisation. A special focus group will prepare a comprehensive implementation proposal with all the specifics of the Bank.

One of the commitments of the Intesa Sanpaolo Group is to reduce its carbon footprint through membership in the Net Zero Banking alliance by 2050. Various activities are already being carried out in the Bank to achieve this goal. The year 2023 was mainly marked by the renovation of the fleet with electric vehicles and the provision of the necessary infrastructure for charging them. Four electric vehicles are primarily intended for daily migration between Koper and Ljubljana. Next are the vehicles for the branches, which will be handed over for use in the first quarter of 2024. The Bank was one of the first in Slovenia to have predominantly hybrid vehicles in its fleet, which it is now replacing with low-emission and environmentally friendly vehicles.

10.1 RESPONSIBILITY TOWARDS EMPLOYEES

10.1.1 Basic Information and HR Guidelines

On 31 December 2023, Intesa Sanpaolo Bank employed:
- 701 employees
- 5.8% temporary employees
- 4.4% part-time work employees
- 2.6% disabled employees
- 74.5% women and 25.5 % men

In 2023, the bank recorded a 9.1% turnover of employees.

The main organisational changes were implemented in the following areas:

- Management Board
  A new chairman of the bank's Management Board due to the expiration of the mandate of the previous chairman.
  Within the HR & Organisation Department, the new organisational unit "PMO Office" has been established.
- Retail Division
  The Šentjur branch was closed in June 2023.
- Corporate & SME Division
  Within the Corporate & SME Division, the new organisational unit "CRM & Network Support Office" has been established.
- CRO Division
  Within the CRO Division, the new organisational unit "Credit Policy & Rating Desk Office" has been established.

10.1.2 Employee relations

A new process for development talks between employees and managers
In 2023, the Bank set up a new system for development talks between employees and managers, with the aim of an open dialogue about the employee's role in the organisation and their career development in the future, which will take into account both their wishes and the actual needs of the organisation.

Remuneration and incentive policies
In 2023, the renewed Remuneration and Incentive Policies for Banka Intesa Sanpaolo was adopted, the basic principles of which represent the framework for rewarding employees. The policy defines fixed and variable remuneration, 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 the first half of the year 2023, the bank implemented an extended Onboarding programme for the Retail Department, which was positively accepted by employees. In the second half of the year 2023, the bank implemented an extended onboarding programme for the Corporate & SME Division and for other areas within the Bank. The onboarding programme has a positive effect on employee turnover. In 2023, the bank again held an Onboarding event for new employees. With the awareness that coming to a new organisation and a new working environment can be stressful, we wanted to bring employees closer to the organisation as a whole with this event and have the top management welcome them to the bank.

Working from home
The bank continues the good practice of working from home for most employees who do not work directly with customers. Working at home aims to ensure optimal work processes that are cost-effective and 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, especially within supervisory functions.

Training and the development of the knowledge and competences of employees
Systematic education is the basis for the development of the Bank's employees. In 2023, 23,386 hours of training were completed, an average of 33.4 hours per employee. More than half of the training (58.7%) was internal. 30.1% of the internal training was conducted by internal trainers, either live or via an online learning portal, with the majority of the 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, the LEA's internal e-education platform played an important role, especially in the areas of personal data protection, information and general security.

10.2 RESPONSIBILITY TOWARDS CUSTOMERS

The Bank is in the middle of implementing a business strategy until 2025, which represents to a considerable extent the evolution of activities from the previous strategic period from 2018. It is an upgrade and expansion of successfully implemented improvements, considering the experience gained in the implementation process itself and directly with customers.

As part of the transformation, the Bank implemented a series of technological and organisational improvements over the past years. They increased the efficiency of internal processes, reduced operational risks at the expense of automation and input data controls, and thus increased its responsiveness to customer expectations and provided appropriate technological solutions for their changing habits. The Bank continues the implementation of projects and activities to improve process efficiency.

The Bank is facing many regulatory and auditing requirements, which must be identified as a priority and implemented in accordance with the set forward plans. The bank's development capacities are also used to ensure a first-class customer experience through a series of improvements – on both the process and commercial sides. In 2023, the Bank was primarily focused on strengthening the range of green products and financial instruments: a green consumer loan, a green home loan and a loan for young people. The strengthening of this type of offer is consistent with the public commitments of the Intesa Sanpaolo Group, which wants to become a leading bank in the field of ESG.

For many years, the Bank's customers have been able to do business entirely digitally, without wasting valuable time visiting branches. They can carry out important transactions and other basic tasks via mobile or online banking, and they can also withdraw and deposit cash at ATMs across Slovenia, which are available every day of the year. Customers also have the option of making instant payments (Flik services) directly from the mobile application – without costs and practically instantly.

The Bank continuously follows customers' expectations, needs and habits through the active exchange of information. Accordingly, it develops the services and maintains excellent mutual relations. The Bank listens to its clients in various ways and adapts its work to the expectations of individual target groups. Customers can provide their recommendations and compliments via the website, at specially dedicated places in branches or directly to their advisers.

10.3 CORPORATE SOCIAL RESPONSIBILITY

Many natural disasters occurred in 2023, both in Slovenia and abroad. In the spring, a devastating earthquake hit Syria and Turkey. The Intesa Sanpaolo Group immediately helped with a substantial donation to the affected. The Bank joined by opening a special account for customers' donations. At the end of the fundraising campaign, the Bank donated the same amount, thus doubling the customers' contributions.

In the summer floods, several employees were also affected, and they immediately received the Bank's solidarity aid. Another internal initiative was proposed, and some organisational units gave up means for regular gatherings and allocated them to the flood's victims.

In 2023, the Bank continued its internal charity activities. Internal gatherings were marked by charity. The most resounding was the gathering of the employees in the back offices. In cooperation with the Municipality of Koper, they carried out an inspection of public areas in terms of their accessibility for the disabled and anyone with limited mobility.

Within the International Day of Awareness of Food Losses and Food Waste and in cooperation with the partner organisation Slovenska banka hrane (Sibahe), employees collected a large amount of canned food for socially vulnerable families. At the end of the year, the Bank allocated financial donations to the Sibahe organisation and two voluntary fire brigades. They will use the much-needed funds for the replacement of equipment damaged in floods and for the purchase of additional rescue equipment.

Intesa Sanpaolo Bank has not prepared a non-financial statement as required by the legislation on non-financial information, due to an exception introduced by local regulation, as it is a subsidiary whose information is included in the consolidated non-financial statement presented by Intesa Sanpaolo S.p.A.

10.4 RESPONSIBILITY RELATING TO THE CLIMATE AND ENVIRONMENT

The Bank is aware of both the direct and indirect impacts of the financial sector on the climate and environment, as well as the importance of the associated risks and market opportunities for its long-term strategy and business processes. Thus, the Bank, on its own and as part of the PBZ and ISP Groups, closely monitors regulations and best practices in its national and European business environment. It seeks to meet and even exceed the supervisory and regulatory requirements, as well as the expectations of its owners, business partners and clients, and it is fully committed to national and European ambitions in this area.

To effectively manage its exposure towards climate-related and environmental risks, the Bank began conducting regular preliminary analyses at the beginning of 2021 to measure and monitor the extent of such risks and thusly also to create a foundation for their management. In this, it followed the methodology used by the Bank of Slovenia in 2020 in its report on the status of climate-related risks in the Slovenian financial sector. Since 2023, the Bank also includes climate-related and environmental risks in the internal capital adequacy assessment process (ICAAP), in the regular monitoring of its exposure towards industries that the ISP Group defines as sensitive from the perspective of environmental, social and governance (ESG) factors, and in the assessment of clients that operate in these industries and towards which the Bank exceeds a certain exposure threshold.

Since the December 31st, 2021, reporting date, the Bank has been participating in the processes for the calculation of KPIs that the credit institutions must disclose according to the EU Taxonomy, and since the December 31st, 2023, reporting date, it has also started to contribute to the calculation of the Green Asset Ratio (GAR) performed at the ISP Group level. The results of these calculations will be included in the consolidated statement of non-financial operations, published annually by Intesa Sanpaolo S.p.A., as the Bank delegated the disclosure of EU Taxonomy-related KPIs to its parent bank.

Other than in the risk management processes and in regulatory-mandated reports and disclosures, the Bank is also integrating sustainability principles, including their climate and environmental dimension, in its business strategy and processes. An important part of this is the definition of concrete and ambitious targets, both absolute and relative (share of sustainable loans in the total new loan production), across all commercial segments. The ISP Group has also established a dedicated internal plafond focused on the promotion of a green and circular economy and in which the Bank is also participating. In 2023, 24.53 million EUR of new loans made by the Bank were disbursed as part of this plafond, and 65.62 million EUR of new loans disbursed that year were classified as sustainable (in Retail as well as in Corporate and SME segments). In the forthcoming period, the Bank's ambitions are to improve upon these figures and to become the leading promotor of sustainability in the Slovenian banking sector.

In 2023, 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, offers its customers more sustainable alternatives to the existing range of banking products and services and harmonises its credit and investment portfolio in line with the Group's strategy, which aims to generate increasing and sustainable value, strengthening its leading position in ESG issues.

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 2023

(in thousands EUR)

	31. 12. 2023	31. 12. 2022
Basic equity	22,173	22,173
Share premium	7,499	7,499
Accumulated other comprehensive income	13,085	12,821
Reserves from profit	283,743	264,149
Treasury shares	(49)	(49)
Retained earnings (including profit or loss for the financial year)	69,941	18,000
Other equity instruments issued	-	-
Total Equity	**396,392**	**324,593**

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 the realised net profit for the 2023 financial year in the amount of EUR 3.6 million is allocated to legal reserves. The remaining net profit for the year 2023 in the amount of EUR 67.9 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 63a, Koper
Ankaran, Jadranska cesta 42, Ankaran
Izola, Drevored 1. maja 5, Izola
Lucija, Obala 114a, 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 1a, 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, Ptujska 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
Slovenj Gradec, Podgorska cesta 2, Slovenj Gradec
Radlje ob Dravi, Koroška cesta 61a, 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 4a, Kamnik
Logatec, Sončni log 1, Logatec
Brdo, Tehnološki park 18, Ljubljana
Grosuplje, Adamičeva 3a, 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 2a, Trebnje
Črnomelj, Ulica Otona Župančiča 2, Črnomelj

List of regions – SME network:

West Region, Pristaniška ulica 14, Koper | **Central Region,** Dunajska 167, Ljubljana | **East Region,** Heroja Bračiča 6, Maribor

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

13. COMMERCIAL TERRITORIAL UNIT SCHEME

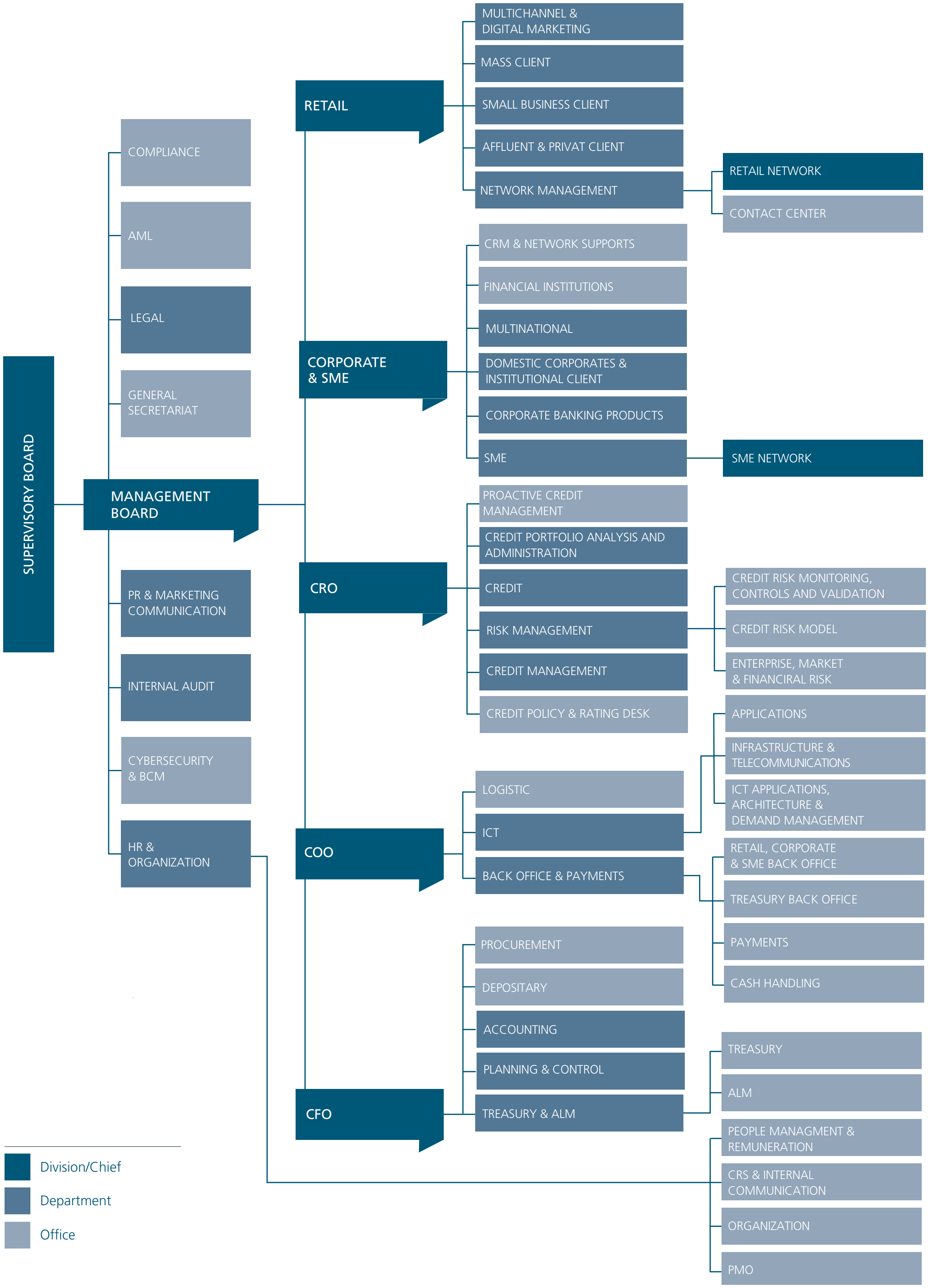
RETAIL NETWORK (SMALL BUSINESS and INDIVIDUALS)

- RETAIL NETWORK **WEST REGION**
  - **KOPER** BRANCH
  - **IZOLA** BRANCH
  - **OLMO** BRANCH
  - **LUCIJA** BRANCH
  - **ANKARAN** BRANCH
  - **SEŽANA** BRANCH
  - **KOZINA** BRANCH
  - **TOLMIN** BRANCH
  - **NOVA GORICA** BRANCH
  - **AJDOVŠČINA** BRANCH
- RETAIL NETWORK **CENTRAL REGION**
  - **PIVKA** BRANCH
  - **SLOVENSKA** BRANCH
  - **ILIRSKA BISTRICA** BRANCH
  - **ROTONDA** BRANCH
  - **KRANJ** BRANCH
  - **TRZIN** BRANCH
  - **RADOVLJICA** BRANCH
  - **KAMNIK** BRANCH
  - **JESENICE** BRANCH
  - **LOGATEC** BRANCH
  - **NOVO MESTO** BRANCH
  - **BRDO** BRANCH
  - **TREBNJE** BRANCH
  - **GROSUPLJE** BRANCH
  - **ČRNOMELJ** BRANCH
  - **KOČEVJE** BRANCH
  - **POSTOJNA** BRANCH
- RETAIL NETWORK **EAST REGION**
  - **MARIBOR** BRANCH
  - **MURSKA SOBOTA** BRANCH
  - **PTUJ** BRANCH
  - **SEVNICA** BRANCH
  - **LENART** BRANCH
  - **SLOVENJ GRADEC** BRANCH
  - **ORMOŽ** BRANCH
  - **RADLJE OB DRAVI** BRANCH
  - **MIKLAVŽ** BRANCH
  - **RAVNE NA KOROŠKEM** BRANCH
  - **SLOVENSKA BISTRICA** BRANCH
  - **VELENJE** BRANCH
  - **CELJE** BRANCH

SME NETWORK

- WEST REGION
- CENTRAL REGION
- EAST REGION

14. INTERNAL ORGANISATION CHART



15. THE CORPORATE GOVERNANCE STATEMENT

In accordance with Article 70, paragraph 5 of the Companies Act (ZGD-1), Banka Intesa Sanpaolo d.d. gives the following

CORPORATE GOVERNANCE STATEMENT

as an integral part of the Annual Report for 2023, which is available on the website of the company (https://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 Shareholders Assembly, the Supervisory Board and the Management Board.

2. Deviations from the Corporate Governance Codes

In its governance, Banka Intesa Sanpaolo d.d. 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. The following internal acts are of great importance for its operations, including with regard to the governance of the company:
- Code of Ethics of Banka Intesa Sanpaolo d.d. (http://www.intesasanpaolobank.si)
- Code of Conduct in Banka Intesa Sanpaolo d.d.

3. The Principal Characteristics of the 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, its implementation and monitoring. The internal controls system covers all significant risks to which the bank is exposed and includes checking administrative and accounting procedures, verification of the bank´ s compliance with applicable legislation, standards, codes and internal rules and verification of information security. The descriptions of the business processes including control activities for mayor areas of bank´ s business, namely landing, accepting deposits, current accounts and trading business are laid down. The processes related to financial reporting or the 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 has been 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, the guidelines of the parent bank and the internal policies and procedures in which are laid down the principles and guidance of risk management.

The master business strategy, the accepted principles of the bank´ s propensity to assume risk (including monitoring the risk profile and specific risks), and internal policies of risk management, approved by the bank´ s Management Board and

Supervisory Board, lay down the objectives and guidelines concerning the taking of risk and the methods and criteria of risk management.

4. Data on the Principal Shareholders

The data on the 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.

Equity holding in per cent

Shareholders	31.12.2023
Privredna banka Zagreb d.d.	51.0 %
Intesa Sanpaolo S.p.A.	48.1 %
Minority shareholders	0.9 %

5. Data on the Holders of Securities that Give Special Controlling Rights

As at 31/12/2023, no security issued by Banka Intesa Sanpaolo d.d. gives any special controlling rights.

6. Data on Restrictions on Voting Rights

In relation to the shares issued by Banka Intesa Sanpaolo d.d., as at 31/12/2023, 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 the 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 31/12/2023, the members of the Supervisory Board are elected by a simple majority and discharged by the Shareholders Assembly with a two-thirds vote of the represented share capital. The Management Board is appointed and dismissed by the Supervisory Board with a simple majority of votes. The Shareholders Assembly 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 the 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 the 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 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 authorised 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 7 April 2023, the shareholders were notified of the Annual Report of the company for the 2022 financial year, the opinion of the independent auditor on the annual report, the report of the Supervisory Board for the annual report and on the relations of the bank with the controlling company and its affiliates for 2022. Shareholders were also notified of the report on Internal Audit Assignments and the remuneration of the members of the Supervisory Board in 2022. Regarding the remuneration of the Management Board, the shareholders authorised the Supervisory Board to decide on paying out the 2022 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 the applicable regulations and valid internal acts. The shareholders gave discharge to the Management Board and Supervisory Board and passed the resolution on the distribution of the accumulated profit (all the available profit of the 2022 financial year 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, chaired by Mr Giancarlo Miranda as an independent member. Three members are representatives of Privredna banka Zagreb, Croatia, two members are representatives of the Intesa Sanpaolo Group and the remaining member is independent.

In 2023, the composition of the Supervisory Board changed. At its meetings, the shareholders of Banka Intesa Sanpaolo d.d. acknowledged the resignation of the Member of the Supervisory Board Mr Miroslav Halužan, Member/Deputy Chairman Mr Alessio Cioni and Member Mr Andrea Tondo. Their resignations take effect from the day the new candidates receive an authorisation from the European Central Bank (ECB) to pursue the position of Member of the Supervisory Board. Three candidates were elected during the year: Mr Massimo Malagoli, Mr Dario Massimo Grassani and Ms Elena Kohútiková. Mr Massimo Malagoli has already received an authorisation from the ECB to pursue the position of Member of the Supervisory Board. His term of office started on 30 April 2023, and he replaced Mr Miroslav Halužan. The term of office of the other two candidates will come into effect when they receive the ECB's authorisation. They will replace Mr Alessio Cioni and Mr Andrea Tondo.

The members of the Supervisory board as of 31/12/2023 are:

Giancarlo Miranda	*chairman*
Alessio Cioni	*deputy chairman*
Antonio Bergalio	*member*
Amina Carnabuci	*member*
Massimo Malagoli	*member*
Andrea Pavlović	*member*
Andrea Tondo	*member*

There were four committees of the Supervisory Board at the bank at the end of 2023: The Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee.

Audit Committee

The members of the Audit Committee as of 31 December 2023 are**:**

Amina Carnabuci	*chairman*
Antonio Bergalio	*member*
Massimo Malagoli	*member*

Risk Committee

The members of the Risk Committee as of 31 December 2023 are**:**

Andrea Pavlović	*chairman*
Amina Carnabuci	*member*
Giancarlo Miranda	*member*

Nomination Committee

The members of the Nomination Committee as of 31 December 2023 are:

Giancarlo Miranda	*chairman*
Alessio Cioni	*member*
Andrea Tondo	*member*

Komisija za prejemke

The members of the Remuneration Committee as of 31 December 2023 are:

Giancarlo Miranda	*chairman*
Alessio Cioni	*member*
Massimo Malagoli	*member*

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 ensure that 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 the 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 2023, the composition of the Management Board changed. On 1 February 2023, the term of office of Mr Jozef Kausich expired when he became President of the Management Board of VÚB bank (within the Intesa Sanpaolo Group). The Supervisory Board appointed Mr Luigi Fuzio as the new President of the Management Board. His term of office started on 13 March 2023, when he received the authorisation of ECB to pursue the position of Member of the Management Board.

Members of the Bank's Management Board as of 31 December 2023:

Luigi Fuzio	*President*
Matija Birov	*Member*
Drago Kavšek	*Member*
Mojca Kovač	*Member*

Koper, 23 February 2024

Supervisory Board
of Banka Intesa Sanpaolo d.d.

Management Board
of Banka Intesa Sanpaolo d.d.

16. REPORT ON THE RELATIONS WITH THE 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 Banka Intesa Sanpaolo d.d., on the basis of circumstances known to the management at the time of the legal transactions with the parent company and its affiliates, was not disadvantaged or in 2023 no legal transaction was performed or no act was committed or abandoned that would cause damage to the company or that would be due to the influence of the parent company.

17. NEW CIRCUMSTANCES AFTER THE 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 Report 2023

REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2023

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 2023,
- 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 2023

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 2023, the Supervisory Board of the Bank met nine times at ordinary meetings and six 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 disclosures of the Bank for 2023 and to quarterly disclosures, ICAAP and ILAAP Package, Risk Management Strategy 2023, and
- on other matters of interest.

The Supervisory Board:

- Took note of the Report on financial results of Intesa Sanpaolo Bank d.d. for the period January to December 2022, gave consent to the budget for the financial year 2023, and started the budget process for the year 2023;
- 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 2022;
- monitored NPL trends;
- gave its consent to the target values for NPL ratios in 2023 and to the revised plan;
- examined and approved the annual report of the Internal Audit Department for 2022 and discussed and gave consent to the annual plan of the Internal Audit Annual Plan for the year 2023 and to the 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 2022 and the semi-annual report for the first half of 2023;
- examined the annual report of the Compliance Office for 2022 with the action plan for 2023 and the semi-annual report for the first half of 2023;
- 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 notice of three members of the Supervisory Board and proposed to the Bank’s shareholders to elect new members of the Supervisory Board at the extraordinary General Meetings in January and June 2023;
- confirmed the annual assessment of the collective suitability of the Management Board and Supervisory Board and the individual assessments of SB candidates;
- approved the Guidelines on Remuneration, Incentives 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 2022, the 2022 Performance Scorecards, Performance Bonus proposals and 2023 Goal Settings for the Members of the Management Board and Heads of Control Functions;
- took note of the minutes of the committees of the Supervisory Board;
- took note of the Bank of Slovenia’s findings from the inspection of operations compliance with the Regulation on Macroprudential restrictions on consumer lending (ref. no PBH-24.60-008/22 as of 22 December 2022) 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 reports on found issues and the related mitigation actions (Tableau the Bords);
- took note of the start of the official procedure against the Bank - AML leaked data;
- took note of the amendments to the Act on Intervention Measures to Eliminate the Consequences of Floods and Landslides from August 2023 (ZIUOPZP; valid from 1 September 2023) which affect Bank's operations;
- monitored the action plan of the risk management function;
- adopted the Intesa Sanpaolo Bank's Annual Recovery Plan 2023;
- monitored the action plan related to JST staffing issue and reports on HR-related data and information;
- 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.
- approved changes in the composition of the Remuneration Committee, Nomination Committee and Audit Committee;
- approved ISP Share purchase for 2022 for Risk Takers Performance Bonuses

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 2023. 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, its risk profile and the internal audit function's work, and to supervise the running of the Bank. In February 2024, the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2023, arising from the audited accounting statements.

The Supervisory Board hereby states that all its members have carefully examined the Annual Report, the Report of the Certified Auditor, the Financial Statements, the Notes to the Financial Statements, and 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 and 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

p o s i t i o n:

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 2023

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

a p p r o v e s a n d a d o p t s

The Annual Report of Banka Intesa Sanpaolo d.d. for the Financial Year 2023.

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

a g r e e s

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 2023

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

The Supervisory Board hereby establishes that in its report, the external auditor 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 representations made in the Report on Related Party Transactions for the year ended on 31 December 2023, 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 disproportionally 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

p o s i t i o n:

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 2023, 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 2023 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 2023 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 2023.

The Report on the Relations of Banka Intesa Sanpaolo d.d. with the Controlling Company and its Affiliates, dated 23 February 2024, 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

c o n f i r m s and a p p r o v e s

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

Ljubljana, 23 February 2024

Chairman of the Supervisory Board

Giancarlo Miranda

Independent auditory report

This is a translation of the original report in Slovene language

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Banka Intesa Sanpaolo d.d.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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 2023, 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 the notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 2023 amounts to EUR 2,415 million or 61% 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	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,

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of complexity and subjectivity. Stage 3 gross balance of loans and advances to customers at 31 December 2023 is EUR 30.5 million and total provisions are EUR 24.3 million (43% 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 2023 is EUR 2,441 million and total provisions EUR 32.1 million.

Management made overlay impairments 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. In 2023 the bank established additional credit impairments in the amount of EUR 5.0 million (the total amount of EUR 7.9 million as at 31 December 2023) on basis of management overlays.

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.

we assessed the models, assumptions and data 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, 26. Loans and advances to customers, in the notes to the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

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.

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 EU, 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;
- 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;

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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 three years. Simon Podvinski is certified auditor, 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 2024

Simon Podvinski
Partner, Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

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

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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 2023. 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 2024

President
Luigi Fuzio

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	
		2023	2022
Interest income calculated using effective interest rate	4	137,913	52,718
Other interest income	4	174	66
Interest expenses	4	(14,477)	(4,239)
Net interest income		**123,610**	**48,545**
Dividend income	5	77	166
Fee and commission income	6	40,029	41,548
Fee and commission expenses	6	(10,686)	(10,610)
Net fee and commission income		**29,343**	**30,938**
Net gains or losses on financial assets and liabilities not measured at fair value through profit or loss	7	18	142
Net gains or losses on financial assets and liabilities held for trading	8	1,104	1,655
Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	503	29
Net gains or losses from hedge accounting	10	522	(80)
Net exchange differences		(83)	(595)
Net gains and losses on derecognition of non-financial assets	11	(75)	708
Other operating income	12a	1,375	1,265
Other operating expenses	12b	(2,222)	(432)
Administrative expenses	13	(51,170)	(43,889)
Cash contributions to resolution funds and deposit guarantee schemes		(3,637)	(2,927)
Depreciation and amortisation	14	(4,217)	(4,438)
Net modification gains or losses		(137)	1
Provisions	15,37	83	(7,336)
Impairments	16,26,27,31	(7,676)	(3,942)
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations	17	458	233
Total profit or loss before tax		**87,876**	**20,043**
Tax expense	18	(16,341)	(3,678)
Total profit or loss after tax		**71,535**	**16,365**
Basic earnings per share	19	134.87	30.85
Diluted earnings per share		134.87	30.85

The accompanying notes on pages 67 to 164 are an integral part of these financial statements.

2. STATEMENT OF OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	For the year ended 31 December	
	2023	**2022**
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**71,535**	**16,365**
OTHER COMPREHENSIVE INCOME AFTER TAX	**264**	**(2,308)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(943)**	**218**
Revaluation of properties	(685)	-
Actuarial gains on defined benefit pensions plans	(267)	1,004
Fair value changes of equity instruments measured at fair value through other comprehensive income	440	(851)
Income tax relating to items that will not be reclassified to profit or loss	(431)	65
ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**1,207**	**(2,526)**
Cash flow hedges (effective portion)		
Valuation gains or losses taken to equity	95	-
Debt instruments at fair value through other comprehensive income	1,361	(3,119)
Fair value gain on debt instrument at FVOCI	3,397	(7,679)
Realised gain on FVOCI financial assets transferred to profit or loss	(2,036)	4,560
Income tax relating to items that may be reclassified to profit or loss	(249)	593
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**71,799**	**14,057**

3. STATEMENT OF FINANCIAL POSITION

(in thousands of euros)

	Notes	As at 31 December	
		2023	2022
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	20	1,038,108	811,482
Financial assets held for trading	21	780	1,586
Non-trading financial assets mandatorily at fair value through profit or loss	22	2,988	2,555
Financial assets at fair value through other comprehensive income	23	291,512	258,006
Derivatives - hedge accounting	21	28,962	45,298
Financial assets at amortised cost:		2,603,645	2,558,670
- debt securities	24	20,004	-
- loans and advances to banks	25	152,150	151,525
- loans and advances to customers	26	2,415,107	2,391,581
- other financial assets	27	16,384	15,564
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(13,184)	(26,292)
Tangible assets		26,308	29,684
- property. plant and equipment	28	26,308	28,384
- investment property	29	-	1,300
Intangible assets	30	8,760	7,396
Tax assets		-	-
Other assets	31	1,926	2,654
Non-current assets classified as held for sale	32	1,416	1,454
Total assets		**3,991,221**	**3,692,493**
LIABILITIES			
Financial liabilities held for trading (derivatives)	21	777	1,496
Financial liabilities measured at amortised cost:		3,558,888	3,347,724
- deposits from banks and central banks	33	24,105	44,634
- deposits from non-bank customers	34	3,421,364	3,207,760
- loans from banks and central banks	35	82,411	73,066
- other financial liabilities	36	31,008	22,264
Derivatives – hedge accounting	21	3,464	-
Provisions:		11,389	12,050
- provisions for liabilities and charges	37	8,898	10,048
- retirement benefit obligations	38	2,491	2,002
Tax liabilities:		15,383	2,515
- current tax liabilities		12,458	175
- deferred tax liabilities	39	2,925	2,340
Other liabilities	40	4,928	4,115
Total liabilities		**3,594,829**	**3,367,900**
Share capital	41	22,173	22,173
Share premium	41	7,499	7,499
Accumulated other comprehensive income	42	13,085	12,821
Reserves from profit	43	283,743	264,149
Treasury shares		(49)	(49)
Retained earnings (including net profit for the current year)	43	69,941	18,000
Total equity		**396,392**	**324,593**
Total liabilities and equity		**3,991,221**	**3,692,493**

The accompanying notes on pages 67 to 164 are an integral part of these financial statements.

4. STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

For the year ended 31 December 2023	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	42,43,44	**22,173**	**7,499**	**12,821**	**264,149**	**18,000**	**(49)**	**324,593**
Comprehensive income for the financial year after tax	-	-	-	264	-	71,535	-	**71,799**
Appropriation of (accounting for) dividends	-	-	-	-	-	-	-	**-**
Transfer of net profit to reserves from profit	-	-	-	-	19,594	(19,594)	-	**-**
Other movement	-	-	-	-	-	-	-	**-**
CLOSING BALANCE FOR THE REPORTING PERIOD	42,43,44	**22,173**	**7,499**	**13,085**	**283,743**	**69,941**	**(49)**	**396,392**
DISTRIBUTABLE PROFIT for the financial year		**-**	**-**	**-**	**-**	**67,958**		**67,958**

(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)	-	**-**
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 the 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 reversed the revaluation reserve of these investments in retained earnings (without passing through the income statement) in the amount of EUR 471 thousand.

The accompanying notes on pages 67 to 164 are an integral part of these financial statements.

5. STATEMENT OF CASH FLOWS

(in thousands of euros)

	Notes	For the year ended 31 December	
		2023	**2022**
CASH FLOWS FROM OPERATING ACTIVITIES			
Total profit or loss before tax		87,876	20,042
Depreciation	14	4,217	4,438
Impairments / (reversal of impairments) of financial assets at fair value through other comprehensive income	16	(39)	9
Impairments / (reversal of impairments) of financial assets measured at amortised cost	16	7,258	3,933
Impairments of tangible assets, investment property, intangible assets and other assets	16	457	-
Net (gains) / losses from exchange differences		83	595
Net modification (gains) / losses		137	-
Net (gains) / losses from sale of tangible assets		75	(708)
Net (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		(524)	(278)
Provisions		1,096	8,617
Cash flow from operating activities before changes in operating assets and liabilities		**100,636**	**36,648**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**(78,371)**	**(239,738)**
Net (increase) / decrease in financial assets held for trading		806	(1,239)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		(433)	1,227
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income		(34,900)	(21,999)
Net (increase) / decrease in loans and receivable measured at amortised cost		(43,490)	(201,491)
Net (increase) / decrease in assets-derivatives - hedge accounting		3,228	(13,936)
Net (increase) / decrease in other assets		(3,582)	(2,300)
Increases / (decreases) in operating liabilities		**218,559**	**209,668**
Net increase / (decrease) in financial liabilities held for trading		(719)	1,172
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost		213,982	221,313
Net increase / (decrease) in liability – derivatives – hedge accounting		3,464	(13,131)
Net increase / (decrease) in other liabilities		1,832	314
Cash flow from operating activities		**240,824**	**6,578**
Income taxes (paid) / refunded		(3,979)	(4,268)
Net cash flow from operating activities		**236,845**	**2,310**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		**3,445**	**3,051**
Receipts from the sale of tangible assets		5	1,579
Receipts from non-current assets or related liabilities held for sale		3,440	1,472
Cash payments on investing activities		**4,561**	**3,221**
Cash payments to acquire tangible assets		2,019	1,057
Cash payments to acquire intangible assets		2,542	2,164
Net cash flow from investing activities		**(1,116)**	**(170)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash payments on financing activities		**1,304**	**17,964**
Dividends paid		-	16,819
Other cash payments related to leases		1,304	1,145
Net cash flow from financing activities		**(1,304)**	**(17,964)**
Effects of change in exchange rates on cash and cash equivalents		(1,525)	3,362
Net increase in cash and cash equivalents		**234,425**	**(15,824)**
Opening balance of cash and cash equivalents	45	**859,993**	**872,455**
Closing balance of cash and cash equivalents	45	**1,092,893**	**859,993**

(in thousands of euros)

Operational cash flows of interest and dividends	For the year ended 31 December	
	2023	**2022**
Interest paid	20,015	6,326
Interest received	133,658	51,371
Dividends received	77	166

As at 31 December 2023, the Bank did not have any undrawn credit lines with other banks (2022: nil).

The accompanying notes on pages 67 to 164 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 Sanpaolo IMI), 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 an 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 the International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis of Measurement

The 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 classified as fixed assets and investment property
- Recognised financial assets designated as hedged items in a qualifying fair value hedging relationship (which otherwise would have been measured at amortised cost)

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

Use of Estimates and Judgements

The preparation of the financial statements in conformity with the IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the 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, the actual results ultimately may differ from those estimates.

A more detailed disclosure is shown in chapter 2.4.7 Impairment of financial assets, 2.26 Accounting estimates and judgements in applying the 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 the 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 from 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 in 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 the 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 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 the 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 the OCI. This election is made on an investment-by-investment basis and is determined in the Bank's Business Model, which is defined by the 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 the 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;
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular. whether the 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 the expectations about future sales activity. However. information about sales activity is not considered in isolation but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment of Whether Contractual Cash Flows are 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 Derecognition 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 the 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 that has been 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 the OCI is recognised in profit or loss. Gains/losses 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the 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 the 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 on selling 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 asking price, then the Bank measures assets and long positions at the bid price and liabilities and short positions at the asking 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 the IFRS 13 – Fair value measurement, the inputs used to measure fair value should be presented when classifying financial instruments in the three levels of the 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 the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:
- debt investment securities that are determined to have a 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 a low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade', meaning government or corporate bonds with a relatively low risk of default.

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

Measurement of ECL
ECLs are probability-weighted estimates 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 the 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 the 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 the 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 part, it may be reclassified into 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 the non-performing part. the repayment of the last amount due and unpaid. or the 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.

Classification Based on Managerial Overlay

In addition, recognising objective difficulties in forming forward-looking expectations followed by uncertainties for the upcoming period and a very sensitive environment to a potential crisis, the Bank has implemented a management overlay. The Bank has ensured that the risks of high inflation and the rising Euribor are properly considered and reflected in the clients' expected credit loss calculations. Based on the analysis with the aim of identifying interest-rate-induced credit risk, the Bank managed to obtain a segment of retail clients with a variable interest rate, which would be most affected by rising interest rates and classify them as high risk. In more detail, the list of high-risk private individual clients was obtained based on disposable income (the customer's salary reduced by the current instalment obligations and living expenses), increase of loan obligations due to rise of the Euribor, while also considering the client's potential savings. The managerial overlay was then composed of clients that are identified as high risk due to negative creditworthiness, low savings in the bank and a significant increase of the monthly annuity due to Euribor repricing. The identified clients were moved to Stage 2 as managerial overlay

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 otherwise consider;
- 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 the deterioration of 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.

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 a '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 a capacity to fulfil the required criteria.

Presentation of the 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 the recovery of amounts due

2.5 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments fall into the following categories: forward-based, swap-based and option-based, and are measured initially at fair value. Subsequent to the 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 only include 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.

Derecognition of the derivatives only occurs when through a legal transaction that transfers the 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 the IFRS 9 but continued to apply the hedge accounting requirements of the 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 and are subsequently remeasured 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 the 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 whether they have actually been highly effective throughout the financial reporting periods for which they are designated.

Fair Value Hedge

The Bank uses fair value hedging to cover the exposure to changes in the fair value (in 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 if the hedge no longer meets the criteria for fair value hedge accounting, or if 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.

Cash Flow Hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of the changes in the fair value of the derivative is recognised in the OCI and presented in the hedging reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the OCI is reclassified as profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for cash flow hedge accounting, or if the hedge designation is revoked, then hedge accounting is discontinued prospectively.

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 the 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 a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in the OCI is reclassified from equity to profit or loss.
The Bank elects to present in the 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 the profit or loss. Dividends are recognised in the profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in the OCI. Cumulative gains and losses recognised in the OCI are transferred to retained earnings on the 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 the 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 the contractual terms of the financial instrument, but not the ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including the 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 an additional return on 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 the 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 Expenses

In calculating interest income and expenses, 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 the 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, the 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, the 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 only cover the process costs.

Fee and commission income and expenses 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 the IFRS 9 and partially in the scope of the IFRS 15. If this is the case, the Bank first applies the IFRS 9 to separate and measure that part and then applies the IFRS 15 to the residual.

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 the 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 the end of each financial year.

Intangible assets	Estimated useful lives in 2023	Estimated useful lives in 2022
Licence fees	2–4	2–4
Development expenditure	5–7	7
Computer software	7	4–7

In 2022, the Bank harmonised 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 an annual basis amounted to EUR 597 thousand.
The main IT systems Bančno okence and DIGICAL are internally developed and included within the intangible assets. For this type of intangible fixed assets, the estimated useful life is 7 years.

Gains and losses arising on derecognition 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 a yearly basis.

2.12 PROPERTY, PLANT AND EQUIPMENT

Tangible fixed assets are land, buildings, manufacturing plants, 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 dismantling, 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 an item of property, plant and equipment 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 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 are 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 2023	Estimated useful lives in 2022
Buildings	16.6–33	16.6–33
Other investment in intangibles	20	20
Equipment	5	5
Motor vehicles	5	5
Computers and software	4–8	4–8
Rights to use*	2–9	2–5

**The estimated useful life in assets with rights to use depends on the rent period.*

Any gain or loss on the 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 the 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 the 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 that 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 the initial measurement, the investment properties are measured using the fair value method. All valuation effects are recognised in the income statement within other income.
Any gain or loss on the 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 so 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) if they are expected to be recovered primarily through sale rather than through continuing use. This condition is only regarded as met when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The 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 the 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 the income statement. Gains are not recognised in excess of any cumulative impairment loss.
On reclassification back, on a change of intent or if the conditions required by the 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 the relevant standards, as if the reclassification had not occurred.

Although the sale of real estate lasts more than one year, the management of Intesa Sanpaolo d.d. does not have the intention to reclassify 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. The 'value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects the 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 the 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 the 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 a consideration.
At the commencement or on the 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 the 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 a 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 the 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 of 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 a result of the guarantees at the reporting date. These estimates are determined based on experience of similar transactions and the history of past losses, supplemented by the management's judgement.

2.21 INCOME TAX

Current income tax has been calculated in accordance with the local tax law and using the tax rate of 19%.
In 2023, the Act on Reconstruction, Development and the Provision of Financial Resources (ZORZFS) was adopted, which for the years 2024, 2025, 2026, 2027 and 2028, increases the corporate income tax rate to 22%.

Deferred income tax is calculated for all taxable temporary differences between the value of assets and the value of liabilities for tax purposes and their book value. The deferred tax is calculated on 31 December 2023 at the new tax rate of 22%.

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, the provisions for retirement benefit obligations and differences between business and tax depreciation.
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.

Based on the Act on Reconstruction, Development and the Provision of Financial Resources (ZORZFS) a new tax on the balance sheet assets of banks and savings banks was also introduced for the Slovenian banking industry, namely for a five-year period, i.e., from 2024 up to 2028 included, at a rate of 0.2%. The base for the balance sheet assets tax amount is calculated as the average of the end-of-month total assets amounts.

The amount of tax on the balance sheet assets for an individual tax period can be diminished for:
- given cash donations for the elimination of the consequences of floods and landslides, which affected Slovenia in 2023, paid in this tax period to a special dedicated donation item of the state budget; and
- the difference in corporate income tax calculated by applying the temporary tax rate of 22% and the regular tax rate 19%, but in total no more than the amount of tax for this tax period.

The Act regarding the total amount of tax on balance sheet assets provides a cap, stating that the total amount of tax on balance sheet assets cannot exceed 30% of the total gross bank`s profit before considering the expense for tax on the balance sheet.

In 2023, the Minimum Tax Act (ZMD) was adopted, which introduces new taxation for large domestic groups and international groups of companies based in the Republic of Slovenia. Minimum effective taxation of 15% applies to groups of companies with revenues exceeding 750 million euros, namely for business years starting after 31 December 2023.

The new concept of minimum taxation consists of two interrelated rules, through which an additional amount of tax will be calculated, the so-called Top-Up Tax, in cases where the effective tax rate relating to the income of multinational companies in a given jurisdiction, lower than 15%. In such cases, the given jurisdiction will be considered to be (too) low-taxed. The mentioned rules are:
- Income Inclusion Rule, which determines the payment of the so-called additional tax in relation to a (too) low-taxed subsidiary at the level of the last controlling company or intermediate parent entity. The rule already applies to fiscal years starting on or after 31 December 2023.
- The Undertaxed Profit Rule, which distributes the Top-Up Tax to the controlling company and subsidiaries according to the ratio of tangible assets and the number of employees, namely in cases where the last controlling company will not pay Top-Up Tax in connection with (too) low-taxed subsidiaries through the application of the abovementioned Income Inclusion Rule. The rule applies to fiscal years beginning on or after 31 December 2024.

Slovenia has chosen the option of using the income from the Top-Up Tax collected from low-taxed subsidiaries located in its territory. The Minimum Tax Act (ZMD) introduces the Qualified Domestic Minimum Top-Up Tax rule. This means paying additional tax to a member state for subsidiaries in that country that are low-tax entities in that country. Tax paid under the Qualified Domestic Minimum Top-Up Tax rule can be deducted from the total Top-Up Tax liability paid by the umbrella parent entity.

The ISP Group and the Bank as a Constituent Entity do not expect to be additionally taxed due to the minimum tax, therefore deferred taxes are not created for this purpose.

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 service 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 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 the 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 the IAS19, the calculated current scheme liabilities are discounted using 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 less the equity in the period in which the declaration of the dividend is approved by the 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 the equity. If 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 the 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 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 under 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 the judgement mode relating to the classification of financial assets, assessment of the 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 the impairment of financial instruments on the Bank's calculation of impairments, the credit risk of financial assets, a significant increase in credit risk and the incorporation of forward-looking information in the 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 4.51% (2022: 4.59%), and
- Future salary increases 1.8% p.a. from 2024 onwards (2023: 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 the proposal for provisions for legal cases is performed by the Legal Affairs Department and the Finance Division, and a decision on the creation of provisions is made by the Bank's management.

The total claims amount related to legal cases as at 31 December 2023 amounts to EUR 5,591 thousand (2022: EUR 4,630 thousand). As stated in Note 37, the Bank provided EUR 4,710 thousand (2022: EUR 3,350 thousand), which the management estimates as sufficient. Since the estimate is made considering the specifics of each individual case, it is not practicable for the 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 the revaluation model requires that the asset has to be amortised on the basis of the 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 method based on the capitalisation of returns was used. The valuations were later confirmed by using market values.

Fair Value of Financial Instruments

If a market for a financial instrument is not active or if the fair value cannot be reasonably measured by market price for any reason, 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 and 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 the maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all the factors that market participants would consider when setting a price and is consistent with the 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 the financial instruments are valued by using quoted market prices and that there are a small amount of financial instruments whose fair values are established using valuation techniques, the Bank does not disclose further information on the 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 that have been adopted by the Bank as of 1 January 2023:

- **IFRS 17: Insurance Contracts**
  This standard is effective for annual periods beginning on or after 1 January 2023. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts.

  The standard is effective for annual periods beginning on or after 1 January 2023. The IFRS 17, with the objective of providing an accounting model for insurance contracts that is more useful and consistent for insurers, establishes principles for the recognition, measurement, presentation and disclosure of all types of insurance contracts, as well as of certain guarantees and financial instruments with discretionary participation features.

The accounting model is supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and using a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model include the measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). Also, the model includes a Contractual Service Margin (CSM) that is equal and opposite to any day-one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss based on insurance contract services provided in the coverage period. Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period. Amounts that are paid to a policyholder under all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the income statement but are recognised directly in the statement of financial position.

Furthermore, the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period. Insurance service results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense. In the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held, are presented separately. Finally, the IFRS 17 requires extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of the risks arising from these contracts.

Regarding the transition, the Board decided on a retrospective approach for estimating the CSM on the transition date. However, if a full retrospective application, as defined by the IAS 8, for a group of insurance contracts, is impracticable, an entity is required to choose either the modified retrospective approach or the fair value approach. Both provide transitional relief.

Finally, in December 2021, the IASB issued amendments to the IFRS 17 to add a transition option for a "classification overlay" to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on the initial application of the IFRS 17. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of the IFRS 9 had been applied to that financial asset.

- **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. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to the 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.

- **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 and apply to changes in the accounting policies and changes in the 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 the changes in accounting estimates are and how these differ from changes in accounting policies and the correction of errors.

- **IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (Amendments)**
  These amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under the 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.

- **IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules (Amendments)**
  The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to the IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

  The management has assessed that the amendments are not relevant for the Bank.

2.28 STANDARDS ISSUED BUT NOT YET EFFECTIVE

- **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 the IAS 8. The objective of the amendments is to clarify the principles in the 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 the 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 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.

- **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 when measuring the lease liability arising in a sale and leaseback transaction in the 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 recognise 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 recognising, 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 the 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 the IFRS 16.

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure – Supplier Finance Arrangements (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in the IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of the reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented, as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting

period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU.

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**
The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under the prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The amendments have not yet been endorsed by the EU.

- **Amendment in the 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 the IFRS 10 and those in the 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 recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

The management has assessed that the amendments are not relevant for the Bank.

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 the 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 the 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 risk of the non-repayment of funds lent by the Bank to its customers. This makes it the most significant risk for the Bank. The Bank's investment approval process is careful and efficient, satisfying the criterion of safeguarding the Bank's assets while ensuring its competitive positioning in the market.

Interest rate risk is the risk of a change in the values of loans, bonds and deposits due to changes in interest rates in the broader economy. The Bank manages the 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.
At the same time, in the period when the EURIBOR is rising, the Bank has started to regulate interest income on a long-term basis by hedging the cash flows for the portfolio of loans with variable interest rates, with interest rate swaps.

Liquidity risk is the risk of the Bank not being able to meet its short-term obligations towards third parties.
To this end, the Bank holds a significant amount of liquidity reserves.

Operational risk is the risk of losses endured as a result of a 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 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 2023, 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 the 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 the 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 evaluating the adequacy and efficiency of the Bank's entire system of internal controls over financial reporting, including oversight of the 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 the measures necessary to manage financial exposures.

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

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

The Internal Controls Coordination Committee (ICCC) is a permanent advisory committee, acting within the limits of the delegations and competences established by the Management Board of the Bank, with the aim of strengthening the coordination and cooperation among the control functions in the Bank, facilitating the integration of risk management processes.

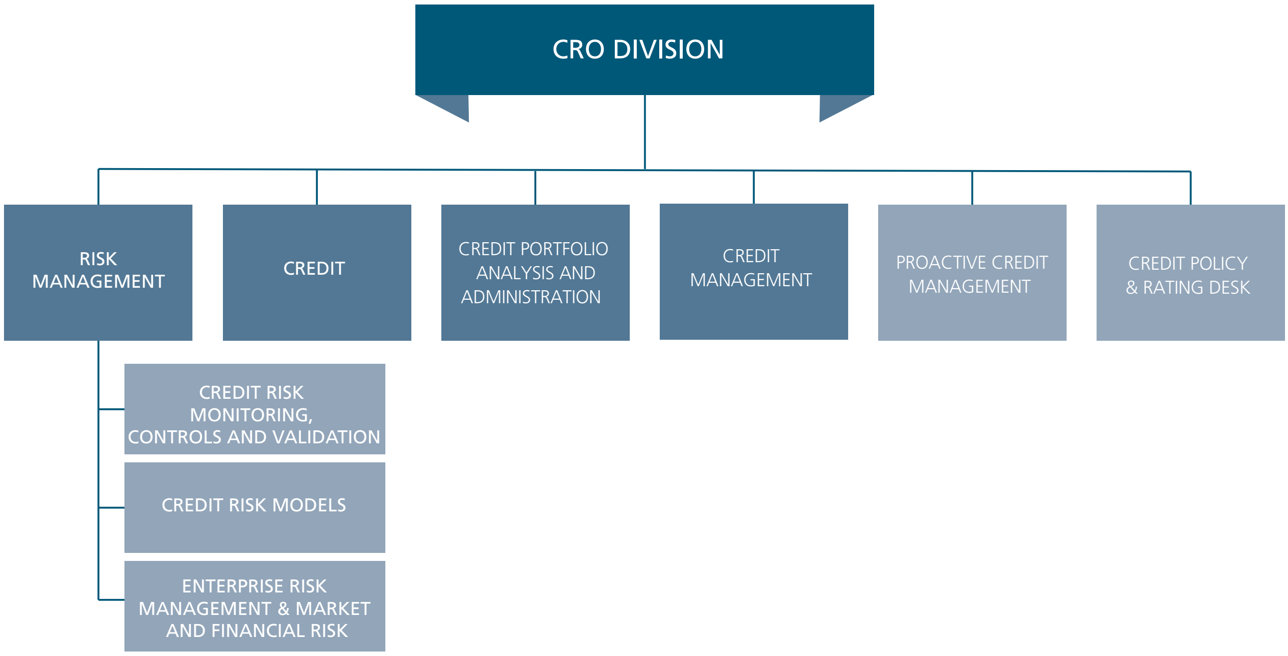
The Internal Audit Department evaluates and reviews processes, procedures, guidelines, policies and all operating activities performed by the Bank with the aim of evaluating the efficiency and effectiveness of the internal controls system and risk management system.

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.

Organisation Chart of the Chief Risk Officer Division:



The Roles of the 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** performs second-level controls and monitoring activities over the credit portfolio, in terms of quality, composition and significant 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 the appropriateness and adequacy of IRB systems 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 the periodical monitoring of the model). Validation analysis also includes the 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 a positive recovery perspective (going concern business) and in relation to obligors in legal enforcement status (gone concern business), seeking 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.

Credit Policy & Rating Desk prepares and reviews credit frameworks and credit regulation, evaluates rating override proposals and assigns ratings to counterparties requiring specialised evaluations.

3.2 CAPITAL ADEQUACY AND OWN FUNDS (CAPITAL) MANAGEMENT

The Bank's capital includes paid-up capital, reserves and revaluation effects, which are measured through equity and retained earnings. The function of the capital is to ensure the 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 the selected strategy and an assessment of how those risks contribute to capital needs measured according to 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 the 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 drives impacting the 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 the Risk Management Strategy, is taken into account, with a special emphasis put on internal capital available under the circumstances of stress scenarios. Furthermore, in the 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 2023, the Bank's regulatory capital amounts to 355.6 million euros, whereas the capital adequacy ratio was 19.2%. 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 the capital requirement of the Bank (ICAAP) and the supervisory review process (SREP) evaluation of Pillar II.

The Bank maintains a 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 the 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)	
	2023	2022	2023	2022
Exposures to banking book				
Exposures to state and central bank STD	6,957	8,150	557	652
Exposures to local municipalities STD	35,931	30,044	2,874	2,404
Exposures to public sector STD	1,826	1,929	146	154
Exposures to institutions STD	121,564	131,518	9,725	10,521
Exposures to corporates STD	105,158	117,715	8,413	9,417
Exposures to equity STD	54	51	4	4
Exposures to retail banking STD	458,776	469,215	36,702	37,537
Past due exposures STD	5,908	6,073	473	486
Exposures to highly risk exposures STD	43	69	3	6
Exposures to investments funds STD	1,776	1,224	142	98
Secured by mortgages on immovable property – STD	162,440	158,678	12,995	12,694
Exposure to corporates – other IRB	631,995	708,210	50,560	56,657
Exposure to corporates – SME IRB	96,976	96,637	7,758	7,731
Exposures to equity IRB	6,840	5,588	547	447
Exposures to other assets IRB	43,443	42,781	3,475	3,422
TOTAL	**1,679,687**	**1,777,882**	**134,374**	**142,230**
Credit risk weighted assets	1,679,687	1,777,882	134,374	142,230
Market risk weighted assets	171	573	14	46
Operational risk weighted assets	172,477	115,232	13,798	9,219
Total risk weighted assets	**1,852,335**	**1,893,687**	**148,186**	**151,495**

Regulatory capital	**2023**	**2022**
Ordinary share	22,173	22,173
Share premium	7,499	7,499
Treasury shares	(49)	(49)
Revaluation reserves	13,011	12,821
Legal reserves	19,540	18,722
Treasory shares fund reserves	49	49
Statutory reserves	260,345	244,328
Other reserves from profit	23,765	232
Retained earning	1,982	2,453
Less intangible assets	(4,795)	(5,649)
Other transitional adjustments		
- requirements from prudent valuation of debt securities	(712)	(803)
- recognised imparements for credit risk durring the year	(1,227)	(1,116)
- insufficient coverage for non-performing exposures	(1)	(11)
Total qualifying Tier 1 capital	**341,580**	**300,649**
IRB Excess of provisions over expected losses	4,676	5,120
Capital instruments and share premium eligible as T2 Capital	9,332	-
Total qualifying Tier 2 capital	**14,008**	**5,120**
Total regulatory capital	**355,588**	**305,769**
CAD ratio	**19.20**	**16.15**

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 while conducting business operations. The RAF includes:
- top of the in-house limits,
- local specific limits,
- early warning indicators.

The top of the in-house limits includes limits of risks that are of the utmost importance to the Bank. These 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 to the government and public sector, real estate sector and large corporate clients. By ensuring that 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 the corresponding credit classification of the borrower. The credit risk of derivative contracts is measured at the 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 2023 amounted to EUR 4.601 million, of which 99% is classified as performing, which includes all assets (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 2023

(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
1	2	3	4	5	6	7	8	9=8/4	10	11=10/6	12=2-8-10	13
Central bank and government bodies	1,232,067	27 %	1,232,067	27 %	-	0 %	24	0 %	-	0 %	1,232,043	27 %
Corporate entities	2,088,161	45 %	2,075,519	45 %	12,642	40 %	15,701	1 %	10,559	84 %	2,061,901	45 %
Banks	236,675	5 %	236,675	5 %	-	0 %	56	0 %	-	0 %	236,619	5 %
Private individuals	1,044,142	23 %	1,025,185	23 %	18,957	60 %	18,498	2 %	14,741	78 %	1,010,903	23 %
Total	**4,601,045**	**100 %**	**4,569,446**	**100 %**	**31,599**	**100 %**	**34,279**	**1 %**	**25,300**	**80 %**	**4,541,466**	**100 %**

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
1	2	3	4	5	6	7	8	9=8/4	10	11=10/6	12=2-8-10	13
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 %**

Analyses by Type of Collateral

(in thousands of euros)

	2023		2022	
	Net loans	Fair value of collateral	Net loans	Fair value of collateral
Performing	**1,334,549**	**2,431,647**	**1,361,395**	**2,446,822**
Totally secured	**1,150,119**	**2,165,783**	**1,134,482**	**2,107,230**
Real estate	740,272	1,737,579	724,964	1,664,501
Debt securities	3,017	8,000	32	44
Deposits	109	210	218	401
Other collateral	1,317	3,801	7,406	21,029
Bank guaranties	94,249	94,575	87,258	87,463
Government guaranties	108,185	114,750	112,659	122,659
Insurance company guaranties	125,782	126,342	125,273	130,330
Third party guarantors	77,188	80,526	76,672	80,803
Partially secured	**184,430**	**265,864**	**226,913**	**339,592**
Real estate	115,589	191,713	129,336	230,867
Debt securities	4,148	4,193	2,078	4,847
Deposits	92	95	43	44
Other collateral	4,486	5,540	8,796	12,926
Bank guaranties	42,509	42,779	48,828	49,438
Government guaranties	12,311	13,173	12,401	13,569
Insurance company guaranties	1,433	1,433	13,446	8,735
Third party guarantors	3,862	6,938	11,985	19,166
Impaired	**2,795**	**33,082**	**4,193**	**38,717**
Totally secured	**2,529**	**29,791**	**4,061**	**35,407**
Real estate	2,134	28,564	3,315	32,500
Deposits	-	4	-	7
Other collateral	37	108	2	15
Insurance company guaranties	349	1,064	533	2,230
Third party guarantors	9	51	211	655
Partially secured	**266**	**3,291**	**132**	**3,310**
Real estate	69	1,856	82	2,613
Deposits	13	1,045	-	500
Other collateral	177	383	3	14
Insurance company guaranties	7	7	-	-
Third party guarantors	-	-	47	183
TOTAL secured net loans	**1,337,344**	**2,464,729**	**1,365,588**	**2,485,539**
Unsecured*	**1,077,763**		**1,025,993**	
TOTAL net loans	**2,415,107**		**2,391,581**	

** 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 represent the total estimated fair value of collaterals, and they have been presented only up to the amount that would mitigate the 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 on when collateral is acceptable depends on the obligor's creditworthiness 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 lifetime, the value of collateral is monitored yearly and is periodically revalued at its fair value changes. For loans exceeding 3 million EUR or 5% 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 the replacement cost.

Maximum Exposure to Credit Risk

(in thousands of euros)

	Maximum exposure	
	2023	**2022**
Loans to banks	152,150	151,525
Loans to customers*	2,424,762	2,407,100
Loans to individuals:	896,440	873,569
- overdrafts	18,965	17,581
- credit cards	9,451	8,702
- term loans	180,592	159,713
- mortgages	686,717	685,926
- finance leases	715	1,647
Loans to sole proprietors	54,138	55,595
Loans to corporate entities	1,474,184	1,477,936
Debt securities at amortised cost	20,004	-
Advances	16,384	15,564
Non-trading financial assets mandatorily at fair value through profit or loss:	1,845	1,491
- debt securities	1,845	1,491
Financial assets at fair value through other comprehensive income:	280,691	247,625
- debt securities	280,691	247,625
Other assets**	1,014,088	793,678
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees and documentary letters of credit	242,839	215,652
Credit commitments and other credit related liabilities	376,596	434,487
Derivatives replacement value	12,107	11,663
At 31 December	**4,541,466**	**4,278,785**

** The maximum exposure of loans to customers does not include the valuation of loans subject to micro-hedge*
***Including balances with the central bank, demand deposits and taxes and contributions.*

The maximum exposure to credit risk represents the worst-case scenario of credit risk exposure of the Bank at 31 December 2023 and 2022, 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 46 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. In addition, and according to the IFRS9 reporting standards, the counterparties are classified in three stages. In Stage 1, they are classified as performing assets with unchanged or not deteriorated creditworthiness measured from the origination, while in stage 2 are credit assets for which the Bank recognised a significant increase of credit risk since its origination. In stage 3, they are classified as non-performing assets. The criteria for the 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 assigns rating grades to performing clients in line with their probability of default. 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 to calculate a credit score based on the 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 working-out strategy for non-performing obligors depends on whether the Bank evaluates the borrower as a going concern or a 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 that need to be considered for the purpose of assessing the "steps" between the various "stages"are the following:

- Lifetime Default probability change or a certain number of rating notches (a three-notch downgrade for lower- to medium-risk rating classes, two for the medium-risk rating class and one-notch downgrade for the 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 the due amount that remains overdue for over 30 days. In the event of such a case, the credit risk of such an exposure is considered "significantly increased"and is classified in 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 the IFRS9 and based on risk parameters available in the Bank. The main indicators that are used are transaction classification, days past due, forbearance, the 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 the non-performing status of the loan, the key element in stage assignment is the recognition of the increasing credit risk of a financial instrument. A significant increase of credit risk could be highlighted by quantitative and qualitative indicators such as:

- Past due days
- Forborne status
- Early warning signals and/or the 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 the 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

The projection of lifetime credit risk parameters under the IFRS 9 requires the 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 the best, most-likely and worst scenarios. The add-ons are obtained with internal macroeconomic models, while for conditioned LGD estimates, 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 the reporting date, whereas stage 1 exposure is conditioned over the 1-year horizon or the whole expected loss measuring period.

In the year 2023, the Bank updated the macroeconomic outlook and the forward-looking elements of the calculation and adopted a new originated macroeconomic model for Private individuals, while updating the model for legal entities henceforth covering all the business segments including micro-clients. The aforementioned updates are anchored in the updated ECB macroeconomic scenarios. These ECB scenarios translate into the macro variables that subsequently determine the FLI component of the ECL. Regarding the numbers of scenarios and their weights, the Bank has not changed its methodology in 2023. The Bank defined three macroeconomic scenarios (favourable, base and adverse) and the FLI effects of the ECL stems from these scenarios.

Macroeconomic Scenarios Included in the FLI Component

	Favourable scenario			Baseline scenario			Adverse scenario		
Macroeconomic indicator	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
Bank deposits growth rate at the system level	3.37 %	4.06 %	3.89 %	2.89 %	3.44 %	3.24 %	1.79 %	2.09 %	1.79 %
EU Industrial production growth rate	2.72 %	2.30 %	0.32 %	1.90 %	1.87 %	1.46 %	1.32 %	1.29 %	2.61 %
Eurostoxx official index change	0.00 %	3.06 %	2.14 %	(4.55 %)	0.12 %	4.83 %	3.74 %	(3.14 %)	4.09 %

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

Managerial overlay has been adopted to address the interest-rate-induced credit risk for private individual obligors, primarily those repaying mortgage loans subject to a variable interest rate and longer repayment maturities. The Bank has examined and analysed obligors that could be potentially harmed by the detrimental effects of higher inflation and will incur higher costs of servicing debt after the repricing of loans due to the rise of money market interest rates (Euribor) during 2023. Clients affected by such an adverse situation have been correspondingly classified in stage 2.

In total, the provisions that were set aside as managerial overlay in the year 2023 amounted to EUR 7.9 million (2022: EUR 2.9 million).

Credit Quality Analysis

(in thousand euros)

	2023				
	12 month ECL	Lifetime ECL – not credit impaired	Lifetime ECL - credit impaired	POCI	Total
Loans to banks at amortised cost					
Performing	150,730	-	-	-	**150,730**
Watch list	-	1,473	-	-	**1,473**
Loss allowance	(8)	(45)	-	-	**(53)**
Carrying amount	**150,722**	**1,428**	**-**	**-**	**152,150**
Loans to customers at amortised cost					
Performing	2,325,375	-	-	-	**2,325,375**
Watch list	-	115,525	-	-	**115,525**
Past due impaired	-	-	2,833	-	**2,833**
Unlikely to pay	-	-	13,976	30	**14,006**
Doubtful	-	-	13,659	74	**13,733**
Loss allowance	(14,082)	(17,882)	(24,327)	(74)	**(56,365)**
Carrying amount	**2,311,293**	**97,643**	**6,141**	**30**	**2,415,107**
Debt investment securities at amortised cost					
Performing	20,014	-	-	-	**20,014**
Loss allowance	(10)	-	-	-	**(10)**
Carrying amount	**20,004**	**-**	**-**	**-**	**20,004**
Debt investment securities at FVOCI					
Performing, low risk	280,707	-	-	-	**280,707**
Loss allowance	(16)	-	-	-	**(16)**
Carrying amount - fair value	**280,691**	**-**	**-**	**-**	**280,691**
Off balance sheet					
Loan commitments					
Performing	355,405	-	-	-	**355,405**
Watch list	-	22,840	-	-	**22,840**
Past due impaired	-	-	53	-	**53**
Unlikely to pay	-	-	335	-	**335**
Doubtful	-	-	98	-	**98**
Loss allowance	(1,423)	(345)	(367)	-	**(2,135)**
Carrying amount (provision)	**353,982**	**22,495**	**119**	**-**	**376,596**
Financial guarantee contracts					
Performing	235,452	-	-	-	**235,452**
Watch list	-	7,761	-	-	**7,761**
Past due impaired	-	-	10	-	**10**
Unlikely to pay	-	-	4	-	**4**
Doubtful	-	-	33	-	**33**
Loss allowance	(327)	(55)	(39)	-	**(421)**
Carrying amount (provision)	**235,125**	**7,706**	**8**	**-**	**242,839**

Credit Quality Analysis

(in thousand euros)

	2022				
	12 month ECL	Lifetime ECL – not credit impaired	Lifetime ECL - credit impaired	POCI	Total
Loans to banks at amortised cost					
Performing	150,043	-	-	-	**150,043**
Watch list	-	1,694	-	-	**1,694**
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	-	-	31	-	**31**
Unlikely to pay	-	-	605	-	**605**
Doubtful	-	-	52	-	**52**
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	-	-	-	-	**-**
Unlikely to pay	-	-	77	-	**77**
Doubtful	-	-	33	-	**33**
Loss allowance	(987)	(168)	(110)	-	**(1,265)**
Carrying amount (provision)	**211,349**	**4,304**	**-**	**-**	**215,653**

Credit Quality Analysis – Summary

(in thousand euros)

	2023				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	POCI	Total
Balance exposures					
Gross carrying amount	2,776,826	116,998	30,468	104	**2,924,396**
Loss allowance	(14,116)	(17,927)	(24,327)	(74)	**(56,444)**
Net carrying amount	**2,762,710**	**99,071**	**6,141**	**30**	**2,867,952**
Off-balance exposure					
Gross carrying amount	590,857	30,601	533	-	**621,991**
Loss allowance	(1,750)	(400)	(406)	-	**(2,556)**
Net carrying amount	**589,107**	**30,201**	**127**	**-**	**619,435**

(in thousand euros)

	2022				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	POCI	Total
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**

Risk Segmentation

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

Credit Risk Models

Internal Rating models are used in order to measure the probability of the obligor's default. Currently, rating models for risk segments Corporate, Small Business and Large Corporate are adopted, with the last one being adopted in 2023. They are designed to calculate credit scores based on several sets of data, including debtor's financial data, behavioural data, personal and key success factors, competitive positioning and qualitative information. Credit scores are finally associated with the corresponding rating grades as delineated in the rating master scale. The final rating can be modified with an override request based on the subjective evaluation of the client.

The Bank uses performing rating classes in the risk segment Large Corporate divided into 3 macro-classes (I indicating low risk, M medium risk and R high risk) and in the risk segment Corporate and Small Business divided into 3 macro-classes (N indicating low risk, S medium risk and P increased risk). Credit ratings are quantified when new information about the client is received, and at least once a year.

Loss given default (LGD) and Exposure at Default (EAD) are models adopted to estimate loses the Bank will on average incur when a borrower defaults on credit facilities. Estimates are developed for different exposure clusters like product type, collateral and other drivers based on which losses can be statistically predicted. LGD models are developed for performing and non-performing exposures and therefore adapted to the collection strategies of the Bank. The EAD model produced credit conversion factors, which measure the amount at risk at the time of default for off-balance undrawn credit facilities and the k-factor for credit facilities fully utilised by the borrowers. In 2023, the Bank redeveloped LGD and EAD models for Private individuals that have all the stated components and these will be implemented in 2024.

Rating Assignment Process

The rating assignment process consists of:

- Activation of the rating calculation and gathering all the necessary information (balance sheet, behavioural, qualitative information, etc.)
- 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

Note: In 2022, the Large Corporate segment was included in the corporate internal rating model.

Loans to Customers at Amortised Cost

(in thousand euros)

	2023			2022		
STAGE 1 (12 - month ECL)	**Gross amount**	**Loss allowance**	**Carrying (net) amount**	**Gross amount**	**Loss allowance**	**Carrying (net) amount**
LARGE CORPORATE						
I3	30	-	30	-	-	-
I4	4,844	(2)	4,842	-	-	-
I5	81,949	(36)	81,913	-	-	-
I6	132,788	(119)	132,669	-	-	-
M1	21,159	(30)	21,129	-	-	-
M2	188	-	188	-	-	-
M3	1,115	(4)	1,111	-	-	-
M4	1,005	(8)	997	-	-	-
CORPORATE AND SMALL BUSINESS						
N1	5,118	(20)	5,098	12,710	(31)	12,679
N2	99,628	(452)	99,176	84,190	(240)	83,950
N3	135,142	(562)	134,580	135,880	(576)	135,304
N4	147,155	(1,032)	146,123	121,656	(541)	121,115
N5	240,636	(1,666)	238,970	94,668	(666)	94,002
N6	19,402	(332)	19,070	355,805	(2,576)	353,229
N7	18,925	(430)	18,495	192,157	(998)	191,159
S1	61,638	(1,153)	60,485	33,161	(431)	32,730
S2	56,374	(1,716)	54,658	12,038	(228)	11,810
S3	5,893	(291)	5,602	6,376	(151)	6,225
S4	1,585	(105)	1,480	2,157	(72)	2,085
P1	44,217	(359)	43,858	37,650	(210)	37,440
P2	227	(27)	200	342	(24)	318
P4	12	(1)	11	26	(1)	25
No rating	1,246,345	(5,737)	1,240,608	1,216,775	(6,431)	1,210,344
of which						
Government	1	-	1	4,397	(1)	4,396
Other public entities	200,713	(89)	200,624	173,947	(76)	173,871
Financial entities	116,261	(25)	116,236	121,414	(68)	121,346
Non-financial entities	51,171	(625)	50,546	48,884	(543)	48,341
Sole proprietors	21,758	(489)	21,269	25,504	(724)	24,780
Individuals	855,597	(4,468)	851,129	841,666	(4,984)	836,682
Non-profit institutions serving households	844	(41)	803	963	(35)	928
TOTAL STAGE 1	**2,325,375**	**(14,082)**	**2,311,293**	**2,305,591**	**(13,176)**	**2,292,415**

(in thousand euros)

STAGE 2 (Lifetime ECL not credit - impaired)	2023 Gross amount	2023 Loss allowance	2023 Carrying (net) amount	2022 Gross amount	2022 Loss allowance	2022 Carrying (net) amount
LARGE CORPORATE						
M2	11,888	(82)	11,806	-	-	-
CORPORATE AND SMALL BUSINESS						
N1	3	-	3	8	-	8
N2	-	-	-	24	-	24
N3	1,443	(19)	1,424	80	(17)	63
N4	8,041	(113)	7,928	6,647	(105)	6,542
N5	4,406	(71)	4,335	8,028	(127)	7,901
N6	1,959	(83)	1,876	3,881	(102)	3,779
N7	3,653	(185)	3,468	4,049	(114)	3,935
S1	4,758	(244)	4,514	6,572	(214)	6,358
S2	7,708	(413)	7,295	9,428	(396)	9,032
S3	4,031	(434)	3,597	2,646	(157)	2,489
S4	1,674	(197)	1,477	3,352	(188)	3,164
P1	3,145	(440)	2,705	2,042	(144)	1,898
P2	745	(159)	586	11,240	(1,440)	9,800
P3	394	(47)	347	966	(156)	810
P4	22	(5)	17	114	(23)	91
No rating	61,655	(15,390)	46,265	47,650	(10,869)	36,781
of which						
Financial entities	18	(6)	12	-	-	-
Non-financial entities	3,457	(1,024)	2,433	3,894	(881)	3,013
Sole proprietors	3,529	(904)	2,625	1,606	(463)	1,143
Individuals	54,651	(13,456)	41,195	42,150	(9,525)	32,625
TOTAL STAGE 2	**115,525**	**(17,882)**	**97,643**	**106,727**	**(14,052)**	**92,675**
TOTAL STAGE 1 and STAGE 2	**2,440,900**	**(31,964)**	**2,408,936**	**2,412,318**	**(27,228)**	**2,385,090**

Off-Balance Sheet

Loan Commitments

(in thousand euros)

STAGE 1 (12 - month ECL)	2023 Gross amount	2023 Loss allowance	2023 Carrying (net) amount	2022 Gross amount	2022 Loss allowance	2022 Carrying (net) amount
LARGE CORPORATE						
I1.D	15	-	15	-	-	-
I3	47	-	47	-	-	-
I4	45	-	45	-	-	-
I5	29,000	(7)	28,993	-	-	-
I6	7,800	(4)	7,796	-	-	-
M2	33	-	33	-	-	-
M3	30	-	30	-	-	-
CORPORATE AND SMALL BUSINESS						
N1	4,490	(12)	4,478	55,984	(81)	55,903
N2	17,138	(47)	17,091	15,033	(14)	15,019
N3	59,855	(103)	59,752	69,152	(138)	69,014
N4	47,407	(162)	47,245	20,290	(40)	20,250
N5	35,542	(152)	35,390	25,064	(83)	24,981
N6	3,578	(35)	3,543	48,661	(151)	48,510
N7	4,429	(57)	4,372	19,319	(98)	19,221
S1	9,103	(91)	9,012	7,890	(45)	7,845
S2	4,434	(82)	4,352	2,460	(28)	2,432
S3	1,488	(30)	1,458	1,214	(16)	1,198
S4	208	(8)	200	373	(9)	364
P1	2,575	(17)	2,558	10,453	(30)	10,423
P2	35	(1)	34	182	(5)	177
P3	20	-	20	-	-	-
No rating	128,133	(615)	127,518	143,777	(941)	142,836
of which						
Government	4	-	4	5	-	5
Other public entities	2,804	-	2,804	1,815	-	1,815
Banks	14	-	14	13	-	13
Financial entities	3,333	(14)	3,319	3,269	(9)	3,260
Non-financial entities	3,607	(82)	3,525	10,679	(101)	10,578
Sole proprietors	4,034	(84)	3,950	5,187	(125)	5,062
Individuals	113,761	(429)	113,332	122,197	(698)	121,499
Non-profit institutions serving households	576	(6)	570	612	(8)	604
TOTAL STAGE 1	**355,405**	**(1,423)**	**353,982**	**419,852**	**(1,679)**	**418,173**

(in thousand euros)

	2023			2022		
STAGE 2 (Lifetime ECL not credit - impaired)	**Gross amount**	**Loss allowance**	**Carrying (net) amount**	**Gross amount**	**Loss allowance**	**Carrying (net) amount**
LARGE CORPORATE						
M2	3,669	(27)	3,642	-	-	-
CORPORATE AND SMALL BUSINESS						
N1	10,035	(11)	10,024	203	-	203
N2	47	(4)	43	7	-	7
N3	93	-	93	-	-	-
N4	504	(1)	503	5,773	(6)	5,767
N5	2,429	(14)	2,415	836	(3)	833
N6	337	(3)	334	218	(1)	217
N7	171	(4)	167	909	(4)	905
S1	1,138	(12)	1,126	976	(9)	967
S2	1,870	(31)	1,839	595	(6)	589
S3	563	(19)	544	185	(3)	182
S4	51	(2)	49	60	(1)	59
P1	37	(1)	36	79	(3)	76
P2	90	(9)	81	4,806	(510)	4,296
P3	-	-	-	15	(2)	13
P4	12	-	12	30	(4)	26
No rating	1,794	(207)	1,587	2,231	(169)	2,062
of which						
Financial entities	6	-	6	-	-	-
Banks	-	-	-	1,326	(59)	1,267
Non-financial entities	347	(59)	288	108	(24)	84
Sole proprietors	426	(82)	344	66	(13)	53
Individuals	1,015	(66)	949	731	(73)	658
TOTAL STAGE 2	**22,840**	**(345)**	**22,495**	**16,923**	**(721)**	**16,202**
TOTAL STAGE 1 and STAGE 2	**378,245**	**(1,768)**	**376,477**	**436,775**	**(2,400)**	**434,375**

Financial Guarantee Contracts

(in thousand euros)

STAGE 1 (12 - month ECL)	2023 Gross amount	2023 Loss allowance	2023 Carrying (net) amount	2022 Gross amount	2022 Loss allowance	2022 Carrying (net) amount
LARGE CORPORATE						
I1.C	120	-	120	-	-	-
I3	400	-	400	-	-	-
I4	6,586	(1)	6,585	-	-	-
I5	52,750	(12)	52,738	-	-	-
I6	33,000	(17)	32,983	-	-	-
M1	36	-	36	-	-	-
M3	3,000	(6)	2,994	-	-	-
M4	724	(1)	723	-	-	-
CORPORATE AND SMALL BUSINESS						
N1	3,392	(8)	3,384	40,011	(57)	39,954
N2	40,895	(44)	40,851	5,657	(6)	5,651
N3	35,979	(54)	35,925	24,045	(73)	23,972
N4	27,870	(74)	27,796	14,310	(28)	14,282
N5	9,498	(29)	9,469	40,157	(293)	39,864
N6	1,094	(7)	1,087	57,196	(391)	56,805
N7	620	(5)	615	7,147	(61)	7,086
S1	3,721	(19)	3,702	2,708	(25)	2,683
S2	1,892	(21)	1,871	974	(10)	964
S3	684	(11)	673	584	(6)	578
S4	30	-	30	236	(3)	233
P1	15	-	15	90	(1)	89
P4	-	-	-	14	-	14
No rating	13,146	(18)	13,128	19,207	(33)	19,174
of which						
Other public entities	449	-	449	506	-	506
Banks	5,218	(1)	5,217	9,776	(2)	9,774
Financial entities	6,314	(9)	6,305	6,317	(23)	6,294
Non-financial entities	648	(2)	646	234	(3)	231
Sole proprietors	96	(1)	95	115	(1)	114
Individuals	8	-	8	1,908	(3)	1,905
Non-profit institutions serving households	413	(5)	408	351	(1)	350
TOTAL STAGE 1	**235,452**	**(327)**	**235,125**	**212,336**	**(987)**	**211,349**

(in thousand euros)

STAGE 2 (Lifetime ECL not credit - impaired)	2023 Gross amount	2023 Loss allowance	2023 Carrying (net) amount	2022 Gross amount	2022 Loss allowance	2022 Carrying (net) amount
LARGE CORPORATE						
M2	2,000	-	2,000	-	-	-
CORPORATE AND SMALL BUSINESS						
N1	-	-	-	43	-	43
N3	567	-	567	-	-	-
N4	190	(9)	181	185	(17)	168
N5	3,245	(8)	3,237	49	-	49
N6	100	-	100	131	(10)	121
N7	146	(2)	144	1,040	(9)	1,031
S1	416	(2)	414	939	(36)	903
S2	665	(14)	651	401	(20)	381
S3	304	(15)	289	1,255	(53)	1,202
S4	84	(1)	83	197	(6)	191
P1	14	-	14	111	(1)	110
P2	-	-	-	40	(8)	32
No rating	30	(4)	26	81	(8)	73
of which						
Banks	-	-	-	32	-	32
Non-financial entities	21	(4)	17	30	(6)	24
Sole proprietors	9	-	9	19	(2)	17
STAGE 2 Total	**7,761**	**(55)**	**7,706**	**4,472**	**(168)**	**4,304**
TOTAL STAGE 1 and STAGE 2	**243,213**	**(382)**	**242,831**	**216,808**	**(1,155)**	**215,653**

Changes in credit-impaired loans to customers

(in thousand euros)

	2023	2022
Credit-impaired loans (Stage 3) at 1 January	**6,492**	**9,189**
Change in allowance for impairment	(3,859)	(610)
Classified as credit-impaired during the year	8,980	6,644
Transferred to not credit-impaired during the year	(524)	(460)
Recoveries of amounts previously written off	(4,559)	(8,209)
Disposals	-	(4)
Write-offs	(212)	(58)
Other movements	2	2
Modification gain/loss	(149)	(2)
Credit-impaired loans (Stage 3) at 31 December	**6,171**	**6,492**

Impairment Provisions for Credit Risk

The amount of the impairment provisions (credit risk allowances) for credit risk are based on the estimated amount of expected credit losses (ECL), which is calculated based on the 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 classified as unlikely to pay or doubtful, whose total exposure at the moment of default exceeds 250,000 euros. The analytical assessment of provisions is carried out by the estimation of expected cash flows for each obligor individually from regular operations or by sizing and selling the property taken as collateral. The expected cash flows are discounted using the 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 the expected exposure at the time of default (EAD). Loss estimation parameters are updated annually.

The PD rates are estimated by measuring transition rates from the 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. Conversely, when no internal rating is assigned, they are classified in group 1 or 2, depending on the change in credit quality, in accordance with the IFRS 9. The estimates of these rates are updated annually.

Loss Given Default rates are estimated based on risk drivers determined with LGD internal models, like the type of collateral. The recovery rate is estimated using the ratio between the net present values of recoveries less costs and the 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 the financial asset, taking into account the possibility of default and the expected losses thereof, every year till the maturity of the asset, considering the residual outstanding amount of credit receivables over time. For financial assets with a maturity of less than 1 year, a dedicated scaling factor is utilised in order to adjust the annual PD rate to the shorter time horizon. The risk parameters (PD and LGD) are modified taking into account the expected macroeconomic trends. These changes are then input into the calculation of the ECL through the adjustment of parameters by multiplication with associated factors determined from the best, most-likely and adverse scenarios. Favourable (best), most-likely and adverse outcomes are obtained from internal macroeconomic models for the conditioning of the PD component, while the conditioning of the LGD parameters is based on the most likely and adverse scenarios derived from EBA coefficients published for the purpose of EU-wide stress test exercises. The best scenario on the other hand is obtained with the internal methodology referring to the EBA coefficients for the most-likely and adverse scenarios. 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 the 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 also apply for financial instruments that are secured with collaterals whose value exceeds the value of the instrument and for other financial instruments that do not have a repayment schedule.

Impact of the 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 also monitoring and analysing its credit portfolio. Although the Bank has limited exposure 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 the stability of capital adequacy ratios and liquidity.

(in thousand euros)

	2023			2022		
	Gross carrying amount	**Loss allowance**	**Net carrying amount**	**Gross carryng amount**	**Loss allowance**	**Net carrying amount**
Balance exposure						
Russia	1	-	1	1	-	1
Belarus	1,473	(46)	1,427	1,694	(151)	1,543
Ukraine	2	-	2	1	-	1
TOTAL	**1,476**	**(46)**	**1,430**	**1,696**	**(151)**	**1,545**
Off - balance exposure						
Russia	-	-	-	2	-	2
Belarus	1	-	1	1,327	(59)	1,268
Ukraine	4	-	4	4	-	4
TOTAL	**5**	**-**	**5**	**1,333**	**(59)**	**1,274**

The Impact of the Macroeconomic Environment on Impairments

The bank strives to maintain strong risk governance in the area of interest rate risk, backed by internal limits on net interest income sensitivity and the economic value of equity sensitivity. Moreover, the sharp rise in market interest rates in 2023, unprecedented in the last 15 years, brought to attention the interest-rate-induced credit risk. Additional risk was also posed by high inflation and the consequently high cost of living. The risk of clients not meeting their contractual payment obligations on loans tied with a variable interest rate due to Euribor repricing is most notable in the retail mortgage lending area, where clients usually opt for loans with longer tenors. The rising interest rates in combination with high inflation can affect a private individual's creditworthiness to the point where there is a high risk relating to meeting future obligations. Since the interest-rate-induced credit risk cannot be covered by regular risk measurement systems, the bank assessed the risk with the analysis of obligations that could be potentially harmed by the detrimental effects of higher inflation and will incur a higher cost of servicing debt after the repricing of loans due to the rise of money market interest rates (Euribor) during 2023. Clients affected by such an adverse situation have been correspondingly classified in stage 2 based on managerial overlay. The impact of managerial overlay in 2023 amounted to 7.9 million EUR of additional expected credit loss (in 2022, the impact of managerial overlay amounted to 2.9 million EUR).

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 percent 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 percent 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 percent of the TIER1 capital.

Financial Instruments' Breakdown by Country Risk

(in thousands of euros)

As at 31 December 2023	Slovenia	EU	*Of which Italy*	Other Europe	Rest of world	Total
Cash, cash balances at central banks and other demand deposits at banks	1,015,447	16,981	*12,885*	-	5,680	**1,038,108**
Financial assets held for trading						**-**
- financial assets held for trading –derivatives	593	187	*187*	-	-	**780**
Non-trading financial assets mandatorily at fair value through profit or loss	699	444	*444*	-	1,845	**2,988**
Financial assets at fair value through other comprehensive income	146,870	144,642		-	-	**291,512**
Financial assets at amortised cost	2,207,949	316,055	*147,775*	77,090	2,551	**2,603,645**
- debt securities	-	20,004		-	-	**20,004**
- loans to banks	7,453	143,270	*143,270*	1,427	-	**152,150**
- loans to customers	2,188,144	150,938	*4,424*	75,663	362	**2,415,107**
- advances	12,352	1,843	*81*	-	2,189	**16,384**
Derivatives - hedge accounting	-	28,962	28,962	-	-	**28,962**
Contingent liabilities and commitments	608,304	9,569	*931*	1,102	460	**619,435**
TOTAL EXPOSURES	**3,979,862**	**516,840**	***191,184***	**78,192**	**10,536**	**4,585,430**

(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**
- debt securities	-	-	-	-	-	**-**
- 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**

3.4 ANALYSIS OF PAST DUE FINANCIAL INSTRUMENTS

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

Loans are summarised as follows:

Loans by maturity (past due)

(in thousands of euros)

	2023		2022	
	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)	2,438,978	152,203	2,402,138	151,737
Past due but not impaired (stage1 and 2)	1,922	-	10,180	-
Impaired	30,572	-	29,227	-
Gross	**2,471,472**	**152,203**	**2,441,545**	**151,737**
Impairment losses on loans	(56,365)	(53)	(49,964)	(212)
Net	**2,415,107**	**152,150**	**2,391,581**	**151,525**

Loans to Customers by Maturity and Portfolio Quality as at 31. 12. 2023

(in thousands of euros)

2023	Individuals				Finance leases	Sole proprietors	Corporate	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages				
Total neither past due nor impair	18,938	9,460	181,127	699,233	694	55,980	1,473,546	**2,438,978**
Not past due but impaired (stage 3)	405	142	4,345	6,669	-	802	4,064	**16,427**
Past due but not impaired (stage 1 and 2)	198	2	316	276	1	257	872	**1,922**
Past due and impaired (stage 3)	327	289	4,347	1,930	72	425	6,755	**14,145**
Gross	**19,868**	**9,893**	**190,135**	**708,108**	**767**	**57,464**	**1,485,237**	**2,471,472**
Impairment losses on loans and advances	(902)	(442)	(9,543)	(21,391)	(52)	(3,326)	(20,709)	**(56,365)**
Net	**18,966**	**9,451**	**180,592**	**686,717**	**715**	**54,138**	**1,464,528**	**2,415,107**

Loans to Customers by Maturity and Portfolio Quality as at 31. 12. 2022

(in thousands of euros)

2022	Individuals				Finance leases	Sole proprietors	Corporate	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages				
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 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)

2023	Individuals										Total loans and advances to customers
	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	146	6	2	-	292	245	255	63	1	5	**1,015**
Past due 30 - 60 days	24	13	-	-	17	266	12	94	-	10	**436**
Past due 60 - 90 days	22	34	-	3	7	751	9	174	-	40	**1,040**
Past due over 90 days	6	274	-	286	-	3,085	-	1,599	-	17	**5,267**
Total	**198**	**327**	**2**	**289**	**316**	**4,347**	**276**	**1,930**	**1**	**72**	**7,758**

(in thousands of euros)

2023	Sole proprietors		Corporate entities		Total
	Not impaired	*Impaired*	*Not impaired*	*Impaired*	
Past due up to 30 days	229	59	766	195	**1,249**
Past due 30 - 60 days	24	70	59	407	**560**
Past due 60 - 90 days	4	74	46	1,018	**1,142**
Past due over 90 days	-	222	1	5,135	**5,358**
Total	**257**	**425**	**872**	**6,755**	**8,309**

Ageing of Past Due Loans to Customers by Type of Customer, Product and Portfolio Quality

(in thousands of euros)

2022	Individuals										Total individ-uals
	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)

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	-	661	1	5,669	**6,331**
Total	**219**	**831**	**9,316**	**6,633**	**16,999**

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)

2023	Individuals	Sole proprietors	Corporate entities	Total
Impaired loans	18,525	1,227	10,820	**30,572**
Fair value of collateral	20,122	1,100	7,513	**28,735**

(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 2023, the Bank received EUR 2,569 thousand from the sale of pledged collateral (2022: EUR 3,184 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 the difficulty of financing liquidity needs or converting 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 an adequate liquidity position.

The minimum liquidity to be provided by banks is set out in the Decision on the macroprudential monitoring of liquidity and funding structure (Official Journal of the RS, No 10/20).

The liquidity position of the Bank is primarily monitored with two ratios, the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). These ratios have been introduced globally as principal liquidity measures necessary to ensure the minimum short-term liquidity, as well as the 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 the 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.

The 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 the ALCO, Risk Committee, Audit Committee, Supervisory Board and to the Bank of Slovenia through regulatory reporting requirements.

	31. 12. 2023	31. 12. 2022	31. 12. 2021
LCR	367 %	250 %	264 %
NSFR	171 %	164 %	158 %
Survival Period	Over 5 years	Over 5 years	Over 5 years

The LCR and NSFR ratios increased during 2023 as a migration of deposits from sight to term is taking place. The Bank continues to operate well above the regulatory and RAF limits. The internal RAF limits were set at 110% for LCR and 102.5% for NSFR. The liquidity buffer is comprised mostly of withdrawable central bank reserves and to a 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. Additional information on the abovementioned liquidity crisis can also be found in the Bank's Recovery plan and Resolution documents (Methodology to Address Liquidity in Resolution, Note on Collateral Availability and FMI Contingency Plan).

Maturities of Assets and Liabilities – Non-Derivative Cash Flows by Contractual Maturities

(in thousands of euros)

As at 31 December 2023	Contractual maturity - undiscounted						
	Carrying amount	Gross nominal Inflow/(out-flow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS							
Cash, cash balances at Central Banks and other demand deposits at banks	1,038,108	1,038,108	1,003,802	-	-	-	34,306
Non-trading financial assets mandatorily at fair value through profit or loss	2,988	2,988	-	-	-	2,988	-
Financial assets at fair value through other comprehensive income	291,512	294,045	5,000	92,608	93,100	92,500	10,837
Loans and receivables:*	2,603,645	2,635,649	158,882	92,153	402,750	1,115,014	866,850
- debt securities	20,004	20,000	-	-	-	-	20,000
- loans to banks	152,150	152,204	90,684	20	398	61,102	-
- loans to customers	2,415,107	2,447,061	57,177	86,770	402,352	1,053,912	846,850
- other financial assets	16,384	16,384	11,021	5,363	-	-	-
Total assets	**3,936,253**	**3,970,790**	**1,167,684**	**184,761**	**495,850**	**1,210,502**	**911,993**
LIABILITIES							
Financial liabilities measured at amortised cost:	3,558,888	3,558,888	2,881,813	140,341	445,863	90,762	109
- deposits from banks and central banks	24,105	24,105	1,134	-	22,971	-	-
- deposits from non-bank customers	3,421,364	3,421,364	2,850,422	140,063	420,850	10,014	15
- loans from banks and central banks	82,411	82,411	108	111	1,876	80,316	-
- financial leasing	1,005	1,005	146	167	166	432	94
- other financial liabilities	30,003	30,003	30,003	-	-	-	-
Total liabilities	**3,558,888**	**3,558,888**	**2,881,813**	**140,341**	**445,863**	**90,762**	**109**
Net liquidity gap	**377,365**	**411,902**	**(1,714,129)**	**44,420**	**49,987**	**1,119,740**	**911,884**

(in thousands of euros)

As at 31 December 2022	Contractual maturity - undiscounted						
	Carrying amount	Gross nominal Inflow/(out-flow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	3,630,713	3,663,039	954,875	98,087	466,201	1,196,089	947,787
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**

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

The negative net liquidity gap in the 1-month time bucket should be viewed with additional consideration of the specific liquidity profile of some balance sheet items, particularly with sight deposits, of which balances during 2023 have been slightly decreasing mostly in favour of increasing term deposits. 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 a 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 2023	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)	**187**	**182**	**13**	**22**	**75**	**72**	**-**
- Inflow		197	14	23	79	81	-
- Outflow		(15)	(1)	(1)	(4)	(9)	-
FX Forward (FWD)	**593**	**468**	**71**	**215**	**147**	**35**	**-**
- Inflow		24,903	2,786	8,360	9,197	4,560	-
- Outflow		(24,435)	(2,715)	(8,145)	(9,050)	(4,525)	-
Interest rate cap (CAP)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Inflow		-	-	-	-	-	-
- Outflow		-	-	-	-	-	-
Total	**780**	**650**	**84**	**237**	**222**	**107**	**-**
DERIVATIVE LIABILITIES							
Derivatives held for trading:							
Interest rate swap (IRS)	**195**	**(182)**	**(13)**	**(22)**	**(75)**	**(72)**	**-**
- Inflow		15	1	1	4	9	-
- Outflow		(197)	(14)	(23)	(79)	(81)	-
FX Forward (FWD)	**582**	**(455)**	**(69)**	**(211)**	**(142)**	**(33)**	**-**
- Inflow		24,435	2,715	8,145	9,050	4,525	-
- Outflow		(24,890)	(2,784)	(8,356)	(9,192)	(4,558)	-
Total	**777**	**(637)**	**(82)**	**(233)**	**(217)**	**(105)**	**-**
Net liquidity gap		**13**	**2**	**4**	**5**	**2**	**-**

(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
Total assets	1,586	1,359	184	16	869	213	77
Total liabilities	1,496	(1,269)	(157)	(16)	(885)	(209)	(2)
Net liquidity gap		**90**	**27**	**-**	**(16)**	**4**	**75**

Maturities of Derivatives Held for Hedging – Cash Flows by Contractual Maturity

(in thousands of euros)

As at 31 December 2023	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)	28,962	28,869	2,188	699	4,967	10,369	10,646
- Inflow		45,556	2,892	824	7,614	17,757	16,469
- Outflow		(16,687)	(704)	(125)	(2,647)	(7,388)	(5,823)
Total assets	**28,962**	**28,869**	**2,188**	**699**	**4,967**	**10,369**	**10,646**
DERIVATIVE LIABILITIES							
Interest rate swap (IRS)	3,464	(3,452)	98	45	70	(2,181)	(1,484)
- Inflow		16,026	447	206	1,539	4,300	9,534
- Outflow		(19,478)	(349)	(161)	(1,469)	(6,481)	(11,018)
Total liabilities	**3,464**	**(3,452)**	**98**	**45**	**70**	**(2,181)**	**(1,484)**
Net liquidity gap		**25,417**	**2,286**	**744**	**5,037**	**8,188**	**9,162**

(in thousands of euros)

As at 31 December 2022	Carrying amount	Nominal In-flow/(outflow)	Contractual maturity				
			Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	45,298	45,194	270	979	5,883	21,874	16,188
Total liabilities	-	-	-	-	-	-	-
Total gap		**45,194**	**270**	**979**	**5,883**	**21,874**	**16,188**

Contractual Maturities of Off-Balance Sheet Items*

(in thousands of euros)

As at 31 December 2023	Contractual maturity					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	-	-	-	160	-	**160**
Guarantees	4,923	37,440	120,515	73,882	6,301	**243,061**
Credit commitments	162,688	32,581	156,682	24,015	2,400	**378,366**
TOTAL	**167,611**	**70,021**	**277,197**	**98,057**	**8,701**	**621,587**

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As at 31 December 2022	Contractual maturity					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	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**

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

Financial Assets Available to Support Future Funding

(in thousands of euros)

As at 31 December 2023	Encumbered		Non-encumbered	
	Pledged as collateral	Other	Available as collateral	Other
Loans on demand	-	34,307	-	979,208
Equity instruments	-	-	-	11,964
Debt securities	14,980	-	285,715	1,845
Loans and advances other than loans on demand	-	102	236,607	2,346,933
Other assets	-	-	-	79,560
Total	**14,980**	**34,409**	**522,322**	**3,419,510**

(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**

Bank's Liquidity Reserves

(in thousands of euros)

	31. 12. 2023		31. 12. 2022	
	Gross Carrying amount	Fair value amount	Gross Carrying amount	Fair value amount
Balances with central bank	1,592	1,592	443	443
Margin deposit with central bank	903,000	903,000	691,000	691,000
Balances with clearing agent for BIPS payments	46,983	46,983	48,987	48,987
Balances with banks up to 90 days	110,358	110,358	99,448	99,448
Unencumbered debt securities issued by sovereigns	228,818	219,588	177,222	168,217
Unencumbered debt securities eligible for use as collateral with central bank	56,907	55,709	55,826	54,357
Loans to customers eligible for use as collateral with central bank	241,420	184,526	257,416	200,287
Total	**1,589,078**	**1,521,756**	**1,330,342**	**1,262,739**

3.6 BANKING BOOK EQUITY RISK

Equity risk can be defined as the financial risk involved in holding positions in 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).

Part of these equity investments was obtained by taking possession of financial collaterals to close loan exposures. These investments are managed with the aim of disposal to recover the funds of the loan disbursed. An overview of these investments can be seen in notes 22 and 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
- Credit Sensitivity (CR01) of Italian government bonds.

3.7.1 Derivative Instruments

The bank concludes deals with derivative financial instruments mainly to protect its own positions against interest rate risk and, to a lesser extent, also offers these instruments to its clients. In the range of derivative financial instruments for customers, the Bank is not prepared to assume the financial risk of positions in derivative financial instruments, therefore 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. the 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 using 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. the 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, reduced by their correlation with each other.

The average utilisation of the FX VaR limit in 2023 stood at 10.64% (2022: 8.46%), while the average utilisation of the Fixed Income VaR limit stood at 46.35% (2022: 42.73%).

Bank VAR by Risk Type

(in thousands of euros)

	12 months to 31 December 2023			12 months to 31 December 2022		
	Average	High	Low	Average	High	Low
Foreign exchange risk (trading and non-trading portfolio)	3,2	14,8	0,9	2,5	9,9	0,7
Debt securities risk (banking book)	254,9	371,0	138,0	213,7	306,0	58,0
Total VAR	**258,1**	**385,8**	**138,9**	**216,2**	**315,9**	**58,7**

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 2023	EUR	USD	Other	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	1,013,787	12,295	12,026	1,038,108
Financial assets held for trading				
- Financial assets held for trading	187	593	-	780
Non-trading financial assets mandatorily at fair value through profit or loss	1,143	1,845	-	2,988
Financial assets at fair value through other comprehensive income	256,729	34,783	-	291,512
Financial assets at amortised cost	2,519,123	61,910	22,612	2,603,645
- Debt securities	20,004	-	-	20,004
- Loans to banks	69,067	61,909	21,174	152,150
- Loans to customers	2,413,775	-	1,332	2,415,107
- Other financial assets	16,277	1	106	16,384
Derivatives - hedge accounting	28,962	-	-	28,962
Total	**3,819,931**	**111,426**	**34,638**	**3,965,995**
LIABILITIES				
Financial liabilities held for trading				
- Financial liabilities held for trading	195	582	-	777
Financial liabilities measured at amortised cost	3,413,789	110,767	34,332	3,558,888
- Deposits from banks and central banks	24,105	-	-	24,105
- Deposits from non-bank customers	3,279,420	107,746	34,198	3,421,364
- Loans from banks and central banks	82,411	-	-	82,411
- Other financial liabilities	27,853	3,021	134	31,008
Derivatives - hedge accounting	**3,464**	**-**	**-**	**3,464**
Total	**3,417,448**	**111,349**	**34,332**	**3,563,129**
CURRENCY GAP	**402,483**	**77**	**306**	**402,866**
Part of off-balance-sheet commitments sensitive to exchange rate changes in the year	**376,604**	**-**	**-**	**376,604**

(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
- Debt securities	-	-	-	-
- 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
Derivatives - hedge accounting	-	-	-	-
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**

3.7.3 Interest Rate Risk

Monitoring the interest rate risk shall imply the regular analysis of figures produced using methods that are part of the interest rate risk identification and the measurement and alignment of position with the limits set out in the Bank's IRRBB Policy and by the official regulation.

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 only be adjusted to the market rate at maturity, while floating-rate contracts are adjusted according to contract revision of the interest rate and adjustment to the market reference rate;
- basis risk arises from an imperfect correlation between different types of interest rates, which are the 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 changes on the 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.

The EVE perspective provides an estimation of the medium-to-long-term effects induced by interest rate movements; by contrast, the NII perspective provides an estimation of the short-term effects.

Accordingly, the following data is 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 the 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 2023 as part of the periodic review done by ISP HQ. The updated model was then confirmed by GFRC at the end of July 2023, confirmed by the Bank's ALCO in October and finally implemented by the Bank in October. Overall, the main effect of changes came firstly from Corporate funding. The dataset showed a decrease of 54 mln EUR of non-financial corporate deposits. Secondly, an effect came from Retail funding, where the volumes have increased by 124 mln EUR. For prudential reasons, to deal with the ongoing positive shock of interest rates and accompanying changes in the balance sheet structure the total increase of retail deposits was allocated an overnight duration. The choices described above lead to a decrease in shift sensitivity of EUR -1.2 mln.
- Prepayment model: This 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 the LGD rate originating from credit risk.
- Fund Transfer Pricing model: The entire spread on loans above the reference rate is divided into the cost of funding and commercial spread. For interest-sensitive cash flows, only the spread representing the cost of funding is taken.

The interest rate is measured and calculated in accordance with the latest Regulation – among others CRD V Directive and Regulation CRR II, EBA "Guidelines issued on the basis of Article 84 (6) of Directive 2013/36/EU, EBA Regulatory Technical Standards specifying supervisory shock scenarios (RTS on SOT), and the EBA Regulatory Technical Standards specifying standardised and simplified standardised methodologies to evaluate the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution's non-trading book activities in accordance with 84(5) of Directive 2013/36/EU.

The table below summarises the Bank's exposure to interest rate risk. The assets and liabilities are recorded at the carrying value, while the residual maturity is presented by contractual maturity for fixed-rate positions and by the next contractual repricing 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 the 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 2023	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	1,038,108	979,208	-	-	-	-	58,900
Financial assets held for trading - derivatives	780	125	-	62	-	-	593
Non-trading financial assets mandatorily at fair value through profit or loss	2,988	-	-	-	1,845	-	1,143
Financial assets at fair value through other comprehensive income	291,512	4,994	92,728	92,474	90,480	-	10,836
Financial assets at amortised cost:	2,603,645	941,711	94,595	305,420	638,643	552,945	70,331
- debt securities	20,004	-	-	-	-	20,004	-
- loans to banks	152,150	91,943	20	-	59,993	-	194
- loans to customers	2,415,107	849,768	94,575	305,420	578,650	532,941	53,753
- other financial assets	16,384	-	-	-	-	-	16,384
Derivatives – Hedge accounting	28,962	27,959	492	511	-	-	-
Total assets	**3,965,995**	**1,953,997**	**187,815**	**398,467**	**730,968**	**552,945**	**141,803**
LIABILITIES							
Financial liabilities - derivatives	777	-	-	-	195	-	582
Financial liabilities measured at amortised cost:	3,558,888	2,875,513	149,733	421,645	80,974	15	31,008
- deposits from banks and central banks	24,105	24,105	-	-	-	-	-
- deposits from non-bank customers	3,421,364	2,850,422	140,063	420,850	10,014	15	-
- loans from banks and central banks	82,411	986	9,670	795	70,960	-	-
- other financial liabilities	31,008	-	-	-	-	-	31,008
Derivatives – Hedge accounting	3,464	3,464	-	-	-	-	-
Total liabilities	**3,563,129**	**2,878,977**	**149,733**	**421,645**	**81,169**	**15**	**31,590**
Total interest repricing gap	**402,866**	**(924,980)**	**38,082**	**(23,178)**	**649,799**	**552,930**	**110,213**

(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
Total assets	3,677,597	1,861,713	132,198	437,822	749,884	467,797	28,183
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**

Sensitivity of the Net Interest Income of the Bank as of 31 December 2023

(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		**2.31**	**4.11**	**6.42**	**4.53**	**8.21**	**12.74**	**(2.70)**	**(4.13)**	**(6.83)**	**(5.40)**	**(8.27)**	**(13.67)**
Asset		**5.06**	**5.05**	**10.11**	**10.11**	**10.07**	**20.18**	**(5.06)**	**(5.06)**	**(10.12)**	**(10.12)**	**(10.11)**	**(20.23)**
Sight Loans*		5.06	-	5.06	10.11	-	10.11	(5.06)	-	(5.06)	(10.12)	-	(10.12)
Securities	FX	-	0.66	0.66	-	1.30	1.30	-	(0.66)	(0.66)	-	(1.33)	(1.33)
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Loans	FX	-	1.21	1.21	-	2.42	2.42	-	(1.21)	(1.21)	-	(2.41)	(2.41)
	FL	-	3.18	3.18	-	6.35	6.35	-	(3.19)	(3.19)	-	(6.37)	(6.37)
Other Financial Assets	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities		**(2.75)**	**(2.34)**	**(5.09)**	**(5.58)**	**(4.67)**	**(10.25)**	**2.36**	**2.34**	**4.70**	**4.72**	**4.68**	**9.40**
Sight Deposits		(2.75)	-	(2.75)	(5.58)	-	(5.58)	2.36	-	2.36	4.72	-	4.72
Securities Issued	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Debts	FX	-	(2.30)	(2.30)	-	(4.59)	(4.59)	-	2.30	2.30	-	4.60	4.60
	FL	-	(0.04)	(0.04)	-	(0.08)	(0.08)	-	0.04	0.04	-	0.08	0.08
Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives		**-**	**1.40**	**1.40**	**-**	**2.81**	**2.81**	**-**	**(1.41)**	**(1.41)**	**-**	**(2.84)**	**(2.84)**

Cash Flows Slotted Into Time Buckets According to Their Maturity or Repricing Date as of 31 December 2023

(mln EUR)

		Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
Total		**492.64**	**284.30**	**114.33**	**(82.34)**	**133.61**	**19.34**	**23.40**
Asset		**4,065.34**	**2,874.07**	**415.56**	**237.18**	**330.90**	**124.09**	**83.54**
Sight Loans*		1,029.46	1,029.46	-	-	-	-	-
Securities	FX	317.42	228.75	64.17	1.2	23.3	-	-
	FL	-	-	-	-	-	-	-
Loans	FX	1,595.81	491.36	351.97	236.26	307.76	124.63	83.83
	FL	1,095.74	1,094.67	0.34	0.56	0.48	(0.14)	(0.17)
Other Financial Assets	FX	26.91	29.83	(0.92)	(0.84)	(0.64)	(0.40)	(0.12)
	FL	-	-	-	-	-	-	-
Liabilities		**(3,529.88)**	**(2,842.87)**	**(304.13)**	**(267.25)**	**(79.56)**	**(36.07)**	**-**
Sight Deposits		(2,695.14)	(2,093.28)	(287.86)	(198.39)	(79.54)	(36.07)	-
Securities Issued	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Debts	FX	(793.11)	(707.96)	(16.27)	(68.86)	(0.02)	-	-
	FL	(10.74)	(10.74)	-	-	-	-	-
Other Financial Liabilities	FX	(30.89)	(30.89)	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Derivatives		**(42.82)**	**253.1**	**2.9**	**(52.27)**	**(117.73)**	**(68.68)**	**(60.14)**

Sensitivity of Net Interest Income of the Bank as of 31 December 2022

(mln EUR)

		+50 b.t.			+100 b.t.			-50 b.t.			-100 b.t.		
		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
Skupaj		**385.57**	**321.59**	**(92.18)**	**30.44**	**67.63**	**16.05**	**42.04**
Asset		**3,723.38**	**2,648.99**	**276.82**	**317.40**	**281.96**	**121.11**	**77.10**
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	252.40	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		**(3,315.76)**	**(2,637.54)**	**(306.89)**	**(232.15)**	**(103.11)**	**(36.07)**	**0.00**
Sight Deposits		(2,929.70)	(2,321.61)	(294.09)	(198.39)	(79.54)	(36.07)	-
Securities Issued	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Debts	FX	(346.59)	(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)**

** Sight loans and deposits are those available on demand*
General note: The 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 the 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 the representation of sight deposits, a model that estimates the partial and delayed changes in customer rates compared to changes in market interest rates is used. In order to quantitatively control the Bank's interest margin risk, a limit of EUR -11 million has been set up for a +/- 50 bp interest rate 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 the end of 2023 would be positive, in the amount of EUR 6.42 million, while in the case of an instantaneous 50 bp drop in interest rates, the impact would be negative EUR 6.83 million. The largest share of interest margin sensitivity comes from variable-rate loans to customers.

The Impact of 100 bps Interest Rate Parallel Shift on the Net Present Value of the Bank's Interest-Bearing Assets and Liabilities, as at 31 December 2023

(mln EUR)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(8.92)**	(0.17)	(1.43)	3.17	(7.04)	(1.44)	(2.01)
USD	**(0.11)**	(0.11)	0.00	0.00	0.00	0.00	0.00
CHF	**(0.01)**	(0.01)	0.00	0.00	0.00	0.00	0.00
Other	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00
Total Shift	**(9.04)**	**(0.29)**	**(1.43)**	**3.17**	**(7.04)**	**(1.44)**	**(2.01)**
Limit	**10/–11**						
Utilisation %	**82.2 %**						

The Impact of 100 bps Interest Rate Parallel Shift on the 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 table presents the interest rate risk exposure of the Bank in terms of shift sensitivity (EVE – economic value of equity), which measures the change of the net present value of future cash flows as a result of a parallel shift of the market yield curve by 100 b.p. Each time bucket shows the impact of the interest rate change on the net present value of the cash flows, distributed by time tenors according to residual time to the next repricing. The most significant exposure is in the EUR currency, while the risk for other currencies is less material. The total exposure limit for a +100 bps shift sensitivity amounts to EUR +10.0/-11.0 million, while the actual exposure at the reference date is EUR -9.04 million. For the EVE measure, a floor assumption on market rates for negative shocks is in place. In 2019, the 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**	(0.29) mln EUR
from 19 m – 5 years	**+10/–11 mln EUR**	1.75 mln EUR
> 5 years	**+4/–8 mln EUR**	(10.50) mln EUR

The Impact of a +200 bps Interest Parallel Rate Shift on the Net Present Value of the Bank's Interest-Bearing Assets and Liabilities, as at 31 December 2023

(mln EUR)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(16.96)**	(0.33)	(2.81)	6.20	(13.55)	(2.72)	(3.75)
USD	**(0.22)**	(0.22)	0.00	0.00	0.00	0.00	0.00
CHF	**(0.01)**	(0.01)	0.00	0.00	0.00	0.00	0.00
Other	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00
Total Shift	**(17.19)**	**(0.56)**	**(2.81)**	**6.20**	**(13.55)**	**(2.72)**	**(3.75)**
Reg. Capital – Tier 1(Dec. 22)	**341.58**						
% of Reg.Capital (<15%)	**5.03 %**						

The Impact of +200 bps Interest Parallel Rate Shift on the Net Present Value of the Bank's Interest-Bearing Assets and Liabilities, as at 31 December 2022

(mln EUR)

Currency	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	**(14.84)**	**(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 200 bp shift is a standard measure defined by the Banking supervisor (supplemented with additional nonparallel scenarios) that treats an impact thereof on economic value that exceeds 20% of total capital as outlying excessive risk exposure. As of 31 December 2023, the sensitivity reached 5.03% of the total capital. In its Guidelines, the EBA defines another threshold, stating 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. This maximum sensitivity is reached with the parallel up scenario, with 5.03% of Tier 1 capital.

Breakdown of Financial Assets and Liabilities Subject to the Trading and Non-Trading Books

(in thousands of euros)

As at 31 December 2023	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	1,038,108	-	1,038,108
Financial assets held for trading	780	780	-
Non-trading financial assets mandatorily at fair value through profit or loss	2,988	-	2,988
Financial assets at fair value through other comprehensive income	291,512	-	291,512
Derivatives - hedge accounting	28,962	-	28,962
Financial assets at amortized cost:	2,603,645	-	2,603,645
- debt securities	20,004	-	20,004
- loans to banks	152,150	-	152,150
- loans to non-bank customers	2,415,107	-	2,415,107
- advances	16,384	-	16,384
Liabilities subject to market risk			
Financial liabilities held for trading	777	777	-
Derivatives - hedge accounting	3,464	-	3,464
Financial liabilities measured at amortized cost:	3,558,888	-	3,558,888
- deposits from banks and central banks	24,105	-	24,105
- deposits from non-bank customers	3,421,364	-	3,421,364
- loans from banks and central banks	82,411	-	82,411
- debt securities issued	31,008	-	31,008
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-

Breakdown of Financial Assets and Liabilities Subject to the Trading and Non-Trading Books

(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
- debt securities	-	-	-
- 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	-	-	-

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 action management, and
- Monitoring and reporting.

Systematic loss data collection makes it possible to perform an immediate analysis of loss event causes and to adopt corrective actions. This procedure supports 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-assessment 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)

2023	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and current accounts with banks	1,038,108	-	-	1,038,108	1,038,108
Loans to banks	-	90,532	57,493	148,025	152,150
Loans to customers	-	106,060	2,318,511	2,424,571	2,415,107
Debt securities	20,756	-	-	20,756	20,004
Financial liabilities					
Deposits from banks and central bank	-	24,611	-	24,611	24,105
Deposits from non-bank customers	-	3,100,741	319,695	3,420,436	3,421,364
Loans from banks and central banks	-	-	83,287	83,287	82,411

(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

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

- There are no significant differences between the 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 ECL 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 the current market rates. Valuation of non-performing loans includes an estimation of loan receivables 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. Due to their short-term nature, received deposits and received loans are harmonised with the 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.
- The majority of loans and deposits from banks carry floating interest rates, which are linked to the market and repriced regularly. As such, the management believes that their carrying values approximate their fair values.

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, foreign exchange swaps, forward foreign exchange contracts. The fair value of derivatives is determined with the support of Kondor+. The system takes input data from the money market official quotations and from the Reuters system. The fair value of interest rate swaps is the net present value of future cash flows, based on spot and forward money market interest rates. Since in the valuation, the inputs used came from market data and all derivative financial instruments are classified in Level 2.

Hedge Accounting

The Bank's interest rate policy course is to hedge, in accordance with the 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 a 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 the interest rate sensitivity of the derivative instrument and the sensitivity of the hedged item. In the retrospective test, the so-called "Dollar Offset Method"is used, where the fair value changes of derivative instruments 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 verifying 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) on the other hand is necessary to assess the hedge effectiveness in terms of the 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 the hedged risk that match the hedging derivative.

To ensure long-term net interest income stability and profitability, the Bank started to hedge its variable-rate loans to fixed-rate ones using cash flow hedge instruments. In December 2023, the bank implemented its first pay variable receive fixed interest rate swaps and plans to further utilise and increase the capacity of these instruments in 2024.

Hedge effectiveness is only assessed using capacity tests. The capacity test is assessed by comparing the amount of floating-rate, medium-/long-term loans and the notional amount of hedging derivatives. The capacity test must be conducted for each time bucket and, on the basis of a highly prudential approach, its outcome is considered positive whenever the relationship between the hedged loans and the notional amount of the hedge exceeds 120%. If the result of the capacity test falls between 100% and 120%, the situation is monitored by Risk Management functions, but the hedge continues to be considered effective. If the result falls between 80% and 100%, a portion of the ineffectiveness is recognised in the income statement, but the hedging relationship is not discontinued. If the result of the test falls below 80%, the hedge is discontinued.

According to the efficiency tests as of 31 December 2023, all interest rate hedges were effective.
As of 31 December 2023, the Bank had 55 interest rate swap (IRS) contracts, 7 of which were underwritten in 2023. Of these, 4 IRS contracts are designated to hedge interest rates arising from fixed-rate debt financial instruments, 32 for fixed-rate housing loans and 13 for large individual loans. 2 Of these are pay variable receive fixed IRS, which are cash flow hedge instruments. 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	
	2023	2022
Fair value hedge		
Fix rate bond – micro hedge	4	16
Fix rate housing loans packages – macro hedge	32	27
Fix rate individual loans – micro hedge	13	13
Cash flow hedge		
Variable rate loans – macro hedge	2	-
Total	**51**	**56**

The cumulative fair value of all the Bank's IRS contracts as of 31 December 2023 amounted to EUR 25.5 mln (2022: EUR 45.4 mln).

Notional of Hedging Derivatives

(in thousands of euros)

31. 12. 2023					
	Maturity				
Benchmark interest rate	**Up to 1 year**	**From 1 year to 2 years**	**Over 2 years and up to 5 years**	**Over 5 years**	**Total**
LIBOR USD					
Micro Fair Value Hedge	-	-	-	-	**-**
Debt securities - FVOCI					
Total LIBOR USD	**-**	**-**	**-**	**-**	**-**
EURIBOR (Other benchmarks not affected by the reform)					
Micro Fair Value Hedge	16,400	10,000	25,667	92,424	**144,491**
Loans and advances			18,167	92,424	**110,591**
Debt securities - FVOCI	16,400	10,000	7,500	-	**33,900**
Macro Fair Value Hedge	-	-	-	226,767	**226,767**
Loans and advances	-	-	-	226,767	**226,767**
Cash flow hedge	-	60,000	-	-	**60,000**
Loans and advances	-	60,000	-	-	**60,000**
Total EURIBOR	**16,400**	**70,000**	**25,667**	**319,191**	**431,258**
Total	**16,400**	**70,000**	**25,667**	**319,191**	**431,258**

(in thousands of euros)

31. 12. 2022					
	Maturity				
Benchmark interest rate	**Up to 1 year**	**From 1 year to 2 years**	**Over 2 years and up to 5 years**	**Over 5 years**	**Total**
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**
Cash flow hedge	-	-	-	-	**-**
Loans and advances	-	-	-	-	**-**
Total EURIBOR	**10,000**	**16,400**	**18,200**	**314,101**	**358,701**
Total	**14,502**	**42,568**	**18,200**	**314,101**	**389,371**

The Amounts Relating to Items Designated as Hedging Instruments:

(in thousands of euros)

Interest rate risk	**Nominal amount**		**Carrying amount**			
			2023	**2022**	**2023**	**2022**
	2023	**2022**	**Assets**	**Assets**	**Liabilities**	**Liabilities**
Fair Value Hedge						
Interest rate swaps – hedge of bonds – MICRO HEDGE	33,900	74,570	1,429	3,765	-	-
Interest rate swaps – hedge of loans – MICRO HEDGE	110,591	121,525	10,405	15,079	-	-
Interest rate swaps – hedge of loans – MACRO HEDGE	226,767	193,276	17,062	26,454	3,464	-
Cash flow hedge						
Interest rate swap – cash flow hedge loans – MACRO HEDGE	60,000	-	66	-	-	-
Total	**431,258**	**389,371**	**28,962**	**45,298**	**3,464**	**-**

The Amount Relating to Items Designated as Hedged Items:

(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	
	2023	2022	2023	2022
	Assets	Assets	Assets	Assets
Fair Value Hedge				
Bonds – micro hedge	33,431	74,470	(1,683)	(3,719)
Loans – micro hedge	101,309	106,891	(9,654)	(15,519)
Loans – macro hedge	260,478	221,496	(13,184)	(26,292)
Cash flow hedge				
Loans – macro hedge	60,000	-	-	-
Total	**455,218**	**402,857**	**(24,521)**	**(45,530)**

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').

As of 31.12.2023 the Bank has no exposure to LIBORs, which are in the scope of the reform.
Based on the Implementing act of the European Commission, 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 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 the 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 2023: the outstanding gross amount as of 31.12.2023 is EUR 1.374 million and the net amount is EUR 1.332 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). The ISDA launched a special IBOR Fall-back 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 declares 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 also supported 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 also collaborates with other business functions as needed and informs ALCO about related new developments. It cooperates closely with the ISP Milan working group and the 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 the IBOR reform are operational. For example, related to the updating of contractual terms (inclusion of the fall-back clause), updating internal applications and systems that use IBOR values and curves and the revision of operational controls related to the reform.

The Bank has the majority of its exposures linked to EURIBOR reference interest rates, on loans and derivatives. As the euro is the domestic currency, most of the Bank's financial instruments and products for customers are linked to the Euribor.

The reform of the 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 the EURIBOR compliant with the BMR. In July 2019, the European Financial Services and Markets Authority granted authorisation with respect to the Euribor under the European Union Benchmarks Regulation. This allows market participants and the Bank to continue to use the Euribor for both existing and new contracts and it is expected that the Euribor will continue to exist as a benchmark rate for the foreseeable future.

The Bank has already introduced adequate fall-back clauses for the Euribor in the new loan agreements with clients in 2020. In the years 2021-2023, they have been revised and confirmed as adequate. In 2024, 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 the replacement reference interest rate for the 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 the 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, first launched as a prototype, then went live in production on 26 September 2023 and in 2023 has been renamed to the FTSE Term €STR.

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. If 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 that are considered 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			
	Level 1	Level 2	Level 3	Total
Asset				
Derivatives held for trading	-	780	-	**780**
Financial assets at FVOCI:	210,070	81,248	194	**291,512**
- debt	210,070	70,621	-	**280,691**
- equities*	-	10,627	194	**10,821**
FVTPL mandatorily:	444	2,544	-	**2,988**
- equities	444	699	-	**1,143**
- debt	-	1,845	-	**1,845**
- loans	-	-	-	**-**
Derivatives – hedge accounting	-	28,962	-	**28,962**
Liabilities				
Derivatives held for trading	-	777	-	**777**
Derivatives – hedge accounting	-	3,464	-	**3,464**

** the fair value of investments in the National Bank Resolution Fund included within Level 2 is determined by the Bank of Slovenia regarding the 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 2023.

Breakdown of Financial Instruments Measured at Fair Value by Fair Value Hierarchy Levels

(in thousands of euros)

	2022			
	Level 1	Level 2	Level 3	Total
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	-	-	-	**-**

** the fair value of investments in the National Bank Resolution Fund included within Level 2 is determined by the Bank of Slovenia regarding the 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 2022.

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 2022	-	-	194	-
Sale/Disposals	-	-	-	-
As at 31 December 2022	-	-	194	-
As at 01 January 2023	-	-	194	-
Sale/Disposals	-	-	-	-
As at 31 December 2023	-	-	194	-

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

As of 31 December 2023, the Bank held in the investment portfolio 25 bonds and treasury bills measured at fair value through other comprehensive income (FVOCI), of which 7 are due to illiquidity measured using the mark-to-model approach, while 18 were measured at market prices (Level 1).

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

As for the equity portfolio and exposure to convertible bonds, all positions were valued using a mark-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 the 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 the average rents in similar locations and capitalisation consisting of a risk-free return, premium for capital preservation option and premiums are used.

The Bank had, under the umbrella of the Intesa Sanpaolo Group, performed the valuation of all its premises in use and investment properties. The Valuation was performed by an external valuator (RINA PRIME VALUE SERVISES) as at 31 October 2023. For the year 2022, only 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. If such expected movements would determine that a significant change in the value is expected, a formal valuation of the property is performed. As already stated, the analysis of the most recent market trends comprises the analysis of macroeconomic data:

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

As market data, the yield and rent movement for the main submarkets and by macro-location were considered. Based on the market survey mentioned above and the analysed key-drivers, the obtained results have shown that none of the properties have registered a possible movement in capital values above 10%. Therefore, the Bank did not perform any change in the fair value of its properties in use, regarding the year 2021.

Breakdown of Non-Financial Instruments Measured at Fair Value by Fair Value Hierarchy Levels

(in thousands of euros)

	2023			
	Level 1	Level 2	Level 3	Total
Property in use	-	-	20,713	**20,713**
Investment property	-	-	-	**-**
Non – current assets held for sale	-	-	1,557	**1,557**
Property in stock	-	-	69	**69**

(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**

4. NET INTEREST INCOME

(in thousands of euros)

	2023	2022
Interest income calculated using the effective interest rate	**137,913**	**52,718**
Derivatives – hedge accounting*	8,502	(2,615)
Financial assets at fair value through other comprehensive income	5,134	1,855
Financial assets at amortised cost:	95,199	49,014
- Debt securities	75	-
- To banks	4,751	1,730
- To other customers (without financial lease)	87,033	45,648
- Financial lease	3,340	1,636
Other assets	29,078	3,081
- Sight deposits within central banks	28,650	2,987
- Sight deposits within banks	428	94
Interest from financial liabilities with negative interest rate	-	1,383
- Interest from loans received	-	1,383
Other interest income	**174**	**66**
Held for trading (derivatives)	159	48
Non-trading financial assets mandatorily at fair value through profit or loss	15	18
Total income	**138,087**	**52,784**
Interest expense		
Derivatives – held for trading	146	38
Financial liabilities measured at amortised cost:	14,283	1,822
- Bank deposits and borrowings	1,320	156
- Other customers	9,523	947
- Other borrowed funds	3,408	716
- Leasing	32	3
Other	2	2
Financial assets (negative interest rate)	46	2,377
- Loans to banks	2	1,950
- FVOCI securities	44	427
Total expense	**14,477**	**4,239**
Total	**123,610**	**48,545**

** Interest expenses on derivatives designated for hedging for 2022 are in the income statement shown under interest income from derivatives designated for hedging, since they adjust the economic effect of the interest of hedged items (loans and bonds with fixed interest rates).*

The increase in interest income and expenses in 2023 is the result of the EURIBOR growth, which rose from negative values in mid-2022 to positive values and, for a certain period, exceeded 4 percent.

The interest income includes EUR 795 thousand of interest income on impaired loans (2022: EUR 538 thousand).

5. DIVIDEND INCOME

(in thousands of euros)

	2023	2022
Financial assets FVTPL	34	26
Financial assets FVOCI	43	140
Total	**77**	**166**

6. NET FEE AND COMMISSION INCOME

(in thousands of euros)

	2023	2022
Fee and commission income		
Current account management	7,412	6,617
Payment services	10,896	11,318
Credit card business	6,261	6,066
Interbanking operations	4,173	3,873
Loans granted (not included in EIR)	4,340	6,575
Management fee on current accounts and deposits*	18	1,371
Guarantees given	1,690	1,435
Safe renting	149	150
Pension fund management	599	572
Depositary services	731	671
Payment systems management	1,713	1,324
Sale and management of investments funds	1,272	1,134
Sale of insurance contracts	677	407
Other	98	35
Total fee and commission income from contracts with customers	**40,029**	**41,548**
Fee and commission expense		
Security trading	71	50
Loan brokerage on behalf of others	15	16
Custody services	137	157
Credit card processing	8,618	8,474
Payment transactions	937	914
Guaranties received	908	999
Total fee and commission expense	**10,686**	**10,610**
Total	**29,343**	**30,938**

** The increase of the EURIBOR to positive values in the second half of 2022 consequently contributed to the abolition of fees for managing assets on clients' accounts.*

7. NET GAINS OR LOSSES ON THE DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of euros)

	2023	2022
Net gains or losses of financial assets measured at amortised cost	18	142
Gains	18	142
- Sale of loans	*18*	*142*
Total	**18**	**142**

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

(in thousands of euros)

	2023	2022
Trading of derivatives	(20)	69
• *Realised*	*(510)*	*(377)*
• *Unrealised*	*490*	*446*
Currency trading	1,124	1,586
Total	**1,104**	**1,655**

9. NET GAINS OR LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of euros)

	2023	2022
Gains	**644**	**703**
• Realised	18	244
• Unrealised	626	459
Losses	**(141)**	**(674)**
• Realised	-	(1)
• Unrealised	(141)	(673)
Total	**503**	**29**

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 Note 3.9. The fair value of assets and liabilities that are not measured at fair value (in the paragraph hedge accounting).

(in thousands of euros)

	2023	2022
Net effect on derivatives used as hedging instruments	(20,525)	56,418
Net effect on hedged items	21,047	(56,498)
Total	**522**	**(80)**

11. NET GAINS AND LOSSES ON THE DERECOGNITION OF NON-FINANCIAL ASSETS

(in thousands of euros)

	2023	2022
Profit from sale of property and equipment	(75)	5
Net income from sale of investment property	-	53
Profit from sale repossessed assets on stock	-	650
Total	**(75)**	**708**

12. OTHER OPERATING INCOME/EXPENSES

12.a Other Operating Income

(in thousands of euros)

	2023	2022
Rents	1,022	1,073
Proceeds from the sale of repossessed leased assets	44	20
Credit card processing	3	3
Income from eritten off liabilities	44	58
Other	262	111
Total operating income	**1,375**	**1,265**

12.b Other Operating Expenses

(in thousands of euros)

	2023	2022
Maintenance expenses arising from leased assets	(1)	(6)
Expenses from investment property under the operating lease	(31)	(3)
Expenses related to services from credit card business	(137)	(96)
Fraud from credit card business	(23)	(10)
Licences	(22)	(24)
Loss due to a refund from an unathorized transaction	(1,500)	-
Expenses related to loans to individiual under special offer	(143)	-
Other	(365)	(293)
Total other operating expenses	**(2,222)**	**(432)**
Net operating income/expenses	**(847)**	**833**

13. ADMINISTRATIVE EXPENSES

(in thousands of euros)

	2023	2022
Staff cost	**34,611**	**30,408**
Salaries	21,646	20,339
Social security	1,638	1,547
Contributions to the pension scheme	1,990	1,880
Other*	8,978	6,576
Provisions for retirement severance pay and long service bonuses	359	66
Other administrative expenses	**16,559**	**13,481**
Material costs	847	872
IT costs	6,897	5,124
Rental of low value asset	906	832
Professional services	1,310	998
Advertising and marketing	731	915
Consulting, auditing, legal and notarial fees**	509	319
Maintenance, governance and security of tangible fixed assets	2,500	2,076
Postal services and rent of communication lines	1,506	1,263
Travel costs	92	50
Education, scholarships and tuition fees	320	104
Bank's supervision	568	608
Other expenses	373	320
Total	**51,170**	**43,889**

**Other staff costs mainly relate to holiday incentives and accruals for bonuses and contributions for meal and travel costs.*

***The Bank paid EUR 70 thousand for the statutory audit of financial statements and EUR 80 thousand for other assurance services. Assurance services relate mostly to the 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)

	2023	2022
Depreciation - own tangible assets	1,681	1,655
Depreciation rights of use	1,358	1,194
Amortisation - intangible assets	1,178	1,589
Total	**4,217**	**4,438**

15. PROVISIONS

(in thousands of euros)

	2023	2022
Additional / Release of provisions for off-balance sheet exposures (Note 45)	1,686	(2,051)
Additional / Release of provisions for legal proceedings	(1,510)	(2,950)
Provisions redundancies	-	(4)
Additional /Release of provisions for cash returns to clients	(1,386)	(140)
Release / Additional provisions for maintain minimum yield of Pension Fund*	1,293	(2,191)
Total	**83**	**(7,336)**

**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 a drop in the fair value of the fund's investments and consequently a drop in calculated value per unit.*
The stabilisation of interest rates in 2023 and changes in the investment portfolio of the Moj steber Pension Fund consequently had a positive effect on the calculated value per unit. This led to a release of necessary provisions for this purpose.

The movement of provisions and post-employment benefit obligations is shown in Note 37 and Note 38.

16. IMPAIRMENTS

(in thousands of euros)

	2023	2022
Impairments of financial assets, not measured at fair value through profit and loss	**39**	**(9)**
Impairments of financial assets at fair value through other comprehensive income (Note 23)	39	(9)
Impairments on assets measurement at amortised cost:	**(7,316)**	**(4,750)**
- debt securities	(10)	-
- demand deposit at banks	9	-
- loans to banks	159	(180)
- loans to customers* (Note 26)	(7,422)	(4,535)
- impairments on advances	(52)	(24)
- impairments on other assets	-	(11)
Impairment of non-financial assets	**(457)**	-
- impairment on real estate in use (Note 28)	(457)	-
Net write offs**	**58**	**817**
Total	**(7,676)**	**(3,942)**

**The increase in impairments in 2023 for loans from other customers is primarily the result of methodological changes in the calculation of impairments. In 2023, the Bank updated the forward-looking information transition matrices for the calculation of the PD and LGD rates together with the development of new macroeconomic models and the implementation of an additional margin of conservatism. The bank has introduced a new internal model for banks and large corporates. The aforementioned methodological changes had an impact on the increase in provisions by EUR 6.4 million. The cost of provisions in 2022 was mainly impacted by the Russia-Ukraine crisis (1.5 mln EUR impact) and high volume growth across all segments (1.5 mln EUR).*

***In 2023, the Bank realised EUR 380 thousand in revenues from write-offs made in previous periods (2022: EUR 958 thousand).*

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)

	2023	2022
Rents	2	-
Maintenance expenses	(66)	(45)
Impairments	(105)	-
Gains from sale	627	278
Total	**458**	**233**

In 2023, the Bank performed the sale of its real estate in the amount of EUR 2,813 thousand, realising EUR 627 thousand of profit from the sales. 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 the sales.

18. TAX EXPENSES

(in thousands of euros)

	2023	2022
Current tax expense	16,436	3,693
Deferred tax (Note 39)	(95)	(15)
Total	**16,341**	**3,678**

Further disclosures of deferred taxes are presented in Note 39. The tax actually calculated differs from the theoretical amount in the following aspects:

(in thousands of euros)

	2023	2022
Total profit before tax	**87,876**	**20,043**
Prima facie tax calculated at a tax rate of 19%	16,696	3,808
Income form already taxed dividends	(17)	(35)
Staff costs not assessable for tax	189	175
Other expenses not deductible for tax purposes	62	38
From actuarial gain	(25)	95
Tax reliefs	(488)	(403)
Effect of tax rate increase from 19 % to 22 %	(76)	-
Total income tax	**16,341**	**3,678**
Effective tax rate	***18.60%***	***18.35%***

For 2023, the income tax rate was 19% (2022: 19%). In accordance with the Law on Reconstruction, Development and the Provision of Financial Resources (ZORZFS), an increase in the corporate income tax rate to 22% has been introduced for the years 2024, 2025, 2026, 2027 and 2028. Accordingly, at the end of 2023, the deferred tax amounts were adjusted.

In accordance with the 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 that 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. 2023		
	Before tax	**Tax (expense benefit)**	**After tax**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(512)**	**(431)**	**(943)**
Fair value changes of equity instruments measured at fair value through other comprehensive income	440	(84)	356
Tangible assets	(685)	130	(555)
Actuarial gains or losses on defined benefit pensions plans	(267)	25	(242)
Effect of tax rate increase from 19 % to 22 %	-	(502)	(502)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**1,456**	**(249)**	**1,207**
Cash flow hedges (effective portion)			
Valuation gains or losses taken to equity	95	(21)	74
Debt instruments at fair value through other comprehensive income			
Valuation gains or losses taken to OCI	3,397	(645)	2,752
Transferred to profit or loss	(2,036)	387	(1,649)
Effect of tax rate increase from 19 % to 22 %	-	30	30
TOTAL	**944**	**(680)**	**264**

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)
Tangible assets	-	-	-
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)**
Debt instruments at fair value through other comprehensive income			
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)**

19. EARNINGS PER SHARE

(in thousands of euros)

	2023	**2022**
Net profit for the year	71,535	16,365
Weighted average number of ordinary shares in issue	530,398	530,398
Basic and diluted profit per share (in EUR per share)	**134.87**	**30.85**

The 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).

20. CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS AT BANKS

(in thousands of euros)

	2023	2022
Cash in hand	24,594	18,542
Balances with central banks	986,240	770,355
Other sight deposits	27,274	22,594
Gross cash, cash balances at central banks and other demand deposits at banks	**1,038,108**	**811,491**
Impairment	-	(9)
Net cash, cash balances at central banks and other demand deposits at banks	**1,038,108**	**811,482**
Including: mandatory reserve liability to central banks	34,307	29,809

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 a mandatory reserve is 1% of the sight and time deposits and issued debt securities with maturities of 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 the derivative contracts are entered to protect interest income, or to ensure the long-term stability of the net interest income and stable profitability of the Bank. In doing so, the Bank uses fair value hedge accounting techniques, where interest rate swaps hedge long-term financial assets (bonds and loans) with a fixed interest rate. In 2023, the Bank also started the cash flow hedging of loans with a variable 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:

Derivative Financial Instruments

(in thousands of euros)

As at 31 December 2023	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate			
Forwards (sale)	24,434	593	-
Forwards (purchase)	24,434	-	582
Interest rate options			
Interest rate cap (CALL)	-	-	-
Interest rate cap (PUT)	-	-	-
Interest rate swaps			
IRS - purchase	3,889	-	195
IRS - sale	3,889	187	-
Total held for trading derivatives	**56,646**	**780**	**777**
Instruments for hedging single financial instruments (micro)			
Interest rate swaps (IRS) - fair value hedge	144,492	11,834	-
Instruments for hedging portfolio of financial instruments (macro)			
Interest rate swaps (IRS) - fair value hedge	226,767	17,062	3,464
Interest rate swaps (IRS) - cash flow hedge	60,000	66	-
Total derivative for hedge accounting	**431,259**	**28,962**	**3,464**

Derivative Financial Instruments

(in thousands of euros)

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			
Instruments for hedging single financial instruments (micro)			
Interest rate swaps (IRS) - fair value hedge	196,096	18,844	-
Instruments for hedging portfolio of financial instruments (macro)			-
Interest rate swaps (IRS) - fair value hedge	193,276	26,454	-
Interest rate swaps (IRS) - cash flow hedge	-	-	-
Total derivative for hedge accounting	**389,372**	**45,298**	**-**

22. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of euros)

	2023	2022
Equities:	**1,143**	**1,064**
• listed	1,143	1,064
Debt securities:	1,845	1,491
• unlisted*	1,845	1,491
Total financial assets mandatorily at fair value through profit or loss	**2,988**	**2,555**

**The amount relates to Visa preferred bond.*

(in thousands of euros)

	2023		2022	
Company	**Fair value**	**Dividend income**	**Fair value**	**Dividend income**
Sava turizem d. d.	699	-	699	13
Intesa Sanapaolo bank S.p.A.	444	34	365	13
Total	**1,143**	**34**	**1,064**	**26**

Movement

(in thousands of euros)

	2023	2022
At beginning of the year	**2,555**	**3,782**
Valuation of shares	483	110
Exchange rate differences	(52)	175
Sale of shares	(142)	(1,843)
New recognition / purchase of shares	144	331
At end of year	**2,988**	**2,555**

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2023	2022
Equities:	**10,821**	**10,381**
• unlisted (Slovenian Bank Resolution Fund)	10,821	10,381
Debt securities:	**280,707**	**247,680**
Government securities:		
• listed	223,798	191,997
Other debt securities:		
• listed	56,909	55,683
Total financial assets FVOCI (Gross)	**291,528**	**258,061**
Impairment	(16)	(55)
Total financial assets FVOCI	**291,512**	**258,006**

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 (2022: EUR 9.9 million).

(in thousands of euros)

Company	2023		2022	
	Fair value	Dividend income	Fair value	Dividend income
Visa INC US	-	-	-	20
Bankart	194	43	194	120
Sklad za reševanje bank	10,573	-	10,136	-
Swift	54	-	51	-
Total	**10,821**	**43**	**10,381**	**140**

Movement

(in thousands of euros)

	2023	2022
At beginning of the year	**258,006**	**235,559**
Acquisitions	180,939	307,667
Impairment (Note 16)	39	(9)
Interest accrual	3,235	4,357
Paid interests	(3,257)	(3,971)
Disposals (sale and redemption)	(149,871)	(281,599)
Valuation	3,837	(7,950)
Exchange differences	(1,416)	3,952
At end of year	**291,512**	**258,006**

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 2022)	**46**	**-**	**-**	**46**
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**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Release of impairments	(39)	-	-	(39)
At the end of year (31 December 2023)	**16**	**-**	**-**	**16**

Note:
STAGE 1: 12-month ECL
STAGE 2: Lifetime ECL not credit-impaired
STAGE 3: Lifetime ECL credit-impaired

24. DEBT SECURITIES

(in thousands of euros)

	2023	2022
Government bonds	20,014	-
Impairment	(10)	-
Total	**20,004**	**-**

The fair value of government bonds as at 31.12.2023 amounted to EUR 20,756 thousand.

25. LOANS TO BANKS

(in thousands of euros)

	2023	2022
Placements with other banks	152,203	151,737
Gross loans to banks	**152,203**	**151,737**
Impairment	(53)	(212)
Net loans to banks	**152,150**	**151,525**

As at 31 December 2023, the Bank does not have pledged any loans (2022: nil).

26. LOANS TO CUSTOMERS

(in thousands of euros)

	2023	2022
Loans to individuals:	**928,771**	**900,252**
Overdrafts	19,868	18,532
Credit cards	9,893	9,308
Term loans	190,135	168,447
Mortgages	708,108	702,235
Financial leases	767	1,730
Loans to sole proprietors	**57,464**	**58,385**
Financial leases	8,629	7,703
Other loans	48,835	50,682
Loans to corporate entities	**1,485,237**	**1,482,908**
Financial leases	71,654	55,940
Other loans	1,413,583	1,426,968
Gross loans	**2,471,472**	**2,441,545**
Less provision for impairment	(56,365)	(49,964)
Net loans	**2,415,107**	**2,391,581**

Movement in provisions for impairments

(in thousands of euros)

2023	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)	**13,176**	**5,162**	**(2,219)**	**(6,612)**	**4,574**	**-**	**1**	**14,082**
Individuals	4,984	878	(397)	50	(1,048)	-	1	4,468
Sole proprietors	996	451	(197)	(383)	187	-	(6)	1,048
Corporate entities	7,196	3,833	(1,625)	(6,279)	5,435	-	6	8,566
Allowances for debt instruments (Stage 2)	**14,052**	**1,839**	**(1,858)**	**2,284**	**1,564**	**-**	**1**	**17,882**
Individuals	9,526	897	(982)	3,159	856	-	1	13,457
Sole proprietors	672	299	(122)	563	(67)	-	-	1,345
Corporate entities	3,854	643	(754)	(1,438)	775	-	-	3,080
Allowances for credit-impaired debt instruments (Stage 3)	**22,670**	**865**	**(1,072)**	**4,013**	**242**	**(2,387)**	**(4)**	**24,327**
Individuals	12,173	208	(593)	2,900	275	(559)	1	14,405
Sole proprietors	1,122	58	(5)	(66)	(8)	(168)		933
Corporate entities	9,375	599	(474)	1,179	(25)	(1,660)	(5)	8,989
POCI	**66**	**-**	**(5)**	**8**	**-**	**-**	**5**	**74**
Individuals	-	-	-	-	-	-	-	-
Sole proprietors	-	-	-	-	-	-	-	-
Corporate entities	66	-	(5)	8	-	-	5	74
Total	**49,964**	**7,866**	**(5,154)**	**(307)**	**6,380**	**(2,387)**	**3**	**56,365**

** The impact on LLP reported under the category 'Changes due to modifications of the methodology" derives from the update of transition matrices and the update of the forward-looking information as part of PD and LGD calculation alongside the development of new macroeconomic models and the implementation of an additional margin of conservatism. Additionally, the result was affected by the introduction of the Large Corporate Model, a new model for Corporate clients, and the implementation of scaling of PD for exposures with a maturity of less than 1 year.*

Note:
STAGE 1: 12-month ECL
STAGE 2: Lifetime ECL not credit-impaired
STAGE 3: Lifetime ECL credit-impaired

(in thousands of euros)

2022	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**

** The impact on LLP reported under the category "Changes due to modifications of the methodology" derives from the update of transition matrices and the 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.*

Note:
STAGE 1: 12-month ECL
STAGE 2: Lifetime ECL not credit-impaired
STAGE 3: Lifetime ECL credit-impaired

Transfers Between Stages in 2023

(in thousands of euros)

2023	Transfer between stage 1 and stage 2		Transfer between stage 2 and stage 3		Transfer between stage 1 and stage 3	
	Transfer from stage 1 to stage 2	Transfer from stage 2 to stage 1	Transfer from stage 2 to stage 3	Transfer from stage 3 to stage 2	Transfer from stage 1 to stage 3	Transfer from stage 3 to stage 1
Loans to customers	**52,293**	**31,558**	**5,174**	**689**	**4,970**	**710**
Individuals	28,533	9,267	2,873	383	2,772	702
Sole proprietors	6,035	1,791	336	19	245	8
Corporate entities	17,725	20,500	1,965	287	1,953	-

Transfers Between Stages in 2022

(in thousands of euros)

2022	Transfer between stage 1 and stage 2		Transfer between stage 2 and stage 3		Transfer between stage 1 and stage 3	
	Transfer from stage 1 to stage 2	Transfer from stage 2 to stage 1	Transfer from stage 2 to stage 3	Transfer from stage 3 to stage 2	Transfer from stage 1 to stage 3	Transfer from stage 3 to stage 1
Loans to customers	**49,206**	**29,261**	**3,442**	**481**	**4,083**	**582**
Individuals	28,609	8,299	2,162	451	2,803	575
Sole proprietors	3,518	1,458	240		285	-
Corporate entities	17,079	19,504	1,040	30	995	7

Customer Loan Portfolio by Economic Sector

(in thousands of euros)

	2023	2022
Non-financial entities	1,157,376	1,182,152
- transport and storage	295,399	247,001
- manufacturing	311,556	323,041
- wholesale and retail trade	188,182	208,287
- information and communication	38,718	65,021
- hospitality and other related services	17,452	19,110
- construction	15,815	14,721
- other non-financial entities	290,254	304,971
Government	1	4,397
Other public entities	200,713	173,947
Financial entities	126,294	121,430
Individuals	928,771	900,251
Sole proprietors	57,464	58,385
Non-profit institutions serving households	853	983
Gross loans to customers	**2,471,472**	**2,441,545**
Less provision for impairment	(56,365)	(49,964)
Net loans to customers	**2,415,107**	**2,391,581**

At the end of 2023, the share of loans to customers on the domestic market amounted to 90.8%; the remaining share of 6.2% related to the EU market and 3.0% to other markets.

Analysis of Financial Leases by Residual Maturity:

(in thousands of euros)

	2023	2022
Future minimum lease payment (finance lease)		
Not later than 1 year	25,915	20,771
Later than 1 year and not later than 5 years	53,916	43,281
Later than 5 years	1,219	1,321
Total	**81,050**	**65,373**
Impairment	(3,207)	(3,330)
Present value of future minimum lease payments:		
Not later than 1 year	24,296	19,133
Later than 1 year and not later than 5 years	52,456	41,739
Later than 5 years	1,091	1,171
Total	**77,843**	**62,043**

Forborne Exposures as at 31.12.2023

(in thousands of euros)

	Corporates	Individuals	Total
Performing exposures	1,895	2,281	4,176
Non performing - instruments with modifications in their terms and conditions	3,146	2,726	5,872
Non performing - Refinancing	511	913	1,424
Total gross carrying amount	**5,552**	**5,920**	**11,472**
Performing exposures	(184)	(482)	(666)
Non performing - instruments with modifications in their terms and conditions	(2,573)	(2,310)	(4,883)
Non performing - Refinancing	(371)	(832)	(1,203)
Accumulated impairment and provisions	**(3,128)**	**(3,624)**	**(6,752)**
Performing exposures	1,711	1,799	3,510
Non performing - instruments with modifications in their terms and conditions	573	416	989
Non performing - Refinancing	140	81	221
Net carrying amount	**2,424**	**2,296**	**4,720**

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**

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 more favourable for the borrower 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 forborne 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 forborne exposures, i.e. exposures that meet the above-described definition. The forborne flag is therefore an additional element for the classification of credit exposures for the purpose of credit portfolio monitoring and reporting. Taking into account the internal rules for performing and non-performing exposure classification, rules governing the forborne 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 47.

27. OTHER FINANCIAL ASSETS

(in thousands of euros)

	2023	2022
Commissions receivables	550	350
Receivables	45	461
Claims to Europay	3,226	3,494
Claims to citizens	1,478	767
Claims towards Visa kliring scheme	9,000	6,500
Claims due to recovery procedures	566	590
Other	2,096	4,327
Gross other financial assets	**16,961**	**16,489**
Impairments	(577)	(925)
Net other financial assets	**16,384**	**15,564**

Movement of impairment:

(in thousands of euros)

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**
Additional provision for impairment	101
Amounts recovered during the year	(49)
Included in income statement	52
Write off of impairment	(400)
As at 31 December 2023	**577**

28. 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.

The Bank had, under the umbrella of the Intesa Sanpaolo Group, performed the valuation of all its premises in use and investment properties. The Valuation was performed by an external valuator (RINA PRIME VALUE SERVISES) as at 31 October 2023.

The Fair value was determined by applying the discounted cash flow method. In this approach, Market value is determined by summing up the discounted net revenues net sale values as discounted at the date of valuation. Net revenues are determined on the basis of the gross revenues and net operating costs sustained by the property. Gross revenues are determined by indexing income in the form of passing rents deriving from leased assets and market rents assigned to any vacant assets, considered within a variable time frame, based on the intended use and duration of the lease agreement. The Net sale value is obtained by capitalising in perpetuity the operational income relating to the last period considered in the discounted cash flow, aligning the related exit capitalisation rate to the average market yields, deducted by the relevant sales commissions.

In the calculation the following market indications were considered by region:

Region	Average unit price for rent (EUR/m2)	Typical range of unit price for rent (EUR/m2)	Av.unit price for sale (EUR/m2)	Typical range of unit price for sale (EUR/m2)	Avg. gross yield
Ljubljana	12	9–18	1,750	1,100–3,000	7.30 %
Okolica Ljubljane	10	7–12	1,300	700–2,880	6.00 %
Podravska	10	6–12	1,100	750–1,760	4.70 %
Gorenjska	9	7–12	1,200	600–3,600	6.40 %
Other	10	6–13	1,040	500–2,350	5.80 %

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Right of use	Total
Movement in year 2023					
Opening net book amount	**24,695**	**1,058**	**1,153**	**1,478**	**28,384**
Additions	656	694	780	1,137	3,267
Disposals	(92)	(2)	(98)	(323)	(515)
Depreciation charge	(1,055)	(323)	(303)	(1,358)	(3,039)
Transfer to non-current assets held for sale	(647)	-	-	-	(647)
Closing net book amount before valuation	**23,557**	**1,427**	**1,532**	**934**	**27,450**
Revaluation of properties recognised in OCI	(685)	-	-	-	(685)
Impairment of properties recognised in income statement	(457)	-	-	-	(457)
Closing net book amount	**22,415**	**1,427**	**1,532**	**934**	**26,308**
As at 31 December 2023					
Cost	25,420	5,969	10,309	5,894	47,592
Accumulated depreciation	(3,005)	(4,542)	(8,777)	(4,960)	(21,284)
Net book amount as at 31 December 2023	**22,415**	**1,427**	**1,532**	**934**	**26,308**

(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**

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 the administrative expenses (Note 13).

In 2023, the Bank has in use EUR 3,870 thousand of already amortised hardware equipment and EUR 7,459 thousand of other equipment.

In 2023 there was no property, plant and equipment pledged (2022: nil).

29. INVESTMENT PROPERTY

(in thousands of euros)

	2023	2022
As of 1 January	**1,300**	**1,580**
Derecognition (sale)	-	(280)
Transfer to non-current assets held for sale	(1,300)	-
As at 31 December	**-**	**1,300**

30. INTANGIBLE ASSETS

(in thousands of euros)

	Development-internally generated software	Licenses	Software and other	Total
Movement in year 2023				
Opening net book amount	**7,115**	**96**	**185**	**7,396**
Additions	2,101	278	163	2,542
Disposals	-	-	-	-
Amortisation	(1,055)	(61)	(62)	(1,178)
Closing net book amount	**8,161**	**313**	**286**	**8,760**
As at 31 December 2023				
Cost	24,209	3,255	3,917	31,381
Accumulated amortisation	(16,048)	(2,942)	(3,631)	(22,621)
Net book amount as at 31 December 2023	**8,161**	**313**	**286**	**8,760**

(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**

The Bank has in use EUR 21,325 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 2023 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 826 thousand (2022 EUR 718 thousand).

31. OTHER ASSETS

(in thousands of euros)

	2023	2022
Prepaid Unbilled Charges	571	366
Accrued income	599	422
Long-term deferred fees	110	124
Inventory	5	5
Taxes and contributions	545	341
Advances for intangible assers	-	79
Repossessed assets*	124	1,530
Prepayments	27	312
Other	-	3
Impairment on repossessed assets	(55)	(528)
Total	**1,926**	**2,654**

**Repossessed assets related mainly to assets subject to leasing contracts. These are mainly real estate. In 2023, the Bank sold two properties in the amount of EUR 2,233 thousand. From this transaction, the Bank realised profit in the amount of EUR 267 thousand. Other seized premises that are still in stock will be subject to sale in the coming periods.*

Movement in impairment

(in thousands of euros)

	2023	2022
At beginning of year	**528**	**3,182**
Additions included in Income statement under impairments	-	11
Transfer to non-current assets held for sale	(473)	-
Decrease due to sale	-	(2,665)
At end of the year	**55**	**528**

32. NON-CURRENT ASSETS HELD FOR SALE

(in thousands of euros)

	2023	2022
At the beginning of the year	**1,454**	**1,940**
Sale	(2,813)	(1,193)
Transfer from repossessed assets in stock	933	-
Transfer from tangible fixed assets	647	707
Transfer from investment property	1,300	-
Impairments	(105)	-
At the end of the year	**1,416**	**1,454**

The premises held for sale are each year valued by the independent appraiser. The sales activities are continuing intensively and are planned to be concluded in 2024.

33. DEPOSITS FROM BANKS AND CENTRAL BANKS

(in thousands of euros)

	2023	2022
On demand deposits	1,134	1,490
Short term deposits	22,971	43,144
Total	**24,105**	**44,634**

34. DEPOSITS FROM NON-BANK CUSTOMERS

(in thousands of euros)

	2023	2022
Individuals		
- demand deposits	1,373,079	1,575,923
- term deposits	727,427	471,239
Sole proprietors		
- demand deposits	132,848	132,558
- term deposits	1,319	1,476
Corporate customers		
- demand deposits	929,091	893,858
- term deposits	257,600	132,706
Total	**3,421,364**	**3,207,760**

As at 31 December 2023, deposits in the amount of EUR 309 thousand have been pledged for covering the potential credit risk on assets (2022: EUR 452 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.

35. LOANS FROM BANKS AND CENTRAL BANKS

The Bank repaid its obligations regularly. At the date of the financial statements, there are no obligations that are overdue.

(in thousands of euros)

	2023		2022	
	Short term	Long term	Short term	Long term
In local currency	-	82,411	-	73,066
In foreign currency	-	-	-	-
Total	-	**82,411**	**-**	**73,066**

Long-term funds are withdrawn to cover MREL requirements. In 2023 the Bank took out a EUR 10 million subordinated loan from the parent bank with an original maturity of 5 years to additionally cover the MREL requirements and straighten its capital position.

The residual maturity of the financial liability is shown in Note 3.5. - Liquidity risk.

36. OTHER FINANCIAL LIABILITIES

(in thousands of euros)

	2023	2022
Unpaid commissions	564	462
Liabilities form credit card business	4,051	4,827
Not yet processed payment*	11,718	6,590
Creditors	3,424	1,149
Accrued expenses	9,845	7,484
Lease liabilities	1,005	1,527
Other	401	225
Total	**31,008**	**22,264**

**Not yet processed payment refers to still pending inflows to be allocated to the clients' current accounts.*

37. PROVISIONS FOR LIABILITIES AND CHARGES

The Bank also makes credit risk provisions for off-balance sheet items. The above credit risk provisions recorded by Banka 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, the Bank's own regulatory credit conversion factors (CCF) are applied, which adjust the off-balance sheet exposures to the on-balance sheet exposure level. For the rest, the same principles as for impairments on loans are applied.

(in thousands of euros)

	2023	2022
Provisions for legal proceedings	4,710	3,350
Provisions for off-balance sheet liabilities	2,556	4,242
Provisions for cash returns to customers	836	303
Reservation for maintain min yield on Pension Fund	796	2,153
Total	**8,898**	**10,048**

As at 31 December 2023, the Bank was involved in several legal proceedings against it. Contingent liabilities in this respect are estimated in the amount of EUR 5,591 thousand. To this end, on the basis of its best estimation of the outcome of the legal proceedings, the Bank established provisions in the amount of EUR 4,710 thousand.

Movements

(in thousands of euros)

	Off balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Provisions for cash returns to customers	Reservation to maintain min yield on Pension Fund	Total
At beginning of year (1 January 2023)	**4,242**	**3,350**	**-**	**303**	**2,153**	**10,048**
Additional provision	5,104	1,760	-	1,401	522	8,787
Releases	(6,790)	(250)	-	(15)	(1,815)	(8,870)
Included in income statement	**(1,686)**	**1,510**	**-**	**1,386**	**(1,293)**	**(83)**
Utilised	-	(150)	-	(853)	(64)	(1,067)
As at 31 December 2023	**2,556**	**4,710**	**-**	**836**	**796**	**8,898**

(in thousands of euros)

	Off balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Provisions for cash returns to customers	Reservation to maintain min yield on Pension Fund	Total
At beginning of year (1 January 2022)	**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**

The changes in provisions are further explained in Note 15. Provisions.

38. RETIREMENT BENEFIT OBLIGATIONS

(in thousands of euros)

	2023	2022
Retirement severance pay and long service bonuses	2,491	2,002
Total	**2,491**	**2,002**

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 the 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 2023 by age classes;
- a discount rate in line with 10-year high-rated corporate bonds in the Euro area (4.51% 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 employees.

Movements

(in thousands of euros)

	2023	2022
At beginning of year	**2,002**	**3,006**
Additional provisions (included staff costs)	359	138
Amounts recovered during the year	-	(72)
ICharged to income statement	**359**	**66**
Change in actuarial gain*	267	(1,004)
Utilised provisions	(137)	(66)
At end of year	**2,491**	**2,002**

**The substantial change in the actuarial gain in 2022 is due to the increased yield in 10-year corporate bonds compared to 2021, i.e. the discount rate used in 2021 was 0.94% per annum and for 2022 4.59% respectively.*

Sensitivity Analysis for Significant Actuarial Assumption as at 31.12.2023

(in thousands of euros)

Item	Deviation	Description	Total	Severance pay	Long-service bonuses
Baseline scenario	**0.00 %**	**balance**	**2,491**	**1,999**	**491**
Discounted interest rate	−0.50 %	balance	2,611	2,103	507
		(difference)	(120)	(104)	(16)
	0.50 %	balance	2,380	1,903	477
		(difference)	(111)	(96)	(15)
Salary increase	−0.50 %	balance	2,377	1,900	477
		(difference)	(114)	(99)	(15)
	0.50 %	balance	2,613	2,106	507
		(difference)	(122)	(106)	(16)
Duration (DBO)			**9.7**	**10.5**	**6.4**

Sensitivity Analysis for Significant Actuarial Assumption as at 31.12.2022

(in thousands of euros)

Item	Deviation	Description	Total	Severance pay	Long-service bonuses
Baseline scenario	**0.00 %**	**balance**	**2,002**	**1,700**	**303**
Discounted interest rate	−0.50 %	balance	2,102	1,789	313
		(difference)	(99)	(89)	(10)
	0.50 %	balance	1,910	1,617	293
		(difference)	(92)	(82)	(10)
Salary increase	−0.50 %	balance	1,908	1,615	293
		(difference)	(94)	(85)	(10)
	0.50 %	balance	2,103	1,791	313
		(difference)	(101)	(91)	(10)
Duration (DBO)			**10.0**	**10.6**	**6.8**

39. DEFERRED INCOME TAXES

Deferred tax liabilities

(in thousands of euros)

	2023	2022
Valuation of tangible fixed assets	3,522	3,172
Valuation of financial assets -derivatives - hedge accounting cash flow hedge	21	-
Valuation and impairments of FVOCI assets	138	165
Actuarial gain	161	164
Total	**3,842**	**3,501**

Deferred tax assets

(in thousands of euros)

	2023	2022
Retirement and other employee benefits	435	354
Valuation and impairments of FVOCI assets	363	708
Impairments from leasing contracts	-	10
Other (depreciation above the tax prescribed rate)	119	89
Total	**917**	**1,161**
Net deferred tax liabilities	**2,925**	**2,340**

Movement in deferred taxes (offsetting of assets and liabilities)

(in thousands of euros)

	2023	2022
At beginning of year	**2,340**	**3,015**
Deferred taxes charged in income statement	(95)	(15)
Valuation and impairment of FVOCI assets (Note 18)	342	(755)
Valuation of tangible fixed assets (Note 18)	(130)	-
Actuarial gain (Note 18)	(25)	95
Valuation of financial assets -derivatives - hedge accounting cash flow hedge	21	-
Effect of tax rate increase from 19 %to 22 %	472	-
At end of year	**2,925**	**2,340**

Deferred Taxes Charged in the Income Statement

(in thousands of euros)

	2023	2022
Retirement and other employee benefits	(21)	-
Provisions for reorganisation	-	1
Impairment on FVOCI financial assets	6	(2)
Loan impairments from leasing contracts	10	1
Other (depreciation above tax prescribed rate)	(14)	(15)
Effect of tax rate increase from 19 % to 22 %		
Employee benefits	(59)	-
Impairment on AFS financial assets	(1)	-
Other	(16)	-
Total (Note 18)	**(95)**	**(15)**

40. OTHER LIABILITIES

(in thousands of euros)

	2023	2022
Defered income	423	446
Prepayments received	787	583
Taxes and contributions	1,703	1,049
Salaries	2,015	2,037
Total	**4,928**	**4,115**

41. SHARE CAPITAL

(in thousands of euros)

	Number of shares	Ordinary shares	Share premium	Treasury shares
As at 31 December 2021	531,359	22,173	7,499	(49)
As at 31 December 2022	531,359	22,173	7,499	(49)
As at 31 December 2023	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.

42. ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of euro)

	2023	2022
Revaluation reserves:		
- Debt securities	(777)	(1,910)
- Equity securities	-	(356)
- Tangible fixed assets	12,488	13,523
- Actuarial gain	1,300	1,564
- Cash flow hedge instruments	74	-
Total	**13,085**	**12,821**

(in thousands of euros)

Movement	Revaluation reserves
As at 31 December 2021	**15,129**
Equity securities	**(691)**
Fair value adjustment, net of tax	(220)
Derecognition of valuation due to sale	(471)
Debt securities	**(2,526)**
Fair value adjustment, net of tax	(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**
Equity securities	**356**
Fair value adjustment, net of tax	356
Derecognition of valuation due to sale	
	1,133
Debt securities	2,752
Fair value adjustment, net of tax	(1,649)
Valuation of hedge items transferred to profit or loss	30
Other comprehensive income	**(1,225)**
Actuarial gain	(242)
Gain from valuation of tangible fixed assets, net of tax	(555)
Valuation of derivatives for cash flow hedges	74
Effect of tax rate increase from 19 % to 22 %	(502)
As at 31 December 2023	**13,085**

43. RESERVES FROM PROFIT AND RETAINED EARNINGS

(in thousands of euro)

	2023	2022
Legal reserves	23,117	19,540
Statutory reserves	260,345	244,328
Other reserves from retained earnings	232	232
Treasury share`s reserves	49	49
Retained earnings	69,941	18,000
Total	**353,684**	**282,149**

(in thousands of euros)

Movement in reserves	Legal reserves	Statutory reserves	Other reserves from earnings	Treasury shares reserves	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**
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**

(in thousands of euros)

Movement in reserves	Legal reserves	Statutory reserves	Other reserves from earnings	Treasury shares reserves	Retained earnings	Total reserves
As at 1 January 2023	**19,540**	**244,328**	**232**	**49**	**18,000**	**282,149**
Net profit for the financial year	-	-	-	-	71,535	**71,535**
Transfer to statutory reserves (Dec add. GM)	-	16,017		-	(16,017)	**-**
Transfer to legal reserves	3,577	-	-	-	(3,577)	**-**
As at 31 December 2023	**23,117**	**260,345**	**232**	**49**	**69,941**	**353,684**

Legal Reserves

In accordance with the Articles of Association of Banka 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 equal 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 that 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 the statutory reserves.

44. DIVIDENDS PER SHARE

Dividends payable are not accounted for until they have been ratified by the Annual General Meeting. As of the date the financial statements were authorised by the Management Board, no dividends were proposed or declared. For the year 2022, the Bank did not pay out any dividends. All the profit available for distribution for the year 2022 was allocated to statutory reserves.

(in thousands of euros)

Distribution of the profit of the year	2023	2022
Net profit for the period	71,535	16,365
Net profit from reclassification of FVOCI instrument recognised in retained earnings	-	471
Allocation of the profit to the legal reserves (5%)	(3,577)	(818)
Net profit of the period available for distribution	**67,958**	**16,018**
Total net profit available for distribution at the AGM	**67,958**	**16,018**

45. CASH AND CASH EQUIVALENTS

(in thousands of euros)

	2023	2022
Cash and balances with central bank*	1,003,801	781,673
Loans to banks up to 90 days	89,092	78,320
Total	**1,092,893**	**859,993**

**The figure Cash and balances with the central bank differs from those in the Statement of financial position due to mandatory reserve liability to the central bank (Note 20).(pojasnilo 20).*

46. CONTINGENT LIABILITIES AND COMMITMENTS

Capital commitments. At 31 December 2023, the Bank had no capital commitments (2022: nil).

Credit-related commitments. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments if 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, partly 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 the customers' fulfilment of specific credit standards that need to be met before carrying out 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)

	2023	2022
Documentary and commercial letters of credit	**160**	**160**
Guarantees	**243,100**	**216,758**
- revocable guarantee's frameworks	24,409	10,007
- unrevocable	218,691	206,751
Credit commitments:	**378,731**	**437,463**
- original maturity up to 1 year	245,667	232,216
- original maturity over 1 year	133,064	205,247
Total	**621,991**	**654,381**
Provisions for off-balance sheet liabilities:		
Documentary and commercial letters of credit	(1)	-
Guarantees	(420)	(1,265)
Credit commitments	(2,135)	(2,977)
Total	**619,435**	**650,139**

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 2022	**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**
Additional impairments	2,900	1,319	884	5,103
Release of impairments	(4,191)	(1,459)	(1,139)	(6,789)
Included in income statement	**(1,291)**	**(140)**	**(255)**	**(1,686)**
Transfer from/to stage 1	-	(346)	(29)	(375)
Transfer from/to stage 2	346	-	3	349
Transfer from/to stage 3	29	(3)	-	26
As at 31 December 2023	**1,750**	**400**	**406**	**2,556**

Note:
STAGE 1: 12-month ECL
STAGE 2: Lifetime ECL not credit-impaired
STAGE 3: Lifetime ECL credit-impaired

47. RELATED PARTY TRANSACTIONS

(in thousands of euros)

	Employees with managerial contract		Management board		Supervisory board	
	2023	2022	2023	2022	2023	2022
Loans						
At beginning of the year	127	15	290	60	-	-
Loans issued during the year	-	240	-	290	-	-
Loan repayments during the year	(6)	(128)	(9)	(60)	-	-
At end of year	**121**	**127**	**281**	**290**	**-**	**-**
Impairment as at 31 December	1	1	1	-	-	-
Collateral received as at 31 December	409	409	432	362	-	-
Interest expense on deposits	-	-	3	-	-	-
Interest income earned	3	2	3	-	-	-
Other revenue – fee income	1	-	3	1	-	-
Salary	337	251	1,252	1,311	-	-
Bonuses paid in cash	82	49	267	190	-	-
Bonuses paid in shares of Intesa Sanpaolo	-	-	151	232	-	-
Benefits in kind	30	26	69	84	-	-
Severance	-	-	-	-	-	-
Other	-	-	83	28	-	-
Supplementary pension insurance	3	2	9	10	-	-
Meeting fee	-	-	-	-	-	17
Bonuses	-	-	-	-	-	-
Remuneration	**452**	**328**	**1,831**	**1,855**	**-**	**17**

(in thousands of euros)

	Intesa SanPaolo Group without PBZ Group		PBZ Group		Intesa SanPaolo Group	
	2023	2022	2023	2022	2023	2022
Loans						
At beginning of the year	220,591	136,324	46,032	61,033	266,623	197,357
Loans issued during the year	2,522,564	1,500,110	60,926	75,448	2,583,490	1,575,558
Loan repayments during the year	(2,524,953)	(1,415,843)	(68,875)	(90,449)	(2,593,828)	(1,506,292)
At end of year	**218,202**	**220,591**	**38,083**	**46,032**	**256,285**	**266,623**
Impairments	4	19	8	90	12	109
Collateral received	164,628	135,913	20,866	50,130	185,494	186,043
Deposits						
At beginning of the year	111,676	7,257	-	-	111,676	7,257
Deposits received during the year	255,356	408,265	-	-	255,356	408,265
Deposits repaid during the year	(274,425)	(303,846)	-	-	(274,425)	(303,846)
At the end of the year	**92,607**	**111,676**	**-**	**-**	**92,607**	**111,676**
Guarantees						
Guarantees issued by the Bank	3,539	7,128	856	1,836	4,395	8,964
Interest expense on deposits	4,568	898	-	-	4,568	898
Interest income earned	6,531	2,338	916	438	7,447	2,776
Other revenue – fee income	65	65	17	20	82	85

*In 2017, the majority shareholder became Privredna banka Zagreb d.d.; however, the ultimate parent company is the Intesa Sanpaolo Bank.

There were no transactions made with companies in which the Management Board, Supervisory Board members or their closer family members or employees with managerial contracts had significant influence.

48. 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 the instructions of the Bank of Slovenia in this regard (Official Gazette, no. 184/21).

(in thousands of euros)

	31/12/2023	31/12/2022	31/12/2021	index 2023 / 2022	index 2022 / 2021
I. BALANCE SHEET					
1. Balance sheet total	3,991,221	3,692,493	3,472,573	108	106
2. Deposits from non-bank clients	3,421,364	3,207,760	2,788,959	107	115
2.1 from legal and other persons	1,320,858	1,160,597	963,979	114	120
2.2 from citizens	2,100,506	2,047,163	1,824,980	103	112
3. Loans to customers	2,415,107	2,391,581	2,185,555	101	109
3.1 to legal and other persons	1,518,667	1,518,012	1,406,405	100	108
3.2 to citizens	896,440	873,569	779,150	103	112
4. Overall equity capital	396,392	324,593	326,652	122	99
5. Provisions and impairments	59,577	55,407	49,499	108	112
6. The volume of off-balance sheet business	1,109,896	1,103,456	1,056,931	101	104
II. PROFIT AND LOSS ACCOUNT					
7. Net interest	123,610	48,545	35,937	255	135
8. Net non-interest income	30,881	34,030	33,438	91	102
9. Costs of labour, materials and services	54,807	46,816	43,410	117	108
10. Amortisation	4,217	4,438	4,710	95	94
11. Impairments and provisions (credit risk)	7,136	11,278	(307)	63	-
12. Profit or loss before taxation	87,876	20,043	21,562	438	93
13. Tax on profit	16,341	3,678	3,853	444	95
14. Other comprehensive income before tax	944	(2,966)	(1,150)	-	258
15. Income tax relating to components of other comprehensive income	(680)	658	215	-	306
16. Number of outlets	40	41	44	98	93
17. Number of employees	701	681	678	103	100
18. Number of shareholders	129	129	154	100	84
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)	747.35	611.98	615.86	122	99
III. INDICATORS					
22. CET1 capital ratio	18.44	15.88	18.13	116	88
23. T1 capital ratio	18.44	15.88	18.13	116	88
24. Total capital ratio	19.20	16.15	18.35	119	88
25. Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	0.69	0.72	0.86	96	84
26. Non performing (balance sheet) exposure / all balance sheet exposure (without cash balances at central banks and other demand deposits)	1.18	1.15	1.44	103	80
27. Non performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	0.85	0.88	1.05	97	84
28. All impairment and provisions / non performing impairment and provisions (without cash balances at central banks and other demand deposits)	80.13	78.25	72.63	102	108
29. All impairment and provisions / non performing impairment and provisions (with cash balances at central banks and other demand deposits)	80.13	78.25	72.63	102	108

(in thousands of euros)

	31/12/2023	31/12/2022	31/12/2021	index 2023 / 2022	index 2022 / 2021
30.Received collateral / non performing exposure(without cash balances at central banks and other demand deposits)	9.00	13.95	22.87	65	61
31. Interest margin	3.23	1.32	1.11	245	119
32. Financial margin	4.04	2.25	2.14	180	105
33. Return on assets after taxation	1.87	0.45	0.55	416	82
34. Return on equity before taxation	24.35	6.19	6.64	393	93
35. Return on equity after taxation	19.82	5.05	5.46	392	92
36. Operating costs / assets	1.54	1.40	1.48	110	95
37. Liquidity coverage ratio	305.04	267.60	261.57	114	102
38. Net stable funding Ratio	171.18	164.25	158.35	104	104
39. Leverage Ratio	7.96	7.46	8.12	107	92

OPERATIONS ON BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES

(in thousands of euros)

	2023	2022
ASSETS	**853**	**378**
1. Claims due to customers (settlement and current account)	**50**	**58**
Due to other or settlement account for sold financial instruments (buyers)	50	58
2. Cash assets (customers)	**803**	**320**
On current account	803	320
LIABILITIES	**853**	**378**
3. Liabilities due to customers (settlement and current account)	**853**	**378**
Due to customer (cash and financial instruments)	257	161
Due to other or settlement account for bought financial instruments (sellers)	590	210
Due to bank or settlement account for commission, fees, etc.	6	7
OFF BALANCE SHEET	**1,054,003**	**847,991**
4. Customer financial instruments, diverse by services	**1,054,003**	**847,991**
Assets management services	128,070	105,931
Custody services	925,933	742,060

FEE AND COMMISSION INCOME AND EXPENSES RELATING TO FIDUCIARY ACTIVITIES

(in thousands of euro)

	2023	2022
1. Fee and commission income related to fiduciary activities	**2,003**	**1,810**
Receipt, processing and execution of orders	1,272	1,134
Custody and similar services	731	676
2. Fee and commission expenses related to fiduciary activities	**137**	**154**
Fee and commission related to stock exchange and similar organisations	137	154

"Panta Rhei, the aphorism attributed to Heraclitus, captures my artistic ethos - that everything flows and changes, nothing stands still and that all things are in a state of flux - perfectly".

Alfredo Pini was born in Mirandola in 1958. Despite graduating with a diploma from vocational business school, in 1985, he devoted himself entirely to his true passion in life: painting. He moved to Ferrara, where he opened the Lacerba art gallery, visited the studios of various artists and enrolled in a number of painting courses. This led him to connect with a number of prominent contemporary artists, including Primo Conti, Bruno Cassinari, Mario Schifano, Bruno Ceccobelli, Concetto Pozzati and Omar Galliani.

In 1987, he began exhibiting work and enrolled in the DAMS (Drama, Art and Music Studies) degree programme at the University of Bologna, whose teachers included Renato Barilli, Umberto Eco and Alfredo De Paz.

Through his work as a painter, he established increasingly close collaborative ties with various galleries in cities in Italy, Spainand the United States, where he continues to present his works in solo and group exhibitions today.

Pini is a figurative artist whose style is characterised by rapid and expressive brush-strokes that capture the movement andvitality of the subjects he depicts.

Cover:

Alfredo Pini
(Mirandola, 1958)
Landscape, 20th century
oil on canvas, 49 x 68 cm

While this piece from the Intesa Sanpaolo collection retains the artist's signature pulsating energy, it shows him adopting a slower and more reflective approach. Featuring stunning mountains with patches of snow in the background and a light blue sky populated with white clouds, which - much like the cerulean blue vein-like stream coursing down the mountainside - provides a subtle hint that spring is imminent, this landscape painting depicts a natural setting that, while imposing, is not oppressive.

Enlivened by small touches of colour provided by the cloths hung out to dry in the open air and the bell tower of the small church flanked by soaring green conifers, the small village in the middle of the composition is painted with heart-felt affection. Here, a quiet rural community reliant on hard work and household tasks lives and breathes.

A lone figure, portrayed from behind, ascends a white path cutting through the middle of a grassy expanse caressed by the wind and sun.

In this painting, there is a sense of a memory evoking a simple, tranquil and almost meditative life created by brush-strokes that, in contrast to the excitable and synthetic ones of the artist's best-known works, are vibrant yet robust.

The "flux"captured in this work is not that synonymous with the hectic, breakneck pace of the modern cities that Alfredo Pini often depicts on his canvases, but rather a slow and natural one that conveys the passing of the seasons and our ancient relationship with planet Earth.

COLOPHON	
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